Annual Report
2019

Better outcomes

Capita

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2019

Our purpose

Capita is a purpose-led organisation which exists to 'create better outcomes' for all our stakeholders:

Better outcomes

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

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.

Cautionary statement
The directors present the Annual Report for the year ended 31 December 2019, which includes the strategic report, corporate governance, and audited accounts for this year. Pages 1–97 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.

To download a copy of the Annual Report 2019, go to: www.capita.com/year-in-review

Group financial performance

Adjusted revenue[1]

£3,647.4m

(2018: £3,814.7m)

Reported revenue

£3,678.6m

(2018: £3,918.4m)

Adjusted profit before tax[1]

£275.0m

(2018: £281.2m)

Reported (loss)/profit before tax

£(62.6)m

(2018: £272.6m)

Adjusted earnings per share[1]

13.09p

(2018: 16.33p)

Reported (loss)/earnings per share

(4.18)p

(2018: 17.99p)

Adjusted free cash flow[2]

£(61.3)m

(2018: £(78.8)m)

Reported free cash flow

£(213.0)m

(2018: £(260.5)m)

1. Refer to alternative performance measures (APMs) on pages 187–188.
2. Refer to note 2.10 to the consolidated financial statements.

Contents

About us

Capita is a **consulting**, **digital services** and **software** business.

We **deliver innovative solutions** to simplify the connections between businesses and customers, and between governments 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 that is why we are **transforming** – on behalf of our clients, the people and societies we serve, and **all our stakeholders**.

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
- Banking and financial services
- Insurance
- Life and pensions
- Retail
- Telecoms and media
- Transport
- Utilities

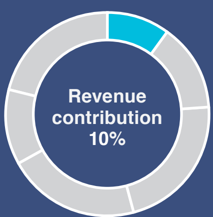
Public sector
- Central government
- Local government
- Education
- Emergency services
- Health
- Police and justice
- Science

Our divisions

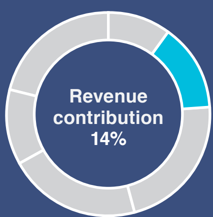
Capita has six operating divisions: five – Software, People Solutions, Customer Management, Government Services, and Technology Solutions – are focused on key growth markets; and the sixth, Specialist Services, contains standalone businesses being managed on a portfolio basis to maximise value. The six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

Growth platforms

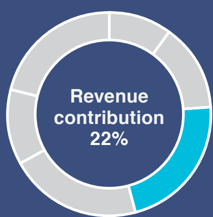
Software
Specialist, high-margin enterprise products



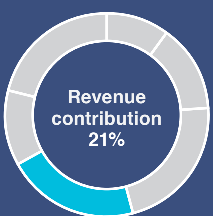
People Solutions
Integrated human resources services and products



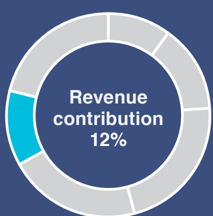
Customer Management
Transforming customer experience for our clients



Government Services
Tech-enabled, public sector business services



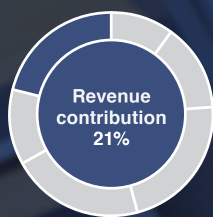
Technology Solutions
Digital IT and connectivity solutions



Divisional financial performance (see pages 20 to 31) 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 187–188.

Value platform

Specialist Services
Standalone businesses managed for value



Divisional details and performance can be found starting on page 20.

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

- Define clear value propositions for defined markets/sectors
- Standardise and consolidate core business processes
- Rationalise our portfolio of value propositions and business units
- Clarify governance and decision-making procedures
- Empower our people to deliver for clients

Strengthen

- Invest in the right people with the right values and behaviours
- Ensure our people are engaged in and understand the company transformation
- Equip our people with the right tools for creating better outcomes
- Improve operational and programme delivery capability
- Invest in capability for growth, including client value propositions (CVPs)
- Improve innovation and build digital capability
- Clarify our desired capital structure and allocation

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
- Is seen as trustworthy and has an improved reputation
- Creates better outcomes for all stakeholders

Our people and international dimension

While we are the UK's largest business processes outsourcing (BPO) provider, we also have a growing international operation and sales focus.

We have multiple capabilities within our global network, with almost 20,000 of our 61,000 people based outside the UK, with colleagues in Germany, Ireland, Poland, Switzerland, the United Arab Emirates and the United States. We now have more than 8,000 colleagues in India and 4,000 in South Africa.

The new Capita is evolving as a consulting, digital services and software business with an increasingly international footprint, which delivers better outcomes for all its stakeholders – and values all its people, whatever their roles and wherever they work.

More about our people strategy can be found on pages 32–35.

Creating better outcomes

Capita is part-way through a multi-year transformation and, as we transform, we are guided by our common purpose. We defined this in 2019 as 'we create better outcomes' for all our stakeholders – our people, clients and customers, suppliers and partners, investors, and society. Our purpose sits at the heart of everything we do and informs all strategic decisions.

Capita employs 61,000 people and every day we touch the lives of millions through the provision of vital services. We aspire to use our position within society to be a force for good and, through our actions, drive progress for the individuals and communities we serve.

In 2019, we saw a positive shift in our reputation and how we are perceived. Increasingly, Capita is recognised as a changing, purpose-led company that is sincere in its commitment to responsible business and driven to make a positive contribution to society.

Over the course of the year, we continued to make good progress with our transformation – and we achieved most of what we set out to do and was within our control. However, it proved more challenging than anticipated, in terms of complexity and cost, due to the depth of the turnaround required. External factors also affected our progress, including political uncertainty and testing trading conditions in our core UK market.

> "Increasingly, Capita is recognised as a purpose-led company, sincere in its commitment to responsible business and driven to make a positive contribution to society."
>
> **Sir Ian Powell**
> Chairman

I would like to thank our shareholders for their continued patient support. The progress we have made in transforming the business now needs to be reflected in a return to organic revenue growth and improved financial performance.

The Board and governance

In 2019, as we continued to strengthen governance, Capita became the only FTSE-listed company to appoint two employees from its wider workforce as non-executive directors. This was done to broaden the perspective of the Board and ensure the voices of colleagues inform strategic decision making at the highest level of the business. Our employee directors, Lyndsay Browne and Joseph Murphy, joined the Board in July and have brought fresh and welcome insight.

In October, we welcomed Georgina Harvey to the Board as an independent non-executive director and the new chair of the Remuneration Committee. I would like to thank John Cresswell, who continues as a non-executive director, for leading the committee from 2015; and thank all the members of the Board for their continued support and contribution throughout the year.

Culture and diversity

We made good progress in 2019 towards the goal of making Capita a place in which our people can thrive and have the opportunity to develop their potential to the fullest. As well as defining our common purpose, we articulated the values and the behaviours we expect all colleagues to demonstrate. We improved employee benefits, including a pledge to pay all UK employees the real living wage as a minimum. Industry-leading talent was recruited to key positions, including four new divisional executive officers, and senior hires were made in our new Capita Consulting business.

When I joined Capita as Chairman, the other members of the Board and I committed to promote greater gender diversity across the whole organisation, particularly at senior levels; and I am pleased to report that gender diversity at senior levels improved over the past year. The company is now ranked 70th in the Hampton-Alexander Review, which measures female representation within FTSE 250 senior management teams. Our 2019 ranking represents a climb of 40 places from 2018's review, and an improvement of 152 places since 2017.

However, there is still much to do. It is disappointing that our gender pay gap across the company has increased. We are also very conscious that, despite some progress at the Executive Committee level and in senior management positions, we have no ethnically diverse representation on the Board; we will increase our focus on these key areas.

Our place in society

Over the past year, we continued to be mindful of the position Capita occupies in society and the opportunity we have to help drive social progress. If we are to fulfil the potential of the organisation, we must make a significant contribution to the societies in which we operate. This is not just for business reasons, but because it's the right thing to do – and the only way, in our view, that any business can create a truly sustainable future.

We are making progress, including the launch of our first responsible business strategy which sets out our priorities to ensure we maximise the benefits we create for the individuals and communities we serve, and minimise our negative impact on the environment. We have made a commitment to social mobility, sponsoring the UK Social Mobility Awards for a second consecutive year, and working to facilitate social mobility for young people from disadvantaged backgrounds. We also published our first supplier charter, which ensures dealings and payment practices with our 26,000 suppliers make us a good partner with which to do business.

Looking forward

At the end of 2019, Capita was better positioned to pursue its growth strategy than it was at the start of the year. The business is now better invested, better governed and better equipped to achieve a sustainable future. Our client list remains outstanding and we have done much work to deepen existing relationships and create new ones. We look forward to an improvement in trading conditions.

I would like to thank all our people for their hard work and commitment in 2019. There is still much more to do at Capita, but I am confident in the team and the work being undertaken to drive the business towards long-term, sustainable growth.

Our values

Underneath each value, we've identified the behaviours we expect from everyone who works here and we're working hard to embed our values and behaviours to help us become a stronger business that puts our people first.

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

Better outcomes

Community investment

£2.8m

(2018: £1.5m)

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

How we create value

Capita is a **consulting**, **digital services** and **software 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**, **change** and **deliver**.

Our expertise and resources

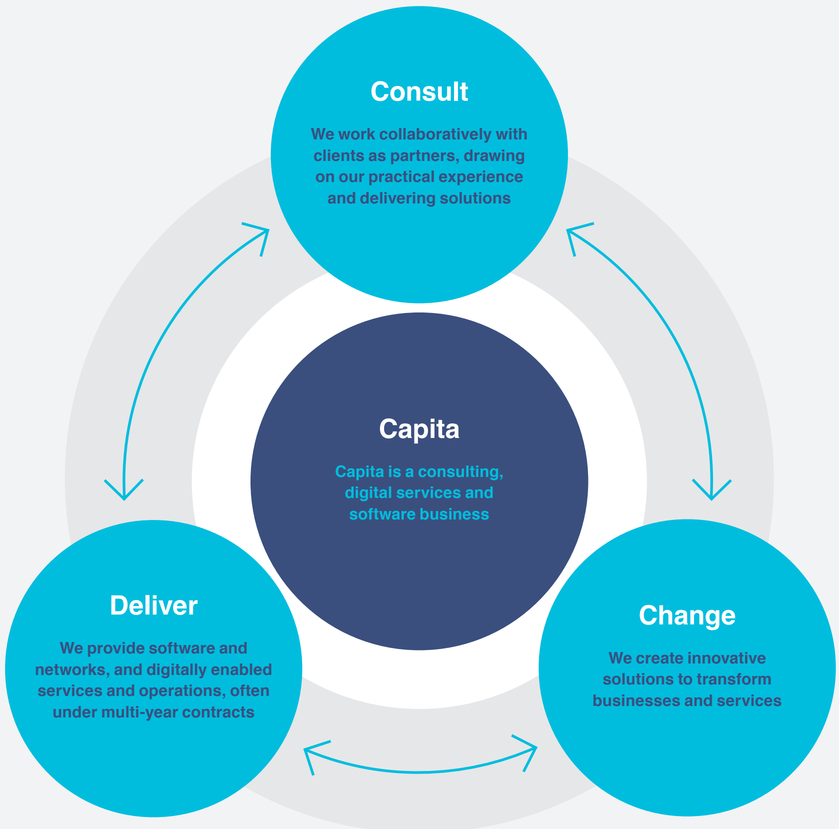
Market expertise
We have deep understanding of our clients and their markets; for example, in customer engagement, education software, recruitment processes and government services.

Technological resources
We offer technology-led, digitally enabled complex services and solutions. We are increasing investment in digital and software development.

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 61,000 skilled and committed employees who have deep understanding of our clients' markets and needs.

International infrastructure
We have growing international operations, with almost 20,000 people delivering technology solutions and customer engagement services, principally in Europe, India and South Africa.



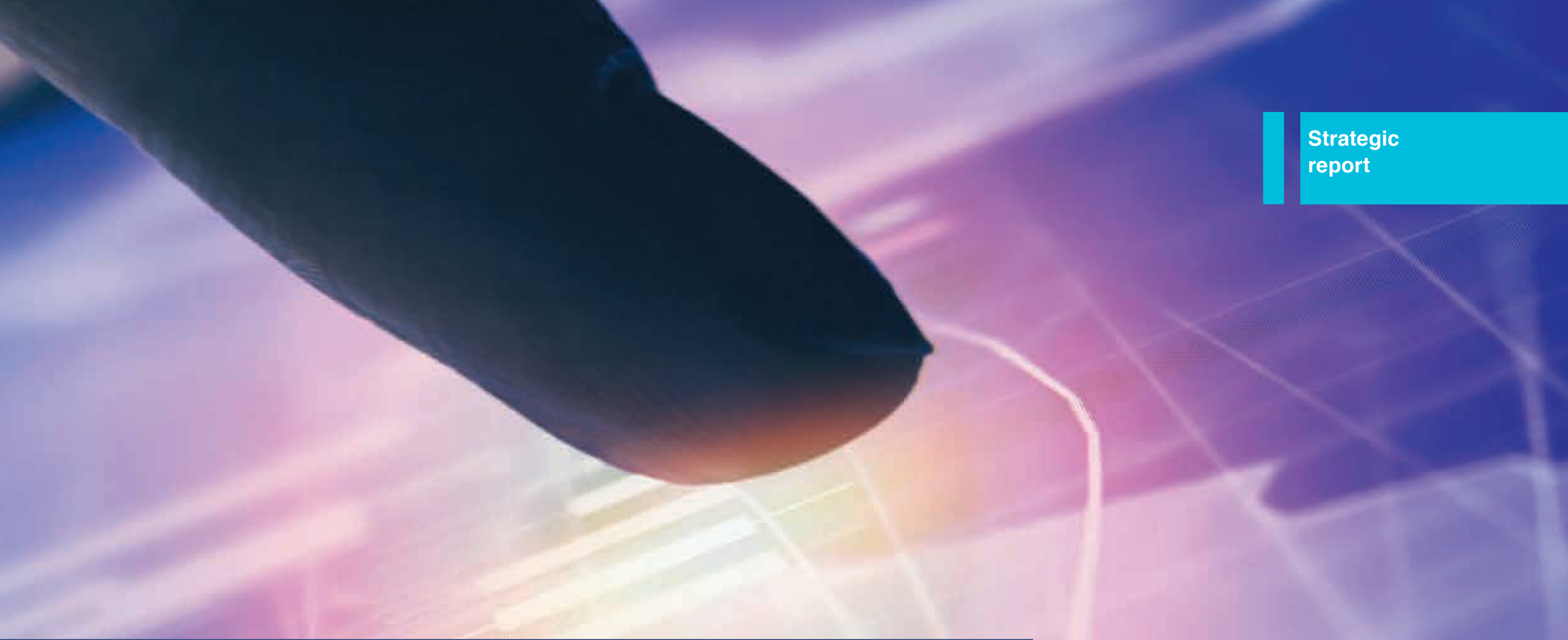
What we do as a business

At Capita, we provide consulting, digitally enabled services and software.

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

Our digitally enabled 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
- Improve end-customer experiences

Our software:
- Helps simplify services
- Assists better decision making
- Provides information
- Contributes to process acceleration
- Frees up time



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 2019, 87% of Group revenue was underpinned by contracts of one year or more. Our order book at 31 December 2019 was £6.7bn.

Software licences and support
We provide clients with business-critical software products, earning recurring revenue from implementation, annual licence fees and revenue from 'software as a service' arrangements. 10% of Group revenue is derived from Software.

Transactional services
Approximately 13% of our adjusted revenue comes from our transactional businesses where we earn fees for professional services provided to our clients across a wide range of functions. In 2019 this represented £469m of adjusted revenue.

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. Adopting new technologies such as automation is a key driver – during 2019 we built one of the largest automation teams in the UK.

Generating cash flow
During the early stages of our multi-year turnaround we have committed significant funds to fixing and stabilising the business. During 2020 we expect to turn free cash flow from a £61.3m outflow to an inflow of at least £160m, in line with market consensus.

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

72%

People survey engagement
(2018: 66%)

Clients and customers
by delivering solutions, transforming services and delighting them

+22pts

Positive points swing in customer net promoter score[1]
(2018: +24pts)

Suppliers and partners
by treating them fairly and encouraging them to deliver

97%

Suppliers paid within 60 days[2]
(2018: 97%)

Investors
by delivering improving returns

£(61.3)m

Adjusted free cash flow[3]
(2018: £(78.8)m)

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

5.9%

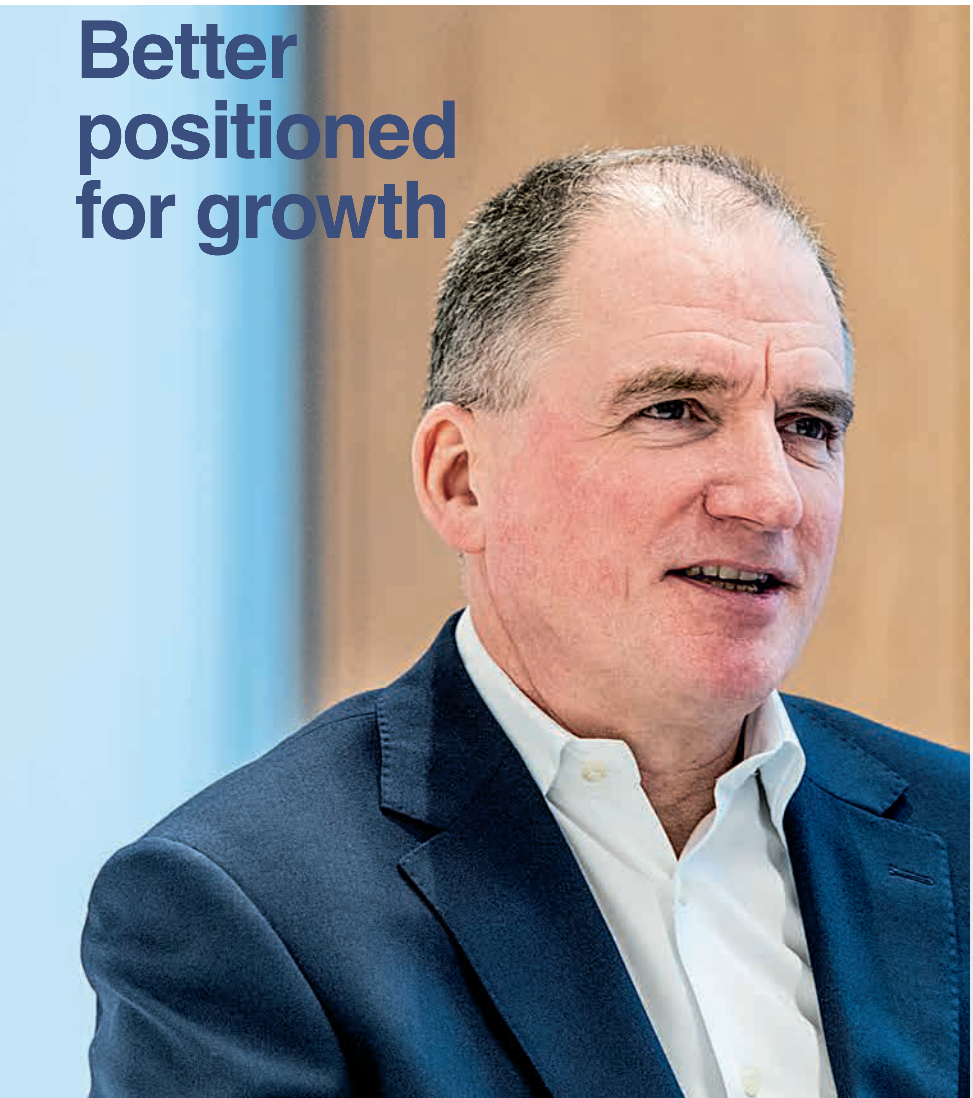
Reduction in carbon footprint[4]
(2018: increase of 4.9%)

Better outcomes

Instilling confidence in business: transport company Go-Ahead was incurring significant costs due to fraud. We introduced Optimize, Pay360's fraud detection software, helping them to control and manage their systems, while saving time and money. In total, more than £4m of fraud was prevented.

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.

Better positioned for growth



Capita is two years into a multi-year transformation to become a truly progressive, purpose-led, responsible business. Over that period, we have made significant progress, laying the foundations for a more focused, predictable and sustainable business.

We have continued to work hard to deliver on the commitments of our strategy – to simplify, strengthen and succeed. But there is more to do to achieve our goals and, while we are convinced that the plan remains the right one, not everything has worked in our favour.

We started to rebuild the organisation in 2018, reorganising our divisions and creating robust, accountable and centralised functions which define how we do things company-wide. We defined our purpose and implemented our operating model. We deleveraged our balance sheet and agreed a pension deficit reduction plan.

In 2019, we continued to simplify and strengthen the organisation, fix legacy issues, invest in our people, rebuild trust with clients, cut cost, improve controls and reduce risk. We invested significantly in our growth capability and the organisation's products and services, particularly in consulting, digital services and software. This will allow us to stimulate and maximise future higher-margin growth opportunities in areas where Capita has a competitive advantage and where we can offer cross-sell opportunities within the Group.

"We have made significant progress over the last two years, laying the foundations for a more focused, predictable and sustainable business."

Jon Lewis
Chief Executive Officer

During 2019, we also improved the operational performance that has weighed on our finances, failed to reflect our client ambitions and sapped the energy of our people for some time. We have embedded a more disciplined approach to bidding through our contract review committee, which helps to ensure we have derisked the business for the future. The executive committee oversees contract implementation, supported by our investment in skilled programme managers.

Cost competitiveness and efficiency are now also embedded throughout Capita and we achieved £105m of year-on-year savings during 2019, delivering our target of a cumulative £175m within two years. This followed changes to divisions and business units, consolidating operations and restructuring management layers, with further savings in property, procurement and technology.

In line with our drive to simplify Capita, we continued to review and assess our portfolio – to align better to our growth strategy; and decided in early 2020 to reorganise our Specialist Services division. We concluded that, following a period of change and improved performance, a number of businesses in the division would benefit from closer alignment with core Capita and should be moved into other divisions. Some of the other businesses in the division are now being prepared for disposal, with the proceeds earmarked to help strengthen the organisation.

However, while good progress is being made, there is still more that needs to be done and we are having to invest more than we initially thought to fully transform Capita. In 2019, as well as investing in growth, we invested more to fix and restructure internal systems and processes, and to address issues of complexity, poor quality and technological deficit; it remains vital to build the right foundations for Capita to drive sustainable growth. At the same time, the external trading environment has continued to be challenging.

It means that our progress has yet to be fully evidenced in our financial performance. Revenue and profit for 2019 were in line with our expectations. We reduced the revenue decline during the past year, and four of our six divisions grew in the second half. I am, however, disappointed that we are updating our guidance for free cash flow and that we now expect to hit at least £160m in 2020, in line with market consensus, and grow thereafter. We recognise that the benefits due to many stakeholders, especially our investors, still need to come through. But I am confident that, by investing more now, we are enhancing our ability to deliver sustainable growth.

We are evolving as a consulting, digital services and software business, and positioning ourselves to benefit from these growth markets. We are investing significant resources to drive future growth. We are leveraging our experience to address client and market demand. As we said at the half year, securing returns on our investments in the form of organic revenue growth and cash generation is our key priority for 2020. Our transformation plan remains the right one.

Building for the future

Capita is aiming to become a leading player in digital transformation and we are using our core skills and client relationships to position ourselves in this strong, growing market where Capita has a competitive advantage. Global spend on digital transformation is predicted by market research company IDC to exceed £1.5trn by 2022 – and it is this market we are tapping into.

Fundamental to this approach is the newly launched Capita Consulting business which gives us a front-end capability, an incremental revenue stream and insight into the key strategic business challenges of our clients. This will in turn allow us to create pull-through for other Capita services and maximise opportunities across the whole of the organisation. It provides the potential to cross sell products and move away from one-off solutions, while allowing us to build relationships with our clients, better understand their needs and offer them innovative solutions. The consulting business already has 30 partner-level consultants, supported by 270 analytical and technical consultants, many incorporated from small, existing consultancies within Capita. It is

Better outcomes

53 fire stations: **we're working with the Ministry of Defence on a 12-year contract to manage their fire and rescue capability. We're investing in digital technology, new fire appliances and new equipment, and have begun the construction of new £5m training facilities which will allow us to provide state-of-the-art training to MoD firefighters and personnel.**

partnering with our well-established network of cloud technology providers, fintechs, start-ups and subject experts to help deliver operational transformation.

But the business is different from other established consultancies because, at Capita, we are practitioners – with 30 years' experience and deep understanding of designing, building and running the systems of hundreds of businesses. We expect Capita Consulting to help drive long-lasting relationships with our clients, to help better prioritise which services to develop for those clients, and to form a key pillar of our medium and long-term growth strategies. Our consulting team has already been working collaboratively in this way with a major client to assist them with their cyber security requirements. We have also been selected as a partner to support another client transform to an agile leadership model, while our consultants are helping a south London borough design and build digital services to transform residents' experiences and outcomes.

We are committed to helping our clients take full advantage of current and emerging opportunities in digital transformation. We now have a much better sense of which of our products and services our clients need the most, and are focusing on six key capabilities: customer experience, data and insight, cloud platforms, automation, cyber, and the 'internet of things' (IoT). We already have strong capabilities in these areas. For example, Capita subsidiary DCC supports the UK roll-out of smart meters and is the largest IoT project in the UK. DCC has an exciting future, providing further services for the energy market, and Capita can take these skills to new projects and clients, and identify new 5G and IoT opportunities.

Automation capability is a particular focus area for the new Capita; it will drive both revenue and profit, by delivering faster, more accurate and more reliable services, while saving costs through higher levels of productivity. For this reason, in 2019 we established in Birmingham one of the UK's biggest centres of automation excellence. We have built a portfolio of automation technologies that includes robotic process automation, artificial intelligence, optical character recognition and webforms, through to machine learning and natural language processing, and we are partnering with the world's leading technology companies in this area, including UI Path and Blue Prism.

Automation is already being used to help manage additional workloads for a number of the charging schemes we operate; it has also been introduced into Primary Care Support England (PCSE) services to help improve the speed and accuracy of calculating GP pension entitlements.

We have continued to invest in and expand our digital delivery centre in India, where we now employ 1,200 people. We are utilising the software developments made there to optimise product management, drive standardisation and reduce development lifecycles. We now have an agile, 13-week target development cycle that increases our ability to deliver client solutions more quickly. In 2019, we developed cloud-enabled versions of our SIMS, Retain, and One

platforms, as well as SaaS-enabling core enterprise products, and are opening up these platforms to expand our client offerings.

Overall, the combination of our new consulting business, reorganised account management and digital competencies will allow us to move away from being mainly reactive to proactive, in pursuit of new business opportunities. We will aim to be less reliant on competitive tenders and instead look to secure a higher percentage of revenues from opportunities that we co-create with client partners. This approach marks an important turning point for the new Capita – building on our deep industry expertise, while leveraging a portfolio of innovative, scalable and repeatable solutions which we design once and implement many times.

"We have invested significantly in our growth capability and the organisation's products and services."

1m

One million students: Capita One's admissions portal is making it faster and simpler for families to secure school places. It's also streamlining processes for local authorities through the easy management of applications. Today, more than one million children are being brought into the education system using our technology.

Read more about our Software services on page 20.

Our commitment to our people

Capita is a people-focused business and our leadership team is committed to putting our colleagues at the very centre of how we operate. As a services business, we are only as good as our ability to delight our clients and their customers; that is what drives everything we do in terms of commitment to, and investment in, our own people.

In 2019, we did much to improve the experience of working at Capita. With more engaged people delivering better service to our clients, we believe we can establish a platform for long-term, sustainable and efficient growth. Our people survey recorded a rise in employee satisfaction levels, with 72% of our employees saying they were proud to work for Capita, up from 56% two years ago, alongside a net promoter score swing of 14 points. This shows our colleagues feel increasingly engaged, which is important because we cannot expect them to delight clients and customers, unless they feel valued and proud of the work they are doing.

In 2019, we became the only FTSE-listed business to have two employees from its wider workforce appointed to the board of directors. We also committed to pay all UK colleagues the 'real living wage' as a minimum from April 2020, and improved our UK maternity, paternity and shared parental leave policies. We launched our centre for learning and development, Capita Academy, providing more training opportunities and apprenticeships, as well as a performance management and development framework to ensure colleagues have clear objectives and opportunities to develop their careers. In December, we implemented Workday, our people management and data tool to oversee all internal HR processes.

Importantly, we recruited industry-leading talent to head up four of our six divisions to continue to enhance a senior leadership team capable of driving significant change. Aimie Chapple joined us as Executive Officer for Customer Management alongside Mark Cook in Technology Solutions, Chantal Free in People Solutions, and Andy Start in Government Services.

Our commitment to our clients and customers

In 2019, we continued to focus on delivering for our client partnerships. We are investing in the relationships we enjoy with a wide range of public and private sector partners, while creating new partnerships and broadening our reach. Our priority over the past two years has been to get closer to our markets, improve our services to existing clients and better understand their requirements, and strive for operational excellence. This has been reflected in vastly improved service: we are hitting more than 92% of all our major contractual key performance indicators; and achieving better customer net promoter scores, with Government Services, for example, improving last year by 34 points.

Standout service delivery last year included the design, implementation and ongoing operation of the technology for Transport for London's ultra-low emission zone (ULEZ). This project is helping to reduce levels of pollution in the capital and has already reduced emissions of nitrogen oxides by approximately 29% since it was introduced in April 2019; it is a great example of Capita's ability to create and deliver complex, critical, digital infrastructure. We also achieved several important strategic business wins, including a £525m contract with the Ministry of Defence to manage 53 fire stations in the UK, Cyprus and the Falkland Islands, and to construct and manage a new fire and rescue training facility in Gloucestershire. Our stronger relationships, client insight, investment in account management and improved service delivery enabled us to extend existing contracts with clients such as The Co-Operative Bank, the Department for Work and Pensions, Energia, Liberata, the National Trust, and Southern Water. Our renewal rates (by contract value) showed a healthy improvement in 2019; excluding People Solutions, where we have more to do, the renewal rate was 91%. Group order intake for the year was £2.2bn.

We also focused on improving the performance of our three previously 'challenging' contracts, reducing losses on them, and delivering a transformed service to our clients. Our reset Recruiting Partnering Project (RPP) contract with the British Army is on track to hit its regular soldier annual recruitment target for the first time since the start of the contract in 2012, while we improved a range of other aspects of the contract. We have also improved performance relating to our contracts with NHS England (PCSE) and mobilcom-debitel, hitting significantly higher monthly key performance indicators and reducing the needless financial drain of penalty payments.

Our commitment to our suppliers and partners

As a purpose-led, responsible organisation, Capita exists to create better outcomes for all stakeholders, including our 26,000 suppliers and partners, with whom we seek to build lasting relationships, treating them fairly and paying promptly, while encouraging them to deliver.

In June, we published our first supplier charter to ensure our dealings with our suppliers conform to best practice. The charter sets out the core principles by which Capita does business, while outlining what we expect from our suppliers in return. It covers a range of business and operational areas from health and safety to human rights, diversity and inclusion, cyber security, and how any breaches of the charter principles are reported.

We are signatories to the Government's prompt payment code, reporting our payment practices and performance every six months. In 2019, we spent £2.1bn with suppliers, paying 97% of them within 60 days, surpassing the requirements of the prompt payment code. The Federation of Small Businesses has paid tribute to the example set by us and the "positive changes Capita has made on this important agenda".

In 2020, we will continue to strengthen our relationships with suppliers – with particular focus on our approach to, and payment terms with, small and medium-sized enterprises (SMEs). They make up approximately 46% of all our suppliers and are strategically important to us. Capita supports the Government's aspiration that a third of companies' external supplier spend goes to micro and SME businesses by 2022; and we are taking positive action to further increase our own spend with smaller businesses.

Our commitment to our investors

Revenue and profits were in line with our expectations, with cost reductions offsetting investments, lost revenues and lower margins on some contract renewals. Some of the benefits of the transformation work, such as profit improvements on the three 'challenging' contracts, were reflected in the results. While our core businesses have largely shown growth in the second half, it has been slower than we had hoped. As in 2018, the results were improved by some one-off items, as is to be expected in a complex organisation in transition.

Adjusted revenue for the year was £3,647.4m, a decline from 2018, as the benefit of contract wins was outweighed by contract losses, many of which occurred in 2018. This was coupled with a decline in scope and volume, due to high competition and market pressures in Technology Solutions, and lower volumes in our Life and Pensions contracts and in our Real Estate and Infrastructure business. There was also lower transactional revenue, mainly in Specialist Services.

Adjusted profit before tax was £275.0m, also down compared with last year, in line with expectations, as margin mix, investment and contract losses outweighed new wins and cost savings. Adjusted free cash flow in 2019 was an outflow, as we had expected. The balance sheet was significantly strengthened in 2018, but net debt is at the top end of our desired range, as a result of lower conversion of profit to cash, and more investment being required to fix contracts and lay the foundations for growth. More details about our financial performance can be found in the Chief Financial Officer's review on pages 14–19.

Our commitment to society

Capita employs 61,000 people globally, and we are acutely mindful of the responsibility we have to support individuals and the communities we serve – and be a force for good in society. We aim to help restore the connection between companies and a public that has grown increasingly mistrustful of big business. As we drive to be a truly responsible business, we recently became a founder signatory of the Good Business Charter and gained Fair Tax Mark accreditation.

In 2019, to ensure we could make as great an impact as possible to drive positive change, we formulated our responsible business strategy, which is aligned with the UN's sustainable development goals in the areas of social mobility and youth unemployment, digital exclusion, gender equality, climate change, business governance and ethics. To drive social mobility, we launched two new charity partnerships with Teach First and Young Enterprise, supporting more than 7,000 young people to gain skills that make them more employable.

We sought to make a number of changes to the way we work to minimise our negative impact on the environment. We focused on investing in energy efficiency – upgrading heating, lighting and air-conditioning systems across the business – and also on reducing our non-essential travel. We reduced our carbon footprint over the year by 5.9% (based on emissions per headcount).

Better outcomes

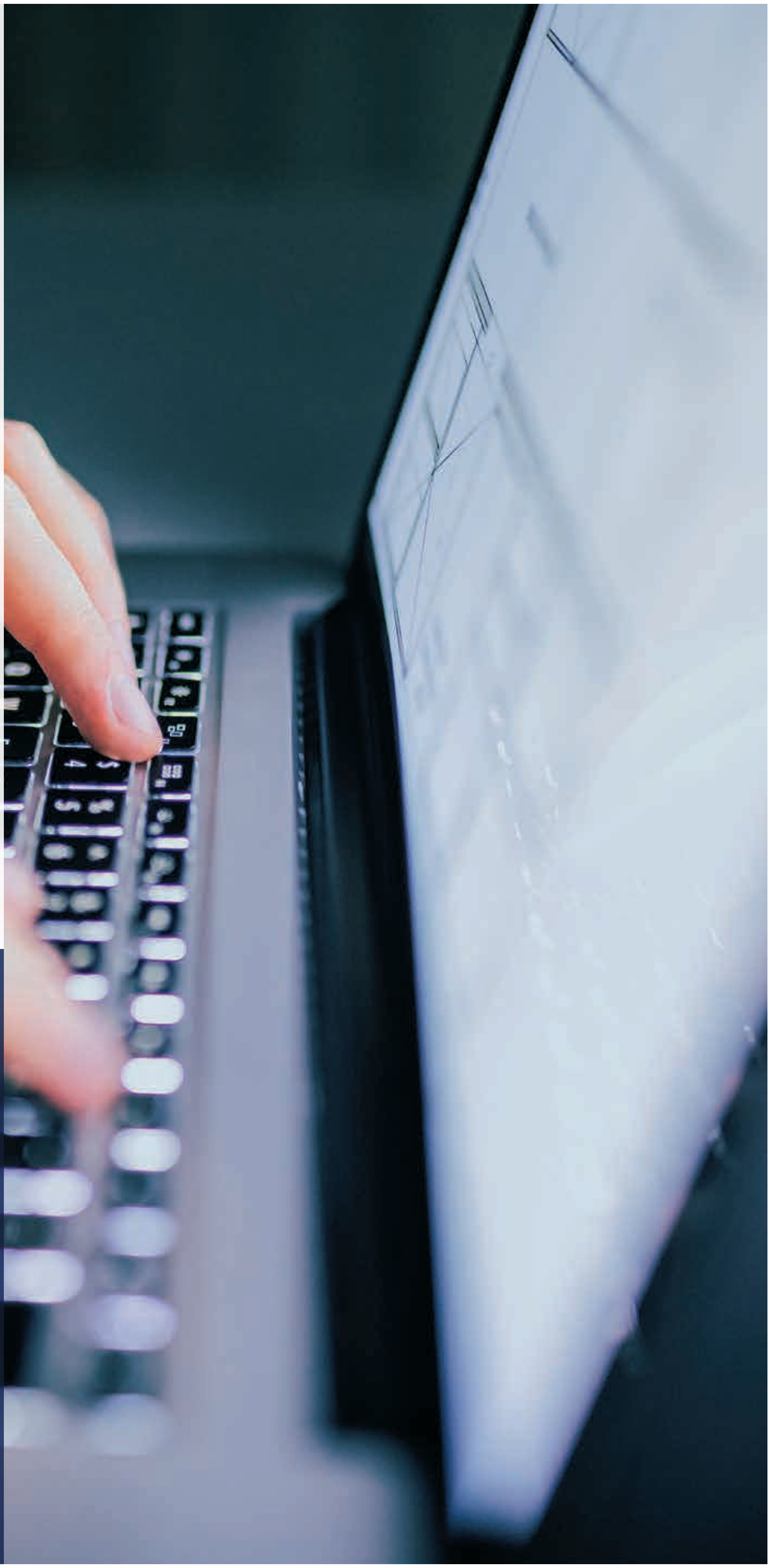
Digital transformation: **a core part of Capita's digital business process outsourcing investment is its automation capability. Our 'automation hub' team was launched in Birmingham in early 2019 and now employs 130 people. We have already built a portfolio of automation technologies which includes robotic process automation, artificial intelligence and machine learning.**

The way ahead

Transforming an organisation of Capita's size into a more predictable, lower-risk business is a complex challenge and, while we have made significant progress, there remains much to do to meet our goals. Capita is in a stronger position than it was two years ago. Our people are more engaged, we are successfully delighting the great majority of our clients, we have boosted levels of trust, we have reduced risk in the business, and we are doing business the right way. I am grateful to all my colleagues at Capita and would like to thank them for their continued hard work, commitment and dedication.

I believe 2020 will be another year of progress at Capita. We are investing in our growth capability and are committed to delivering better outcomes. We are continuing to build a more focused, sustainable business for the long term, with growing free cash flow. My confidence in our purpose-led, multi-year transformation plan remains unchanged.

"We are evolving as a consulting, digital services and software business – and positioning ourselves to benefit from these growth markets."



Building the platforms for growth

"We have made progress this year, particularly on taking cost out, but there is more to do to deliver growth and complete our transformation."

Patrick Butcher
Chief Financial Officer

Overview

2019 was the second year in Capita's multi-year transformation and a lot has been achieved. There are many signs of progress on our journey towards becoming a simpler, stronger, more successful company generating free cash flow in a sustainable, predictable manner. However, as these results show, progress has been slower and more expensive than we had hoped, partly because we have chosen to invest for the long term and partly because some of the challenges could not have been fully scoped in early 2018.

Revenue and profits were in line with expectations, with cost reductions offsetting investments, lost revenue and lower margins on some contract renewals. Some of the benefits of the transformation work, such as profit improvements on the three 'challenging' contracts, are reflected in the results. While our core businesses have largely shown growth in the second half, it has been slower than we had hoped. As in 2018, the results have benefited from some one-off items, as expected in a complex group in transition. These included contract related items arising on contract terminations, settlements and modifications, and other Group-wide items, including lower bonuses compared to the prior year.

The cost and cash management controls and programmes implemented over the last two years give us a better base and will continue to provide positive returns in 2020. Interest has reduced following the deleveraging in 2018.

The balance sheet was significantly strengthened in 2018 but net debt is at the top end of our range as a result of lower conversion of EBITDA to cash, and more investment being required to fix contracts and lay the foundations for growth. The group has the liquidity it needs to continue the transformation journey. We expect this liquidity to further improve following the introduction of new funds to replace the current debt that matures over the next 18 months. As part of our drive for simplification, we decided recently to seek to dispose of a number of non-core businesses, the proceeds from which will be recycled to strengthen the Group.

However, as we said at the half year, securing returns on our investments in the form of positive revenue growth and cash generation growth is the priority for 2020.

Simplified reporting

We have simplified the presentation of our financial statements for 2019 to better align to the needs of our stakeholders. The changes are designed to enhance clarity, aid a deeper understanding and provide a more meaningful integration of our reported results, while making the narrative more concise. To achieve this, the notes have been grouped into sections, with the relevant accounting policies, and any key judgements and estimates applied. It also includes an analysis of the key drivers compared with key metrics and/or the previous year's results, to make it more user friendly.

Summary of financial performance

	Financial highlights					
	Adjusted[1] results – continuing operations			Reported results – continuing operations		
	Adjusted[1] 2019	Adjusted[1] 2018	Adjusted[1] YOY change	**Reported 2019**	Reported 2018	Reported YOY change
Revenue	**£3,647.4m**	£3,814.7m	(4)%	**£3,678.6m**	£3,918.4m	(6)%
Operating profit	**£306.1m**	£334.4m	(8)%	**£0.4m**	£34.9m	(99)%
Profit/(loss) before tax	**£275.0m**	£281.2m	(2)%	**£(62.6)m**	£272.6m	(123)%
Earnings/(loss) per share	**13.09p**	16.33p	(20)%	**(4.18)p**	17.99p	(123)%
Free cash flow	**£(61.3)m**	£(78.8)m	22%	**£(213.0)m**	£(260.5)m	18%
Net debt*	**£790.6m**	£466.1m		**£1,353.2m**	£466.1m	

* Net debt in respect of adjusted results is headline net debt[1]

Adjusted results

Capita reports results on an adjusted basis to aid understanding of business performance. In 2019, International Financial Reporting Standard 16 Leases (IFRS 16), which has a material impact, especially on net debt, has been adopted. However, to aid comparison with the prior year, the primary adjusted measures used by the Board for evaluating performance are before the impact of IFRS 16. Reconciliations between adjusted and reported operating profit, profit before tax and free cash flow are provided on the following pages.

As expected, adjusted revenue[1] reduced year on year by around 4%. The adjusted revenue[1] bridge details the movements, many of which we have communicated previously:

- One-off gains in 2018 on the termination of the Prudential and Marsh contracts;
- Contract losses, which includes the flow through from contracts lost in 2018, of £105m, such as the Prudential, Marsh and Defence Infrastructure Organisation contracts, and a further £109m of contract losses in 2019, including in local government and in some other divisions. Delays in local authorities taking back work meant that the impact of these losses were lower than expected in 2019, but the majority of these have now come to an end;
- Scope and volume change revenue has decreased due to high competition and market pressures in Technology Solutions, and lower volumes in our Life and Pensions contracts and Real Estate and Infrastructure business;
- Lower transactional revenue, mainly in Specialist Services;
- Contract wins which included £67m from the annualised impact of previous wins and £40m of new contract wins in 2019. This however was not as much as expected, particularly in the second half of the year, which explains the emphasis we put on the importance of revenue growth in 2020; and

Adjusted revenue[1] bridge by key driver

	£m
Year ended 31 December 2018	**3,814.7**
One-offs	(48.0)
Year ended 31 December 2018 rebased	**3,766.7**
Contract losses	(213.6)
Scope and volume changes	(21.2)
Transactional	(30.5)
Contract wins	106.7
One-offs	39.3
Year ended 31 December 2019	**3,647.4**

Adjusted profit before tax[1] bridge by key driver

	£m
Year ended 31 December 2018	**281.2**
One-offs	(15.2)
Year ended 31 December 2018 rebased	**266.0**
Contract wins	14.0
Contract improvement	31.5
Net contract movements	(97.2)
One-offs – contract related	28.2
Transformation cost savings	105.0
Cost change	(40.2)
Investments	(73.7)
One-offs – other Group cost items	41.4
Year ended 31 December 2019	**275.0**

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

Adjusted operating profit to adjusted free cash flow[1]

	2019 £m	2018 £m
Adjusted operating profit[1]	**306.1**	334.4
Add: depreciation, amortisation of intangible assets, impairment of property, plant and equipment and share of earnings in associates	88.4	90.9
Adjusted EBITDA	**394.5**	425.3
Contractual movement (deferred income, contract fulfilment assets and accrued income)	(228.7)	(217.0)
Cash from trading operations *	**165.8**	208.3
Other working capital and other movements	(7.2)	(26.4)
Cash generated by operations before non-recourse receivable financing	**158.6**	181.9
Non-recourse receivables financing cleared	–	(110.0)
Cash generated by operations	**158.6**	71.9
Interest	**(32.7)**	(39.0)
Taxation	**(5.4)**	26.6
Net capital expenditure	**(181.8)**	(138.3)
Adjusted free cash flow[1]	**(61.3)**	(78.8)

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

Adjusted[1] to reported profit bridge

	Operating profit		(Loss)/profit before tax	
	2019 £m	2018 £m	2019 £m	2018 £m
Adjusted[1]	**306.1**	334.4	**275.0**	281.2
Amortisation and impairment of acquired intangibles	**(49.9)**	(143.5)	**(49.9)**	(143.5)
Impairment of goodwill	**(41.4)**	(33.8)	**(41.4)**	(33.8)
Net finance costs	**–**	–	**(6.3)**	(18.8)
Contingent consideration movements	**1.4**	5.0	**1.4**	5.0
Business exit – trading	**(16.7)**	17.7	**(16.7)**	17.7
Business exit – non-trading expenses	**(52.1)**	(29.7)	**(52.1)**	(29.7)
Business exit – (gain)/loss on disposals	**–**	–	**–**	309.7
Significant restructuring	**(159.4)**	(110.0)	**(159.4)**	(110.0)
Impact of IFRS 16	**11.7**	–	**(14.0)**	–
Other	**0.7**	(5.2)	**0.8**	(5.2)
Reported	**0.4**	34.9	**(62.6)**	272.6

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

- As happened in 2018, a number of one-offs arose from termination payments and deferred income releases associated with contract terminations and modifications (detailed further below).

Adjusted profit before tax[1] declined in 2019, in line with expectations. The adjusted profit before tax[1] bridge breaks out the revenue and cost impacts on profit. The margin from contract wins and the benefits from improved performance on three 'challenging contracts' are offset by the combined impact of contract losses and scope and volume reductions described earlier. The cost savings were offset by cost inflation (mainly inflationary pay increases focused on lower paid staff), and investment in strengthening functions, such as growth. A range of other Group-wide actions, such as lower bonus accruals, resulted in adjusted profit before tax[1] being in line with expectations.

The cost competitiveness programme delivered £105.0m of savings in 2019, and cumulative savings of £175m, which were used to increase investment in strengthening functions and build the platforms for growth as well as to partially offset the decline in revenue. The savings have been generated through simplifying the organisation, reducing management layers and rationalising the IT and property portfolios. We are leveraging investments of more than £10m that we have made in automation and our existing offshore capabilities, and there is more to come.

The adjusted revenue[1] and adjusted profit before tax[1] declines were offset by a number of one-off benefits. These items are not excluded from adjusted results as they are normal course of business, not associated with the transformation plan. These included:

- One-off contract related items (£28.2m) relating to release of deferred income and write-off of contract assets arising on contract terminations, settlements and modifications. Where a contract is terminated early, all deferred revenue is recognised in the year of termination, which would 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. In addition, exit fees were paid to Capita on the termination of customer contracts which contained provisions to compensate the Group for exit costs and future profit in the event of early termination.
- Other Group-wide items benefiting profit (£41.4m) included lower bonuses compared to the prior year (£24.4m) and other Group items.

Adjusted to reported free cash flow

	2019 £m	2018 £m
Adjusted[1]	**(61.3)**	(78.8)
Pension deficit contributions	**(71.1)**	(46.9)
Significant restructuring	**(148.5)**	(100.8)
Business exits	**(19.4)**	(10.3)
Impact of IFRS 16	**90.0**	–
Other	**(2.7)**	(23.7)
Reported	**(213.0)**	(260.5)

Adjusted free cash flow[1] in 2019 was an outflow (£61.3m). This outflow was affected by the decline in adjusted profit before tax[1] explained above. 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 with 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.
- 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.

We have analysed working capital between 'contractual' – being those balances which relate to contract unwinds 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. 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 declined to £165.8m (2018: £208.3m) due to reduction in adjusted EBITDA. Contractual working capital movement increased with an outflow of £78m (2018: outflow £70m) relating to contracts which were terminated or renegotiated in the year, which is not planned to reoccur in 2020; and an outflow of £150m (2018: outflow £147m) relating to continuing contracts expected to reduce in 2020 due to additional payments on account (DFRP) and reduction in transformation spend. Other working capital related cash reflected actions taken to improve working capital which will continue in to 2020.

Taxation has moved from a cash inflow in 2018 to an outflow in 2019, reflecting corporation tax repayments received in 2018 following the adoption of IFRS 15.

As expected, net capital expenditure increased in 2019 in line with the transformation objectives as the investment in property and IT infrastructure increased, and investment in technology and growth ramped up.

Period-end cash management, including non-recourse receivables financing, fully unwound in 2018.

Reported results

Adjusted operating profit[1] and adjusted profit before tax[1] excludes a number of specific items, including significant restructuring of £159.4m, the amortisation and impairment of acquired intangibles, including goodwill, of £91.3m, business exits of £68.8m and the impact of IFRS 16, to aid understanding of business performance.

The Group has recognised an impairment of goodwill, of the Network Services cash-generating unit (CGU) within the Technology Solutions division. As detailed in the divisional strategy and performance section of the strategic report, post the half-year results announcement and as the market continues to change, forecast margins were impacted by high competition and market pressures, which was then reflected in the 2020 business plan. While we continue to win new revenue, albeit not at the expected level of growth, the margin pressure is expected to continue until we move to provision of our digital transformation propositions. As a consequence, the starting base from which we expect this CGU to grow is lower than expected at 30 June 2019.

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. During 2019, the Group took the decision to exit a business. The exit is in progress and expected to complete in 2020. At 31 December 2019, the Group was also in an active process to dispose of a business which met the held-for-sale criteria and therefore treated as a disposal group held for sale. In accordance with our policy, the trading results of the businesses were included in business exits and therefore excluded from adjusted results. To enable a like-for-like comparison of adjusted results, the 2018 comparatives have been restated to exclude 2019 business exits. Further disposals are planned in 2020 as part of the simplification agenda. As these disposals did not meet the definition of business exits or assets held for sale at 31 December 2019, 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 includes property rationalisation, procurement centralisation, transformation of support functions, including investment in growth, an organisation-wide customer relationship management system, a new human resources system (Workday) 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. The costs of the transformation plan, including redundancy costs, are excluded from adjusted operating profit[1] as significant restructuring. Refer to note 2.4 to the consolidated financial statements for further analysis of the spend.

The aim of the finance transformation is 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 is required on the core processes and procedures before the system can effectively be implemented. We have reviewed the costs capitalised and assessed that £12.3m is impaired, representing areas that we expect to redesign before going live. The carrying value of the investment at 31 December 2019, post impairment, is £58.6m. Further impairment may arise should there be a material change to the Group's operating model ahead of any go-live. This impairment is included within significant restructuring. We have continued to invest in shared service centres and offshoring, and in making improvements to the Group's existing reporting systems, processes and controls.

The Group adopted IFRS 16 from 1 January 2019. The Group holds a significant number of operating leases and therefore adopting IFRS 16 has had a material impact to the Group's financial statements. The accounting standard has introduced a single lessee accounting model which requires assets and liabilities to be recognised for leases (refer to note 6.4 to the consolidated financial statements). Rental costs previously recognised in operating profit have been replaced by depreciation of the assets and net finance costs on the liability. The total cash outflow for lease payments has not changed. However, payments related to the principal liability have been presented as cash outflows from financing activities, as opposed to cash outflow from operating activities under International Accounting Standards 17 Leases in our reported results.

Further detail of the specific items charged in arriving at reported operating profit for 2019 is provided in note 2.4 to the consolidated financial statements.

Reported free cash flow was an outflow reflecting spend in relation to known commitments, including pension deficit contributions (which the directors consider to be debt-like in nature), restructuring costs, professional fees, contingent and deferred consideration, litigation and other items. In 2019, this was offset by the adoption of IFRS 16 as rental payments previously included in free cash flow were reclassified as financing cash flows, being repayment of the lease liability and interest.

Continued investment

Investment over three years outlined in the rights issue prospectus in April 2018 was split between targeted investments of £500m and £220m in respect of the transformation plan, a total of £720m. The table below details the cumulative investment to the end of 2019.

By the end of 2019, we had invested £649.5m through a mix of operating, restructuring and capital expenditure. Looking forward to 2020, we expect to continue to invest although as the mix of work changes, capital expenditure will be a lower proportion. Overall this will result in investment nearer £800m before including 2020 investment in operating costs. We will also make the final payment in the agreed three year deficit reduction plan on our pension scheme.

Impact on net debt

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 2019, the ratio was at the top of our range at 2.0 times (2018: 1.1 times) as a result of trading cash flows and higher investment.

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 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 2019, the US private placement loan notes ratio was 1.7 times.

Interest cover[1] covenant was 11.2 times for the US private placement loan notes and 10.8 times for other financing arrangements (2018: 8.2 times).

As the comparatives have not been restated on the adoption of IFRS 16, the December 2018 ratio is only comparable against the other financing arrangements and therefore no comparatives are shown for the US private placement loan notes.

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 facility, leases and overdrafts.

The Group does not rely on sources of funding that are not contractually committed. To mitigate the risk of needing to refinance in challenging conditions, the Group is diversifying its sources of committed funding and is planning to spread debt maturities to November 2027. In addition, the Group's RCF of £414.0m at 31 December 2019 (2018: £600.0m) provides flexible liquidity available to fund operations and a reasonable liquidity buffer allowing for contingencies.

"Our priority for 2020 is to secure returns on our investments in the form of positive revenue growth and cash generation growth."

Cumulative investment*

	Operating costs £m	Restructuring £m	Capital expenditure £m	Total £m
Maintenance	22.0	70.2	158.7	**250.9**
Organisation	34.5	117.1	34.7	**186.3**
Technology	21.7	61.6	108.7	**192.0**
Other	1.9	0.4	18.0	**20.3**
Total	**80.1**	**249.3**	**320.1**	**649.5**

* Cumulative investment represents spend in 2018 and 2019

Net debt

	2019 £m	2018 £m
Opening net debt	**(466.1)**	(1,117.0)
Cash movement in net debt	(241.2)	654.1
Non-cash movements	(2.0)	(3.2)
Adoption of IFRS 16	(643.9)	–
Closing net debt	**(1,353.2)**	(466.1)
Remove closing IFRS 16 impact	562.6	–
Headline net debt	**(790.6)**	(466.1)
Cash and cash equivalents, net of overdrafts	122.8	642.7
Debt, net of swaps	(913.4)	(1,108.8)
Headline net debt/adjusted EBITDA[1]	**2.0x**	1.1x

1. Refer to alternative performance measures in section 8.2.

In December 2019, the facility was extended to 31 August 2022, extendable for a further year to 31 August 2023 with the consent of the lenders by 31 August 2021. The addition of a further bank to the facility in February 2020 resulted in the facility increasing to £452.0m.

In addition to the RCF, in February 2020 the Group agreed a backstop liquidity facility of £150.0m. The backstop liquidity facility has an initial maturity in February 2021, and is extendable at the option of the Group to a final maturity in August 2022.

At 31 December 2019, the Group had £122.8m of cash and cash equivalents net of overdrafts, and £990.7m of private placement loan notes, fixed-rate bearer notes, and Schuldschein loan. These debt instruments mature over the period to 2027, with repayment of £232.5m, £240.5m and £230.5m in 2020, 2021 and 2022 respectively. We are taking steps to extend the average term to maturity of our debt, and thereby reduce refinancing risk, by issuing new long-term debt instruments.

As noted earlier, as part of our simplification drive, we also decided recently to dispose of a number of non-core businesses in 2020. The anticipated disposal proceeds will provide additional liquidity headroom with options available to fund future investments and reduce the Group's debt.

My priority is to manage our cash to support the transformation of Capita to the point when it is generating sustainable predictable adjusted free cash flow[1].

Going concern and viability assessments

In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2019, the directors are required to consider whether the Group can continue in operational existence for the foreseeable future. The Board has concluded that it is appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts to 31 August 2022 being 29 months from the date of approval of these financial statements and aligned with the expiry date of the RCF and backstop liquidity facility. The Board's assessment is set out in more detail in section 1 of the consolidated financial statements.

In addition, as is usual, in assessing viability the Board has taken into consideration plans to introduce new funds to the Group to replace the current debt that matures over the next 18 months, with an extended maturity profile that supports the transformation programme, and disposals, both of which the directors are confident will conclude successfully in 2020.

Pensions

The next triennial valuation of Capita's main defined benefit pension scheme is due as at 31 March 2020. The previous valuation as at 31 March 2017 included the payment of deficit repair contributions totalling £176.0m, which will be fully paid by early 2021. In line with our expectations, it is anticipated that these additional contributions, along with longer-term investment returns, will eliminate the shortfall in the scheme as identified by the Trustees during that valuation. Looking forwards to the 2020 valuation, where we conclude will be dependent upon the timely delivery of the transformation of the Group. 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.

Balance sheet

The reported loss for the year combined with the actuarial loss on the Group's defined benefit pension schemes and the adoption of IFRS 16, has resulted in the Group recording consolidated net liabilities of £64.0m at the 31 December 2019 (2018: net assets £103.3m).

Contingent liabilities

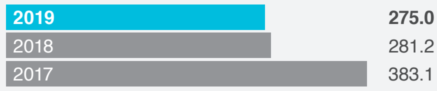
The Group has been notified under a supplier contract of a potential liability relating to past services received. The basis of any liability is currently being discussed with the supplier, focusing currently on the method of any settlement. The preferred approach is to settle the potential liability, if any, via future committed spend with the supplier and accordingly the Group has not made any provision at 31 December 2019 for a future outflow of funds that might result. Refer to note 6.2 of the consolidated financial statements for the contingent liability disclosure note.

Financial outlook

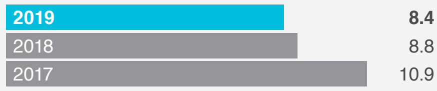
In light of the investment that has been made in building platforms for growth, we expect that revenue growth in our core businesses will translate into modest organic revenue growth for the Group in 2020. Contractual working capital outflows will reduce by more than £120m as a result of known contract movements, and our planned focus on the management of debtors and creditors will generate further benefits. Capital expenditure, as discussed earlier, will reduce significantly in 2020 and so adjusted free cash flow is expected to be at least £160m. As a result of planned restructuring, and the last of three agreed payments towards our pension deficit, net debt will rise modestly. All of these items are before taking account of the impact of potential disposals and the impact of IFRS 16.

Financial KPIs

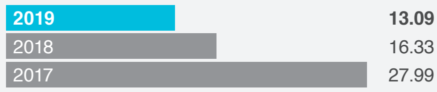
Adjusted profit before tax (£m)[1]



Adjusted operating margin (%)[1]



Adjusted earnings per share (p)[1]



Adjusted free cash flow[2]

£(61.3)m

(2018: £(78.8)m)

Return on capital employed

13.3%

(2018: 17.9%)

Headline gearing: headline net debt to adjusted EBITDA[3]

2.0x

(2018: 1.1x)

1. Refer to alternative performance measures on page 187–188.
2. Refer to note 2.10 of the consolidated financial statements.
3. As announced in January 2019, 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).

Software

Capita is one of the UK's largest software companies; and our specialist enterprise software products serve sector-specific and cross-sector markets in the UK and overseas. Our software, deep industry expertise and functional IP support critical public services and business processes. They also form a differentiating component of Capita's wider digitally enabled services offering.

More than 70% of our revenue is recurring and more than 80% of licence revenue is spread over the term of our client relationships, irrespective of whether it is a perpetual licence or a 'pay as you go', software as a service (SaaS) model.

Our markets and growth drivers

We are a UK top-10 provider of enterprise software products and the market is expected to grow at around 4–5% in 2020. We have market-leading positions in sectors such as education and emergency services and are a top-three provider in local government.

Overall market growth is being driven by software's deepening role in every aspect of business and consumer life. The drive for automation and demand for apps to engage with end-users is set to continue. We are focusing on cross-selling opportunities in existing and adjacent markets, and strategic expansion into new markets. With continued pressure on education budgets, and increasing demand for access to cloud

Strategic priorities 2018–2020:

- Accelerate investment in key products and platforms.
- Transform the software lifecycle operations across all products.
- Create a software development centre of excellence for production of standardised software.
- Create a market-aligned, high-performing sales force and marketing capability.
- Selective sales drive in UK vertical, horizontal and international markets.

2019 progress against strategic priorities:

- Investment in products such as SIMS, Retain, Payment Facilitator and One Housing.
- Delivered cost savings through standardisation and further business integration.
- Grew digital delivery centre in India to 1,200 employees.
- Cross-Capita collaboration, supporting new contracts.

Better outcomes

Public safety agencies rely on Capita's technology to respond to emergencies and major events. Our solutions have helped London Fire Brigade reach incidents on average 19 seconds more quickly than previously; and, in the West Midlands, Capita enables 999 callers to securely send footage of incidents directly to emergency call rooms.

services, we are expanding our offerings of complementary cloud products to schools. The growth of cloud solutions has increased the accessibility of our products and allowed us to offer alternative commercial models for clients.

Our strategy

Our strategic priorities are focused on creating a specialised software products business, investing in our core products, and providing best-in-class solutions for clients in our UK and targeted international markets.

The division is transforming 29 siloed businesses into a single software business. We are aiming to invest in using reusable components and standard architectures, supported by scaled, integrated, shared service functions and our digital delivery centre in India. We are investing in both existing and new products and markets to defend and grow the business, with the aim of achieving market rates of revenue growth in 2020.

Financial performance

Adjusted revenue in 2019 fell by 1.2% to £375.4m, with year-on-year growth in the second half offset by annualising 2018 contract losses in the first half. Notable contract wins included a number of emergency service contracts and work to support delivery of the next generation of smart meters. There was an encouraging improvement in order intake despite a slowdown in orders during the fourth quarter, particularly in local government.

Adjusted operating profit decreased by 6.1% to £102.9m, due to the changes in revenue, and investments in improving products, sales and marketing, including in the US, which were partly offset by benefits from transformation cost savings.

Cost and operational excellence

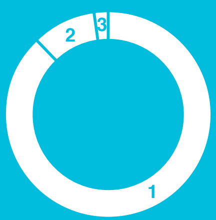
Many of the changes required to create a streamlined division are now in place. We have built a best-in-class digital delivery centre to produce standardised, repeatable software. It is supporting the rest of Capita in creating scaled, integrated, shared service functions. It has also allowed us to move to an agile delivery platform with releases every 13 weeks, providing value adding enhancements to clients on a regular basis. We will continue to drive consolidation and efficiency alongside productivity benefits to clients.

Investing in growth

During 2019, we ensured we had clearer propositions in the marketplace and focused more on finding solutions to client problems in markets where we have experience and through data-driven insight. Over the past two years we have been reducing technological debt from prior under-investment and this is now starting to normalise.

New product development in 2019 included a well-received lite version of Retain, our resource planning software, with a cloud release in 2020. There were a number of developments in education software including Reading Cloud, Parental Engagement and SIMS 8, which is now live in a number of primary schools with a pipeline of further interest. Robotic process automation will also support SIMS migration for our clients who need it. Reading Cloud now supports more than eight million students and allows us to enter the schools' literacy market with the launch of Literacy 360 in 2020. We have also now built a sales team in North America and are focusing on pipeline build and lead conversion. 911 Eye is proving popular and is currently with 13 police forces in the US, while we continue to pursue further opportunities.

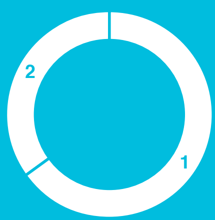
Adjusted[1] revenue by type (%)



1 **88%** Long-term contractual
2 **10%** Short-term contractual
3 **2%**Transactional

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

Revenue by market (%)



1 **65%** Public sector
2 **35%** Private sector

Financial performance

Divisional financial summary	2019	2018	Change %
Adjusted revenue (£m)	**375.4**	379.9	(1.2)
Adjusted operating profit (£m)	**102.9**	109.6	(6.1)
Adjusted operating margin (%)	**27.4**	28.8	
Order book (£m)	**578.4**	554.9	4.2

Adjusted revenue

£375.4m

(2018: £379.9m) -1.2%

Adjusted operating profit

£102.9m

(2018: £109.6m) -6.1%

Employees
4,100 (2018: 4,000)

Key regions
UK, India, US and Australasia

Key markets
- Education
- Healthcare
- Local government
- Public safety
- Utilities
- Transport
- Payments
- Professional services
- Financial services
- Private sector

Key products
- Education – SIMS
- Public safety – ControlWorks
- Finance and housing – Integra
- Payments – Pay360
- Resource planning – Retain, Workforce Management
- Utilities and transport – MarketFlow, FieldReach, Geofield

People Solutions solves complex people issues for large public and private clients across the entire employment lifecycle. Our market-leading portfolio of solutions range from sourcing the hardest to reach talent, such as IT and cyber security, delivering learning to a large number of employees across all sectors, to administrating payroll and pensions to a significant portion of the UK workforce.

We are focused on developing and delivering digitally enabled, consultancy-led solutions that drive better outcomes for our clients and deliver a consumer-grade experience to their employees and end-users.

In the second half of the year, we reassessed the leadership requirements of the division and appointed a new Executive Officer, Chantal Free, to lead the division through its next phase of transformation as it returns to growth.

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 market for people services is expected to grow at a rate of 5% through to 2023. The key market growth drivers are: (i) our clients' needs for financial sustainability; (ii) a better employee experience to execute on their strategy; and (iii) the necessity to have access to skills to enable them to be fit

People Solutions

Strategic priorities 2018–2020:

- Integrate and enhance solutions to align to key client challenges.
- Invest in core products and technology platforms to deliver a better user experience.
- Integrate solutions both intra and inter-divisionally, leveraging the Group's investment in the creation of Capita Consulting.
- Connect existing standalone solutions to solve our clients' complex issues through clearly articulated client value propositions (CVPs).

2019 progress against strategic priorities:

- Invested in new digital solutions for Vetting and Onboarding which will be launched in the first half of 2020. Both products reached minimum viable product (MVP) stage by 31 December 2019 and the first live client has been trialled on the new Vetting platform.
- Invested in improving client experience in pensions administration with an improvement in service-level agreement (SLA) performance (and reduction in cost of failure).
- Developed CVPs which connect our offerings.
- Improved performance of RPP through collaborative and effective strategic partnership approach.

Better outcomes

Capita makes a significant impact on the UK workforce.
From attracting and processing 118,000 applications for the British Army, administrating the pensions of around five million members and making 23 million pension payments, screening over 250,000 individuals for almost 40,000 jobs, to processing two million payslips for almost 500,000 employees across the UK, we created better outcomes for our clients and their people in 2019.

for a digital future. Our divisional pillars help clients address these issues: the pensions business helps with financial sustainability; HR Solutions addresses the employee experience need; and Learning and Resourcing are at the heart of the access to skills services.

Our strategy

Our strategy focuses on a rejuvenated account management model that aims to retain and grow existing accounts, driving profitable growth. Profitability improvements will be delivered by instilling operational excellence processes and mindsets into our existing operations, as well as financial prudence in investments and expenditure. The partnership with Capita Consulting, advising clients on their digital transformation journey, is also a significant opportunity for profitable growth.

Financial performance

Adjusted revenue increased in 2019 by 1.2% to £500.5m, reflecting growth in our Managed Learning and Apprenticeships and point solutions such as IT Recruitment and Employed Resourcing model, which resulted from IR35 regulatory changes, offsetting contract attrition in our Managed Resourcing Operations and Pensions business.

Adjusted operating profit declined by 22.4% to £34.9m, reflecting change in revenue mix in our Resourcing and Learning businesses, challenged implementations in our Pensions business and capacity investment lag in our Pensions consultancy business to deliver future growth. We also increased investment to improve SLA performance and support client retention, particularly in Pensions Administration. Savings in operational excellence and technology were reinvested in strategic initiatives.

Cost and operational excellence

We have made progress on the integration of People Solutions and have driven cost efficiencies across the division, which will drive incremental benefits and service enhancements. We expect additional investment in 2020 to continue our transformation journey.

Our army recruitment programme (RPP) contract saw significant improvement, where the process review, technology advances and partnership with the client produced vastly improved outcomes. Following a successful advertising campaign, we have received the highest levels of applications to join the British Army in more than five years, and we are on track to deliver our regular soldier and officer targets for the recruitment year to 31 March 2020. We also rolled out a new process that includes clinical triage, which has made the candidate journey more rapid and bespoke. Inability to meet recruiting targets could lead to reduced contract profitability and require an assessment as to whether associated contract assets were generating sufficient profits to support the carrying value.

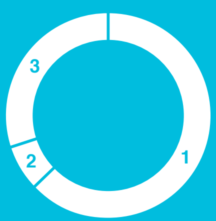
Investing in growth

During 2019 we invested in the development of our first truly digital products: Vetting and Onboarding. These investments are our model for our digital strategy going forward, affording our clients the opportunity to buy a positive employee experience. They reached MVP stage at the end of 2019, and will launch in 2020. They will deliver greater value to our clients through speed, efficiency and improved employee engagement.

We signed several new contracts in 2019, including: the provision of resourcing services for the Home Office; learning services for Network Rail; and screening services for Nestlé.

We have also taken advantage of the opportunities presented by the market stimulated by changes in the regulatory environment, including: IR35, apprenticeships levy and guaranteed minimum pension (GMP) equalisation. Furthermore, we have continued to invest in upgrading our core business process outsourcing platforms (learning and pensions software).

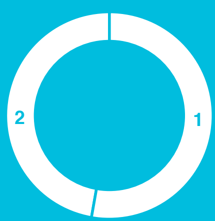
Adjusted[1] revenue by type (%)



1 **63%** Long-term contractual
2 **7%** Short-term contractual
3 **30%** Transactional

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

Revenue by market (%)



1 **53%** Public sector
2 **47%** Private sector

Employees
5,900 (2018: 5,800)

Key regions
UK, US and Europe

Key markets
- Financial services
- Central government
- Local government
- Technology
- Utilities
- Defence
- Education

Key services and contracts
- Screening
- Recruitment
- HR services
- Learning services
- Corporate benefits
- Pension administration
- Army recruitment

Financial performance

Divisional financial summary	2019	2018	Change %
Adjusted revenue (£m)	**500.5**	494.6	1.2
Adjusted operating profit (£m)	**34.9**	45.0	(22.4)
Adjusted operating margin (%)	**7.0**	9.1	
Order book (£m)	**497.2**	715.3	(30.5)

Adjusted revenue
£500.5m
(2018: £494.6m) +1.2%

Adjusted operating profit
£34.9m
(2018: £45.0m) -22.4%

Capita is a leading provider of multi-channel customer engagement services, in the UK, Germany and Switzerland. We primarily serve customers in the retail, utility and telecommunications sectors, from a mix of locations in Europe, India and South Africa. The division also provides remediation, complaints management and collections services.

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. These enable us to manage complex, high-value interactions, automate repetitive tasks and use technology and capability to drive positive quality improvement.

Our markets and growth drivers

Capita competes with a range of local and global players for transactional contracts, typically priced on a price per full-time equivalent (FTE) hour basis, and a smaller number of strategic players for outcome-based contracts. We are the largest provider of customer management services in the UK. According to NelsonHall, the UK market is estimated to be worth £4bn a year and is expected to grow at approximately 4% a year through to 2022.

Customer Management

Strategic priorities 2018–2020:

- Invest in our infrastructure to ensure consistent, high-quality service delivery, including facilities, core technology and tools.
- Build new digital platforms to support all channels and customers on behalf of clients.
- Build enhanced data and analytical platforms and capabilities to enable the business to drive insights from customer interactions into our client engagements.
- Implement a stronger operating framework to standardise our operational routines and transfer best practice across our operations, both on and offshore.
- Invest in improved consultative selling capability to increase origination, pipeline and order book.
- Standardise best practice, improve our infrastructure, invest in people, increase our use of technology and offshoring.
- Diversify and accelerate growth in some of our secondary sectors, notably financial services, and travel and leisure.

2019 progress against strategic priorities:

- Built omni-channel, data and analytical platforms and new automation technologies.
- Invested in people and improved infrastructure.
- Increased our use of technology and offshoring through the global delivery centre.
- New framework in place for digital customer experience value proposition.

Better outcomes

Every year Capita answers 800,000 calls for the National Trust, resolves 25,000 webchat queries and handles 220,000 emails. By improving and embedding market-leading digital technology into the Trust's customer experience operation, we have improved the services and choices available to its members.

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. This commitment to outcomes is core to our differentiation in the marketplaces we serve. Our operational scale allows us to derive meaningful insight from our customer interaction data, driving business improvement across our operations. Automation and digital augmentation is increasingly a solution to clients who want faster and closer interaction with customers.

Financial performance

Adjusted revenue for 2019 was flat year on year at £802.4m. Following a 1% decline in the first half, revenue increased by 1% in the second half thanks to wins and scope increases with existing clients such as Southern Water and British Gas.

Adjusted operating profit increased by 31.7% to £54.9m, mainly due to strong cost management, including the increasing use of resources in India and South Africa.

Cost and operational excellence

Cost improvement was delivered in 2019, particularly from operating model initiatives and procurement. We have started to leverage our global delivery centres in India, South Africa and Poland, offering efficiencies and innovative solutions to our customers. We invested significantly in capability and skills, as well as in our people, where better training and improved financial and working conditions have improved attrition and customer service.

The transformation of our customer services contract with mobilcom-debitel continues to progress well. We have been successfully driving the transformation programme through implementation of the new Capita-built mobile app, initiatives to shift the volume to digital channels and the increase in automation and self-services. We continue to expect to reach the inflection point and break even on the contract in 2020. Inability to achieve this key milestone could lead to reduced contract profitability and a risk of impairment of the associated contract assets.

During 2019, the O2 contract saw the best performance in both sales and service during the history of the partnership, reflecting the growing impact of work jointly undertaken to develop the target operating model.

Investing in growth

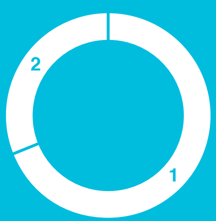
Clients are seeking partnerships which are characterised less by FTE numbers and more by a range of value-adding services. This increasingly complex service offering provides opportunities for players with deeper outsourcing capabilities.

During the year, we won, renewed and extended a number of contracts. This included the extension of contracts with:

- The National Trust – worth £46m over five years.
- British Gas – to November 2020, the contract has since been extended further to June 2024.

During the year, we applied data and analytics technology to existing clients, where examples include producing analytics on caller data and delivering insight on social media mentions. In the second half of 2019, we rolled out a like-for-like chat operation based in Pune and Mumbai; this will be followed in 2020 by the introduction of messaging, in-chat payments and automated services. Our investment in technology to date has provided the opportunity to build new relationships where automation is the focus from the outset, and further investment is expected in 2020 as we seek to build on our consulting experience.

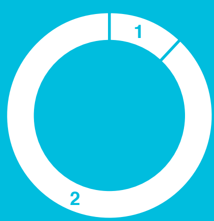
Adjusted[1] revenue by type (%)



1 **69%** Long-term contractual
2 **31%** Short-term contractual

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

Revenue by market (%)



1 **12%** Public sector
2 **88%** Private sector

Financial performance

Divisional financial summary	2019	2018	Change %
Adjusted revenue (£m)	**802.4**	802.6	–
Adjusted operating profit (£m)	**54.9**	41.7	31.7
Adjusted operating margin (%)	**6.8**	5.2	
Order book (£m)	**1,723.7**	2,012.2	(14.3)

Adjusted revenue

£802.4m

(2018: £802.6m) –%

Adjusted operating profit

£54.9m

(2018: £41.7m) +31.7%

Employees
29,200 (2018: 30,000)

Key regions
UK, Germany and Switzerland

Key markets
- Retail
- Telecommunications and media
- Utilities
- Automotive
- Financial services
- Travel and leisure

Key services and contracts

Services
- Customer experience enhancement
- Revenue generation
- Escalated case/complaints management
- Digital transformation

Contracts
- O2
- TV Licensing
- British Gas
- npower
- Southern Water

Capita is a strategic partner to government 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. 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

Capita is one of the largest providers to government in the UK with an estimated market share of 13%. Within this we have top-three leadership positions in several focused sectors where we have deep, proven experience and expertise, including education, health, transport, defence, central and local government. Governments globally are under pressure to deliver a greater quantity of services at better quality to citizens, driving counteracting forces for the sector. On the downside, they have reset interactions with traditional outsourcers – resulting in the disaggregation of services and insourcing. Conversely, there continues to be strong demand for innovative digital solutions that allow government to deliver

Government Services

Strategic priorities 2018–2020:

- Develop existing core service capabilities as repeatable product propositions to drive growth.
- Continuous programme of operational excellence to improve service delivery and create headroom for reinvestment.
- Transformation of business model to a consulting, transformation and digital services company.

2019 progress against strategic priorities:

- Major contract wins in DFRP and PIP.
- Return to green supplier status with Cabinet Office.
- Continued improvement in performance of challenging contracts, including PCSE.
- Successful implementation of ULEZ.
- Delivery of cost-out targets.

Better outcomes

Rossendale Borough Council, in Lancashire, commissioned us to deliver their out-of-hours customer support. Following successful delivery of our emergency planning, our contract was extended to implement a homelessness service, arranging urgent accommodation for vulnerable people.

their goals for improved productivity and better citizen experience. Government departments are actively engaging with the private sector to reflect this: reshaping contracts at renewal, but also awarding new work and renewing existing relationships. In particular local government markets have seen significant reshaping of the landscape.

During 2019, Brexit substantially affected the volume of new initiatives. With the election of a strong majority government, we are starting to see indications of an acceleration of decision making and the potential for new opportunities in support of emerging policies.

Our strategy

Our strategy is to focus our business around the aforementioned six core market sectors where we have a leading position; offer a refined set of value propositions developed on top of a defined and controlled stack of underlying replicable digital products and capabilities; invest in a full-lifecycle digital transformation capability; and focus on excellence in our transformation and operational service delivery performance.

Financial performance

Adjusted revenue was broadly flat in 2019 at £777.9m. Prior-year losses of our contracts with the Home Office supporting the immigration sector and the Defence Infrastructure Organisation, and a decline in local government, were offset by growth in contracts such as smart metering and by increased scope in our Transport for London (TfL) contract. Adjusted operating profit increased significantly to £58.8m with the impact of contract losses being offset by performance improvements on contracts such as Primary Care Support England (PCSE), one-off contract-related items, and efficiency improvements.

Operational excellence

In 2019, we continued to devote resource to our service quality, which improved with over 95% of key performance indicators green, while we also returned to green strategic supplier rating with the Cabinet Office. Operational service delivery on our PCSE contract with NHS England continues to improve. A small proportion of the contract, which administered cervical screening, was transferred back to the NHS in August 2019. We started the roll-out of our transformed solutions for ophthalmic payments, pharmacy market entry and performer list at the end of the year, with positive feedback. We continue to expect to reach the inflection point and break even on the contract in 2020. Inability to achieve this key milestone could lead to reduced contract profitability and a risk of impairment of the associated contract assets.

We successfully introduced the ultra-low emission zone (ULEZ) for TfL, including vehicular image capture and processing, billing and a mobile payments app, data management, enforcement and customer call centre operations.

Investing in growth

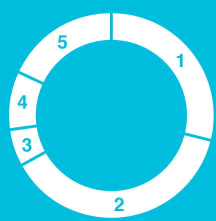
2019 was a successful year when we managed to offset some major contract losses with new business wins. These included: a £525m contract to modernise and support improvement to the operational effectiveness of the Ministry of Defence's fire and rescue service (DFRP) with the mobilisation for this contract going well; and a £145m extension of our contracts with the Department for Work and Pensions (DWP), and the Department of Communities in Northern Ireland, to deliver Personal Independence Payment (PIP) assessments. Smaller contracts with Charnwood, Bexley, and the extension of the Ministry of Justice Technology Transition Programme contract were also won. Our growth model going forward focuses on understanding the problems of our clients in government and helping them to transform their business with scalable digital products and solutions. Growth will come from investment in scalable and repeatable products and solutions. We have invested in robotic process automation and artificial intelligence, and they will be used to drive further productivity gains with the savings used to invest in our client value propositions. We also expect a strong benefit from our colleagues in Capita Consulting, who have deep knowledge of the industry verticals that we are targeting, as well as the tools we use to deliver services.

Adjusted[1] revenue by type (%)

1 **86%** Long-term contractual
2 **2%** Short-term contractual
3 **12%** Transactional

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

Revenue by market (%)



1 **29%** Central government
2 **38%** Local government
3 **6%** Justice and emergency services
4 **9%** Education
5 **18%** Health

Financial performance

Divisional financial summary	2019	2018	Change %
Adjusted revenue (£m)	**777.9**	780.5	(0.3)
Adjusted operating profit (£m)	**58.8**	40.3	45.9
Adjusted operating margin (%)	**7.6**	5.2	
Order book (£m)	**2,328.4**	2,187.5	6.4

Adjusted revenue

£777.9m

(2018: £780.5m) -0.3%

Adjusted operating profit

£58.8m

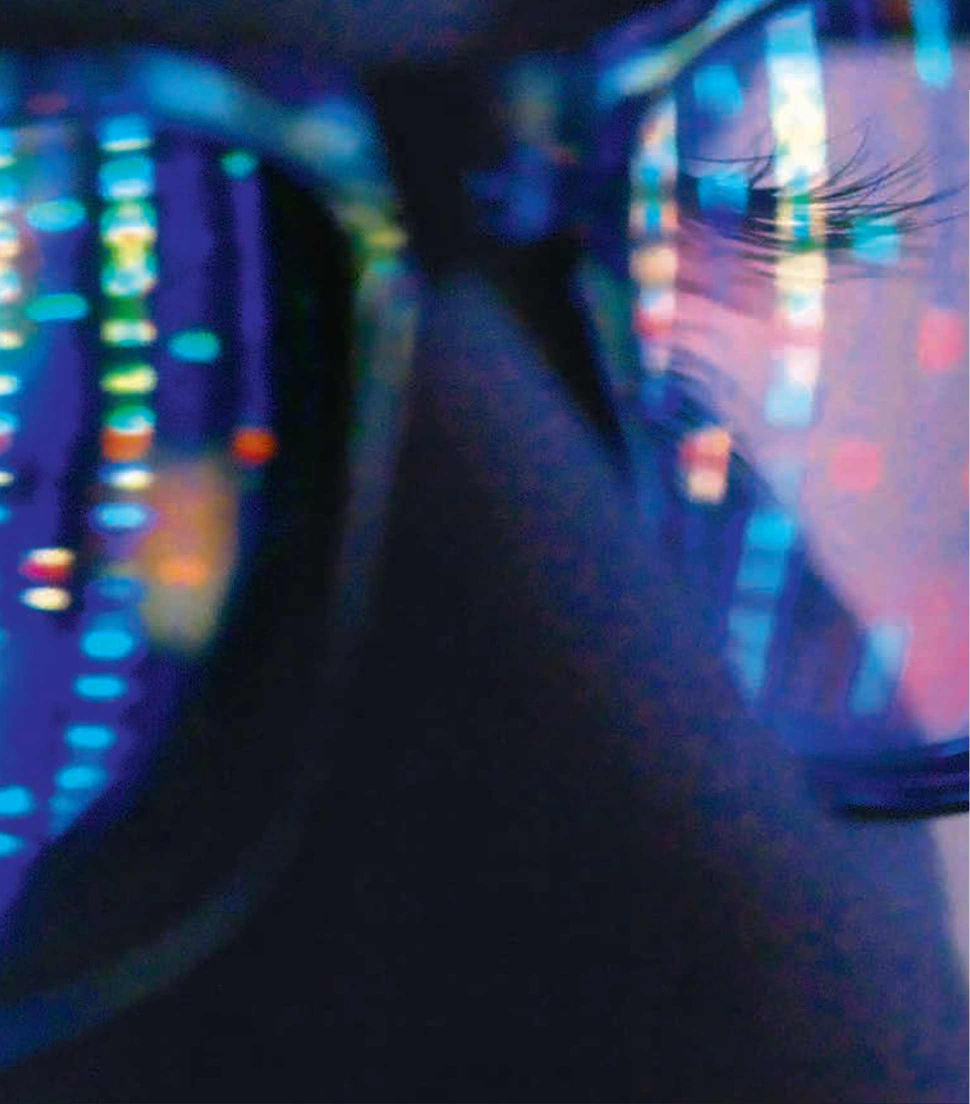
(2018: £40.3m) +45.9%

Employees
8,200 (2018: 8,700)

Key regions
UK

Key markets
- Local government
- Central government
- Defence
- Education and health

Key services and contracts
- Local government business process management and transactional services
- DWP PIP
- DCC smart metering
- Electronic monitoring
- Primary Care Support England
- TfL congestion charging and ULEZ
- Gas Safe Register



As part of our strategy to simplify and strengthen, we have renamed IT & Networks as 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. 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.

Our markets and growth drivers

Technology Solutions operates in a broad and fast-changing market. The market in the UK was estimated to be worth £54bn in 2019 and is expected to grow at a compound annual growth rate of 2.6%, according to Teknowlogy group. In 2019, the market reached an inflection point where spending on the high-growth Fast/Digital IT segment, such as cloud, cyber, artificial intelligence and data analytics, overtook spending on legacy IT, such as traditional data centres, workplace and server applications services.

Technology Solutions

Strategic priorities 2018–2020:

- Consolidate multiple standalone IT businesses into a single, integrated division.
- Upgrade and consolidate data centres to create an enhanced, resilient and secure client infrastructure.
- Invest in key client propositions across networks, cloud, cyber and digital.
- Develop our people.

2019 progress against strategic priorities:

- Successfully brought to market new client propositions to the market for cloud, cyber, SD-WAN and digital.
- Consolidated five standalone IT businesses into a single, integrated unit through our One-ITS programme.
- Completed phase one and two of our data centre consolidation and cloud migration programme to create an enhanced, resilient and secure client infrastructure.
- Invested and developed our people's capabilities and work environment, resulting in reduced attrition and increased employee satisfaction scores.

Better outcomes

Capita built and runs the Scottish 'wide area network' (SWAN), a single, shared network and common information and communication technology infrastructure for the country's public sector. Today, more than 6,000 sites comprising schools, local council offices, GP surgeries and pharmacies, as well as every hospital and ambulance station across Scotland, are connected.

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; such as how to benefit from robotic process automation technologies. Our new automation hub can provide consulting solutions that improve business processes, whether they are human, digital or hybrid.

Growth, resilience and 'Value for IT' are our strategic objectives. 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 the simplification of technology operations, platforms, products and suppliers to generate efficiency savings, strengthen our capabilities and ultimately deliver greater value to our clients.

Our expertise in business process improvement – complemented by consulting – allows us to address emerging opportunities. This combination of expertise in technology with a robust and integrated product offering helps clients extract value out of their legacy systems, while adopting and gaining benefit from the latest digital, cloud-enabled technologies.

Financial performance

Adjusted revenue decreased by 2.4% to £429.3m, with the benefit of new work with TfL offset by other contract losses and reduced transactional business in LAN and voice networking solutions.

Adjusted operating profit decreased by 5.8% to £50.7m, as savings from simplifying the division were offset by lower margins and increased costs in networking solutions. These lower margins in networking solutions are caused by high competition and market pressures, and while we continue to win new revenue, albeit not at the expected level of growth, the margin pressure is expected to continue until we move to provision of our digital transformation propositions. Excluded from 2019 adjusted profit is a charge of £41.4m from the impairment of goodwill (refer to note 3.4 of the consolidated financial statements).

Cost and operational excellence

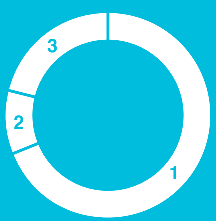
Cost improvements have been delivered across the division, with operational effectiveness initiatives – such as common processes, consolidating service desks and an increase in the use of offshoring – resulting in significant savings. We have also turned around and stabilised several challenging contracts, and increased our customer satisfaction. These outcomes have been achieved through a combination of activities, such as: focusing on strengthening relationships and delivering results for our customers; our ongoing programme to modernise our infrastructure and automate workloads; our enhanced operational efficiency measures; reskilling and training our workforce; and our One-ITS programme to consolidate five businesses into one.

Investing in growth

We have invested significantly in the development of our Fast/Digital IT propositions – in cloud, cyber security, software defined network monitoring, internet of things and robotics process automation – to provide new digital offerings to our clients. We have and will continue to strengthen our partnerships with key technology providers, combining our consulting and delivery expertise with their technologies.

In 2019, we saw strong performance in our TfL contract with additional large project wins on the back of the core network contract. Our Northern Ireland Education contract was also extended for a further two years. Other major wins included long-term contract renewals with Liberata and Energia, and new business supporting the outsourced Defence Fire Risk Management Organisation.

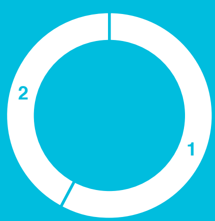
Adjusted[1] revenue by type (%)



1 **69%** Long-term contractual
2 **10%** Short-term contractual
3 **21%** Transactional

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

Revenue by market (%)



1 **58%** Public sector
2 **42%** Private sector

Financial performance

Divisional financial summary	2019	2018	Change %
Adjusted revenue (£m)	**429.3**	439.7	(2.4)
Adjusted operating profit (£m)	**50.7**	53.8	(5.8)
Adjusted operating margin (%)	**11.8**	12.2	
Order book (£m)	**389.7**	380.4	2.4

Adjusted revenue

£429.3m

(2018: £439.7m) -2.4%

Adjusted operating profit

£50.7m

(2018: £53.8m) -5.8%

Employees
3,200 (2018: 3,400)

Key regions
UK and Ireland

Key markets
- Local government
- Central government
- Defence
- Education
- Financial services
- Telecoms
- Aerospace
- Transport

Key services
- Managed networks
- Data centre and cloud infrastructure
- Managed IT support
- Testing
- Cyber security and consulting

Specialist Services comprises a portfolio of businesses and delivers a range of service offerings through joint ventures, trading businesses and traditional IT-enabled legacy BPO contracts. The division includes those businesses which either are not within Capita's growth markets and/or have little in common with our other divisions. The 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. Our closed book Life Insurance administration business is in structural decline as books run off and some customers, with legacy IT systems, are switching to suppliers who can provide a single digital platform for all their life books.

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.

We enjoy strong market positions in many of the verticals sectors, with strong brands and positive client perception of our services. This provides an ongoing opportunity to make better use of Capita's wider client base, and to simplify and strengthen the portfolio.

Specialist Services

Strategic priorities 2018–2020:

- Manage as a portfolio and focus on continuing value optimisation.
- Rationalise service lines, processes, properties and IT.
- Make use of cross-sell opportunities within portfolio and wider Capita.

2019 progress against strategic priorities:

- Continued to manage the division as a portfolio of separate businesses, focusing on value optimisation.
- Investment in a number of product/service enhancements.
- Delivered significant cost savings and cash generation.

Better outcomes

In November, Capita signed a new six-year contract worth £141m with The Co-operative Bank. Capita provides mortgage services to the bank's UK customers, and a key element of the contract is the collaborative approach Capita and the Bank are taking to transformation. There is a renewed focus on redesigning and simplifying processes and systems to enhance the end-customer's experience, increase productivity and reduce costs.

The focus across the portfolio is on operational excellence and cost optimisation. In line with our drive to simplify Capita, we have continued to review our portfolio – and decided in early 2020 to reorganise our Specialist Services division. We have concluded that a number of businesses in the division would benefit from closer alignment with core Capita and should be moved into other divisions. Some of the other businesses are being prepared for disposal, with the proceeds earmarked to help strengthen the organisation.

Financial performance

In 2019, adjusted revenue fell by 16.1% to £744.5m, reflecting the contract losses in 2018 of Prudential UK (life) and Marsh (general insurance) and a decline in the structurally challenged Life and Pensions business, this was partly offset by one-off contract related items.

Adjusted operating profit increased by 10.2% to £141.7m as we offset the revenue losses with cost savings and one-off contract related items, and by winning profitable and cash-backed new business.

Cost and operational excellence

We made significant cost savings during the year mainly through IT rationalisation and productivity gains across the division. We did this while retaining clients and adding new business. In the Life and Pensions business in particular, we have driven out IT efficiencies to mitigate the structural decline in certain contracts.

We were particularly pleased with the new contract extension with The Co-operative Bank where our more collaborative and values-based approach was recognised by our client, as well as recognising Capita's core competencies in digital transformation.

Investing in growth

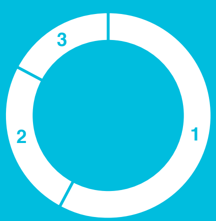
We have continued to invest in product development, IT infrastructure and client portals, and in security and compliance to support existing contracts and future revenue growth.

During the year the division invested in key products: for example, AXELOS's launch of its new qualification, ITIL 4 Foundation; a new digital platform in Capita Travel and Events; a digital platform update at Optima; and IT and cyber protection in our Life and Pensions business.

New sales wins in 2019 included:

- Real Estate and Infrastructure won two major contracts in the year – the next stage of support to 'Future Luton', London Luton Airport owner's expansion plans with specialist aviation, planning and multi-disciplinary design and management services. We were also appointed to be part of Network Rail's design services framework, securing several lots that enable us to deliver consultancy services to support upgrade and maintenance projects for control period 6.
- An extension to our current scope of business with Zurich UK to service a new protection product. This will drive better customer outcomes, cost savings and support Zurich UK's growth, assisted by the introduction of digital capabilities.
- A number of new contracts for Travel and Events with some well-known clients such as the BBC.

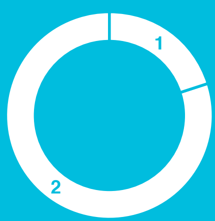
Adjusted[1] revenue by type (%)



1 **58%** Long-term contractual
2 **25%** Short-term contractual
3 **17%** Transactional

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

Revenue by market (%)



1 **20%** Public sector
2 **80%** Private sector

Financial performance

Divisional financial summary	2019	2018	Change %
Adjusted revenue (£m)	**744.5**	887.3	(16.1)
Adjusted operating profit (£m)	**141.7**	128.6	10.2
Adjusted operating margin (%)	**19.0**	14.5	
Order book (£m)	**1,191.7**	1,226.4	(2.8)

Adjusted revenue

£744.5m

(2018: £887.3m) -16.1%

Adjusted operating profit

£141.7m

(2018: £128.6m) +10.2%

Employees
9,600 (2018: 11,000)

Key regions
UK, Dubai and India

Key markets
- Financial services
- Central and local government
- Education
- Defence
- Housing
- Healthcare
- Technology
- Utilities
- Environment and transport

Key services and businesses
- Life and pensions administration
- Insurance services
- Mortgage processing
- Travel and events
- Enforcement
- Legal services
- Real estate and infrastructure
- AXELOS
- Fera
- Managed print
- Translation and interpreting

Putting our people first

Capita has a workforce of more than 61,000 people employed in 10 countries. Having a professional, engaged, well-managed and supported workforce is critical to our ability to successfully delight our clients and create better outcomes for all stakeholders. At the end of 2019, we updated our areas of focus for our HR2020 strategy.

Capita Academy has launched a new management faculty with more than 400 team leaders, managers and leaders undertaking year-long programmes where they can collaborate, share best practice and develop their leadership skills. This includes management development programmes providing accredited learning, and opportunities to learn about management theory.

Read more at
www.capita.com

Reward

In 2019, we listened carefully to feedback from our employees about what mattered most to them. As a result, we enhanced UK family leave – to provide 15 weeks' full pay for maternity, adoption and shared parental leave, and increased paternity pay to two weeks' full pay. We also committed to paying the real living wage as well as providing life assurance. While these particular changes are specific to UK employees, they're examples of our wider, global approach to delivering our people agenda, which will ensure that our colleagues – wherever they work – feel valued, that their views, ideas and suggestions are taken into account, and that the employee experience for Capita colleagues continues to adapt and improve.

We have conducted a remuneration policy review, consulting with our major shareholders to help us hone and develop our strategy. For 2019, we have not been able to pay out the short-term incentive plan to senior employees as stringent conditions around the company's financial results – which align employee incentive payments with the shareholder experience – were not met.

We've also enhanced our ability to provide skilled colleagues and services to a wider global audience, supporting bid activity and identifying and managing compliance and risk issues in 17 countries in the final quarter of 2019 alone.

Engagement and inclusion

Last year, we continued the journey to develop a culture where our people feel they matter and understand how their role contributes to the success of the business.

Our purpose, values and behaviours
Following the launch of Capita's purpose – we create better outcomes – in January 2019, we refreshed our values (open, ingenious, collaborative and effective), underpinned by a comprehensive set of observable behaviours. These behaviours formed the basis of our new capability and performance frameworks. This means that all Capita employees are now assessed on both what they deliver and how they deliver, in line with our values and behaviours.

We also introduced a set of eight 'managers' commitments', which set out the additional behaviours we expect from all of our leaders and managers. In September, employees had the opportunity to rate their line manager against performance in each of these behaviours. This feedback fed into annual performance reviews and coaching conversations, and will be used to better prioritise the resources and training opportunities we provide through Capita Academy's management faculty.

Our refreshed company values also provided a way to measure success in our Local Heroes recognition scheme – celebrating colleagues who go above and beyond to live the values and delight our customers. In 2019, more than 1,250 colleagues were nominated for a Local Heroes award, with around 400 individual and team winners across the organisation.

Our employee value proposition
Our employee value proposition (EVP) was also finalised in 2019, after being developed with input from Capita colleagues across all divisions and locations. The EVP describes the employee experience that candidates and colleagues can expect from us, and is based around four pillars:

- expand your horizons
- make an impact
- shape our future
- be yourself.

Working closely with Group Resourcing and other colleagues, we will continue to embed the EVP throughout the employee lifecycle during 2020.

72%

of colleagues shared their views through our employee survey

Our people survey
In 2019, 72% of colleagues completed the Capita 'Our people survey', a six percentage point rise on 2018. The survey is open to all Capita employees, and the significant increase in participation indicates a strong improvement in our overall employee engagement.

Our employee net promoter score (eNPS) rose 14 points across the company, demonstrating an impressive increase in the number of colleagues who would recommend Capita as an employer. This is a strong metric, highlighting that Capita colleagues are beginning to see the positive effects of the HR2020 people strategy. We will continue to focus on this in 2020, hoping to see further improvements.

Employee directors on the Board
In July 2019, Capita appointed two employee directors to the Board, bringing an invaluable employee perspective to the very top of our organisation. Chosen from hundreds of applicants, the two employee directors have served successfully on the Board for the second half of 2019, bringing an invaluable perspective to discussions.

'Signing the Time to Change pledge showed our ongoing commitment to supporting mental health and wellbeing.'

Inclusion
Last year, five successful company-wide campaigns promoted inclusion and celebrated diversity, including Pride Week at Capita and our This Is Me campaign during Mental Health Awareness Week. Signing the Time to Change pledge showed our ongoing commitment to supporting mental health and wellbeing.

To bring further structure, governance and collaboration to our work around diversity and inclusion, a framework was created for our colleague-led employee network groups, which will be sponsored and championed by executive officers throughout 2020.

To continue to raise awareness and provide learning opportunities, we refreshed our mandatory inclusion e-learning for colleagues and ensured inclusion is embedded through our management faculty.

Our HR2020 focus areas:

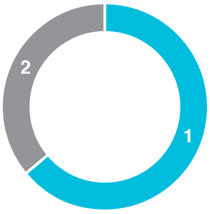
- Reward
- Engagement and inclusion
- Health, safety and wellbeing
- Resourcing
- Performance and development
- Transformation

Read more about remuneration at Capita starting on page 78.

Read more about our responsible business work on pages 36–38.

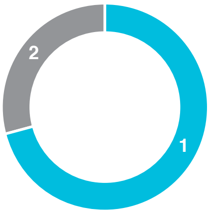
Employee gender diversity

Board



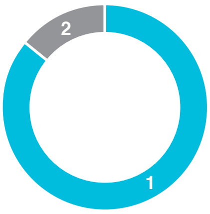
1 64% Male
2 36% Female

Executive Committee



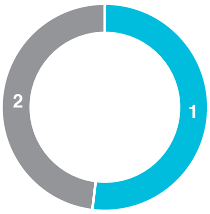
1 71% Male
2 29% Female

Senior management*



1 86% Male
2 14% 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).

In 2019, although disappointed that our pay gap increased, we are striving to improve gender equality by:

- Transforming the way we recruit, to promote diversity in all forms, focusing on flexible working and standardised interview formats.
- Starting to monitor diversity at senior management levels, setting a 40% target for women's representation on senior management recruitment shortlists.
- Increasing our support for high potential women – doubling our mentoring through the 30% Club, joining the Women's Industry Networking Group to provide additional mentoring and our leadership team has started an internal advocacy programme.
- Growing our women's network to 295 members and celebrating International Women's Day to encourage visible role models to share their experiences, motivating and inspiring others to achieve their career potential.

We believe these actions will reduce – and eventually eliminate – our gender pay gap.

Hourly pay	2019	2018
Mean (average) pay differential	**24.5%**	24.1%
Median (mid-point) pay differential	**21.0%**	17.7%

Notes: mean and median pay differentials are with all Ltd company contractors excluded from all Capita reporting entities. The 2018 figures have been restated to reflect this.

Despite the pay gap increase, our ranking within the Hampton-Alexander Review 2019 improved to 70th, rising 40 places. The Hampton-Alexander Review is an independent review body, which aims to increase the number of women on FTSE boards and improve women's representation in senior leadership positions.

Learn more in our Gender Pay Gap Report at www.capita.com/responsible-business.

Health, safety and wellbeing

Employees are our most valuable resource and their health, safety and wellbeing is of paramount importance. We are committed to adopting the right health and safety practices, preventing work-related injuries and illnesses in all areas of the business. To that end, we've developed a health and safety management system to meet ISO 14001 (Environment) and ISO 45001 (Health & Safety) requirements. We have developed goals and objectives to support continuous improvement and we regularly monitor and analyse compliance to meet legislative requirements and the high standards we have as a business. Creating safe

'In 2019, we recruited, or supported internal movement at Capita for more than 22,000 people.'

workplaces that support our people's health and wellbeing is a focus, and our safety and wellbeing champions attend regional workshops, which promote our health and safety culture, share lessons learned, and provide training and support. We conducted a global wellbeing audit and employee assistance programmes were introduced in South Africa, India and Ireland as we expanded free, independent, confidential counselling and support services to colleagues and their families. We also launched online support, guidance, information and tools in our wellbeing hub, complemented by a diverse range of local activities across all our locations, including mindfulness and meditation, workshops, talks and activities to support our people.

Resourcing

To continue to create better outcomes in 2020 and beyond, it is critical to identify the best, most diverse people who have the skills, values, mindset and potential we need. In 2019 we recruited, or supported internal movement for, more than 22,000 people. We also brought new talent to our Executive Committee, with four new executive officers joining the leadership team in the second half of the year.

Throughout 2019 and into 2020, we are transforming the way we hire by significantly strengthening our recruitment capability and shifting our focus to directly attracting, engaging and hiring talented people who want to have a long-term future with Capita. This shift in our approach will provide new and exciting opportunities for our own recruitment professionals, including those in our newly created Mumbai digital delivery centre. At the heart of our plan is a compelling proposition based around our EVP, focusing on Capita as a place that people want to join, and where they want to stay and do their best work.

The resourcing agenda, which puts this new approach into operation, is completely aligned with our values and has a strong focus on driving inclusive and values-based recruitment practices.

We are committed to supporting all our people, at whatever level of the organisation, to collaborate and create better outcomes.

Performance and development

Capita Academy

In 2019, we built on the foundations of our new performance, learning and development framework – Capita Academy – to provide colleagues with more consistent, streamlined, accessible opportunities for learning, strengthening enhanced performance and encouraging development, supported by our new Mumbai Learning Services team.

We launched new learning faculties including management, programme management and growth, which blend a range of online development tools, workshops, skills labs, support and accredited opportunities to further grow people's skills and abilities.

We increased the number of apprenticeships, supported by levy funding, with an initial focus on management development and project management.

Development and appraisals

We introduced the first Capita-wide appraisal process, providing a clear, measurable approach that reinforces values and behaviours, giving equal weighting to what was delivered and how tasks were approached. As part of this roll-out, we focused on providing support to colleagues and managers around effective coaching, career conversations, development discussions and wellbeing guidance.

This programme also included the roll-out of several capability frameworks, such as those for people and programme management, to make sure we manage in a consistent and effective way. Creating a global job-family architecture, integrated with Workday, and completing a succession management planning and review process, has helped us to gather more robust data about our workforce and we will continue to build on this work in 2020 and beyond.

Developing future leaders

To ensure we have the best managers to look after our people and drive positive outcomes, we developed and launched a new online capability development tool, My Compass, to help 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.

In addition, exploring our talent pipelines in 2019 has helped us to identify successors who display the right behaviours and will receive continuous support and coaching to lead.

We also ensured that all women who demonstrated potential to work at Capita's most senior level had an advocate from our Executive Committee to provide support and guidance.

And in 2019, through our mentoring pilot schemes – including informal arrangements and involvement with external groups such as the 30% Club – we developed a global mentoring approach, which we will introduce in 2020.

Transformation

Systems and processes

In December, Capita launched Workday, our global people management tool, to ensure we are embracing digital technology and harnessing the skills of colleagues in our Mumbai delivery centre. We now have access to vastly improved management information to further support our transformation and future success and have standardised more than 100 global processes to simplify and strengthen how we work. In the three weeks following December's Workday launch 69% of colleagues had accessed the new system.

Alongside Workday, we also launched People Hub, which includes an online portal to raise queries with our Mumbai team, along with digital HR information, questions and answers, policies and procedures, the latest news, knowledge and information, and links to other Capita apps and systems.

Being a force for good

At Capita, we touch the lives of millions of people every day. Through our customer conversations, business operations, digital solutions and responsible business programmes, we have a unique opportunity to be a force for good, helping address global challenges and making a positive contribution to society.

Our approach to responsible business underpins our purpose, and, supported by our values and behaviours, ensures that our colleagues are equipped to: be honest and fair with clients and customers, suppliers and partners; treat everyone with dignity and value different opinions; help protect the planet; and make a full and fair contribution to society.

In 2019, we continued to transform our business responsibly, striving to ensure environmental, social and ethical considerations are integrated into all our decisions. We published our first supplier charter, setting out how we will build long-lasting relationships with our suppliers; launched our code of conduct, which guides our employees to act responsibly; committed to pay all UK staff the real living wage as a minimum; and significantly improved our policies relating to maternity, paternity and shared parental leave in the UK. Our two employee directors mean that voices from the wider workforce are now heard at Board level and can help influence strategy development.

Alongside this we: have helped 7,353 young people develop skills which will help them succeed in the workplace, through our partnerships with Teach First and Young Enterprise; have made positive strides with corporate culture, with 73% of our people agreeing they work in an inclusive environment; and have reduced our carbon footprint by 5.9%[1] from 2018.

We also established a responsible business committee, a sub-committee of our Executive Committee, which has overall accountability for our approach to responsible business and reports to the Board twice a year. During 2019, the committee's focus was on diversity, social mobility, mental health and climate change.

Our strategy

We are responding to the relevant global challenges our business and society face through four focus themes underpinned by our central theme.

Driving greater social mobility

Youth skills and jobs
We will empower 100,000 young people in the communities we serve to progress into the world of work.

Which will help impact the following UN SDG's

Enabling better digital access

Digital inclusion
We will equip 10,000 people in our communities with the digital skills required for today's world.

Which will help impact the following UN SDG's

Building a more inclusive organisation

Inclusive workplaces
We have a workforce that reflects the diversity of our communities and is inclusive so that all employees can bring their 'whole selves' to work.

Which will help impact the following UN SDG's

Reducing our environmental impact

Sustainable innovation
We will seek to reduce our carbon footprint and adapt to climate change, supporting our clients to do the same.

Which will help impact the following UN SDG's

Operating responsibly

Our central theme covers our approach to governance, business ethics, supplier management, client relations, and health and safety.

Delivering our strategy

Youth skills and jobs
Capita is a support services leader in the education sector. As our products and services support schools to thrive, we are using our own skills and experience to support young people from areas of low social mobility to develop the right skills and abilities to succeed at work. Through our partnerships with Teach First and Young Enterprise, we have supported 7,353 young people with employability skills in 2019. We also sponsored the UK Social Mobility Awards for a second consecutive year.

Digital inclusion
We aim to be at the forefront of the digital revolution, using emerging technologies, data analytics and automation to serve our clients. Yet we recognise that while digital transformation offers huge growth opportunities, it presents challenges to society as a whole, and we have a responsibility to make the digital world an inclusive one. In 2019, we have been working to understand how technological advances are changing the way we work, developing a framework for responsible automation alongside strengthening our ability to help our people and clients harness the power of automation. Within our communities, we are working to improve the diversity of the tech sector and promoting digital skills for all.

Inclusive workplaces
The most inclusive organisations are the most successful, so we are championing inclusion and diversity to reflect the communities we serve, while ensuring we provide a range of initiatives to support our employee wellbeing. We made significant progress against our inclusion and wellbeing objectives in 2019. You can read more about our approach to inclusion and wellbeing on pages 33 and 34.

Sustainable innovation
At Capita, we seek to reduce our contribution to climate change and support our clients to do the same. In terms of minimising our negative impact upon the environment, over the course of the year we sought to make a number of changes to the way we work. We focused, for example, on investing in energy efficiency – upgrading heating, lighting and air-conditioning systems across the business, and also on reducing our non-essential business travel. Our carbon footprint in 2019 was 5.9% lower than in 2018.

Following a review of our approach to climate change by the responsible business committee, we are aligning to the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) setting a carbon reduction target in line with climate science.

1. Reduction in carbon footprint based on emissions per headcount from 2018 baseline.

Our CEO, Jon Lewis, joined other business leaders in writing an open letter to pledge support for the UK's bid to host the 2020 UN 'Conference of Parties' climate conference (COP26), reflecting our commitment to environmental sustainability.

We have also been working with our divisions to identify the products and services we deliver that help our clients respond and adapt to climate change. For more information on how we collaborate with clients to solve environmental challenges, please visit www.capita.com/responsible-business.

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 this report with an asterisk 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 to 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
Capita is transforming to become a business that puts responsibility at the heart of everything we do – integrating environmental, social and ethical considerations into our strategies and decision-making processes. We seek to conform to high standards of international best practice in terms of responsible business by having policies, procedures and programmes in place to engage and meet the needs of all our stakeholders.

Client relations
We continue to actively seek the views of our clients, undertaking a Capita-wide net promoter score (cNPS) survey. In 2019, we received feedback from more than 800 individuals across 500 clients. In the survey we ask for commentary on our current performance and for clients' future priority areas where they believe we should focus. We feed this information to each business unit within Capita, who take the time to understand the root causes of the issues raised. Armed with this understanding, they close the loop with the clients by implementing solutions that will address the raised comments and concerns.

Annual greenhouse gas emissions	2019	2018	2017
Scope 1 (tCO_2e)	**18,960.67***	18,819.24	22,605.38
Scope 2 (tCO_2e) (location-based)	**41,894.14***	45,174.51	54,261.61
Scope 2 (tCO_2e) (market-based)	**27,651.00***		
Scope 3 (tCO_2e)	**30,822.46***	36,401.06	29,264.29
Total gross tonnes of CO_2e (location-based)	**91,677.27**	100,394.81	106,131.29
Total gross tonnes of CO_2e (market-based)	**77,434.13**		
Total gross tonnes of CO_2e/£1m revenue (location-based)	**24.92**	25.62	25.56
Total gross tonnes of CO_2e/headcount (location-based)	**1.5**	1.59	1.52

Restated 2018 emissions data to include emissions from waste and improve the accuracy of reporting, using actual data to replace estimates. 2017 emissions do not include emissions from waste.
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.
* Corporate Citizenship assured data.

Supplier relations

We spent £2.1bn this year with more than 26,000 direct suppliers in 85 countries. We value the business relationships we have with our suppliers and seek to build lasting relationships, treating our suppliers and partners fairly and paying promptly. In June, we published our supplier charter which sets out the basic principles of how we will conduct business in an open, honest and transparent manner, and the behaviours and practices we expect of 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. In the year ending 2019, we paid 76% of micro-organisations and 86% of our SME suppliers within payment terms. In all cases, 97% of our suppliers were paid within 60 days or less.

Ethical business

In August, we launched our code of conduct which describes what we must do and how we must behave to ensure we have the trust of all our stakeholders. The code applies to everyone who works at or with Capita. We also launched a refreshed speak up policy. This policy is there for any person working at or with Capita, if they face a situation that contradicts our code of conduct. It explains how these types of concerns, also known as 'whistleblowing', can be raised within Capita and the channels available to do so confidentially, responsibly, effectively and without fear of repercussions.

In September, we published our operating responsibly guidelines for third party transactions. The guidelines set out the criteria for determining how and where we operate, and which customers, clients and suppliers we will work with, including considerations regarding political instability, human rights, environmental damage and reputational risk. The application of the guidelines is assessed via divisional and Group contract review committees.

Creating a safe working environment

We have a robust health and safety management system which incorporates processes and procedures to manage identified risks effectively and to ensure compliance is achieved across the business. Compliance levels are monitored through audit, and performance is reported to our Executive Committee monthly. Data is analysed for trends to ensure continuous improvement, to positively influence behaviours and to achieve the required outcome of a legally compliant organisation.

Bribery

We do not tolerate bribery and corruption. Our anti-bribery and corruption policy applies to all Capita businesses and employees. The risk & compliance team monitors compliance against this policy, 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.

Protecting privacy

We take very seriously our responsibility to keep our client and people data safe and secure. We 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 the privacy of data, applying our data protection standards, procedures and guidance in their areas of the business. These are our baseline requirements which must be followed and include maintaining information asset registers, a comprehensive incident management process and completing data protection impact assessments where necessary. We continue to raise awareness of the importance of privacy through our mandatory training and ongoing communication programmes.

Strengthening security

Our information and cyber security policy, and associated standards, guide us all on how to act to keep information safe. We continually review these policies and standards to align with industry best practice and keep abreast of emerging threats. We raise awareness of these policies through ongoing communication and training delivered via our security subject matter experts and senior managers. Our cyber resilience programme, which began in May 2018 led by our chief information security officer, is a three-year programme that enhances our skills, processes and technology to maintain a resilient and responsible business. This year, we have increased the capability and cyber technology within our central security operations team; published our new cyber security framework; and rolled out training to all senior managers. This has ensured our applications and products are secure by design. We are in the process of finalising the certifications for all our government clients, to align with the UK Government's Cyber Essentials Scheme.

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 commitment 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.

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 (E)	• Responsible business: sustainable innovation page 37
Employees	• Code of conduct (E) • Health, safety and environmental policy (E) • Diversity and inclusion policy (E) • Employee handbook (I)	• Responsible business: ethical business page 38 • Responsible business: inclusive workplaces page 37 • Diversity data (in people section) page 34
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 relations page 38 • Responsible business: operating responsibly – human rights page 38
Social matters	• Community and charity policy (E) • Community and charity standard (I) • Volunteering FAQ (I) • Matched funding FAQ (I) • Fundraising FAQ (I)	• Responsible business: youth skills and jobs page 37 • Responsible business: digital inclusion page 37
Anti-corruption and anti-bribery	• Anti-bribery and corruption policy (E) • Financial crime policy (E)	• Responsible business: operating responsibly – bribery page 38
Due diligence and outcome	• Risk management framework • Annual internal audit plan • Risk register • Audit and Risk Committee report	• Risk management framework page 42 • Audit and Risk Committee report page 68
Business model		• Business model page 6
Non-financial key performance indicators		• Non-financial KPIs page 7 • Responsible business page 37

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

Section 172 statement

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

Stakeholder	Strategic issue	Engagement	Outcome	Principal decision*	Further details
Our people	Workforce engagement; organisational culture; employee net promoter score	People surveys; regular all-employee communications	Board visit to Indian digital delivery centre; established managers' commitments; research into future of work	Appointment of two employees to the Board; refreshed purpose, values and behaviours	People section on pages 32 to 35 and page 59 of the directors' report
Clients and customers	Net promoter score; quality and sustainability; additional value	Client survey; regular meetings with government and annual review with Cabinet Office	Receipt of regular detailed feedback summaries; establishment of Group contract review committee to ensure delivery against contractual obligations	Collaboration with government on outsourcing playbook and resolution planning	Responsible business: operating responsibly – client relations page 37
Suppliers and partners	Payment practices	Regular meetings with Federation of Small Businesses; account management meetings with large suppliers	Approval of new supplier charter; signatory to UK Prompt Payment Code (target 95% of supplier payments within 60 days)		Responsible business: operating responsibly – supplier relations page 38
Investors	Transformation	Remuneration consultation with major shareholders and governance advisors; governance roundtable for shareholders; regular investor programme and feedback through the year	Launch of Capita Consulting; investment in client value propositions; corporate brand refresh	Appointment of new Remuneration Committee Chair; refinement of short and long-term incentive metrics in proposed new remuneration policy	Annual statement and remuneration policy sections on pages 78 to 88; shareholder engagement section on page 58
Society	Operating responsibly	Meetings, memberships and surveys of non-governmental organisations and charities	Established responsible business strategy and responsible business committee; approval of third-party transaction guidelines; commitment to real living wage in 2020; enhanced family pay policies; Fair Tax Mark accreditation	Approval of new code of conduct	Responsible business section on pages 36 to 39

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

Internal control and risk management

Capita continues to focus on improving its risk management to support the business in achieving its strategic objectives. The risk management approach is based on a three lines of defence model. Capita has concentrated on updating its enterprise risk management framework. A controls risk self-assessment (CRSA) tool has been developed and piloted to assess some of the controls across the divisions.

Further work will be carried out during 2020 to assess the results of the pilot. This process has taken longer than anticipated because the variation in processes and controls across the Group was greater than anticipated. As a result, the implementation of a comprehensive CRSA process has been delayed until 2020. In the coming year, work will focus on standardising processes and controls to enable an effective CRSA process.

How we manage risk

Ultimate accountability for risk management lies with the Board, supported by the Audit and Risk Committee and the executive. Risks to the successful delivery of strategic objectives are identified and managed using the enterprise risk management framework (ERMF), which combines a top-down assessment of business risk set in the context of a defined risk appetite, with bottom-up operational processes and controls.

The ERMF is set out in Capita's blue book – which details Capita's operating model – as well as in supporting policies and procedures. Mitigation of risk and compliance with these

policies and procedures is a mandatory expectation of all colleagues, which is confirmed through regular risk reporting.

The approach is designed to identify potential exposures at an early stage and to prompt robust action to minimise any negative impact.

The application of a consistent three lines of defence approach across all business activities aims to ensure that effective control measures are in place for the risks that have the highest potential impact. The Board takes assurance about the management of risk from the model as shown below.

The focus has been on ensuring that the business units as the first line of defence understand their responsibilities and have appropriate controls in place. There is further work to be carried out in this area. The second line of defence (as outlined in the diagram) are carrying out work to ensure that appropriate activities to provide support and challenge are embedded.

The Board delegates responsibility for regular reviews of key business risks and the risk management process to the Audit and Risk Committee. It approves the annual plans for internal audit and risk and compliance. It is provided with regular updates on progress throughout the year with reports on findings, issues, risk incidents and themes. It also sets the external audit scope and receives reports on findings. It receives regular updates from members of the executive on the management of risk in their respective areas.

A financial services risk committee was reconstituted in 2019 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 committee is chaired by an independent non-executive director and reports to the Audit and Risk Committee.

Risk governance structure and defence tiers

3 Third line of defence

Assurance of the effectiveness of the first and second line controls through independent internal and external audit, reporting to the Audit and Risk Committee.

2 Second line of defence

Executive and committees provide oversight and challenge. Group Risk & Compliance establishes Group-wide risk governance and business resilience requirements, verifies adherence and maintains oversight of enterprise-wide risks. Compliance sets and verifies adherence to financial services and financial crime regulations. Group functions eg Information Security, People, Finance, Legal (including Privacy) and Commercial set functional policy, limits of authority, systems of control and monitor adherence.

1 First line of defence

Business operations deliver products and services, and design, deliver and test operational controls, processes and systems to ensure resilience and compliance with legislation, regulation, contractual obligations and Group policy/standards. The business, as first line of defence, also maintains day-to- day risk identification, assessment, management and reporting.

Risk management framework

In line with the transformation activity during 2019, the risk management framework has been refocused. It consists of the following elements:

Risk environment

- An assessment of Capita's internal and external environment and, through a refreshed set of principal and divisional risks, sets the basis for how risks and controls are identified, assessed and managed. This includes recognition of various risk types including strategic, regulatory, legislative, technical, financial, operational, reputational and people risks.
- By formalising and developing a pragmatic application of risk appetite and tolerance, this provides a structure to risk assessments, driving reporting and escalation of risk and helping inform acceptable strategies in pursuit of business objectives.

Risk assessment, response and controls

- A combined top-down/bottom-up process has been developed to analyse risks, considering impact, likelihood and appetite as a basis for determining how risks are managed. Appropriate risk response strategies have been developed, including agreed accountability for the risks, ownership, action plans and timelines.
- The controls strategy, including controls maturity, has been reviewed to drive targeted improvements to the internal control framework.
- Consideration of risks reported at a principal and a divisional level which impact one another has been made.

Monitoring and reporting

- Reporting processes were refined and developed to ensure relevant information is identified, captured, and communicated in a form and timeframe that enable people to discharge their responsibilities.
- Governance, assurance and monitoring processes were updated to help drive sustainable changes and continuous improvement through the use of automation where appropriate.
- New reporting templates were created.

The approach combines a top-down strategic assessment of risk and risk appetite, with a bottom-up operational identification and reporting process. The risk management framework includes a robust means of measuring risks. Through the operating focus and culture set out in the blue book, we empower all colleagues to manage risk. This approach is designed to highlight potential problems at an early stage so that prompt action can be taken to minimise any negative impact to customers, clients and stakeholders.

Risk appetite

Risk appetite is the level of risk Capita is willing to take to achieve its strategic objectives, together with the level of risk exposure that it can withstand. The Board is responsible for setting and monitoring the risk appetite. The purpose of this is to balance the risks arising in pursuit of strategic objectives with an appropriate level of investment in controls to manage the risks to the desired level. Work will be done during 2020 to refine this into a more granular tool to support the Board in its management of risk.

The Board, having reviewed the responsibility for the organisation's overall approach to risk management and internal control, considers that the approach, including internal controls, are appropriate and effective. Given the focus on transforming the operating model and the improvements in the risk management approach including a more standardised enterprise risk management framework, the focus in 2020 and beyond will be driving greater efficiencies and consistency in the internal control approach.

Effectiveness and efficiency of financial controls

As noted in the Annual Report and Accounts 2018, Capita has embarked on a finance transformation which it expects will drive improved data quality, standardisation of activities performed by the finance community, and optimise the use of offshoring and shared service centre delivery models. These actions are designed to develop and deliver better processes and controls across the business, improving the financial risk framework employed by the business.

As part of this programme, in 2018, an evaluation of financial controls was 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 issue was dealt with through mitigating activities. This work was revised during 2019 to ensure the effectiveness of the existing controls.

In late 2019, management decided to defer the go-live of new finance systems as more work is required on the core processes and procedures before implementing the new systems. Management continues to focus on implementing a new target operating model and standardising the processes which sit outside of the finance systems. This will include a reduction in non-standard activity, an expansion of finance shared service centres for transactional and controllership activity, and strengthening the business partnering capability of the function. As part of the activity to standardise processes, the financial risk framework will be improved and strengthened. Management will review the design of controls across key financial processes to eliminate control gaps and agree the residual risk position while simplifying control design.

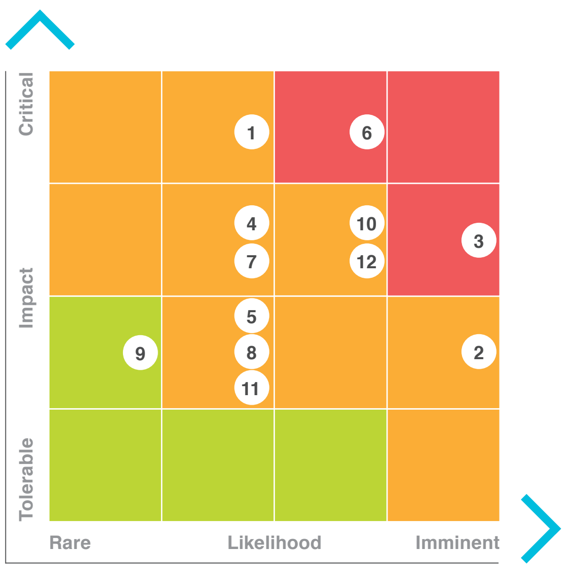
Principal risks

A revised assessment has been undertaken by the executive and the Board to assess the principal risks facing the Group and consideration given to those that threaten the business model and could impact on future performance and strategic objectives. As described in the CEO and CFO reviews, while much work has been carried out to improve controls across the business, there is more to be done. As the transformation of Capita has progressed, it has become clearer that continued focus on people, culture, systems, processes and controls is required – to drive greater awareness and more consistency in risk identification, management and mitigation. In addition, there is more work to do to update our service and product offerings, as well as our capability to engage effectively with our clients to drive revenue growth. We are having to invest more than we initially thought to fully transform and grow Capita.

The Board has assessed the emerging and principal risks and receives regular updates. This remains a key focus area for the Board, its committees and the executive.

Principal risks

This heat map shows the position of the principal risks.



1. Failure to live our purpose and failure to change stakeholder perception so we are seen to live our purpose.
2. Failure to define and resource the right medium-term strategy.
3. Failure to innovate and develop new value propositions for clients and customers to drive sustainable growth.
4. Failure to attract, develop, engage and retain the right people for current and future client propositions.
5. Failure to change the culture and practices of Capita in line with our responsible business agenda.
6. Failure to protect data, information and IT systems.
7. Inability to secure contracts with an acceptable risk and reward balance (including meeting changing societal trends).
8. Failure to delight clients and customers with software performance or project and service delivery.
9. An inadequate risk-based system of internal control.
10. Failure to deliver the Transformation Programme in line with 2020 Commitments.
11. Failure to plan for, influence and respond to potential changes in the political climate.
12. Failure to maintain financial stability, viability and achieve financial targets/results.

Risk assessment key
The known exposure as a combination of likelihood and impact, taking into account mitigating actions:

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 process in place to respond to the threat. Recognised as an early warning indicator. A tolerable level of risk.

Principal risk	Potential impact	How we manage the risk
1 Purpose **Failure to live our purpose and to change stakeholder perception so that we are seen to live our purpose.** **Assessment at year-end:** **Uncomfortable** The risk in this area is uncomfortable because Capita is part way through a multi-year transformation which is progressing well but taking longer than expected.	• the strategic objectives and initiatives are not aligned to 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.	**Mitigating actions in 2019:** • responsible business agenda implemented including more proactive communications, tracking shareholder sentiment and fixing contracts • Capita corporate brand refreshed, alongside an advertising campaign • reputation has risen among external stakeholders • accredited member of the Good Business Charter • employee engagement programme rolled out to drive the new values and behaviours. **Future actions:** • continue to embed responsible business agenda • monitor stakeholder perceptions.
2 Strategy **Failure to define and resource the right medium-term strategy.** **Assessment at year-end:** **Uncomfortable** The risk in this area is deemed uncomfortable as a result of difficulties in funding and implementing strategies for a business operating in many diverse sectors.	• 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.	**Mitigating actions in 2019:** • quarterly strategy review meetings put in place • committees that determine allocation of investment funds were aligned with strategic imperatives. **Future actions:** • further business simplification • monitor progress on implementation • align investment decision-making process more clearly to strategy.
3 Innovation **Failure to innovate and develop new value propositions for clients and customers to drive sustainable growth.** **Assessment at year-end:** **Critical** The risk in this area is at critical due to the complexity of the product legacy at Capita and the speed of innovation in many of its markets.	• unable to compete with others who are innovative • unable to maximise new technology • unable to grow and develop into new markets loss of new and existing business to competitors • eroded corporate position in the market • unable to attract and retain the best people.	**Mitigating actions in 2019:** • innovation driven by client facing consulting team • development of an automation hub to lead thought leadership in this area • developed partner strategy and access innovation from ecosystem • client value proposition (CVP) team established which tests innovation and marketing competitiveness for all CVPs. **Future actions:** • continue to monitor technology changes for potential use • embed the CVP team • proactively building innovation early into renewal discussions • rolling out a programme to capture innovation from within Capita • partnering with a leading innovation company to institutionalise innovation as a means for better business and social good • plans for further investment.
4 People **Failure to attract, develop, engage and retain the right people for current and future client propositions.** **Assessment at year-end:** **Uncomfortable** The risk in this area is rated as uncomfortable because there is continued attrition and as the revised culture is embedded, more employees may decide that they don't fit within the culture.	• loss of key employees • unable to attract the right people with the right skills • lack of skilled, competent resource • increased cost of recruitment due to high attrition rates • unable to deliver Capita's strategy.	**Mitigating actions in 2019:** • focused on succession planning and development of employees • developed talent reviews, enabling employees to identify new opportunities and to move to new roles within Capita • implemented new HR system • Capita Academy set up to train new and existing staff • amended benefits package to try to retain staff. **Future actions:** • embed the new HR system • ensure an effective and transformed approach to employee engagement and communications.

Principal risk	Potential impact	How we manage the risk
5 Culture **Failure to change the culture and practices of Capita in line with our responsible business agenda.** **Assessment at year-end:** **Uncomfortable** The risk in this area is deemed uncomfortable because the existing culture is deeply embedded and significant change is required. While early signs of change are positive, we expect a lengthy process to deliver the change required.	• 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.	**Mitigating actions in 2019:** • principles and code of conduct for staff set out • responsible business strategy published • two employees appointed to the Board • committed to real living wage as a minimum for all UK employees • committed to supplier charter and signatories of UK Government's Prompt Payment Code • Capita values rolled out across the business • enhanced maternity, paternity and shared parental leave benefits. **Future actions:** • continued to focus on the elements of being a responsible business • employee networks to be rolled out • alignment to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).
6 Data/IT **Failure to protect data, information and IT systems.** **Assessment at year-end:** **Critical** The risk in this area is critical because there are new threats which need to be managed as well as programmes of work to be completed to enhance the controls around data and IT systems.	• loss of client or customer data • loss of one of Capita's data centres and not having disaster recovery and/or business continuity plans in place • loss of service availability to Capita and/or its customers due to cyber attack • unauthorised or inappropriate access to data due to cyber attack • reputational damage leading to loss of existing contracts and difficulty when bidding for new business • potential for significant regulatory fines.	**Mitigating actions in 2019:** • completed a programme of work on cyber resilience • provided a mirror image data centre with a full failover service • trained and raised awareness of data protection requirements • updated set of operating procedures in place • data protection impact assessments carried out • strengthened management across cyber and data teams • contract review committee processes updated to ensure data protection is factored in early at contract award or renewal. **Future actions:** • ongoing programme of cyber resilience activities • ongoing reviews of disaster recovery and business continuity plans • continued focus on data protection requirements.
7 Contracts **Failure to secure contracts with an acceptable risk and reward balance (including meeting changing societal trends).** **Assessment at year-end:** **At tolerance** The risk is at tolerance because the legacy issues in certain significant contracts have largely been addressed and limited contracts of a similar nature have been taken on.	• loss of contracts • lack of ability to acquire new business • contract terms are not met or understood • exposure to unexpected costs or onerous terms • brand and reputation damage if not managed effectively.	**Mitigating actions in 2019:** • contract review committee embedded and improved, allowing better understanding of contract risks in new or existing arrangements • contract remediation committee in place to review existing contracts • transactions committee in place to review acquisitions and disposals • management committee regularly reviews contract performance. **Future actions:** • contract review committee post deal review process to be put in place.
8 Clients **Failure to delight clients and customers with software performance or project and service delivery.** **Assessment at year-end:** **Uncomfortable** The risk in this area is uncomfortable because more work is required to embed new processes and governance.	• loss of existing contracts • brand and reputation damage • limited or no new business.	**Mitigating actions in 2019:** • new project governance methodology in place • programme and infrastructure committee put in place to review significant projects • learning facilities developed to deliver consistent skills for staff. **Future actions:** • embedding of new project governance • continuing reviews of current and new projects and programmes.

Principal risk	Potential impact	How we manage the risk
9 Internal control **Failure to develop and maintain a risk-based system of internal control.** **Assessment at year-end:** **Uncomfortable** The risk in this area is uncomfortable because the internal controls are not sufficiently consistent and tested across all businesses and functions. However, the controls environment is assessed as sufficient to detect any material misstatement.	• increased fraudulent activity • increased risk of financial malpractice • greater regulatory or client scrutiny • increased costs associated with remediation activities • reputational damage and regulatory fines in financial services sector • reputational damage in government sector where there are stringent compliance requirements • service detriment to our clients or end-customers.	**Mitigating actions in 2019:** • governance, boards and committees put in place • internal audit programme of work continues • monitored regulatory requirements • tracked monthly performance of risk indicators • CRSA carried out • financial services risk committee in place • new and updated policies rolled out. **Future actions:** • continued monitoring and assurance over controls • assurance work to follow up on findings from the CRSA activity • continued focus on updating policies and adding new ones as required.
10 Transformation **Failure to deliver the transformation programme.** **Assessment at year-end:** **Uncomfortable** The risk in this area is rated as uncomfortable due to the complexity of the transformation which is anticipated to take longer to fully complete than expected.	• a complex business that is unmanageable • loss of revenues, profits and/or cash flows • new technologies and ways of working are not embraced • business is not fit for the future.	**Mitigating actions in 2019:** • continued focus by Executive Committee on transformation programme and associated risks • operating model completed and published • automated marketing solution in place • internal guides published to help optimise current delivery model across locations • project management methodology launched. **Future actions:** • embed and continue to optimise the new model • further business and operational simplification. • use of new technologies to simplify processes • continued embedding and applying best practice across all programmes • further simplification in line with strategy and blue book.
11 Political **Failure to plan for, influence and respond to potential changes in the political climate.** **Assessment at year-end:** **At tolerance** The risk in this area is at tolerance following the General Election and Brexit being confirmed on 31 January 2020.	• need to navigate change and build engagement with new ministers and parliamentarians following change of government and personnel • new approach by government to innovation and public service delivery is a potential risk to Capita as it may be perceived as the status quo by a radical or reforming government. • possibility of additional regulatory changes by new government.	**Mitigating actions in 2019:** • engaged with government and other parties (eg regulators) to promote and protect reputation • worked to understand business requirements and prepared for Brexit • participation in government initiative to put a Living Will in place • prepared for potential change in government. **Future actions:** • constructive engagement with political stakeholders to demonstrate Capita's expertise, responsible business initiatives, ability to transform and innovate and to create better outcomes across the UK • work with political stakeholders to understand and prepare for Brexit transition and implementation • monitor and horizon scan for political, regulatory and economic developments.
12 Financial management **Failure to maintain financial stability and achieve financial targets.** **Assessment at year-end:** **Uncomfortable/critical** The risk in this area is uncomfortable due to the lack of progress in generating organic revenue growth to provide long-term stability.	• continued cash outflow reduces liquidity available to invest in transformation • loss of shareholder value • weakens investor confidence.	**Mitigating actions in 2019:** • invested in capability to grow revenue and transform the business • enhanced monthly performance reviews • clearer financial and operational KPIs at business, divisional and functional level put in place • more formal financial control risk self-assessment completed. **Future actions:** • focus on cash flow culture within the business • further transformation of the Group to enhance financial performance • debt refinancing and package of business disposals planned to enhance liquidity • implementation of a new finance target operating model • expansion of finance shared service centres • standardisation of finance processes • review of the design of controls across key financial processes.

Emerging risks

Identification of 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
1 Managing our cash flow	Adjusted and reported free cash flow are key performance indicators for the Group and our objective is to optimise each element of our working capital cash flow, by ensuring we pay, and in turn are paid, in accordance with our agreed terms and conditions. Developing and maintaining clear, open and supportive relationships with our clients, customers, suppliers and partners are key tenets of our purpose 'we create better outcomes', and ensuring that we have a deep understanding of the implications of these relationships on our working capital management is central to this purpose. During 2019, we initiated a Group-wide programme to enhance analytical capabilities and process improvements in our working capital cash flow cycles. Capita values the business relationships it has with suppliers and seeks to build lasting relationships, treating our suppliers and partners fairly and paying promptly. We continue to strive to fully meet the requirements of the Government Prompt Payment Code and we are continuing the development of analytical tools to give us an accurate real-time view of how we are performing against the high standards we set ourselves. We are undertaking a detailed review of our 'order-to-cash' cycle to enhance our understanding of our clients' and customers' requirements and behaviours in their payment cycles. We are also taking steps to enhance the capability of our receivables management processes and to improve the efficiency of our cash collection. The importance of our working capital management has been consistently communicated to our internal stakeholders throughout the year.
2 Uncertain trading environment	While there is clarity on the decision to leave the European Union, and the final date has been set to complete the process of departure at the end of an 11-month transition period, the exact nature and terms of the UK's exit and ongoing trade relationship remain far from certain. Furthermore, while a 'hard Brexit' may result in some regulatory liberalisation and fiscal incentives to stimulate the economy, it also risks a period of economic uncertainty and turbulence. During the next few months we will continue to monitor developments closely, keep our staff advised of any changes that may affect them and ensure that Capita is in a position to respond to change and uncertainty. We will also approach government directly when faced with any specific concerns and engage proactively with trade bodies, as relevant, on matters of wider business interest. At the same time, every effort will be made to ensure that our clients and partners value the benefit of Capita services while having to manage their own challenges and opportunities.
3 Impact of climate change	Recognition of the dangers imposed by climate change and the demand for action is now universal. The specific business risks faced by Capita are in line with the business sector in general. However, the pressures on government and business to take action seem likely to contribute to a sustained period of change, some of which could be quite rapid and may result in increased regulatory and fiscal demands alongside enhanced tender eligibility. While Capita will continue to make positive contributions to the sustainability agenda, we will also: closely monitor developments; keep abreast of potential changes that could impact the business; contribute to formal consultations and seek, when relevant, further opportunities to influence the government in the development of its response and action plan – balancing business interests with the need to build a zero-carbon economy. For more information about our approach to climate change, please refer to the responsible business section on page 37.
4 Medical outbreak	In the early months of 2020, we have seen a virus rapidly spreading across China and other Asian countries, and more recently into other parts of the world, including western Europe and the UK. Capita has taken the opportunity to consider its approach to incidents of this nature, which could significantly impact staff. A team has been created to ensure that Capita is as prepared as possible for a potential global health emergency. The focus has been to create clear written guidance for managers and team managers, and to be ready to provide on the ground support as required. Capita has also set up a single point of contact (phone and email), should it be required. Capita monitors national and international sources of information about relevant global health emergencies continuously, and can provide interim urgent guidance updates to all staff as required.

Viability statement

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

The base-case projections prepared for the going concern (noted on page 115) and viability assessments are derived from the 2020–2022 business plans as approved by the Board. These capture the key benefits that the transformation plan is intended to deliver, and the costs to achieve these. In recognition of the downside scenarios that the Board is obliged to consider the projections have been adjusted to be necessarily more cautious in order to gauge the resilience of the Group and Parent Company to unexpected risks arising. The Board considers this three-year period to be appropriate, as there is sufficient clarity to consider the business prospects and provide a foundation to stress test against severe but plausible downside scenarios.

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 ten chance of occurring). These include trading downside risks which assume the transformation plan is not successful in delivering the anticipated revenue growth and assumes a downside that also incorporates revenue attrition. The severe downside has incorporated also 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.

To address these severe risks the Board has considered mitigating factors that could be employed. An example of the actions recognised included adjusting the Group's investment in discretionary and maintenance capital projects, having due regard to the need to ensure the integrity of the Group's IT systems is not compromised nor the security of the data held therein; further reduction in discretionary operating expenditure, including levels of variable pay and bonuses; and further restructuring options that would be deployed should the Group fail to realise the growth in revenue that is predicted from the transformation activities.

The Board also considered the Group's current debt levels, committed funding and available facilities and the projected liquidity positions. There are scheduled debt repayments in each year of the three-year viability assessment period, commencing June 2020; the Group's revolving credit facility matures in August 2022; and the Group's backstop facility has an initial maturity in February 2021, and is extendable at the option of the Group to a final maturity in August 2022. The Board has considered the Company's ability to introduce new funds to the Group in advance of these maturity dates.

In assessing viability, the Board considered the announced disposal programme and is confident, based on the successful completion of previous disposals, that the Company can deliver the plan given the strength of the underlying businesses and the value they contribute. Based on this assessment, and assuming the successful completion of the transformation plan, 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
4 March 2020
Capita plc
Registered in England and Wales No. 2081330

Corporate governance

Better outcomes

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

Chairman's report

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

Sir Ian Powell
Chairman

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

Board leadership

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

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

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

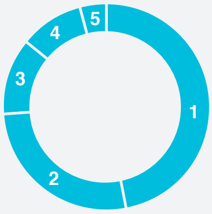
Board diversity

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

Reappointment of directors

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

Board time allocation



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

Meeting schedule

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

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

Senior management

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

Board effectiveness

Corporate governance principles

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

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

Division of responsibilities: governance framework on page 57.

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

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

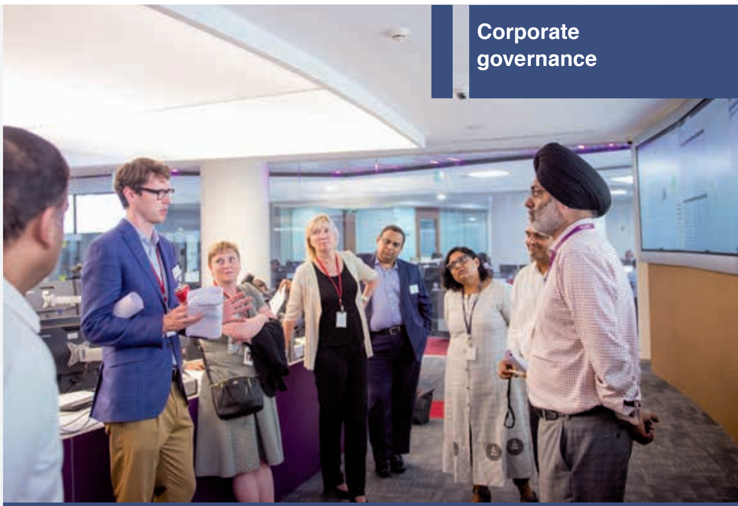
Remuneration: Remuneration Committee report on page 78.

Board evaluation

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

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

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



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

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

A separate meeting of the Board took place to discuss fully the evaluation and its findings, focusing on the following themes and developing actions for 2020:

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

Remuneration

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

Corporate governance and committee reports

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

Sir Ian Powell
Chairman
4 March 2020

Chairman

Sir Ian Powell N
Chairman

Appointed: September 2016

Independent at appointment: Yes

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

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

Executive Directors

Jon Lewis
Chief Executive Officer

Appointed: December 2017

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

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

External appointments: board member of Equinor.

Patrick Butcher
Chief Financial Officer

Appointed: January 2019

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

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

External appointments: none.

Independent Non-Executive Directors

Gillian Sheldon ANR
Senior Independent Director

Appointed: September 2012

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

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

Matthew Lester ANR

Appointed: March 2017

Key skills and experience: Matthew is a chartered accountant with over 20 years' experience in senior finance roles. He was Group Chief Financial Officer of Royal Mail plc from November 2010 to July 2017. Matthew served as Group Chief Financial Officer for ICAP plc from May 2006 to November 2010.

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

Georgina Harvey ANR

Appointed: October 2019

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

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

Independent Non-Executive Directors

John Cresswell **ANR**

Appointed: November 2015

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

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

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

Appointed: December 2017

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

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

Andrew Williams **ANR**

Appointed: January 2015

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

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

Employee Non-Executive Directors

Lyndsay Browne **R***

Appointed: July 2019

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

Other current appointments: none.

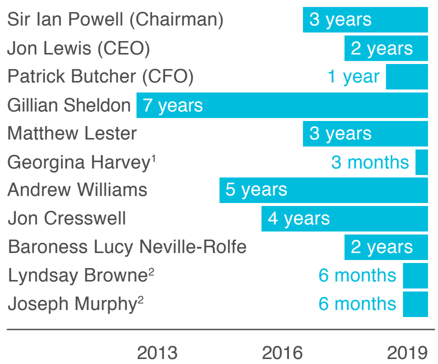
Joseph Murphy **A***

Appointed: July 2019

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

Other current appointments: none.

Board directors: length of tenure



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

Key to committees

A – Audit and Risk

N – Nomination

R – Remuneration

○ – Committee chair

* From 6 March 2020.

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

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

Jon Lewis
Chief Executive Officer

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

Patrick Butcher
Chief Financial Officer

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

Ismail Amla
Chief Growth Officer

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

Chris Baker
Executive Officer, Software

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

Claire Chapman
Chief General Counsel

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

Aimie Chapple
Executive Officer, Customer Management

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

Mark Cook
Executive Officer, Technology Solutions

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

Garry Dryburgh
Chief Transformation Officer

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

Chantal Free
Executive Officer, People Solutions

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

Rupert Green
Chief Corporate Development Officer

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

Katja Hall
Director of Corporate Affairs

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

Will Serle
Chief People Officer

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

Andy Start
Executive Officer, Government Services

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

Jim Vincent
Executive Officer, Specialist Services

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

Committed to high standards of governance

Corporate Governance Code

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

Board changes during the year

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

Board composition

At 31 December 2019, the Board comprised 11 directors, made up of the Chairman, CEO, CFO, six independent non-executive directors and two employee non-executive directors.

We have an experienced team in place to support our strategy and to meet the opportunities and challenges that the Group faces. Details of each director's experience are set out in the directors' biographies on pages 52 and 53. As the Group develops, we will regularly review the Board composition to ensure it meets the needs of the business.

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

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

1. Independent on appointment in accordance with the Code.

Board meetings and attendance

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

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

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

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

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

During 2019, the following formal director meetings took place:

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

Board leadership

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

During the year, Sir Ian as Chairman and Gillian Sheldon as Senior Independent Director held meetings comprising solely the non-executive directors. Gillian also met with the non-executive directors without Sir Ian, including to discuss Sir Ian's reappointment as Chairman which was formally recommended by the Nomination Committee for approval by the Board. Both Sir Ian and Gillian are available to meet with significant shareholders when requested.

Governance and strategy

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

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

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

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

The Board determines the strategic objectives and policies of the Group to best support the delivery of long-term value, providing overall strategic direction within an appropriate framework of rewards, incentives and controls. The Board is collectively responsible for the success of the Company: the executive directors are directly responsible for running the business operations; and the non-executive directors are responsible for bringing independent judgement and scrutiny to decisions taken by the Board. The non-executive directors must satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust. Following presentations by executive and divisional management, and a disciplined process of review and challenge by the Board, clear decisions on policy or strategy are adopted, and the executive management are fully empowered to implement those decisions.

Stakeholder interests and the matters listed above are factored into all Board discussions and decisions. For more information, please refer to the section 172 statement on page 39.

Board independence

Non-executive directors are required to be independent in character and judgement. All relationships that may interfere materially with this judgement are disclosed as required under the conflicts of interest policy (see page 60). The Board has determined that, except for the employee non-executive directors, all the non-executive directors who served during the year were independent and that, before and upon appointment as Chairman, Sir Ian Powell met the criteria of independence as outlined in the Code.

The Board

Role of the Board

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

Matters reserved for the Board

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

Nomination Committee

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

Read more on page 66

Audit and Risk Committee

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

Read more on page 68

Remuneration Committee

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

Read more on page 78

Role of the directors

Chairman

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

Senior independent director

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

Non-executive directors

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

Executive directors

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

Non-executive employee directors

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

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

The Board believes that each of the non-executives has retained independence of character and judgement and has not formed associations with management or others that may compromise their ability to exercise independent judgement or act in the best interests of the Group. The Board is satisfied that no conflict of interest exists for any director. This matter is a standing agenda item at Board meetings (see page 60).

Matters reserved for the Board

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

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

Board of directors' induction and training

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

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

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

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

Group Company Secretary

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

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

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

The role of Chief General Counsel was created in 2018 to oversee the Group's legal and regulatory capability, as a separate function from the role of Group Company Secretary. The two roles collaborate closely but, in order to avoid a conflict of interest, the Group Company Secretary is solely responsible for Board and Group governance.

Shareholder engagement

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

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

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

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

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

Shareholder meetings

All shareholders are encouraged to attend the AGM and information for shareholders is available on the Company's website www.capita.com. The non-executive directors are available to meet with shareholders to understand their views more fully. The Chairman is available to the significant shareholders of Capita. Directors, including chairs of the various committees, are present at the AGM to answer any questions. The Board particularly encourages communication with, and the participation of, private investors at the AGM.

Workforce engagement

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

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

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

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

Q. What induction/preparation were you given?

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

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

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

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

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

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

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

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

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

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

Business relationships

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

Remuneration Committee

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

Risk management and internal control

The Board monitors the Company's risk management and internal control systems and carries out an annual review of their effectiveness. The Audit and Risk Committee report contains further details. The monitoring and review includes all material controls, including financial, operational and compliance controls. This process is regularly reviewed by the Board. The Group's key internal control procedures are fully documented within the strategic report on pages 40–42.

Furthermore, through the operation of the risk governance process, the directors confirm, for the purposes of provision 28 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. A description of those risks, together with how they are being managed or mitigated, is set out on pages 43–47.

Other statutory and regulatory information

Strategic report
The Company is required to prepare a fair review of the business of the Group during the financial year ended 31 December 2019 and of the position of the Group at the end of the financial year, and a description of the principal risks and uncertainties facing the Group (known as a 'strategic report'). The purpose of the strategic report is to enable shareholders to assess how the directors have performed their duty under section 172 of the Companies Act 2006 (duty to promote the success of the Company). The information that fulfils the requirements of the strategic report can be found on pages 1–48. Details of the Group's business goals, strategy and model are on pages 3, 6 and 7.

Corporate governance report
The corporate governance statement as required by Rule 7.2.1 of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTRs) is set out on pages 56–64.

Management report
For the purposes of Rule 4.1.5R(2) and Rule 4.1.8R of the DTRs, this directors' report and the strategic report on pages 1–48 comprise the management report.

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

Election to apply FRS 101 – reduced disclosure framework
The parent company continues to apply UK GAAP in the preparation of its individual financial statements in accordance with FRS 101 and these are contained in section 7 of the financial statements on pages 174–185. FRS 101 applies IFRS as adopted by the European Union with certain disclosure exemptions. No objections have been received from shareholders.

Appointment, reappointment and removal of directors
Directors are appointed and may be removed in accordance with the Articles of Association of the Company and the provisions of the Companies Act 2006.

All directors are subject to election at the first AGM after their appointment and, in accordance with Provision 18 of the Code, to annual re-election thereafter. A resolution to re-elect each director will therefore be proposed at the AGM on 12 May 2020.

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

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

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

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

Results and dividends
The Group's reported loss before tax amounted to £(62.6)m from continued operations (2018: £272.6m profit). As previously announced, the directors do not recommend the payment of a final dividend (2018: nil). The total dividend for the year was nil (2018: nil). The employee benefit trust, which holds shares for the purpose of satisfying employee share scheme awards, has waived its right to receive future dividends on shares held within the trust.

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

No other material conflicts of interest have been declared. All conflicts of interest are reviewed annually by the Board and included in year-end attestations by the directors. None of the directors of the Company has a material interest in any contract with the Company or its subsidiary undertakings, other than their contracts of employment.

Major shareholders

At 31 December 2019, the Company had received notifications in accordance with the Disclosure Guidance and Transparency Rules (DTRs) that the following were interested in the Company's shares:

Shareholder	Number of shares	% of voting rights at 31 December 2019	Number of shares direct	Number of shares indirect
Investec Asset Management Ltd	194,275,289	11.64	–	194,275,289
RWC Asset Management LLP[1]	186,951,093	11.20	–	186,951,093
Invesco Ltd	182,100,179	10.91	–	182,100,179
Veritas Asset Management LLP[2]	116,588,466	6.99	–	116,588,466
Schroders Investment Management Ltd	101,030,829	6.05	–	101,030,829
Coltrane Asset Management L.P.	83,888,589	5.02	5,140,000	78,748,589
BlackRock Inc.	74,230,358	4.45	–	74,230,358
Marathon Asset Management LLP	64,756,810	3.88	–	64,756,810
Veritas Funds PLC	55,009,900	3.30	–	55,009,900
Vanguard Group Inc.	54,711,874	3.28	54,711,874	–
Jupiter Asset Management Limited	53,573,060	3.21	–	53,573,060
Norges Bank Investment Management[3]	50,283,099	3.05	–	50,283,099

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

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

Directors' interests

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

Share capital

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

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

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

During the year ended 31 December 2019, no new ordinary shares were issued and options exercised pursuant to the Company's share schemes were satisfied by the transfer of shares from treasury (281,762 shares). No shares were transferred out of the Employee Benefit Trust during the year and no shares have been allotted under the Company's share option schemes since the end of the financial year to the date of this report.

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

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

Viability statement

This statement is detailed in full on page 48.

The directors have assessed the viability of the Group over the three-year period to 31 December 2022, taking into account the Group's current position and the potential impact of the principal risks set out in the strategic report. Based on this assessment, the directors have a reasonable expectation that the Group is and will continue to be viable.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report on pages 1–48. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 111–114. In addition, section 4 in the financial statements on pages 149–159 includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

In determining the appropriate basis of preparation of the financial statements for the year ending 31 December 2019, the directors are required to consider whether the Group can continue in operational existence for the foreseeable future. For the purpose of the going concern assessment, the Board has considered the period to 31 August 2022 being 29 months from the date of approval of these financial statements and aligned with the expiry date (31 August 2022) of the RCF and the new backstop loan facility agreed in February 2020. Detail of the facilities are set out in section 4 to the consolidated financial statements.

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

Auditor review

The auditor has reviewed:

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

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

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

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

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

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

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

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

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

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

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

Capita's people plan also has a clear focus on performance and development. This will be driven by the launch of Capita Academy, which will focus on introducing consistent approaches to managing performance and developing people, while ensuring it recruits and develops for the future by sourcing and developing graduates and apprentices. These activities will ensure Capita has not only the correct quality of people delivering to clients, but also an appropriate leadership pipeline for the future. Capita has already started on this journey, with the pilot of an academy programme focused on equipping managers with the leadership skills and behaviours necessary for success.

Political donations
The Group did not make any political donation or incur any political expenditure during the year (2018: £nil).

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

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

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

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

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

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

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

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

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

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

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

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

Directors' indemnities
As permitted by its Articles of Association, the Company has indemnified each director in respect of certain liabilities and costs they might incur in the execution of their duties as a director. Qualifying third party indemnity provisions (as defined in section 234 of the Companies Act 2006) were in force during the year and continue to remain in force. The directors' indemnities will be available for inspection at the annual general meeting together with directors' service contracts.

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

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

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

Capita has a number of borrowing facilities provided by various banks and other financial institutions. Capita's bank debt contains a change of control provision under which the banks may require immediate repayment in full on a change of control of Capita plc. The loan notes issued by Capita contain a change of control provision which is likely to require the Group to offer to prepay in full if a change of control event occurs.

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

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

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

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

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

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

Annual general meeting
The 2020 AGM of the Company will be held at Linklaters LLP, One Silk Street, London EC2Y 8HQ on Tuesday 12 May 2020. At the AGM a number of resolutions will be proposed. The resolutions are set out in the Notice of Meeting, which is sent to shareholders with the 2019 Annual Report and includes notes explaining the business to be transacted. The Notice of Meeting is also available on the Company's website at www.capita.com.

In May 2019, shareholders granted authority for the Company to purchase up to 166,841,519 ordinary shares. This authority will expire at the conclusion of the 2020 AGM. No shares were purchased during 2019. A resolution to renew this authority will be put to shareholders at the 2020 AGM.

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

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

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

Listing Rule	Subject	Page no.
9.8.4 (1)	Capitalisation of interest	155
9.8.4 (12–13)	Shareholder waiver of dividends	60

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

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

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law, and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) including FRS 101 Reduced Disclosure Framework.

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

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

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

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

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

Directors' responsibility statement

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

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

The directors' report (pages 50–97) has been approved by the Board.

On behalf of the Board.

Francesca Todd
Group Company Secretary
4 March 2020
Capita plc
Registered in England and Wales No. 2081330

Committees

Terms of reference

The terms of reference of the Nomination, Remuneration, and Audit and Risk committees (standing committees) were reviewed during the year and updated, where required, to reflect updates in good governance practices and the implementation of the Senior Manager Certification Regime. They are summarised below and, along with matters reserved for the Board, are displayed in full in the investor centre at www.capita.com/investors.

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

Membership

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

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

(C) Chair

Frequency of meetings and attendance

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

Providing opportunity for everybody

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

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

The committee reports and makes recommendations to the Board in relation to its activities. It is authorised under its terms of reference to obtain the advice of independent search consultants. The committee's terms of reference were reviewed and updated during the year and can be found on Capita's website at www.capita.com/investors.

Diversity and inclusion

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

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

Sir Ian Powell
Chair
Nomination Committee

Capita sees significant business benefit from the diversity of thought that comes from people with a wide range of backgrounds at all levels in the Group. Only by encouraging this diversity and by fostering talent throughout the business can the Group expect to achieve further diversity in senior management. Capita has a network of diversity champions across the Group and its training and mentoring initiatives actively support the fostering of talent at all levels in the business and across the Company's diverse workforce. The Board and senior management teams across Capita are committed to working to provide an environment where everyone has the opportunity to fulfil their potential. The Group will continue to appoint and promote people on merit and in line with the skills and attributes identified for each post. Further information on diversity, inclusion and wellbeing is on pages 32–34 of the strategic report. The appointment process for employee directors included a detailed online questionnaire, independent assessment by a third party and a series of interviews with the Group Company Secretary, Chief General Counsel, Chief People Officer, CEO, SID and Chairman.

Appointment process

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

Succession planning

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

Gender balance

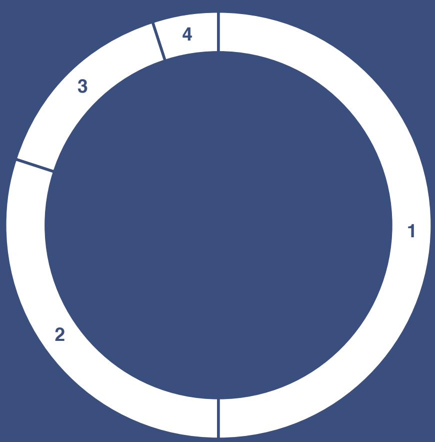
At 31 December 2019, female representation on the Board and Executive Committee was 36% and 29% respectively. At 31 December 2019, female representation among senior management[1] and their direct reports was 41%.

Board evaluation

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

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

Nomination Committee time allocation (%)



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

Responsibilities and activities

Key responsibilities

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

Activity in 2019

- Succession planning for the Board generally and for other senior positions below Board level.
- Recruitment and appointment of a new non-executive director and Remuneration Committee Chair: the external search agency, The Inzito Partnership, was used for this appointment and it has no other connection with the Group or individual directors.
- Consideration of directors' performance, length of service, interests and potential conflicts to ensure independence of NEDs and that all directors could stand for re-election or election at the AGM.
- Discussed and approved the reappointment of Sir Ian Powell as Chair and the appointments of Lyndsay Browne and Joseph Murphy as employee directors.

Developing our risk and control framework

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

Risk and control framework

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

Finance transformation

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

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

Matthew Lester
Chair
Audit and Risk Committee

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

These were reviewed and updated during the year.

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

Transformation journey

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

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

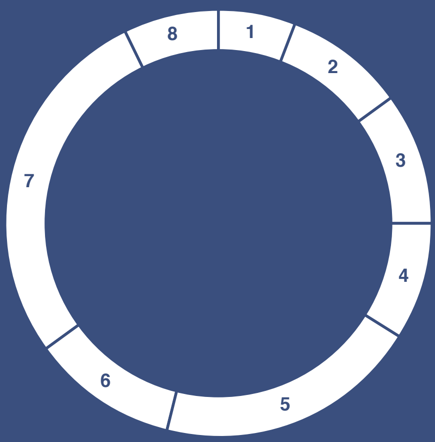
Committee membership and attendance

All members of the committee are independent and I am considered to have recent and relevant financial experience for the purposes of the UK Corporate Governance Code 2018.

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

Committee performance was assessed as part of the internally facilitated Board evaluation (see page 51 for more information). The Board is satisfied that the combined knowledge and experience of its members is such that the committee discharges its responsibilities in an effective, informed and challenging manner and that, as a whole, the committee has competence relevant to the sector in which the Company operates. The Group Company Secretary, or their nominee, acts as Secretary to the Committee and is available to assist the members of the committee as required, ensuring that timely and accurate information is distributed accordingly.

Audit and Risk Committee time allocation (%)



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

Role and responsibilities

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

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

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

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

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

Cyber security
To review and assess cyber security risk and governance, including IT security for the Group and monitor risks within this area.

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

How the committee operates

The committee has established an annual forward agenda to cover the key events in the financial reporting cycle, specific risk matters identified by the committee and standing items that the committee is required to consider in accordance with its terms of reference. The annual agenda is supported by agenda setting meetings held in advance of each committee meeting, led by me and attended by senior management. Their purpose is to identify key issues impacting the business that may require consideration by the committee.

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

How the committee discharged its roles and responsibilities in 2019

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

Financial reporting

Accounting judgements and significant accounting matters
As part of the process of monitoring the integrity of the financial information presented in the half-year results and the Annual Report and Accounts, the committee reviewed the key accounting policies and judgements adopted by management to ensure that they were appropriate. The significant areas of judgement identified by the committee, in conjunction with management and the external auditor, together with a number of areas that the committee deemed significant in the context of the financial statements are set out in the tables on pages 71–73.

The committee has assisted the Board in reviewing the key metrics used to measure the value creation for Capita's shareholders, recognising that historical measures such as profitability may not be as relevant as free cash flow, given the impact certain policies, in particular IFRS 15, have on the timing of recognition of profits and cash inflows.

The committee reviewed with the Board how free cash flow can be used to reflect the value creation for shareholders, recognising that outside the core contracting activities there are other commitments, and in particular the pension deficit repayment plan, meaning free cash flow will not always be reflected in the reported profits (refer to note 2.10 to the consolidated financial statements). The Board will continue to review how the different measures are presented and the committee has requested that management keep under review how free cash flow is disclosed, so the reader can obtain a clear understanding of the key value drivers.

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

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

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

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

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

Revenue and profit recognition

Matter considered

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

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

Action

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

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

Outcome

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

Contract fulfilment assets

Matter considered

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

In addition, the amortisation of these assets involves estimation of the expected life of the contract.

Action

As part of the adoption of IFRS 15, the committee has considered and challenged the significant judgements and estimates involved in determining the carrying value of CFAs.

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

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

Outcome

The committee is satisfied that appropriate judgements and estimates have been made in determining the carrying value of CFAs and the extent of impairment of CFAs recognised in these statements is appropriate. The committee is satisfied that the accounting policy note provides sufficient clarity as to the new policy adopted.

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

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

Matter considered

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

Action

The committee has reviewed the robustness of the impairment model and challenged the appropriateness of assumptions used to calculate and determine the existence of impairment. The committee considered the events and circumstances that have led to the impairment charges since the publication of the interim results in August 2019.

The impairment of goodwill and intangible assets at Group level indicates that there may also be impairment of investment in subsidiaries on the parent company's financial statements. Accordingly, the committee has reviewed the assumptions and calculation of impairment of these investments.

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

Outcome

The committee is satisfied that the impairment of goodwill and intangibles recognised in these statements is in line with expectations given the performance of certain areas of the Group's business in the year and the update on the trading outlook.

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

Of particular importance to the committee was the inclusion of sufficient disclosures to set out the events and circumstances that have led to the impairment charges recorded in the year.

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

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

Items excluded from adjusted results

Matter considered

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

Action

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

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

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

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

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

The committee considers that this guidance has been applied and note 2.4 to the consolidated financial statements provides details of the costs incurred in 2019. The committee will continue to review this policy in 2020 and beyond, as the transformation programme continues.

Outcome

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

Note 2.4 to the consolidated financial statements sets out the items that are separately presented, and the committee is satisfied that this provides sufficient information to inform a reader on each category presented. The committee also notes that the approach is consistent with that used for the rights issue in 2018. The committee has asked the CFO to continue to review the approach in 2020.

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

Capitalisation and recoverability of intangible assets

Matter considered

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

Action

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

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

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

Outcome

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

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

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

Of particular importance to the committee was the inclusion of sufficient disclosures to set out the events and circumstances that have led to the impairment charge recorded in the year.

Provisions and contingent liabilities

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

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

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

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

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

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

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

Pensions

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

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

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

Going concern

Matter considered
Consideration of the going concern assumption is the responsibility of the Board, and the committee conducted an assessment as part of its support role, given the inherent judgements required to be made in relation to the forecasts and definitions within the covenant calculations.

Action
The going concern assertion has a significant impact on the basis of preparation of the financial statements. The committee considered the business plan projections that cover the three years to 31 December 2022.

The committee considered the assumptions behind the plausible but severe downside scenarios used for stress testing the Group's ability to meet its obligations as they fall due. It also considered and challenged the mitigating actions proposed by management. The committee has challenged the key assumptions, as set out in section 1 to the consolidated financial statements.

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

The committee considered compliance with the key covenants included in the Group's committed facilities and private placement notes, including maximum ratios of adjusted net debt to adjusted EBITDA.

The committee considered the judgements made by management in calculating the adjusted EBITDA. In particular, consideration was given to consistency of treatment with the prior year, including the exclusion of restructuring.

Applying the downside scenarios, the committee concluded that, assuming no mitigating actions are taken, the available headroom is sufficient to operate within the 3.0 times adjusted net debt to adjusted EBITDA ratio.

The committee considered the going concern assumption disclosures.

The committee considered the requirements of the Code as it applies to the Group's viability statement including the three-year period of assessment which aligns with the Group's planning horizon and the processes supporting the viability statement. After significant discussion, and having considered the various stress testing scenarios that were presented as part of the viability assessment alongside the liquidity and debt positions of the business, the committee determined that the three-year measurement period continued to be appropriate and that the viability statement (as set out on page 48) should be recommended to the Board for approval.

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

Other issues considered in relation to the financial statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Review of risk management and internal control
The committee is responsible for reviewing the effectiveness of the Group's system of internal control and risk management. The risk management framework and processes are set out on pages 40-42.

Effectiveness and efficiency of risk management
During the year, the committee focused on key risk themes such as IT resilience, cyber risk, management of client money, legal and regulatory risk, health and safety, information security and privacy. The committee received reports on the following themes during the year:

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

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

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

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

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

During the year, a programme of internal audits was completed. The scope of audit work generally focuses on assessing the adequacy and effectiveness of controls, including management oversight and the degree of management risk awareness within the businesses that are subject to audit.

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

The Group Internal Audit team reported weaknesses in: compliance with Group standards and policies; people management, particularly in regard to employee vetting; controls over system access; management of contract obligations; and demonstration of formal risk management. In all cases, management has responded with appropriate action to mitigate the associated risks, and divisional executive management have increased visibility on those issues of significance. In addition, there has been focus by senior management to improve the control environment through the closure of previously overdue audit actions.

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

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

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

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

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

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

Matthew Lester
Chair
Audit and Risk Committee
4 March 2020

Group executive risk committee

The Group executive risk committee (ERC) assesses risk across all Capita's unregulated businesses and reports to the Audit and Risk Committee. It holds scheduled meetings on a quarterly basis. Membership comprises the CEO, CFO, Chief General Counsel, Group Commercial Director, Chief Growth Officer (appointed to the committee in February 2020) and the six divisional executive officers. The Group Risk & Internal Audit Director has a standing invitation, and the non-executive directors have an open invitation, to attend all meetings. Meetings are chaired by either the CEO or CFO.

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

- Reviewing the residual risk profile, along with ensuring appropriate remedial actions are taken in line with Group objectives and risk appetites.
- Reviewing and monitoring Group control function activity and oversight plans.
- Tracking key regulatory changes affecting the Group's businesses.
- Tracking key business developments, including bids, acquisitions and offshoring developments.
- Reviewing, and recommending for adoption, policies applicable to the Group's businesses.
- Considering escalations received from any divisional risk and compliance committee.
- Identifying items for the attention of the Board, Group Audit and Risk Committee or Group financial services risk committee.

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

Group financial services risk committee

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

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

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

During 2019, the ERC met four times and the FSRC met three times following its reconstitution during the year. Membership and meeting attendance are set out in the tables below. The maximum number of meetings that could be attended is shown in brackets.

Group executive risk committee:

Name of member	Title	Number of meetings attended
Patrick Butcher (Chair)	Chief Financial Officer	4(4)
Jon Lewis	Chief Executive Officer	3(4)
Aimie Chapple	Executive Officer, Customer Management	1(1)
Mark Cook	Executive Officer, Technology Solutions	1(1)
Andy Start	Executive Officer, Government Services	1(1)
Chantal Free	Executive Officer, People Solutions	1(1)
Jim Vincent	Executive Officer, Specialist Services	3(4)
Chris Baker	Executive Officer, Software	4(4)
Claire Chapman	Chief General Counsel	4(4)
Rob Tolfts[1]	Group Commercial Director	0(4)
Joe Hemming[2]	Former Executive Officer, Technology Solutions	0(3)
Matthew Vallance[3]	Former Interim Executive Officer, Customer Management	1(1)
Patrick Elliott[4]	Former Interim Executive Officer, Government Services	3(3)
Mike Barnard[5]	Former Executive Officer, Customer Management	0(1)
Erika Bannerman[6]	Former Executive Officer, People Solutions	3(3)
Sue Williams[7]	Former Chief Risk & Compliance Officer	3(4)

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

Group financial services risk committee:

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

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

Directors' remuneration report

The report is split into three sections:

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

Annual statement

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

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

Georgina Harvey
Chair
Remuneration Committee

Key activities of the committee during the year included:

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

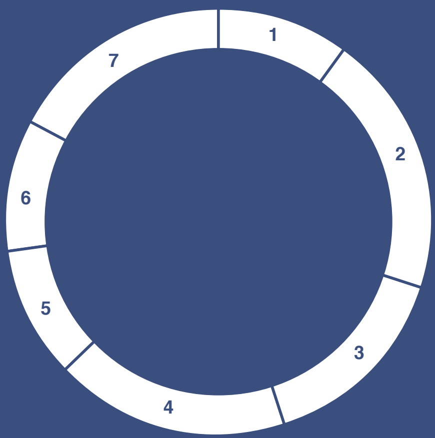
How the committee operates

The committee has an annual agenda to cover the key planning and decision events in the annual remuneration cycle.

Each meeting is supported by an agenda-setting discussion held in advance with the committee Chair, Chief People Officer and Group Reward Director to identify issues impacting remuneration that may require consideration by the committee.

Regular reports including updates in corporate governance and regulatory developments are received from the committee's adviser. At each committee meeting the members may receive other reports and presentations covering wider workforce arrangements which include the annual pay review, incentive scheme arrangements, gender pay reporting, salary proposals for members of the senior team and approval of remuneration packages for new members of the Executive Committee.

Remuneration Committee time allocation (%)



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

Remuneration Committee membership and attendance
All members of the committee are independent non-executive directors. The number of formal meetings held and the attendance by each member is shown in the table on page 56. The committee also held informal discussions as required. The Group Company Secretary acts as secretary to the committee and is available to assist the members of the committee as required, ensuring that timely and accurate information is distributed accordingly.

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

Board changes in 2019

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

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

Remuneration policy

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Committee discretion

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

Remuneration for 2019

Annual bonus

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

Vesting of 2017 LTIP award

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

Total remuneration

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

Pay decisions for 2020

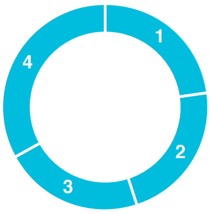
Base salaries

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

Annual bonus

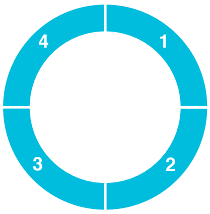
The committee has reviewed the annual bonus plan and taken on board feedback received from shareholders following the 2019 AGM. The proportion of the 2020 annual bonus based on strategic or personal measures will be reduced from one-third (as operated for 2019) to 25% of the annual bonus. This is a further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

2019 bonus (%)



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

2020 bonus (%)



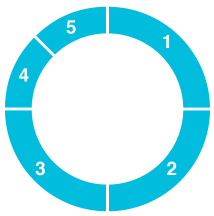
1 **25%** adjusted PBT
2 **25%** free cash flow
3 **25%** organic revenue growth
4 **25%** strategic

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

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

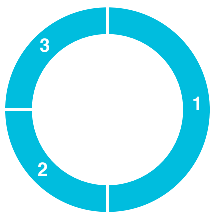
Performance measures for 2020 LTIP
Having considered Capita's progress in respect of the transformation plan and feedback received from shareholders, we are proposing a revised matrix of LTIP performance measures for 2020. These closely reflect our strategic aims as detailed above and increase shareholder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

2019 LTIP (%)



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

2020 LTIP (%)



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

The proposed metrics for 2020 are as follows:

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

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

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

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

Shareholder views

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

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

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

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

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

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

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

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

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

Georgina Harvey
Chair
Remuneration Committee
4 March 2020

Remuneration policy

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

Changes to the current policy

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

Responsibilities and activities of the Remuneration Committee

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

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

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

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

Consideration of shareholder views

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

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

Consideration of our people

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

LTIP awards are granted across the senior management population in order to encourage a high level of employee share ownership. While vesting of regular LTIP awards made to executive directors is always subject to performance conditions, awards to other senior management may, where appropriate (such as to assist in retention of key talent), be subject only to continued employment. Another key difference in the policy for executive directors is that remuneration is more heavily weighted towards long-term variable pay than other employees. This ensures that there is a clear link between the value created for shareholders and the remuneration received by the executive directors. An employee director will attend the committee meetings as a member in 2020, with the intention to ensure a workforce perspective is heard at the very top of the organisation with respect to remuneration.

Summary remuneration policy table

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

Base salary

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

Benefits

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

Pension

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

Annual bonus and deferred annual bonus (DAB) plan

Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
Performance measures are selected to focus executives on delivery of the Group business plan for the financial year.	The bonus scheme is reviewed annually to ensure that bonus opportunity and performance measures continue to support the business plan. Stretching targets are set at the start of each financial year. Performance against targets is reviewed following completion of the final accounts for the period under review. 50% of any bonus earned is delivered in shares deferred for three years, with the remainder delivered in cash. Executive directors have the discretion to defer 100% of any bonus earned into shares. An additional payment may be made at the time of vesting in respect of dividends that would have accrued on deferred shares during the deferral period. Malus and clawback provisions apply to all annual bonus and deferred bonus share awards for a period of up to three years after the determination of the annual bonus.	200% of salary (CEO) and 175% of salary (CFO).	Executive directors' performance is measured over a one-year period relative to challenging targets for selected measures of Group financial, strategic or individual performance. The majority of the bonus will be determined by measure(s) of Group financial performance. A sliding scale is set for each Group financial measure: up to 25% of the bonus will be paid at threshold performance, 50% of the bonus will be paid at target performance, increasing to 100% for maximum performance. The committee has discretion to override formulaic outcomes when determining the level of bonus pay-out.

Long-term incentive plan (LTIP)

Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
Designed to reward and retain executives over the longer term while aligning their interests with those of shareholders. To link reward to key longer-term business targets. To encourage share ownership.	LTIP awards are usually granted in the form of nil cost options. Award levels for each award are set by the committee at a level appropriate, in the committee's opinion, with the individual's performance and experience. Vesting is dependent on the achievement of performance conditions usually measured over a three-year period. Shares resulting from vesting of awards granted during or after 2019 must be retained for a further two years after vesting. An additional payment may be made at the time of vesting in respect of dividends that would have accrued on LTIP awards during the vesting period. Malus and clawback provisions apply to all LTIP awards for a period up to the fifth anniversary of grant.	Shares under award with a market value (as determined by the committee): 300% of salary (CEO) and 200% of salary (CFO).	Performance is measured relative to selected measures of Group financial or share price performance, with the precise measures and weighting of the measures determined by the committee ahead of each award. Group financial measures may include TSR, EPS, revenue growth or any other financial measure the committee deems appropriate at the time of the award. Strategic measures will be set and assessed through responsible business scorecards metrics which may include client, employee, supplier or any other strategic measure the committee deems appropriate. Performance targets are reviewed annually by the committee and are set appropriate to the economic and political outlook and risk factors prevailing at the time, ensuring that such targets remain challenging in the circumstances, while remaining realistic enough to motivate and incentivise management. 25% of the awards vest at a threshold vesting point, rising to 100% vesting at a maximum vesting point. The committee has discretion to override formulaic outcomes when determining the level of vesting of LTIP awards.

Shareholding guidelines

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

Non-executive director (NED) fees

Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
Market competitive fees are set to attract and retain non-executive directors with required skills, experience and knowledge so that the Board can effectively carry out its responsibilities.	Reviewed periodically by the Board. Fee levels set by reference to market rates, taking into account the individual's experience, responsibilities, time commitment and pay decisions for the broader workforce. NED fees comprise payment of an annual basic fee and additional fees for further Board responsibilities such as: • Senior independent director • Audit and Risk Committee chair • Remuneration Committee chair • The Chairman of the Board receives an all-inclusive fee. No NED participates in the Group's incentive arrangements or pension plan or receives any other benefits other than where travel to the Company's registered office is recognised as a taxable benefit in which case a NED may receive grossed-up costs of travel as a benefit.	As for the executive directors, there is no prescribed maximum monetary annual increase. An aggregate sum under the Company's articles of association (currently £1,000,000 per annum) or such larger amount as the Company may by ordinary resolution decide.	Not performance-related.

Employee non-executive director remuneration

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

Changes and additions to the policy have been detailed on pages 79–80 of the annual statement.
The differences between the directors' remuneration policy and employees remuneration is detailed on page 82.
The annual bonus performance measures are Group financial, strategic or individual measures which are selected annually to be consistent with key priorities for the Group.
The LTIP performance measures are chosen to provide alignment with our longer-term strategy of growing the business in a sustainable manner that will be in the best interests of shareholders and other key stakeholders in the Company.
Targets are set on sliding scales that take account of internal strategic planning and external market expectations for the Company. Only modest rewards are available for achieving threshold performance with maximum rewards requiring substantial outperformance of challenging strategic plans approved at the start of each year. Further details of the variable pay measures and targets can be found on page 80–81 of the annual statement.
The committee operates incentive arrangements for the executive directors in accordance with their respective rules, the Listing Rules and the HMRC rules where relevant. The committee, consistent with market practice and the scheme rules, retains discretion over a number of areas relating to the operation and administration of the plans. These include (but are not limited to) the following:

- who participates
- the form in which the award is granted and settled (eg shares, nil cost options, cash)
- the timing of the grant of award and/or payment
- the size of an award (up to individual and plan limits) and/or a payment
- discretion relating to the measurement of performance in the event of a 'good leaver' scenario or a change of control or reconstruction of the Company
- determination of a good leaver (in addition to any specified categories) for incentive plan purposes
- adjustments required in certain circumstances (eg share capital variation, rights issues, demerger, corporate restructuring, special dividends)
- the ability to vary or substitute any performance condition(s) if circumstances occur which cause it to determine that the original condition(s) have ceased to be appropriate, provided that any such variation or waiver is fair, reasonable and not materially less difficult to satisfy than the original condition (in its opinion). If the Committee were to make an adjustment of this sort, a full explanation would be provided in the next remuneration report
- to apply malus and clawback provisions, see page 87 for further details
- to apply discretion to override formulaic outcomes where this is considered appropriate.

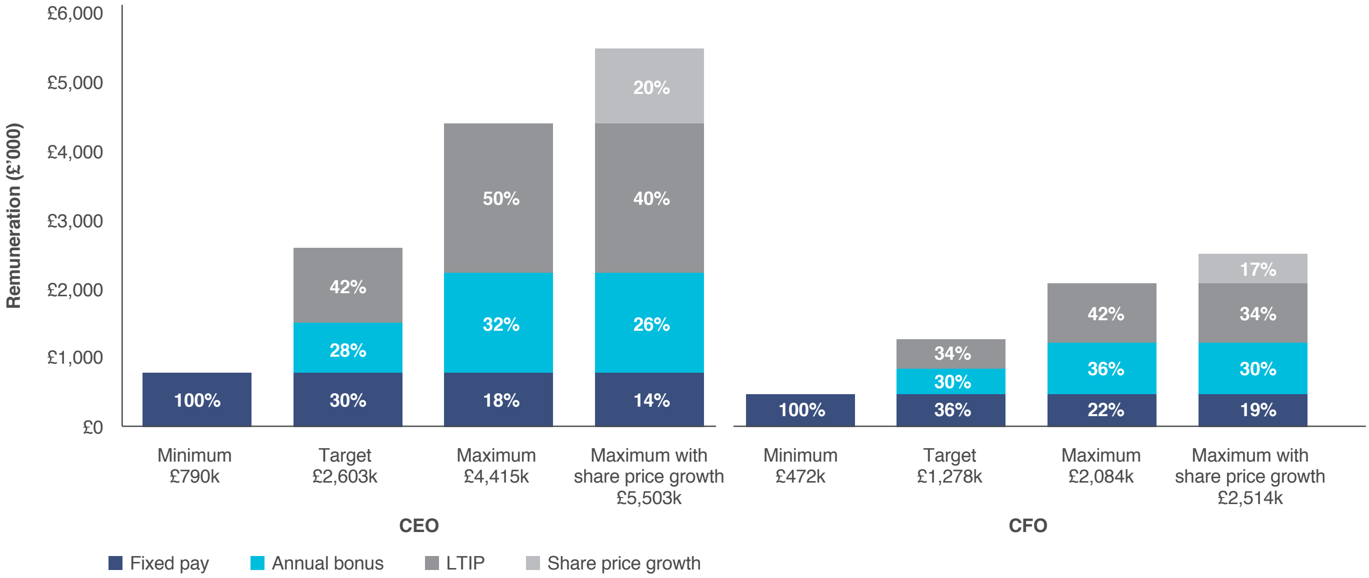
The committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed: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

Illustrations of the application of our remuneration policy

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

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

Each graph is broken down to show how the total under each scenario is made up of fixed elements of remuneration, the annual bonus and the LTIP.



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

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

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

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

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

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

Malus and clawback

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

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

Directors' recruitment and promotions

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

If a new executive director was appointed, the committee would seek to align their remuneration package with other executive directors in line with the policy table. However, flexibility is retained to offer additional remuneration on appointment outside the policy if the committee believe it may be appropriate to make 'buyout' awards or payments in respect of remuneration arrangements and contractual terms forfeited on leaving a previous employer. The committee would look to replicate the arrangements being forfeited as closely as possible and in doing so, would take account of relevant factors including the nature of the remuneration and contractual terms, performance conditions and the time over which they would have vested or been paid.

The committee would seek to structure awards on recruitment to be in line with the Company's remuneration framework so far as practical but, if necessary, the committee may also grant such awards outside of that framework as permitted under Listing Rule 9.4.2. If appropriate, a new appointee's incentives in their year of joining may be subject to different targets to other executive directors. The committee may also agree that the Company will meet certain relocation and incidental expenses (within an agreed time limit) as it considers appropriate.

The maximum level of variable remuneration which may be granted (excluding awards to compensate for remuneration arrangements and contractual terms forfeited on leaving the previous employer) to new executive directors for the year of recruitment shall be limited to 500% of salary (the maximum limit allowed within the policy table).

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

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

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

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

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

Directors' service agreements and payments for loss of office

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

The service contracts for executive directors are for an indefinite period and provide for a 12-month notice period. They do not include provisions for predetermined compensation on termination that exceed 12-months' salary, pension and benefits. The Company can make a series of phased payments which are paid in monthly instalments, subject to mitigation. This mechanism allows for the amount of any phased payments to be reduced by the income from any alternative position secured by the former director during the phased payments period.

There are no arrangements in place between the Company and its directors that provide for compensation for loss of office following a takeover bid. All directors are appointed for an indefinite period but are subject to annual re-election at the AGM.

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

The annual bonus may be payable in respect of the period of the bonus plan year worked by the director; there is no provision for an amount in lieu of bonus to be payable for any part of the notice period not worked.

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

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

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

In the event of a change of control, all unvested LTIP awards would (unless rolled over) vest, to the extent that any performance conditions attached to the relevant awards have been achieved, scaled back pro-rata for the proportion of the performance period elapsed to the change of control (each unless the committee determines otherwise). Unvested deferred share awards would vest in the event of a change of control (unless rolled over).

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

Non-executive directors' terms of engagement

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

Non-executive employee directors' terms of engagement

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

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

Annual report on remuneration

This part of the remuneration report has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and paragraphs 9.8.6R and 9.8.8 of the Listing Rules. The annual report on remuneration will be put to an advisory shareholder vote at the 2020 AGM. The information on pages 88–97 has been audited as indicated.

External advice received

Deloitte LLP was appointed by the Remuneration Committee during 2012 to provide advice on executive remuneration matters. During the year, the committee received independent and objective advice from Deloitte primarily on market practice, disclosure within the accounts and stakeholder liaison. Deloitte was paid £47,400 in fees during 2019 for these services (charged on a time plus expenses basis). In addition, other practices of Deloitte, separate from the executive remuneration practice, have provided services to the Group in respect of tax, advice to internal audit and other ad hoc advisory projects during the year.

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

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

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

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

Shareholder voting at the AGM

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

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

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

	Votes cast 'for'	Votes cast 'against'	Abstentions[1]
Remuneration report: for the year ended 31 December 2018	789m	297m	289m
	72.7%	27.3%	–
Remuneration policy: voted on in June 2017	503.9m	60.8m	0.09m
	89.2%	10.8%	–

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

Statement of implementation of the remuneration policy for 2020

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

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

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

Annual bonus for 2020

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

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

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

1. Equally weighted at 25%.

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

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

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

Any bonus payments will be subject to malus and clawback provisions as outlined in the directors' remuneration policy.

Long-term incentive to be granted in 2020

Awards will be granted over shares worth 300% of salary to Jon Lewis and worth 200% of salary to Patrick Butcher. Awards will vest subject to (i) assessment by the committee of the underlying financial and operational performance of Capita over the three-year period to 31 December 2022 (the underpin), and (ii) subject to satisfaction of the underpin, relative TSR, adjusted EPS and responsible business scorecard over the same three-year period to 31 December 2022.

Performance measures, weighting and targets for the 2020 LTIP award, and the performance underpin, are as follows:

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

A straight line vesting occurs between these points.

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

As stated in the notes to the policy table, the committee retains discretion to make adjustments required in certain circumstances including varying the performance conditions if circumstances occur which cause it to determine that the original conditions have ceased to be appropriate, provided that any such variation or waiver is fair, reasonable and not materially less difficult to satisfy than the original condition (in its opinion). If the committee were to make an adjustment of this sort, a full explanation would be provided in the next remuneration report.

The committee also has a general discretion to override formulaic outcomes in line with the Code.

Any vested LTIP awards will be subject to malus and clawback provisions as outlined in the directors' remuneration policy.

The net number of shares received on vesting of LTIP awards will be subject to an additional two-year holding period after the initial three-year vesting period.

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

A summary of the fees for 2020 are as follows:

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

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

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

The table below summarises directors' remuneration received in 2019.

Single figure remuneration

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

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

Benefits include all taxable benefits as defined by paragraph 11(1) of Schedule 8 to the accounts regulations. This includes private medical insurance, company car allowance, work travel, accommodation and the value of matching awards under the UK all-employee scheme.

No director waived any fees or salary for 2019.

Annual bonus for 2019 (audited)

The maximum annual bonus opportunity for 2019 was 200% of salary for Jon Lewis and 175% of salary for Patrick Butcher. The annual bonus that could be paid to executive directors in respect of 2019 performance was determined by a combination of Group financial performance alongside an adjusted PBT threshold target underpin and executive directors' personal contributions. 50% of the bonus was payable for achieving target performance, with 100% payable for achieving the maximum target. 25% of bonus was payable for achieving the threshold target. Details of performance against the financial and personal/strategic targets are set out below.

Financial targets (67% of the bonus)

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

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

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

Jon Lewis

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

Patrick Butcher

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

Summary of total 2019 bonus awards

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

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

Long-term incentive awards in 2019 (audited)

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

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

LTIP awards are granted as nil-cost options and awarded as a percentage of salary. Awards will vest three years from the date of grant subject to (i) assessment by the Remuneration Committee of the underlying financial and operational performance of Capita over the three-year period to 31 December 2021 (the underpin), and (ii) subject to satisfaction of the underpin, free cash flow, EBIT margin, organic revenue growth, client satisfaction and employee engagement performance over the same three-year period to 31 December 2021. 25% of LTIP awards vest for achieving threshold performance. Performance targets for the 2019 award were set following consultation with major shareholders. Full details of the performance conditions relating to these awards are outlined on page 95.

Directors' interests and shareholding guidelines (audited)

In line with the remuneration policy approved in 2017, executive directors are expected to hold 200% (300% for the Chief Executive Officer) of salary in shares in the Company. The guidelines include shares held beneficially and also shares within the DAB that have been deferred over the three-year period. Any shares in the DAB used for this are calculated net-of-tax. Share awards that are subject to performance conditions are not included. Post cessation shareholding guidelines proposed in the new remuneration policy for 2020 will require executive directors to retain 100% of the relevant guideline (or the actual shareholding if lower at cessation) until the first anniversary of the date of cessation. This will reduce to 50% of the guideline between the first and second anniversary of the date of cessation.

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

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

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

Share plans (audited)

Deferred annual bonus (DAB) plan

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

Unvested DAB deferred/restricted awards at 31 December 2019

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

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

Long-term incentive plan (2017 LTIP)

At the annual general meeting in 2017, the LTIP was approved by shareholders. Under the plan rules the committee can award up to three times salary.

The vesting of awards will depend on performance measured over a three-year period.

Unvested LTIP awards at 31 December 2019

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

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

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

Unvested LTIP (buyout) remuneration awards at 31 December 2019

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

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

Performance criteria

2017

Performance underpin	Performance measure	Performance condition
Assessment of the underlying financial and operational performance of Capita over the performance period.	EPS – 75% of the award is measured on EPS growth	EPS growth: 3%–8% per annum Vesting percentage: 18.75%–75% of award Straight-line vesting occurs between these points.
	ROCE – 25% of the award is measured on average ROCE	Average ROCE: 11%–15% Vesting percentage: 6.25%–25% of award Straight-line vesting occurs between these points.

2018

Performance underpin	Performance measure	Weighting	Threshold (25% vests)	Target (50% vests)	Stretch (100% vests)
Assessment of the underlying financial and operational performance of Capita over the performance period.	Annualised cost savings	20%	£160m	£175m	£205m
	Free cash flow	20%	£180m	£200m	£240m
	EBIT margin	20%	9%	10%	12%
	Customer satisfaction	20%	6 point positive swing in NPS	8 point positive swing in NPS	12 point positive swing in NPS
	Employee engagement	20%	6 point positive swing in NPS	8 point positive swing in NPS	12 point positive swing in NPS

2019

Performance underpin	Performance measure	Weighting	Threshold (25% vests)	Target (50% vests)	Stretch (100% vests)
Assessment of the underlying financial and operational performance of Capita over the performance period.	Free cash flow[1]	25%	£190m	£210m	£250m
	EBIT margin[1]	25%	9%	10%	12%
	Organic revenue growth[1]	25%	£3,900m	£3,950m	£4,050m
	Customer satisfaction	12.5%	6 point positive swing in NPS	8 point positive swing in NPS	12 point positive swing in NPS
	Employee engagement	12.5%	6 point positive swing in NPS	8 point positive swing in NPS	12 point positive swing in NPS

1. For the financial year 2021.

A straight-line vesting occurs between these points.

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

Dilution
All awards are made under plans that incorporate the overall dilution limit of 10% in 10 years. The estimated dilution from existing awards, including executive and all-employee share awards, was approximately 2.21% of the Company's share capital at 31 December 2019.

Executive directors' service agreements

Details of the service agreements are set out below:

Executive Directors	Date of joining the Company	Notice period
Jon Lewis	1 December 2017	12 months
Patrick Butcher	10 December 2018	12 months

Non-executive directors' terms of engagement

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

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

Employee non-executive directors' terms of engagement

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

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

Payments to former directors (audited)

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

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

Payments for loss of office (audited)

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

Percentage change in remuneration levels

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

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

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

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

CEO pay ratio

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

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

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

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

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

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

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

Gender pay gap reporting

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

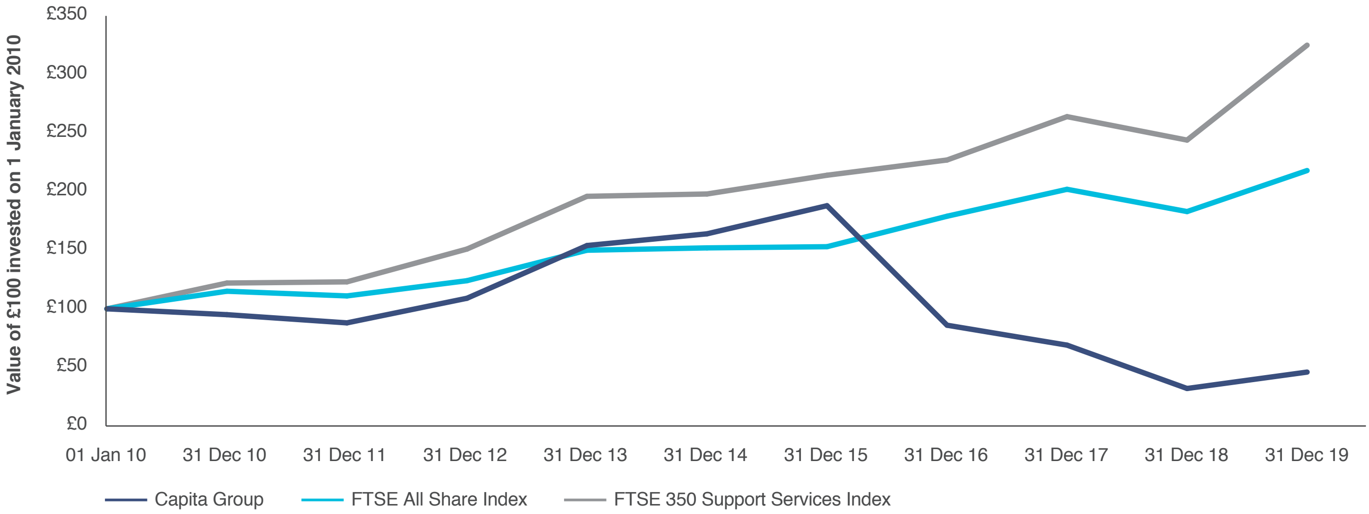
Relative importance of the spend on pay

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

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

Performance graph and CEO pay

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



The total remuneration figures for the CEO during the 2019 financial year are shown in the table below. Consistent with the calculation methodology for the single figure for total remuneration, the total remuneration figure includes the total annual bonus award based on that year's performance and the LTIP award based on the three-year performance period ending in the relevant year. The annual bonus payout and LTIP award vesting level as a percentage of the maximum opportunity are also shown for this year.

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

Note: the vesting rates for the long-term incentives are averaged between the LTIP and the DAB vesting rates for 2010–2013 and 2015. For 2014, this is the actual vesting for the LTIP as there is no DAB maturity in 2014.

Note: figures for 2010–2013 are based on remuneration for Paul Pindar. Figures for 2014–2016 are based on remuneration for Andy Parker. Figures for 2017 are based on remuneration paid to Andy Parker as CEO until 15 September 2017, to Nick Greatorex as interim CEO from 16 September 2017 to 30 November 2017, and to Jon Lewis as CEO from 1 December 2017.

Approval of the directors' remuneration report
The directors' remuneration report was approved by the Board on 4 March 2020.

Georgina Harvey
Chair
Remuneration Committee
4 March 2020

Independent auditor's report

to the members of Capita plc

1. Our opinion is unmodified

We have audited the financial statements of Capita plc (the Company") for the year ended 31 December 2019 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement, company balance sheet, company statement of changes in equity, and the related notes, including the accounting policies in sections 1 to 6 to the Group financial statements and section 7 to the Parent Company financial statements.

In our opinion:

— the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 and of the Group's loss for the year then ended;

— the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;

— the Parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework;* and

— the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit & Risk Committee.

We were first appointed as auditor by the Directors on 18 August 2010. The period of total uninterrupted engagement is for the 10 financial years ended 31 December 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview	
Materiality: Group financial statements as a whole	£8m (2018: £8m) 3.8% (2018: 3.8%) of normalised Group profit before tax
Coverage	84% (2018: 82%) of total Group revenue 83% (2018: 84%) of total profits and losses before tax 86% (2018: 84%) of total Group assets

Risks of material misstatement		vs 2018
Recurring risks for the Group	Going concern	◄►
	Revenue and profit recognition	◄►
	Impairment of intangible assets and goodwill	◄►
	Items excluded from adjusted profit	◄►
	Capitalisation and recoverability of contract fulfilment assets	◄►
	Provisions and contingent liabilities	◄►
	Pensions obligations	◄►
New risk for the Group	Capitalisation and recoverability of intangible assets	n/a
Recurring risks for the Parent Company	Recoverability of Parent Company's investment in, and amounts due from, its subsidiaries	◄►

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below, the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above together with our key audit procedures to address those matters and our findings from those procedures in order that the Company's members as a body may better understand the process by which we arrived at our audit opinion. These matters were addressed, and our findings are based on procedures undertaken in the context of, and solely for the purpose of our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

The risk

Going concern

Refer to section 1 and the viability statement on page 48 for the Board's assessment of the appropriateness of the going concern basis of preparation and the Group's longer-term viability.

Refer to the Audit and Risk Committee report (pages 68-76).

Subjective estimate

The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and Parent Company. That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations, taking into account all available information about the future, which covers a period of at least a year from the date of approval of the financial statements but is not limited to that period.

The risks most likely to adversely affect the Group's and Company's available financial resources in the future relate to continued execution risk associated with the Group's transformation plan. These include, but are not limited to, the following:

- An inability to achieve the growth targets in the Group's business plan;
- Further increases in attrition of contracts and/or continuing reduction in new contract wins;
- An inability to achieve the forecast cost savings and achieve cost competitiveness;
- An inability to deliver the improvements anticipated in the working capital profile across the Group; and
- A significant unexpected downturn in performance in one of the group's businesses.

There are also less predictable but realistic second order impacts, such as the impact of Brexit on customer or supplier confidence, and the impact of UK Government policy on the letting of outsourcing contracts.

In the event that one or more of the above risks were to materialise the Board's assessment of the Group's ability to continue as a going concern would involve significant judgment with respect to the ability to comply with debt covenants and maintain liquidity in the future.

The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.

Disclosure quality

As this judgment involves a consideration of future events there is a risk that the judgment is inappropriate and consideration is not given to all risks and available mitigations. Clear and full disclosure of the facts and the Directors' judgment applied for the use of the going concern assumption, is a key financial statements disclosure to allow readers to understand fully the key risks and uncertainties, the most recent historical experiences and assumptions underpinning the transformation plan, and the facilities that the Board has secured and has planned that are available to provide the necessary liquidity headroom over the forecast period.

Our response

Our sector experience: We tested the integrity of the cash flow projections and considered the appropriateness of key assumptions used in preparing those projections, with a specific focus on the revenue growth assumptions and cost reduction plans. We evaluated these via enquiries with each of the divisional Executive Officers and Finance Directors, and other Executives including the Chief Executive Officer and Chief Financial Officer.

We assessed the projections and assumptions by reference to our knowledge of the business and general market conditions and assessed the potential risk of management bias. We considered the risks factors as set out by the Board in the Principal Risks section of the annual report and accounts, and where relevant ensured that these featured in the projections prepared to support the base case and the risks applied.

Test of detail: We used our modelling specialists to test the integrity of the financial model used by the Board to assess the base case projections and the various scenarios.

Historical forecasting: We assessed the ability of the Group to accurately forecast by comparing historical results to forecasts for key metrics. We assessed the most recent years' performance against budget, including sales growth and cost reductions, and challenged these assumptions within the forecasts to 31 December 2022 based on historical performance.

Funding assessment: We reviewed the agreements for the Revolving Credit facility (RCF) and the backstop loan agreed in February 2020, to understand the terms including covenant compliance and to understand any restrictions in the use of funds. We ensured the key factors featured in the financial models used for the purpose of assessing the future forecasts. We re-performed calculations, for 30 June 2020-2022 and 31 December 2020-2022, prepared to test expected compliance with the key financial covenant tests to test mathematical accuracy.

We considered the adjustments made in the adjusted EBITDA for the covenant calculations, considering the appropriateness compared to the loan agreements and historical accepted practice with the current lenders. In addition, we inspected the correspondence between the Company and the private placement lenders that set out the proposed items to be excluded in the adjusted EBITDA definition and compared these against the items included in the covenant calculations.

Sensitivity analysis: We assessed the downside sensitivities to ensure that these represented severe but plausible scenarios based on our knowledge of the business, the associated risk exposure and we considered the most recent trading results to form a holistic view of the Group. We assessed those risks that had materialised and challenged whether the risks applied reflected progress to date in delivering the transformation programme. We assessed the future sales growth assumptions based on the actual growth rates achieved in the most recent years (2018 and 2019). We assessed all other risk assumptions to ensure that they reflected a more likely than not chance of occurring under the downside scenarios. We also assessed the mitigating actions, to identify whether these were reasonable and within the direct control of the Company.

We considered management's assessment of the potential impacts of Brexit and UK Government policy more generally on the Group, and in particular the Government Services division, along with their plans to mitigate those risks.

Assessing transparency: We assessed the completeness and accuracy of the matters covered in the going concern disclosure, to confirm whether they sufficiently explain the judgements made by the Directors in assessing whether the going concern basis of preparation is appropriate.

Our findings: We found the use of the going concern basis of preparation without any material uncertainty for the group and parent company to be acceptable (2018: acceptable). We found the going concern disclosure to be proportionate (2018: disclosure finding: proportionate).

The risk	
Revenue and profit recognition Refer to sections 2.1 and 2.2 and to the Audit and Risk Committee report (pages 68-76).	**Accounting treatment** Professional standards require us to make a rebuttable presumption that the fraud risk from revenue is a significant risk. The incentive/pressures on management to achieve bonus targets and/or market consensus increase the risk of fraudulent revenue and profit recognition. **Subjective estimate** There is a risk that revenue may be recognised even though it is not probable (i.e., not more likely than not) that consideration will be collected, which could be due to uncertainties over contractual terms and ongoing negotiations with customers. For long-term contracts, the contractual arrangements can be complex with regard to variable consideration and service performance measures. This can involve significant judgments that may impact the recognition of revenue and contract profits including, among others, those over: — The interpretation of contract terms concerning future obligations; — The allocation of revenue to performance obligations; — The assessment of whether the contract performance obligations satisfy the requirements to apply the series guidance; — The consideration of onerous contract conditions and associated loss provisions; and — Where changes in the scope of work are agreed, the assessment of whether the new services are distinct or not. In situations where customers terminate a contract, the termination may trigger the recognition of deferred income associated with outstanding performance obligations which will no longer be recognised in future periods. Judgment is required to determine the effective date of the termination, and particularly where services are being handed back or over to another provider. The execution risk associated with successful transformation on an outsourcing contract requires judgment to be applied concerning costs to complete and the overall estimation of profit over the lifetime of the contract. There is a risk that such matters are not fully identified resulting in increased profits being recognised or the lack of consideration of contract loss provisions. The effect of these matters is that, as part of our risk assessment, we determined that revenue recognised from long-term contracts has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. **Disclosure quality** There is a risk that the disclosures presented are not sufficient to explain revenue recognition accounting policies and the key judgments applied.

Our response

Tests of detail: We obtained and inspected a sample of the contractual agreements to understand the contract terms and conditions that underpin the revenue and the profit recognition assumptions and to identify conditions under which variable revenue can arise. For the major contracts within our scope, where relevant we also assessed the accounting papers prepared by the company that set out the key judgments to apply.

Where contract negotiations are ongoing in relation to variable consideration we discussed the current status with those involved in the negotiations and by reference to the associated signed contract or variations amendment.

We considered the assumptions within the business plans and lifetime assessments, checking that onerous contracts had been recognised appropriately, particularly on contracts that have had a poor performance in the current year and those contracts that are in a pre-inflection phase of transformation.

In determining whether onerous contract provisions should be recorded, we assessed contract profitability forecasts by analysing historic performance relative to contractual commitments over its full term. This included critically assessing the assumptions over future costs including projected savings and the actions required to achieve these by comparison to historical cost savings achieved on similar projects. Our assessment considered the levels of uncertainty contained in the forecasts, the extent to which Company actions alone could mitigate risks and any dependencies on the customer or other third parties. This assessment covered a sample of contracts including those identified by the Board as being high risk, and comprising the major contracts in a pre-inflection phase.

Where significant variable consideration had been recognised, we obtained and inspected the contractual agreements to understand the contract terms and conditions that underpin the revenue recognition assumptions.

In situations where there has been a termination or partial termination, we assessed the contract terms including any correspondence from the customer, to challenge the effective date of the termination. We also challenged the judgments applied as to whether, in the case of a partial termination, any deferred income should be recognised immediately or spread forward by assessing the inter dependencies of the performance obligations, and the initial contractual terms.

Where relevant we also inspected correspondence with customers or other supporting documentation in relation to the variations or scope.

We challenged whether the judgments made by the Board are appropriate based on the underlying contractual terms and evidence obtained.

Assessing transparency: We considered the disclosures in the financial statements to check that these were comprehensive and provided sufficient detail of the revenue and profit recognition policies and of the key judgments applied. This included an assessment of whether sections 2.1 and 2.2 clearly sets out the impacts arising from the accounting policies applied in relation to the long-term contracts provided by the Group.

Our findings: In determining the treatment of revenue and profit recognition the Group has applied accounting policies based on the requirements of IFRS15. In applying these policies there is room for judgement and we found that within that the Group's judgement was balanced (2018 finding: balanced).

We found the disclosures associated with the IFRS15 policies to be ample (2018 disclosure finding: ample).

The risk	
Impairment of Intangible Assets and Goodwill The Group records goodwill of £1,177.8 million (2018: £1,259.0 million) and other intangible assets £354.2 million (2018: £328.7 million) – see sections 3.4 and 3.3. As set out in the CFO's finance review on page 14, an impairment charge of £41.4m was recorded in relation to the Network Services cash generating unit. Refer to the Audit and Risk Committee report on pages 68-76.	**Forecast based valuation** We consider the carrying value of intangible assets and goodwill and the risk over potential impairment to be a significant audit risk because of the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability. As part of our risk assessment, we determined that the recoverable amount of goodwill and intangible assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (section 3.4) disclose the sensitivity estimated by the Board. **Disclosure quality** There is a risk that the disclosures presented are not sufficient to explain the key assumptions that drive the valuations, and the key sensitivities that the Board has considered. This is particularly important given the ongoing transformation programme and the relevance of the assumed growth assumptions to the sensitivities that are relevant when considering the carrying value of intangible assets and goodwill. In addition there is a risk that the disclosures do not adequately explain the events and circumstances that led to the impairment charge recorded in 2019.

Our response

Comparing valuations: We compared the total amount of discounted cash flows to support the fair value less cost to sell (FVLCS) to the Group's market capitalisation and assessed the rationale for the differences from the prior year end. We also compared the FVLCS valuation at the year end to the market capitalization.

Control operation: We tested the principles and integrity of the Group's discounted cash flow model.

Tests of detail: We compared the cash flows used in the impairment model to the output of the Group's budgeting process and against the understanding we obtained about the business areas through our audit, and assessed if these cash flows were reasonable.

We assessed the assumptions applied to determine the FVLCS by comparison with external market data regarding multiples and selling costs.

Historical comparison: We assessed the historical accuracy of the forecasts used in the Group's impairment model by considering actual performance against prior year budgets. We also assessed the forecast revenue growth with reference to the most recent results for 2018 and 2019.

Benchmarking assumptions: We used external data and our own internal valuation specialists to evaluate the key inputs and assumptions for growth and discount rates.

Sensitivity analysis: We performed sensitivity and break-even analyses for the key inputs and assumptions, and identified those cash-generating units we consider most sensitive to impairment.

Assessing transparency: We evaluated the adequacy of the disclosures related to the estimation uncertainty, judgments made and assumptions over the recoverability of intangible assets and goodwill, in particular checking that the sensitivity disclosures provided sufficient detail. We also assessed whether the disclosures adequately explained the events and circumstances that led to the impairment charge in 2019.

Our findings: We found that the Group's cash flow forecasts and discount rates, when considered together, were mildly optimistic (2018 finding: mildly optimistic), reflecting the dependency on the success of the transformation program.

We found the Group's disclosures to be proportionate (2018 disclosure finding: proportionate) in their description of the assumptions and estimates made by the group and the sensitivity of the valuation of goodwill to changes in those assumptions and estimates.

The risk	
Items excluded from adjusted profit Section 2.4 that details items excluded from adjusted profit and the Audit and Risk Committee report on pages 68-76.	**Presentation appropriateness** The Group separately presents adjusted measures including operating profit and profit before tax as a note to the consolidated income statement and in section 2.4. In addition adjusted free cash flow measures are presented in section 2.10. The Company's financial highlights and commentary refers to 'adjusted' measures as well as those derived on an adopted IFRS basis. The reasoning behind this presentation is set out in notes to the financial statements. Items to be excluded from adjusted profit are not defined by IFRSs and therefore a policy decision is required by the Directors to identify such items and to maintain the comparability of results with previous years and in accordance with the Group's accounting policy. As such there is a risk of management bias. Failure to disclose clearly the nature and impact of items excluded from adjusted profit may distort the reader's view of the financial result in the year. In addition, the key covenants that are relevant for the Company's compliance with the terms of the debt and loans are based on EBITDA that is adjusted for items excluded from reported profits. This introduces a risk of management override and bias to ensure compliance is achieved. **Disclosure quality** The disclosures need to include sufficient explanation of the items adjusted to ensure these are transparent and understandable, and can be reconciled easily back to equivalent reported GAAP measures.

Our response

Assessing principles: We communicated our consideration on the classification of items excluded from adjusted profit to the Audit and Risk Committee to inform the debate on the Board's assessment of the policy decision to present adjusted profit measures.

We examined the presentation of adjusted profit measures in the front half of the Annual Report and Accounts and consider this against applicable guidelines (including the FRC publications on the presentation of alternative performance measures).

Assessing balance: We considered whether there are any items included in the adjusted profit measures that it would be more appropriate to exclude from these measures and vice versa.

We also assessed whether there was sufficient balance between credit and debit items that are so separately presented.

We tested on a sample basis items recorded as adjustments to source documentation to assess the appropriateness of classification.

As part of this consideration, we assessed the consistency of application of the Group's accounting policy for the classification of items excluded from adjusted profit year-on-year.

We reviewed the terms of the debt and loan agreements to understand what items can be adjusted for the purpose of preparing the covenant calculations. We evaluated the items adjusted with a consideration to the factors above to assess management override and bias.

Assessing transparency: We assessed whether the basis of the 'adjusted' financial information is clearly and accurately described and consistently applied and that all 'alternative performance measures', together with reconciliations to the adopted IFRS position, are shown with sufficient prominence in the annual report.

Our findings: The Board identified a number of individual items that had affected profit for the year (or prior year) that required appropriate disclosure in the Annual Report and Accounts to enable shareholders to assess the Group's performance. This included items presented within the reported measures, and those excluded to arrive at the 'adjusted' measures. The Board concluded also that the impact of IFRS15 on the accounting applied to new contract wins and contract terminations for any particular year required explanation.

We found that proportionate disclosure of these items had been provided in the Annual Report and Accounts taken as a whole (2018 finding: proportionate).

The risk	
Capitalisation and recoverability of contract fulfilment assets ('CFA') IFRS15 requires the recognition of contract fulfilment assets when certain criteria are met (see section 2.1). Refer to sections 2.1, 2.3 and 3.1.3, and to the Audit and Risk Committee report (pages 68-76).	**Accounting application** IFRS15 requires that costs incurred on a contract, or an anticipated contract that generate or enhance the resources of an entity to deliver the contract should be capitalised and amortised over the expected contract life. **Subjective estimate** Judgment is required in applying the accounting policy to assess whether the costs incurred will enhance the future economic benefits to the Group. Where a contract is not performing as expected the costs capitalised may not be recoverable and an impairment of the asset may need to be recorded. Contract fulfilment assets are required to be amortised over the expected life of the contract and this requires an estimate of any likely contract extensions. Section 2.1 sets out the outsourcing model operated by the Group, and explains how typically the early stages of a contract ('pre-inflection') will reflect a period when the contract fulfilment assets are created as the contract delivery is established. Where contracts are at the pre-inflection stage, there is greater risk as the CFA is being developed. This compares to contracts in a 'business as usual' stage where the risk is reduced as the CFA has been proven, is being used to deliver the performance obligations and amortised over the expected contract life. The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of contract assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. **Disclosure quality** There is a risk that the disclosures presented are not sufficient to explain the capitalisation criteria that are used to assess whether items of expense should be recorded as a contract asset.

Our response
Tests of detail: We tested on a sample basis the costs capitalised as contract fulfilment assets by reference to the criteria set out in the Group's accounting policy. For each of the costs sampled we obtained third party support, or for internally generated time, we obtained the relevant costing rates and records, to support the basis of capitalisation. **Sensitivity analysis:** Where a contract has performed below budget, we assessed whether there was uncertainty in regard to the recoverability of the contract fulfilment asset through future contract profitability. **Tests of detail:** We considered on a sample basis the useful economic lives applied to the contract fulfilment assets and assessed the expected contract life by reference to the contract terms or where appropriate any agreed extensions to the original contract. **Assessing transparency:** We considered the disclosures in the financial statements to assess that these provided sufficient detail of the criteria used to assess whether expense items should be recorded as a contract asset. **Our findings:** We found that the assumptions and estimates used to assess the CFAs to be recognised, and to determine the estimated useful lives, to be balanced (2018 finding: balanced). We found that the Group's disclosures in section 3.1.3 to be proportionate (2018 disclosure finding: proportionate). In particular section 2.1 highlights the CFAs that are at higher risk due to the stage of the contract.

The risk	
Provisions and Contingent Liabilities See section 3.6 for details of the provisions totalling £41.2 million as at 31 December 2019 (2018: £46.4 million) and section 6.2 for a discussion on the contingent liabilities identified. Also refer to the Audit and Risk Committee report on pages 68-76.	**Subjective estimates** Significant judgment is required to assess whether actual or potential claims, litigation or fines arising from regulatory oversight, or from ongoing legal disputes, should be recognised as provisions within the financial statements or warrant disclosing as contingent liabilities. The determination and estimation of amounts for these provisions is inherently judgmental by their nature and there is a risk that the estimate is incorrect and any provision is materially misstated. The effect of these matters is that, as part of our risk assessment, we determined that provisions have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount. **Disclosure quality** Where the impact of possible and present obligations is not probable or not reliably measurable, and thus no provision is recorded, failure to adequately disclose the nature of these circumstances within the financial statements may distort the reader's view as to the potential risks faced by the Group.

Our response
Personnel interviews: We enquired of the Directors and inspected board minutes for actual and potential claims arising in the year based on any external communications with the Group as noted in any Board discussions, and assessed whether provisions are required for these claims. Our enquiries are included as standard questions in all our meetings with those responsible for preparing the financial statements including the divisional Finance Directors, heads of functions at Group and corporate level, and the Executive Directors. **Tests of detail:** We obtained an understanding and status of existing claims and litigations via enquiries and examining any relevant correspondence. This included enquiries of the Directors' assessment regarding the likelihood of the existence of obligations, and the basis used to measure any provisions; We compared the Directors' estimate of the risk and impact of these claims and litigations to third party evidence, where available; In respect of open matters of claims and litigations, where appropriate, we had discussions with, and for certain claims requested formal confirmations from, the Group's external legal advisors in respect of the reasonableness of the estimated liability. We reviewed the legal expenses incurred in the year to identify any material spend with external legal advisors that may indicate an ongoing claim, and made enquiries to ensure the completeness of all claims and litigation assessed by the Board. **Assessing transparency:** We evaluated the adequacy of the Group's provisions and contingent liability disclosures in the financial statements in accordance with accounting standards, and in particular the disclosure of the estimation uncertainty and the quantification of that uncertainty where appropriate. **Our findings:** We found that the assumptions and estimates were mildly cautious (2018 finding: mildly cautious) given the historic nature of many of the claims. We found that section 6. 2 provides proportionate disclosure (2018 disclosure finding: proportionate) of the unquantifiable contingent liability in respect of potential litigation or claims.

The risk	
Pensions obligations See section 5.2 for details of the Group pension schemes and their obligations as at 31 December 2019. Also refer to the Audit and Risk Committee report on pages 68-76.	Significant estimates are made in estimating the Group's defined benefit pension obligations and small changes in assumptions and estimates used would have a significant effect on this amount. There is a risk that the assumptions applied are not appropriate in the context of the pension scheme arrangements. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of pension obligations has a high degree of estimation uncertainty, as a small change in key assumptions can lead to material changes in the obligations. This can result with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 32) disclose the sensitivity estimated by the Group. **Disclosure quality** There is a risk that the disclosures presented are not sufficient to explain the key assumptions that the Board has adopted for the purpose of valuing the pension obligations.

Our response

Assessing the valuer's credentials: We evaluated the competence and independence of the external actuaries who are engaged by the Group to estimate the pension scheme obligations for the purpose of the financial statements.

Methodology choice: We used our internal actuary specialists to consider and critically assess the methodologies applied.

Comparing valuations: we benchmarked the key assumptions applied in determining the Group's defined benefit obligations, being the discount rate, inflation rate and mortality/life expectancy. This included a comparison of these key assumptions against externally derived data.

Assessing transparency: We evaluated the adequacy of the disclosures in respect of the sensitivity of the obligations to these assumptions.

Our findings: We found that the assumptions and estimates were balanced (2018 finding: balanced) and that Group's disclosures in section 5.2 to be proportionate (2018 disclosure finding: proportionate) in their description of the assumptions and estimates made and the sensitivities of the valuation of the pension obligations to changes in those assumptions and estimates.

The risk	
Capitalisation and recoverability of intangible assets IAS38 requires the recognition of intangible assets when certain criteria are met (see section 3.3). Section 3.3, and to the Audit and Risk Committee report (pages 68-76).	**Accounting application** IAS38 requires an intangible asset to be recognised if, and only if it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group; and the cost of the asset can be measured reliably. **Subjective estimate** The Group is undergoing a major transformation, and as part of that programme significant amounts are being invested in new systems and processes, including the finance transformation with the introduction of a new accounting system. The implementation requires a high level of dedicated external and internal resources. During 2019 the programme to implement the new accounting system was paused, pending a re-evaluation of the resources required to complete the project and to assess the impact of the proposed structural changes that are being implemented across the Group. Judgment is required in applying the accounting policy to assess whether the costs incurred, both external and internal, will flow future economic benefits to the Group. Furthermore it is necessary for systems to be operating effectively to allow the costs incurred to be reliably measured, and judgment is required where costs need to be allocated to the new systems and processes. This judgment is heightened given the fact that the programme has been paused for re-evaluation. The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of intangible assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount. **Disclosure quality** There is a risk that the disclosures presented are not sufficient to explain the capitalisation criteria that are used to assess whether items of expense should be recorded as an intangible asset. In relation to the new finance systems, there is a risk that the disclosures do not provide sufficient detail to explain the status of the programme, the costs carried forward and any costs impaired as a result of the project re-evaluation.

Our response
Tests of detail: We tested on a sample basis the costs capitalised as intangible assets by reference to the criteria set out in the Group's accounting policy. For each of the costs sampled we obtained third party support, or for internally generated time, we obtained the relevant costing rates and records, to support the basis of capitalisation. For the costs incurred in relation to the new finance system, we assessed the categorisation of costs incurred to assess whether there was sufficient evidence to support the carry forward of the costs. This included assessing whether the costs incurred to date will deliver the expected future value when the programme recommences. As part of this assessment we obtained specific representation from the Board that it intends to make available the necessary resources and funds to complete the finance transformation project including this new finance system. **Assessing transparency:** We considered the disclosures in the financial statements to assess that these provided sufficient detail of the criteria used to assess whether expense items should be recorded as an intangible asset. We also considered the disclosures relating to the re-evaluation of the new accounting system. **Our findings:** We found that the assumptions and estimates used to assess the intangible assets to be recognised, and to determine the estimated useful lives, to be balanced. We found that the Group's disclosures in section 3.3 to be proportionate.

The risk	
Recoverability of the Parent Company's investment in, and amounts due from, its subsidiaries Investment carrying value £568.9 million (2018: £507.9 million), and amounts due from subsidiaries £2,598.8million (2018: £969.5 million). Refer to section 7.3.1 (accounting policies) and section 7.3.4 (financial disclosures) and Parent Company Balance Sheet.	**Low risk, high value** The carrying amount of the Parent Company's investment in, and amounts due from, its subsidiaries represents 16.2% and 74.7% (2018: 22.5% and 45.1%) of its total assets respectively. As highlighted earlier the Group is undergoing a major transformation, and one that the Board expect will deliver significant growth and including cost reductions. The ability of the Group to deliver successfully against the transformation objectives set is a key factor is determining the recoverability and risk of significant misstatement. Due to its materiality in the context of the Parent Company financial statements, the recoverability of the Parent Company's investments in, and amounts due from, its subsidiaries is considered to be the area that had the greatest effect on our overall Parent Company audit.

Our response
Tests of detail: we compared the carrying amount of the investment, and the amounts due from subsidiaries, with the relevant subsidiary's draft statutory balance sheet to identify whether its net assets, being an approximation of its minimum recoverable amount, was in excess of its carrying amount and assessed whether the subsidiary has historically been profit-making. **Our findings:** We found the Parent Company's assessment of the recoverability of the investment in, and amounts due from, subsidiaries to be balanced (2018 finding: balanced). We found the Company's disclosures of the recoverability of investment held by the Parent in, and amounts due from, subsidiaries to be proportionate (2018 disclosure finding: proportionate).

3. Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £8.0 million, determined with reference to a benchmark of normalised Group profit before tax of £211.1 million, of which it represents 3.8%.

In order to set this benchmark we consider the nature of items excluded in determining adjusted profit before tax. Group reported loss before tax from continuing operations is £62.6 million. We normalised by adding back certain specific items including the impairment charges against goodwill – £41.4 million (section 3.4); claims and litigation provisions release – £0.8 million (section 2.4); finance costs - £6.3 million (section 4.3); contingent consideration movements – £1.4 million (section 4.5); business exit disposal expense – £16.7 million (section 2.8); non-trading business exit disposal expense – £52.1 million (section 2.8); significant restructuring expense – £159.4 million (section 2.4). Total adjustments to reported profit before tax amount to £273.7 million resulting in a normalised Group profit before tax for materiality purposes of £211.1million.

Materiality for the prior year was set at £8.0 million determined with reference to a benchmark of normalised Group profit before tax of £212.2 million, of which it represented 3.8%.

In order to set this benchmark we considered the nature of items excluded in determining adjusted profit before tax. Group reported profit before tax from continuing operations is £272.6 million. We normalised by adding back certain specific items including the profit on business exits – £309.7 million (section 2.4); impairment charges against goodwill and acquired intangibles – £95.5 million (section 2.4); claims and litigation provisions release – £1.8 million (section 2.4); non-trading business exit disposal expense – £29.7 million (section 2.4); private placement loan notes prepayments costs - £15.9 million (section 2.4 significant restructuring expense – £110.0 million (section 2.4). Total adjustments to reported profit before tax amount to £60.4 million resulting in a normalised Group profit before tax for materiality purposes of £212.2 million.

Materiality for the Parent Company financial statements as a whole was set at £5.2 million (2018: £5.2 million), by reference to component materiality with reference to total assets. This is lower than the materiality we would otherwise have determined by reference to total assets, and represents 0.15% of the Company's total assets (2018: 0.2%).

We report to the Audit and Risk Committee any corrected or uncorrected identified misstatements with a profit impact in excess of £0.4 million (2018: £0.4 million), and reclassification misstatements greater than £1m (2018: £1.0 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Audits for Group reporting purposes were performed by component auditors at 27 (2018: 28) key reporting components in the United Kingdom, Switzerland, Germany, and by the Group audit team over 2 key components in the United Kingdom, including the Parent Company (2018: 28 in the United Kingdom, Switzerland, Germany, and by the Group audit team over 2 key components in the United Kingdom, including the parent company).

The Group audit team, with the assistance of the component auditors where appropriate, performed procedures on the items excluded from normalised Group profit before tax. These procedures covered approximately 84% of total Group revenue (2018: 82%); 83% of the total profits and losses that made up Group profit before tax (2018: 84%); and 86% of total Group assets (2018: 84%). For the remaining components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group audit team approved the component materiality levels, which ranged from £0.4million to £6.4million (2018: £0.4 million to £5.2 million), having regard to the mix of size and risk profile of the Group across the components.

Detailed audit instructions were sent to the component auditors. These instructions covered the significant audit areas that should be covered by these audits (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the Group audit team. Telephone conference meetings and site visits were held with component auditors throughout the audit and in the United Kingdom, Germany and Switzerland. At these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if:

— we have anything material to add or draw attention to in relation to the Directors' statement in section 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements ; or

— the related statement under the Listing Rules set out on page 61 is materially inconsistent with our audit knowledge . We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report and Accounts

The Directors are responsible for the other information presented in the Annual Report and Accounts together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report

Based solely on our work on the other information:

— we have not identified material misstatements in the strategic report and the Directors' report;

— in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

— in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

— the Directors' confirmation within the viability statement (page 61) that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;

— the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and

— the Directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

— we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or

— the section of the annual report describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

— adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

— the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

— certain disclosures of Directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 64, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation, and pension regulation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the group's licence to operate. We identified the following areas as those most likely to have such an effect: anti- bribery and corruption, data protection, employment law, health and safety, and regulatory capital and liquidity recognising the broad range of business process outsourcing services offered by the Group that include financial and regulated activities in the Specialist Services, People Solutions and Customer Management divisions, and the Governmental nature of many of the group's customers in the Government Services division. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and the terms of our engagement by the Company. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report, and the further matters we are required to state to them in accordance with the terms agreed with the Company, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Robert J Brent (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square, London, E14 5GL

4 March 2020

Financial statements

Our overall strategy

Simplify | Strengthen | Succeed

We have simplified the way in which we present our financial statements in line with our overall strategy and commitment to provide clarity and transparency of our financial performance.

The changes we have made are geared towards making our financial statements (1) clear; (2) understandable; and (3) integrated. We have taken the following actions in order to achieve these outcomes:

Clear

We recognise that our stakeholders have different needs. We have therefore grouped the notes to the consolidated accounts into the following six sections designed to meet these different objectives: 'Basis of Preparation', 'Results for the Year', 'Operating Assets and Liabilities', 'Capital Structure and Financing Costs', 'Employee Benefits', and 'Other Supporting Notes'. We believe that this presentation style allows for greater clarity of our financial performance.

Understandable

We have introduced analysis at the start of each section in the consolidated accounts. This provides a commentary on key changes in our financial performance compared against key metrics and/or prior year results. We believe that this analysis will make it easier for users to understand the key drivers of the financial performance of the Group, and should be read in conjunction with the Chief Financial Officer's review in the strategic report.

Integrated

Each note to the accounts commences with a summary of the accounting policies and key judgements related to that note. These policies and judgements are clearly identified using appropriate signage allowing readers to refer to them with ease. We believe that this integration will help readers understand the financial performance in the context of the accounting policies and judgements made.

Structure of the financial statements

Notes to the consolidated financial statements

Company financial statements

Additional information

Consolidated income statement

For the year ended 31 December 2019

	Notes	2019 £m	2018[1] £m
Continuing operations:			
Revenue	2.1, 2.2	**3,678.6**	3,918.4
Cost of sales		**(2,683.0)**	(2,951.4)
Gross profit		**995.6**	967.0
Administrative expenses	2.3, 2.4, 2.8	**(995.2)**	(932.1)
Operating profit	2.3, 2.4, 2.8	**0.4**	34.9
Share of results in associates		**(0.6)**	—
Net finance costs	4.3	**(62.4)**	(72.0)
Gain on business disposal	2.8	**—**	309.7
(Loss)/profit before tax	2.4	**(62.6)**	272.6
Income tax credit	2.6	**3.5**	0.9
(Loss)/profit for the year from continuing operations		**(59.1)**	273.5
Discontinued operations:			
Profit for the year	2.9	**5.0**	5.6
Total (loss)/profit for the year		**(54.1)**	279.1
Attributable to:			
Owners of the Company		**(64.2)**	269.0
Non-controlling interests	4.7	**10.1**	10.1
		(54.1)	279.1
(Loss)/earnings per share	2.7		
Continuing: – basic		**(4.18)p**	17.99p
– diluted		**(4.18)p**	17.77p
Total operations: – basic		**(3.88)p**	18.37p
– diluted		**(3.88)p**	18.15p

	Notes	2019 £m	2018[1] £m
Adjusted operating profit	2.4	**306.1**	334.4
Adjusted profit before tax	2.4	**275.0**	281.2
Adjusted earnings per share	2.7	**13.09p**	16.33p
Adjusted and diluted earnings per share	2.7	**13.09p**	16.13p

Consolidated statement of comprehensive income

For the year ended 31 December 2019

	Notes	2019 £m	2018[1] £m
Total (loss)/profit for the year		**(54.1)**	279.1
Other comprehensive (expense)/income			
Items that will not be reclassified subsequently to the income statement			
Actuarial (loss)/gain on defined benefit pension schemes	5.2	**(106.7)**	134.9
Income tax effect	2.6	**18.1**	(22.9)
Items that will or may be reclassified subsequently to the income statement			
Exchange differences on translation of foreign operations		**(1.2)**	2.0
Gain on cash flow hedges	4.2.4	**1.0**	2.0
Cash flow hedges recycled to the income statement	4.2.4	**(2.6)**	(2.5)
Income tax effect	2.6	**0.3**	0.1
Other comprehensive (expense)/income for the year net of tax		**(91.1)**	113.6
Total comprehensive (expense)/income for the year net of tax		**(145.2)**	392.7
Attributable to:			
Owners of the Company		**(155.3)**	382.6
Non-controlling interests	4.7	**10.1**	10.1
		(145.2)	392.7

1. The Group has initially applied IFRS16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Refer to note 6.4 for further details.

The above and accompanying notes are an integral part of the financial statements.

Consolidated balance sheet

At 31 December 2019

	Notes	2019 £m	2018[2] £m
Non-current assets			
Property, plant and equipment	3.2	**194.3**	213.6
Intangible assets[1]	3.3	**354.2**	328.7
Goodwill[1]	3.4	**1,177.8**	1,259.0
Right-of-use assets[2]	3.5	**480.9**	—
Investments in associates		**3.8**	—
Contract fulfilment assets	3.1.3	**275.8**	264.2
Financial assets[2]	4.5	**82.2**	109.1
Deferred taxation[2]	2.6	**181.6**	144.6
Trade and other receivables	3.1.1	**26.4**	26.2
		2,777.0	2,345.4
Current assets			
Financial assets[2]	4.5	**25.1**	18.2
Disposal group assets held for sale	2.8	**12.4**	—
Trade and other receivables[2]	3.1.1	**748.4**	771.7
Cash	4.5.4	**409.1**	957.5
Income tax receivable[3]		**4.5**	0.9
		1,199.5	1,748.3
Total assets		**3,976.5**	4,093.7
Current liabilities			
Trade and other payables[2,3]	3.1.2	**619.8**	668.7
Deferred income		**884.5**	980.3
Overdrafts	4.5.4	**286.3**	314.8
Lease liabilities[2]	4.4,4.5	**81.9**	—
Disposal group liabilities held for sale	2.8	**7.9**	—
Finance liabilities	4.5	**351.8**	303.1
Provisions[2]	3.6	**71.3**	96.8
		2,303.5	2,363.7
Non-current liabilities			
Trade and other payables	3.1.2	**6.0**	11.6
Deferred income		**176.5**	277.3
Lease liabilities[2]	4.4,4.5	**480.7**	—
Financial liabilities	4.5	**795.7**	1,084.2
Deferred taxation	2.6	**16.3**	15.2
Provisions[2]	3.6	**9.3**	19.4
Employee benefits	5.2	**252.5**	219.0
		1,737.0	1,626.7
Total liabilities		**4,040.5**	3,990.4
Net (liabilities)/assets		**(64.0)**	103.3
Capital and reserves			
Share capital	4.6	**34.5**	34.5
Share premium	4.6	**1,143.3**	1,143.3
Employee benefit trust and treasury shares	4.6	**(11.2)**	(11.2)
Capital redemption reserve		**1.8**	1.8
Other reserves		**0.6**	3.1
Retained deficit[2,3]		**(1,295.8)**	(1,135.3)
(Deficit)/surplus attributable to owners of the Company		**(126.8)**	36.2
Non-controlling interests	4.7	**62.8**	67.1
Total (deficit)/equity		**(64.0)**	103.3

1. Goodwill has been presented separately from intangible assets on the face of the balance sheet in line with our commitment to simplify the financial statements.
2. The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Refer to note 6.4 for further details.
3. The Group has initially applied IFRIC 23 Uncertainty over Income Tax Treatments at 1 January 2019. The cumulative effect of initially applying IFRIC 23 has been recognised in retained earnings at the date of initial application. Comparative information is not restated. Refer to note 2.6 for further details.

The accompanying notes are an integral part of the financial statements.

The accounts were approved by the Board of directors on 4 March 2020 and signed on its behalf by:

Jon Lewis
Chief Executive Officer

Patrick Butcher
Chief Financial Officer

Company registered number: 02081330

Consolidated statement of changes in equity

For the year ended 31 December 2019

	Share capital £m	Share premium £m	Employee benefit trust and treasury shares £m	Capital redemption reserve £m	Retained deficit £m	Other reserves £m	Total attributable to the owners of the parent £m	Non-controlling interests £m	Total (deficit)/ equity £m
At 1 January 2018	13.8	501.3	(0.2)	1.8	(1,517.2)	1.5	(999.0)	69.2	(929.8)
Profit for the year	—	—	—	—	269.0	—	269.0	10.1	279.1
Other comprehensive income	—	—	—	—	112.0	1.6	113.6	—	113.6
Total comprehensive income for the year	—	—	—	—	381.0	1.6	382.6	10.1	392.7
Share based payment including deferred tax (note 2.6; note 5.1)	—	—	—	—	3.8	—	3.8	—	3.8
Shares issues /(purchased) (note 4.6)	20.7	642.0	(11.0)	—	—	—	651.7	—	651.7
Equity dividends paid[3]	—	—	—	—	—	—	—	(12.2)	(12.2)
Movement in put options held by non-controlling interests	—	—	—	—	(2.9)	—	(2.9)	—	(2.9)
At 1 January 2019	**34.5**	**1,143.3**	**(11.2)**	**1.8**	**(1,135.3)**	**3.1**	**36.2**	**67.1**	**103.3**
Impact of change in accounting standards – IFRS 16[1]	**—**	**—**	**—**	**—**	**(26.8)**	**—**	**(26.8)**	**—**	**(26.8)**
Impact of change in accounting standards – IFRIC 23[2]	**—**	**—**	**—**	**—**	**6.2**	**—**	**6.2**	**—**	**6.2**
At 1 January 2019, on adoption of IFRS 16[1] and IFRC 23[2]	**34.5**	**1,143.3**	**(11.2)**	**1.8**	**(1,155.9)**	**3.1**	**15.6**	**67.1**	**82.7**
(Loss)/profit for the year	**—**	**—**	**—**	**—**	**(64.2)**	**—**	**(64.2)**	**10.1**	**(54.1)**
Other comprehensive expense	**—**	**—**	**—**	**—**	**(88.6)**	**(2.5)**	**(91.1)**	**—**	**(91.1)**
Total comprehensive (expense)/income for the year	**—**	**—**	**—**	**—**	**(152.8)**	**(2.5)**	**(155.3)**	**10.1**	**(145.2)**
Share based payment including deferred tax (note 2.6; note 5.1)	**—**	**—**	**—**	**—**	**3.8**	**—**	**3.8**	**—**	**3.8**
Shares purchased (note 4.6)	**—**	**—**	**—**	**—**	**(0.7)**	**—**	**(0.7)**	**—**	**(0.7)**
Equity dividends paid[3]	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(14.4)**	**(14.4)**
Movement in put options held by non-controlling interests	**—**	**—**	**—**	**—**	**9.8**	**—**	**9.8**	**—**	**9.8**
At 31 December 2019	**34.5**	**1,143.3**	**(11.2)**	**1.8**	**(1,295.8)**	**0.6**	**(126.8)**	**62.8**	**(64.0)**

1. The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Refer to note 6.4 for further details.
2. The Group has initially applied IFRIC 23 Uncertainty over Income Tax Treatments at 1 January 2019. The cumulative effect of initially applying IFRIC 23 has been recognised in retained earnings at the date of initial application. Comparative information is not restated. Refer to note 2.6 for further details.
3. Dividends paid and proposed: £14.4m (2018: £12.2m) relates to dividends paid in relation to non-controlling interest. No dividends were declared or paid in 2019 or 2018 on ordinary shares. No dividends are proposed on ordinary shares in 2019 (2018: £nil).

Share capital – The balance classified as share capital is the nominal proceeds on issue of the Company's equity share capital, comprising 2 1/15p ordinary shares.

Share premium – The amount paid to the Company by shareholders, in cash or other consideration, over and above the nominal value of shares issued to them.

Employee benefit trust and treasury shares – Shares that have been bought back by the Company which are available for retirement or resale; shares held in the employee benefit trust have no voting rights and do not have entitlement to a dividend.

Capital redemption reserve – The Company can redeem shares by repaying the market value to the shareholder, whereupon the shares are cancelled. Redemption must be from distributable profits. The Capital redemption reserve represents the nominal value of the shares redeemed.

Retained deficit – Net (losses)/profits accumulated in the Group after dividends are paid.

Other reserves – This consists of foreign currency translation reserve surplus of £0.4m (2018: £1.6m surplus) and cash flow hedging reserve surplus of £0.2m (2018: £1.5m surplus).

Non-controlling interests (NCI) – This represents the equity in a subsidiary that is not attributable directly or indirectly to the parent company.

The accompanying notes are an integral part of the financial statements.

Consolidated cash flow statement

For the year ended 31 December 2019

	Notes	2019 £m	2018[1] £m
Cash generated/(used) by operations[1]	2.10	**32.8**	(75.7)
Cash generated/(used) by discontinued operations		**4.7**	(99.2)
Income tax (paid)/received		**(5.4)**	25.3
Net interest paid[1]		**(58.4)**	(52.5)
Net cash outflow from operating activities		**(26.3)**	(202.1)
Cash flows from investing activities			
Purchase of property, plant and equipment	3.2	**(57.7)**	(89.4)
Purchase of intangible assets	3.3	**(124.7)**	(70.1)
Proceeds from sale of property, plant and equipment/intangible assets	2.3, 3.2, 3.3	**0.4**	1.9
Additions to investments in associates		**(0.6)**	—
Deferred consideration received		**—**	5.2
Cancellation of put options		**—**	(6.8)
Deferred consideration paid		**(1.3)**	(11.1)
Contingent consideration paid		**(11.8)**	(19.8)
Purchase of financial assets		**—**	(0.9)
Net (loss)/proceeds on disposal of subsidiary undertakings		**(8.9)**	407.8
Cash disposed of with subsidiary undertakings	2.8	**—**	(11.2)
Net cash (outflow)/inflow from investing activities		**(204.6)**	205.6
Cash flows from financing activities			
Dividends paid to non-controlling interest		**(14.4)**	(12.2)
Purchase of shares	4.6	**(0.7)**	(11.0)
Capital element of lease rental payments[1]	2.10.3	**(93.7)**	(0.2)
Issue of share capital net of issue costs	4.6	**—**	662.7
Repayment of loan notes	2.10.3	**(96.8)**	(577.2)
Proceeds from fixed rate swaps	2.10.3	**10.9**	103.6
Repayment of term loan	2.10.3	**(100.0)**	—
Financing arrangement costs	2.10.3	**(1.1)**	(3.7)
Net cash (outflow)/inflow from financing activities		**(295.8)**	162.0
(Decrease)/increase in cash and cash equivalents		**(526.7)**	165.5
Cash and cash equivalents at the beginning of the period		**642.7**	478.4
Movement in exchange rates		**3.3**	(1.2)
Cash and cash equivalents at 31 December		**119.3**	642.7
Cash and cash equivalents comprise:			
Cash	4.5.4	**409.1**	957.5
Overdrafts	4.5.4	**(286.3)**	(314.8)
Overdrafts included in disposal group liabilities held for sale	2.8	**(3.5)**	—
Total		**119.3**	642.7

Adjusted cash generated from operations	2.10	**158.6**	71.9
Adjusted free cash flows	2.10	**(61.3)**	(78.8)

1. The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Refer to note 6.4 for further details.

The accompanying notes are an integral part of the financial statements.

Section 1: Basis of preparation

This section sets out the Group's accounting policies relating to the financial statements as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates.

In this section you will also find details of new EU endorsed accounting standards, amendments and interpretations including their effective dates and explanation on the expected impact to the financial position and performance of the Group.

For ease of reference, this symbol has been used to denote any accounting policies included within the notes:

AP **Denotes accounting policies**

The financial statements consolidate those of Capita plc (the Company) and all of its subsidiaries (the Group). Capita plc is a public limited company incorporated in England and Wales whose shares are publicly traded. The principal activities of the Group are given in the strategic report on pages 20-31.

The consolidated financial statements of Capita plc for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Directors on 4 March 2020.

The consolidated financial statements are presented in pound sterling and all values are rounded to the nearest tenth of a million (£m) except when otherwise indicated.

Statement of compliance
The consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Group at 31 December each year. Subsidiaries are consolidated from the date on which control is transferred to the Group until control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which Capita plc has control and the profit or loss on disposal is calculated as the difference between the fair value of the consideration received and the carrying amount of the assets (including goodwill) disposed of. Losses applicable to the non-controlling interests in a subsidiary are attributed to the non-controlling interests even if that results in the non-controlling interests having a deficit balance.

Investments in associates are accounted using the equity method. Under the equity method, the investment in the entity is stated as one line item at cost plus the investor's share of retained post-acquisition profits or losses and other changes in net assets less any impairment.

Going concern
In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2019, the Directors are required to consider whether the Group and Parent Company can continue in operational existence for the foreseeable future.

Accounting standards require that an entity considers period of at least 12 months when assessing going concern, although do not specify how far beyond 12 months from the date of approval of the financial statements an entity should consider. Given Capita's transformation plan as described earlier in the strategic report the Board has assessed a longer period, to 31 August 2022, and with risks and mitigations that align with the viability assessment as set out on page 19.

The base-case projections prepared for the going concern are derived from the 2020-2022 business plans as approved by the Board. These capture the key benefits that the transformation plan will deliver, and the costs to achieve these. In recognition of the downside scenarios that the Board is obliged to consider for assessing robustly going concern, the projections have been adjusted to be necessarily more cautious in order to gauge the short to medium term resilience of the Group and Parent Company to unexpected risks arising.

The Board has applied a robust process to assess the resilience of the forecast out-turns. This assessment included applying severe but plausible downside risks as set out in the viability statement on page 48. To address these risks the Board has considered mitigating factors that could be employed that would address the impact and provide options to the Group and Parent Company.

The assessment has taken into account the Group's existing debt levels, committed funding and available liquidity. In addition to the revolving credit facility (RCF), in February 2020 the Group agreed a backstop liquidity facility of £150m. The Group's revolving credit facility matures in August 2022; and the Group's backstop facility has an initial maturity in February 2021 and is extendable at the option of the Group to a final maturity in August 2022.

The Group's committed revolving credit facility, backstop liquidity facility, and private placement loan notes are subject to compliance with covenant requirements including maximum ratios of adjusted net debt to adjusted EBITDA and interest cover. The covenants are tested semi-annually.

The Group had net debt of £1,353.2m at 31 December 2019 (2018: £466.1m) and adjusted net debt of £832.7m at 31 December 2019 (2018: £494.7m). Net debt increased in 2019 as a result of the adoption of IFRS 16 Leases (31 December 2019: £562.6m of lease liabilities). Net debt is reported in note 2.10 Cash flow information and is used to calculate headline leverage (adjusted net debt to adjusted EBITDA) and covenanted adjusted net debt to adjusted EBITDA ratio (refer to the alternative performance measures in section 8.2).

The Group's covenanted maximum adjusted net debt to adjusted EBITDA ratio is 3.0 times to 3.5 times depending on the debt instrument in question. The impact of IFRS 16 adoption on the ratio is neutral, as the Group covenants are calculated using GAAP applied before the adoption of IFRS 16, with the exception of the US private placement loan notes. The US private placement loan notes covenant test is favourably impacted by IFRS 16 adoption. The Group's calculation of covenanted adjusted net debt to adjusted EBITDA at 31 December 2019 was 2.2 times (2018: 1.2 times), and the US private placement loan notes ratio was 1.7 times.

Section 1: Basis of preparation continued

The Group's minimum permitted interest cover level is 4.0 times. The interest cover covenant was 11.2 times for the US private placement loan notes and 10.8 times for other financing arrangements (2018: 8.2 times). As the comparatives have not been restated on the adoption of IFRS 16, the December 2018 ratio only provides a meaningful comparison in the case of the other financing arrangements and therefore no comparatives are shown for the US private placement loan notes.

Based on the above robust assessment the Board believes that the Group and Company will continue to have adequate financial resources to realise their assets and discharge their liabilities as they fall due. Accordingly, the Directors have formed the judgement that it is appropriate to prepare the financial statements on the going concern basis. Therefore, the financial statements do not include any adjustments which would be required if the going concern basis of preparation were deemed inappropriate.

Foreign currency translation
The functional and presentation currency of Capita plc and its UK subsidiaries is the pound sterling (£). Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated income statement.

Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of overseas operations include the euro, Indian rupee, South African rand, and the US dollar. At the reporting date, the assets and liabilities of the overseas operations are retranslated into the presentation currency of Capita plc at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rate for the year.

The exchange differences arising on the retranslation are taken directly to a separate component of equity. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation shall be recognised in the income statement.

On transition to IFRS, the Group's cumulative translation difference was deemed to be nil as a result of taking advantage of the exemptions available under IFRS 1. All subsequent disposals shall exclude any translation differences arising prior to the date of transition.

Recoverable amount of non-current assets
At each reporting date, the Group assesses whether there is any indication that a non-current asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Significant accounting judgements, estimates and assumptions
The preparation of financial statements in line with generally accepted accounting principles requires the Directors to make judgements and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported income and expense during the presented periods. Although these judgements and assumptions are based on the Directors' best knowledge of the amount, events or actions, actual results may differ.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are summarised below and set out in more detail in the related note:

- Contract accounting (note 2.1)
  - Impairment of contract fulfilment assets
  - Onerous contract provisions
- The measurement of intangible assets other than goodwill in a business combination (note 3.3)
- The assessment of costs capitalised as intangible assets to generate future economic benefits (note 3.3)
- The measurement and impairment of goodwill (note 3.4)
- The measurement of defined benefit obligations (note 5.2)
- The measurement of provisions (note 3.6) and contingent liabilities (note 6.2)
- For ease of reference, this symbol has been used to denote significant accounting judgements, where they occur within the note:

J **Denotes significant accounting judgements**

Section 1: Basis of preparation continued

New standards and interpretations adopted

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of IFRS 16 Leases (see note 6.4) and IFRIC 23 (see note 2.6). In addition, the Group has adopted the new amendments to standards detailed below but they do not have a material effect on the Group's financial statements.

New amendments or interpretation	Effective date
Prepayment Features with Negative Compensation (Amendments to IFRS 9)	1 January 2019
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	1 January 2019
Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle (Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)	1 January 2019

New standards and interpretations not yet adopted

The IASB have issued the following standards, amendments and interpretations with an effective date after the date of these financial statements. These are effective for annual periods beginning on or after the date indicated:

International Accounting Standards (IAS/IFRS)	Effective date
Not yet endorsed by the EU:	
IFRS 17 Insurance Contracts	1 January 2021
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IFRS 3 Business Combinations	1 January 2020
Amendments to IAS 1 and IAS 8: Definition of Material	1 January 2020
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	1 January 2020

Section 2: Results for the year

This section contains notes related to the financial performance of the Group. These include:

AP **Denotes accounting policies**

J **Denotes significant accounting judgements**

Key highlights

Adjusted revenue[1]

£3,647.4m

(2018: £3,814.7m)

Adjusted free cash flow[1]
Aim: Achieve sustainable, long-term free cash flow growth

£(61.3)m

(2018: £(78.8)m)

Adjusted profit before tax[1]
Aim: achieve long-term growth in profit

£275.0m

(2018: £281.2m)

Adjusted earnings per share (EPS)[1]
Aim: achieve long-term growth in EPS

13.09p

(2018: 16.33p)

Reported revenue

£3,678.6m

(2018: £3,918.4m)

Reported free cash flow

£(213.0)m

(2018: £(260.5)m)

Reported (loss)/profit before tax

£(62.6)m

(2018: £272.6m)

Reported (loss)/earnings per share (EPS) – continuing operations

(4.18)p

(2018: 17.99p)

1. Definitions of the alternative performance measures and related KPI's can be found in section 8.2.

Section 2: Results for the year continued

In 2019 the Group's adjusted revenue[1] continued to decline, additionally with lower margins on new business. The Group continued to invest in its transformation plan and growth. The negative impact on adjusted profit before tax[1] of these items was partially off-set by cost out and one-off benefits. The lower level of profit, higher tax payments and capital expenditure, combined with continued structural working capital outflows resulted in adjusted free cash outflow[1] of £61.3m.

The Group incurred additional cash outflows of £273.6m, which included outflows relating to restructuring, pension deficit payments, business exits and discontinued operations. This resulted in headline net debt increasing to £790.6m at the top end of our headline adjusted net debt to adjusted EBITDA range.

Revenue

Adjusted revenue[1] declined by 4.4% year on year. For additional information, which does not form part of the financial statements, the Chief Financial Officers review in the Strategic report includes a bridge of drivers of the movement.

There were one-offs in 2018 of £48.0m related to the release of deferred income on termination of the Prudential UK (life) and Marsh (general insurance) contracts, and a reduction in revenue from contract losses due to the flow through of contracts lost in 2018 as well as contracts lost in 2019 which included the hand back of local government contracts. Movements relating to scope and volumes changes and transactional changes were a reflection of higher competition and market pressures for some clients in their markets. Contract wins included TfL and various Customer Management clients. In 2019, one-off benefits similar to 2018, of £39.3m, arose from contract termination payments and deferred income releases on modifications and earlier than planned terminations.

The difference of £31.2m between adjusted revenue of £3,647.4m and reported revenue of £3,678.6m related to business exits in the year (refer to note 2.8).

Profit before tax

Adjusted profit before tax[1] declined by 2.2% year on year. For additional information, which does not form part of the financial statements, the Chief Financial Officers review in the Strategic report includes a bridge of drivers of the movement.

The adjusted profit before tax[1] decreased as a result of the profit impact of contract losses, and reduction in scope and volume due to challenging end markets. Further decreases were as a result of cost change, relating predominantly to wage increases, and investments in growth propositions, cyber resilience and improved service delivery. These movements were offset by contract improvements, due to improved performance on challenging contracts, including PCSE, RPP and mobilcom-debitel and cost reduction initiatives undertaken in the year which helped to drive additional cost savings. Overall, the adjusted profit before tax[1] in 2019 benefited from one-offs of £28.2m relating to contract terminations, settlements and modifications, and £41.4m of group benefits including lower incentive payments.

Adjusted profit before tax[1] excludes a number of specific items so users of the financial statements can more clearly understand the financial performance of the business. A reconciliation of the adjusted profit before tax[1] to reported profit before tax is detailed in note 2.4.

Reported operating profit for the year was £0.4m (2018: £34.9m). Details of items charged/credited in arriving at operating profit can be found in note 2.3.

Reported loss before tax was £62.6m (2018: profit £272.6m). A reconciliation of the adjusted profit before tax[1] to reported profit is detailed in note 2.4. The decline year-on-year is due to 2018's profit of £309.7m on the disposal of businesses including Constructionline and ParkingEye.

Taxation

The income tax charge of £43.5m on adjusted profit before tax[1] resulted in an adjusted tax rate of 15.8% (2018: income tax charge of £27.2m and adjusted tax rate 9.7%). The adjusted tax rate is returning to a level closer to the UK corporation tax rate of 19%. In 2019, the difference from the UK statutory rate of tax is predominantly due to:

- the release of some of the uncertain tax positions relating to tax expenses which are no longer considered likely to arise, due to expiry of statute of limitation (note 2.6.4),
- prior year adjustments to align the tax positions to filed tax returns; and
- an unremitted earnings charge in respect of potential dividend distributions from subsidiaries subject to dividend withholding taxes levied by the overseas tax jurisdictions in which the subsidiaries operate (note 2.6.3).

Earnings per share (EPS)

The movement in adjusted basic earnings per share[1] for continuing operations and reported basic earnings per share was as a result of the performance explained above.

Dividend

The Board is not recommending the payment of a final dividend (2018: £nil). However, the Board recognises the importance of regular dividend payments to investors in forming part of their total shareholder return and will consider the payment of dividends when the Group is generating sufficient sustainable free cash flow.

1. Definitions of the alternative performance measures and related KPI's can be found in section 8.2.

Section 2: Results for the year continued

Adjusted free cash flow[1]

As expected, adjusted free cash flow[1] in 2019 was an outflow. This outflow was affected by the decline in operating profit explained above. There are also a number of items that can lead to significant differences between profit and the generation of free cash flow.

We have analysed working capital between 'contractual' – being those balances which relate to long-term contract unwinds of deferred income, contract fulfilment assets and accrued income 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.

Adjusted operating profit to adjusted free cash flow[1]	2019 £m	2018 £m
Adjusted operating profit[1]	**306.1**	334.4
Add: depreciation, amortisation of intangible assets, impairment of property, plant and equipment and share of earnings in associates	**88.4**	90.9
Adjusted EBITDA	**394.5**	425.3
Contractual working capital movement (deferred income, contract fulfilment assets and accrued income)	**(228.7)**	(217.0)
Cash from trading operations*	**165.8**	208.3
Other working capital and other movements	**(7.2)**	(26.4)
Cash generated by operations before non-recourse receivable financing	**158.6**	181.9
Non-recourse receivables financing cleared	—	(110.0)
Cash generated by operations	**158.6**	71.9
Interest	**(32.7)**	(39.0)
Taxation	**(5.4)**	26.6
Net capital expenditure	**(181.8)**	(138.3)
Adjusted free cash flow[1]	**(61.3)**	(78.8)

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

Cash from trading operations declined to £165.8m (2018 £208.3m) due to reduction in adjusted EBITDA. Contractual working capital movement increased with an outflow of £78m (2018: outflow £70m) relating to contracts which were terminated or renegotiated in the year, which is not planned to reoccur in 2020; and an outflow of £150m (2018: outflow £147m) relating to continuing contracts expected to reduce in 2020 due to additional payments on account (DFRP) and reduction in transformation spend. Other working capital related cash reflected actions taken to improve working capital which will continue in to 2020.

Taxation has moved from a cash inflow in 2018 to an outflow in 2019, reflecting corporation tax repayments received in 2018 following the adoption of IFRS 15.

As expected, net capital expenditure increased in 2019 in line with the transformation objectives as the investment in property and IT infrastructure increased, and investment in technology and growth ramped up.

1. Definitions of the alternative performance measures and related KPI's can be found in section 8.2.

Section 2: Results for the year continued

2.1 Contract accounting

At 31 December 2019, the Group had the following results and balance sheet items related to long-term contracts:

	Notes	2019 £m	2018 £m
Long-term contractual adjusted revenue	2.2	**2,615.4**	2,728.4
Deferred income		**1,061.0**	1,257.6
Contract fulfilment assets	3.1.3	**275.8**	264.2
Onerous contract provisions	3.6	**6.1**	7.4

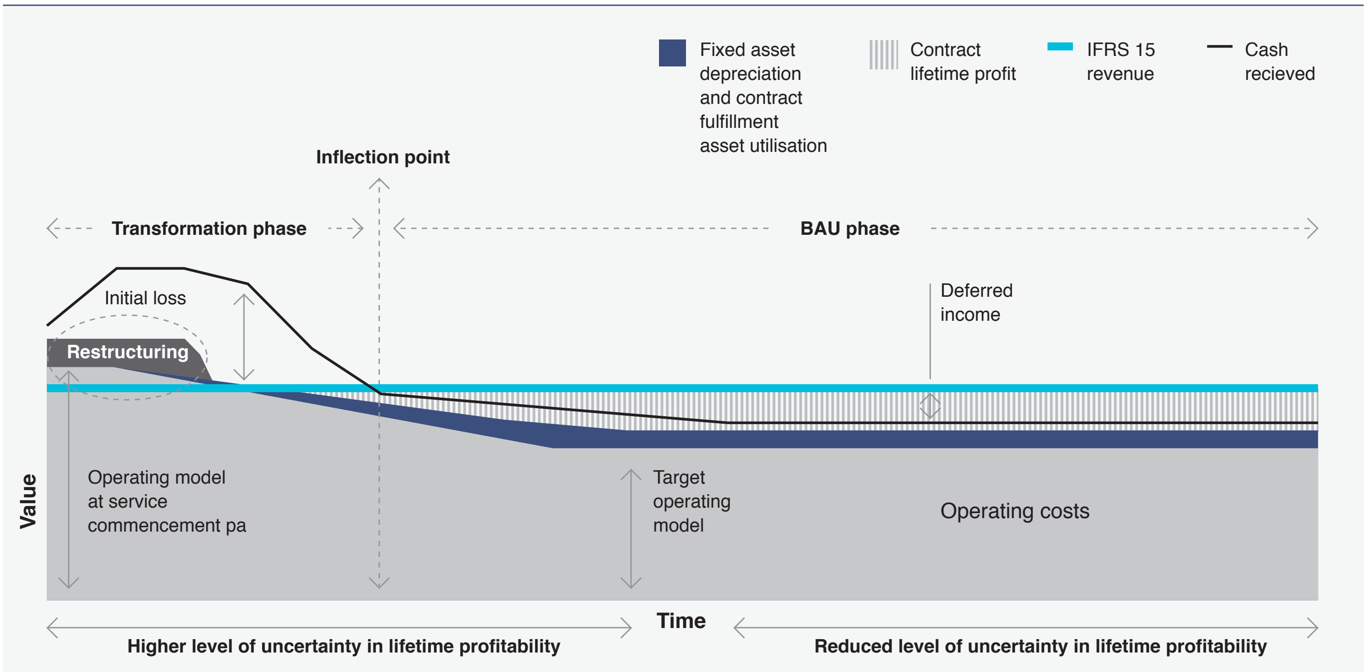
Background
The Group operates a number of diverse businesses. The majority of the Group's revenue is from contracts greater than two years in duration (long-term contractual), 72% of Group adjusted revenue in 2019 (2018: 72%).

These long-term contracts can be complex in nature given the breadth of solutions the Group offers and the transformational activities involved. Typically, Capita takes a customer's process and transforms it into a more efficient and effective solution which is then operated for the customer. The outcome is a high quality solution that addresses a customer's needs, delivered consistently over the life of the contract.

The Group recognises revenue on long-term contracts as the value is delivered to the customer, which is generally evenly over the contract term, regardless of any restructuring and transformation activity. Capita will often incur greater costs during the transformation phase with costs diminishing over time as the target operating model is implemented and efficiencies realised. This results in lower profits or losses in the early years of contracts and potentially higher profits in later years as the transformation activities are successfully completed and the target operating model fully implemented (the business as usual, or BAU, phase). The inflection point is when the contract becomes profitable.

Contract fulfilment assets are recognised for those costs qualifying for capitalisation and the utilisation of these assets is recognised over the contract term. The cash received from our customers reflects when the costs are incurred to transform, restructure and run the service. This results in income being deferred and released as the Group continues to deliver against its obligation to provide services and solutions to its customers.

An example, showing the revenue, cost, profit and cash profit of a typical long-term contract lifecycle is as follows:



J Significant accounting judgements, estimates and assumptions

Due to the size and complexity of some of the Group's contracts, there are significant judgements to be applied, specifically in assessing 1) the recoverability of contract fulfilment assets and 2) completeness of onerous contract provisions. These judgements are dependent on assessing the contract's future profitability.

It should be noted while management must make judgements in relation to applying the revenue recognition policy and recognition related balance sheet items (trade receivables, deferred income, accrued income) these are not considered significant judgements (refer to note 2.2 for the Group's policies).

Section 2: Results for the year continued

2.1 Contract accounting continued

Assessing contract profitability
In assessing a contract's future lifetime profitability, management must estimate forecast revenue and costs to both transform and run the service over the remaining contract term. The ability to accurately forecast the outcomes involves estimates in respect of: costs to be incurred; cost savings to be achieved; future performance against any contract-specific key performance indicators (KPIs) that could trigger variable consideration or service credits, and the outcome of any commercial negotiations.

The level of uncertainty in the estimated future profitability of a contract is directly related to the stage of the life-cycle of the contract and the complexity of the performance obligations. Contracts in the transformation stage and pre-inflection, are considered to have a higher level of uncertainty due to:

- the ability to accurately estimate the costs to deliver the transformed process;
- the dependency on the customer to agree to the specifics of the transformation, for example where they are involved in signing off that the new process or the new technical solution designed by Capita meets their specific requirements; and
- the assumptions made to forecast expected savings in the target operating model.

Those contracts which are post-inflection and in BAU stage tend to have a much lower level of uncertainty in estimating the contract future profitability.

Recoverability of contract fulfilment assets and completeness of onerous contract provisions
Management first assesses whether the contract assets are impaired and then further considers whether an onerous contract exists. The Audit and Risk Committee specifically review the material judgements and estimates and the overall approach in respect of the Group's major contracts for each reporting period, including comparison against previous forecasts. Major contracts include those that are material in size or risk to the Group's results. Other contracts are reported to the Audit and Risk Committee as deemed appropriate. These contracts are collectively referred to as "major contracts" in the remainder of this note.

The major contracts contributed £1.4billion (2018: £1.3billion) or 39% (2018: 35%) of Group adjusted revenue. Non-current contract fulfilment assets as at 31 December 2019 were £275.8m, of which £80.7m (2018: £55.2m) related to major contracts with on-going transformational activities. The remainder relates to contracts post transformation and includes non-major contracts.

The major contracts, both pre and post transformation, are rated according to their financial risk profile, which is linked to the level of uncertainty over future assumptions. For those that are in the high and medium rated risk categories the associated non-current contract fulfilment assets in aggregate were £52.4m at 31 December 2019 (2018: £37.5m). The recoverability of these assets is dependent on no significant adverse change in the key contract assumptions arising in the next financial year. The deferred income associated with these contracts was £243.6m at 31 December 2019 (2018: £336.3m) and is forecast to be recognised as performance obligations continue to be delivered over the life of the respective contracts.

Following these reviews, as outlined in note 3.1.3, contract fulfilment asset provisions for impairment of £9.6m (2018: £22.2m) were identified and recognised within adjusted cost of sales, of which, £2.2m (2018: £22.2) relates to contract fulfilment assets added during the period. There were no material onerous contract provisions recognised in the period.

Given the quantum of the relevant contract assets and liabilities management has considered the nature of the estimates noted above and concluded that it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year may be different from management's assumptions and could require a material adjustment to the carrying amounts of contract assets and onerous contract provisions. However, as noted above, £80.7m of non-current contract fulfilment assets relates to major contracts with on-going transformational activities and £52.4m of non-contract fulfilment assets relates to the highest and medium rated risk category. Due to the level of uncertainty, combination of variables and timing across numerous contracts, it is not practical to provide a quantitative analysis of the aggregated judgements that are applied, and management do not believe that disclosing a potential range of outcomes on a consolidated basis would provide meaningful information to a reader of the accounts. Due to commercial sensitivities, Capita does not specifically disclose the amounts involved on any individual contract. Additional information, which does not form part of the financial statements, on the results and performance of the underlying divisions including the outlook on certain contracts is set out in the strategic report.

2.2 Revenue including segmental revenue

AP **Accounting policies**

Revenue
The Group generates revenue largely in the UK and Europe. The Group operates a number of diverse businesses and accordingly applies a variety of methods for revenue recognition, based on the principles set out in IFRS 15.

The revenue and profits recognised in any period are based on the delivery of performance obligations and an assessment of when control is transferred to the customer.

Revenue is recognised either when the performance obligation in the contract has been performed (so 'point in time' recognition) or 'over time' as control of the performance obligation is transferred to the customer.

For all contracts, the Group determines if the arrangement with a customer creates enforceable rights and obligations. This assessment results in certain Master Service Agreements (MSAs) or Frameworks not meeting the definition of a contract under IFRS 15 and as such the individual call-off agreements, linked to the MSA, are treated as individual contracts.

The Group enters into contracts which contain extension periods, where either the customer or both parties can choose to extend the contract or there is an automatic annual renewal, and/or termination clauses that could impact the actual duration of the contract. Judgement is applied to assess the impact that these clauses have when determining the appropriate contract term. The term of the contract impacts both the period over which revenue from performance obligations may be recognised and the period over which contract fulfilment assets and capitalised costs to obtain a contract are expensed.

Section 2: Results for the year continued

2.2 Revenue including segmental revenue continued

For contracts with multiple components to be delivered such as transformation, transitions and the delivery of outsourced services, management applies judgement to consider whether those promised goods and services are:

(i) distinct – to be accounted for as separate performance obligations;
(ii) not distinct – to be combined with other promised goods or services until a bundle is identified that is distinct; or
(iii) part of a series of distinct goods and services that are substantially the same and have the same pattern of transfer to the customer.

At contract inception the total transaction price is estimated, being the amount to which the Group expects to be entitled and has rights to under the present contract. This includes an assessment of any variable consideration where the Group's performance may result in additional revenues based on the achievement of agreed KPIs. Such amounts are only included based on the expected value or the most likely outcome method, and only to the extent that it is highly probable that no revenue reversal will occur.

The transaction price does not include estimates of consideration resulting from change orders for additional goods and services unless these are agreed.

Once the total transaction price is determined, the Group allocates this to the identified performance obligations in proportion to their relative stand-alone selling prices and recognises revenue when (or as) those performance obligations are satisfied.

The Group infrequently sells standard products with observable stand-alone prices due to the specialised services required by clients and therefore the Group applies judgement to determine an appropriate standalone selling price. More frequently, the Group sells a customer bespoke solution, and in these cases the Group typically uses the expected cost-plus margin or a contractually stated price approach to estimate the stand-alone selling price of each performance obligation.

The Group may offer price step downs during the life of a contract, but with no change to the underlying scope of services to be delivered. In general, any such variable consideration, price step down or discount is included in the total transaction price to be allocated across all performance obligations unless it relates to only one performance obligation in the contract.

For each performance obligation to be recognised over time, the Group applies a revenue recognition method that faithfully depicts the Group's performance in transferring control of the goods or services to the customer. This decision requires assessment of the real nature of the goods or services that the Group has promised to transfer to the customer. The Group applies the relevant output or input method consistently to similar performance obligations in other contracts.

When using the output method, the Group recognises revenue on the basis of direct measurements of the value to the customer of the goods and services transferred to date relative to the remaining goods and services under the contract. Where the output method is used, in particular for long-term service contracts where the series guidance is applied, the Group often uses a method of time elapsed which requires minimal estimation. Certain long-term contracts use output methods based upon estimation of number of users, level of service activity or fees collected.

If performance obligations in a contract do not meet the overtime criteria, the Group recognises revenue at a point in time when the service or good is delivered.

Contract modifications
The Group's contracts are often amended for changes in contract specifications and requirements. Contract modifications exist when the amendment either creates new or changes the existing enforceable rights and obligations. The effect of a contract modification on the transaction price and the Group's measure of progress for the performance obligation to which it relates, is recognised as an adjustment to revenue in one of the following ways:

a) prospectively as an additional separate contract;
b) prospectively as a termination of the existing contract and creation of a new contract;
c) as part of the original contract using a cumulative catch up; or
d) as a combination of (b) and (c).

For contracts for which the Group has decided there is a series of distinct goods and services that are substantially the same and have the same pattern of transfer where revenue is recognised over time, the modification will always be treated under either (a) or (b); (d) may arise when a contract has a part-termination and a modification of the remaining performance obligations.

The facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract by contract and may result in different accounting outcomes.

Judgement is applied in relation to the accounting for such modifications where the final terms or legal contracts have not been agreed prior to the period end as management need to determine if a modification has been approved and if it either creates new or changes existing enforceable rights and obligations of the parties. Depending upon the outcome of such negotiations, the timing and amount of revenue recognised may be different in the relevant accounting periods. Modification and amendments to contracts are undertaken via an agreed formal process. For example, if a change in scope has been approved but the corresponding change in price is still being negotiated, management use their judgement to estimate the change to the total transaction price. Importantly, any variable consideration is only recognised to the extent that it is highly probable that no revenue reversal will occur.

Principal versus agent
The Group has arrangements with some of its clients whereby it needs to determine if it acts as a principal or an agent as more than one party is involved in providing the goods and services to the customer. The Group acts as a principal if it controls a promised good or service before transferring that good or service to the customer. The Group is an agent if its role is to arrange for another entity to provide the goods or services. Factors considered in making this assessment are most notably the discretion the Group has in establishing the price for the specified good or service, whether the Group has inventory risk and whether the Group is primarily responsible for fulfilling the promise to deliver the service or good.

This assessment of control requires judgement in particular in relation to certain service contracts. An example is the provision of certain recruitment and learning services where the Group may be assessed to be agent or principal dependent upon the facts and circumstances of the arrangement and the nature of the services being delivered.

Where the Group is acting as a principal, revenue is recorded on a gross basis. Where the Group is acting as an agent, revenue is recorded at a net amount reflecting the margin earned.

Section 2: Results for the year continued

2.2 Revenue including segmental revenue continued

Licences
Software licences delivered by the Group can either be right to access ('active') or right to use ('passive') licences, which determines the timing of revenue recognition. The assessment of whether a licence is active or passive involves judgement.

The key determinant of whether a licence is active is whether the Group is required to undertake continuing activities that significantly affect the licensed intellectual property (or the customer has a reasonable expectation that it will do so) and the customer is, therefore, exposed to positive or negative impacts resulting from those changes. The Group is in a majority of cases responsible for any maintenance, continuing support, updates and upgrades and accordingly the sale of the initial software is not distinct. All other licences which have significant stand-alone functionality are treated as passive licences.

When software upgrades are sold as part of the software licence agreement (i.e. software upgrades are promised to the customer), the Group applies judgement to assess whether the software upgrade is distinct from the licence (i.e. a separate performance obligation). If the upgrade is considered fundamental to the ongoing use of the software by the customer, the upgrades are not considered distinct and not accounted for as a separate performance obligation.

The Group considers for each contract that includes a separate licence performance obligation all the facts and circumstances in determining whether the licence revenue is recognised over time ('active') or at a point in time ('passive') from the go live date of the licence.

Deferred and accrued income
The Group's customer contracts include a diverse range of payment schedules dependent upon the nature and type of goods and services being provided. This can include performance-based payments or progress payments as well as regular monthly or quarterly payments for ongoing service delivery. Payments for transactional goods and services may be at delivery date, in arrears or part payment in advance. Our long-term service contracts tend to have higher cash flows early on in the contract to cover transformational activities.

Where payments made to date are greater than the revenue recognised to date at the period end date, the Group recognises a deferred income contract liability for this difference. Where payments made are less than the revenue recognised at the period end date, the Group recognises an accrued income contract asset for this difference.

At each reporting date, the Group assesses whether there is any indication that accrued income assets may be impaired by considering whether the revenue remains highly probable that no revenue reversal will occur. Where an indicator of impairment exists, the Group makes a formal estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Contract types
The Group disaggregates revenue from contracts with customers by contract type, as management believe this best depicts how the nature, amount, timing and uncertainty of the Group's revenue and cash flows are affected by economic factors. Categories are: 'long-term contractual – greater than two years'; and 'short-term contractual – less than two years', and 'transactional'. Years based from service commencement date.

Long-term contractual – greater than two years
The Group provides a range of services in the majority of its reportable segments under customer contracts with a duration of more than two years. The nature of contracts or performance obligations categorised within this revenue type is diverse and includes:

(i) long-term outsourced service arrangements in the public and private sectors; and

(ii) active software licence arrangements.

Majority of the long-term contractual contracts form part of a series of distinct goods and services as they are substantially the same service; and have the same pattern of transfer (as the series constitutes services provided in distinct time increments (eg daily, monthly, quarterly or annual services)) and therefore treats the series as one performance obligation.

Short-term contractual – less than two years
The nature of contracts or performance obligations categorised within this revenue type is diverse and includes:

(i) short-term outsourced service arrangements in the public and private sectors; and

(ii) software maintenance contracts.

The Group has assessed that maintenance and support (i.e. on-call support, remote support) for software licences is a performance obligation that can be considered capable of being distinct and separately identifiable in a contract if the customer has a passive licence. These recurring services are substantially the same as the nature of the promise is for the Group to 'stand ready' to perform maintenance and support when required by the customer. Each day of standing ready is then distinct from each following day and is transferred in the same pattern to the customer.

Transactional (point in time) contracts
The Group delivers a range of goods or services in all reportable segments that are transactional services for which revenue is recognised at the point in time when control of the goods or services has transferred to the customer. This may be at the point of physical delivery of goods and acceptance by a customer or when the customer obtains control of an asset or service in a contract with customer-specified acceptance criteria.

The nature of contracts or performance obligations categorised within this revenue type is diverse and includes:

(i) provision of IT hardware goods;

(ii) passive software licence agreements;

(iii) commission received as agent from the sale of third-party software; and

(iv) fees received in relation to delivery of professional services.

Section 2: Results for the year continued

2.2 Revenue including segmental revenue continued

2.2.1 Segmental revenue

The Group's operations are managed separately according to the nature of the services provided, with each segment representing a strategic business division offering a different package of client outcomes across the markets the Group serves. A description of the service provision for each segment can be found in the strategic report on pages 20-31.

The tables below present revenue for the Group's business segments for the years 2019 and 2018. As discussed in the strategic report on pages 9-11, a new Consulting division was created in 2019. For segmental reporting, Consulting is aggregated within the 'Group trading and central services' segment. The division was formed following the transfer of businesses from the Software segment and the recruitment of additional resources. During 2019, there were transfers of businesses between the Specialist Services and Technology Solutions segments. Comparative information has been restated accordingly.

Adjusted revenue, excluding results from businesses exited in both years (adjusting items), was £3,647.4m (2018: £3,814.7m), an organic decline of 4.4% (2018: 6.7%).

Year ended 31 December 2019	Notes	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central services £m	Total adjusted £m	Adjusting items £m	Total reported £m
Continuing operations											
Long-term contractual		**331.8**	**313.3**	**552.6**	**673.7**	**297.1**	**432.2**	**14.7**	**2,615.4**	**23.5**	**2,638.9**
Short-term contractual		**37.9**	**34.8**	**248.1**	**14.6**	**41.5**	**183.9**	**2.4**	**563.2**	**0.4**	**563.6**
Transactional (point in time)		**5.7**	**152.4**	**1.7**	**89.6**	**90.7**	**128.4**	**0.3**	**468.8**	**7.3**	**476.1**
Total segment revenue		**375.4**	**500.5**	**802.4**	**777.9**	**429.3**	**744.5**	**17.4**	**3,647.4**	**31.2**	**3,678.6**
Trading revenue		**434.7**	**700.5**	**919.0**	**802.7**	**631.8**	**828.1**	**65.6**	**4,382.4**	**—**	**4,382.4**
Inter-segment revenue		**(59.3)**	**(200.0)**	**(116.6)**	**(24.8)**	**(202.5)**	**(83.6)**	**(48.2)**	**(735.0)**	**—**	**(735.0)**
Total adjusted segment revenue		**375.4**	**500.5**	**802.4**	**777.9**	**429.3**	**744.5**	**17.4**	**3,647.4**	**—**	**3,647.4**
Business exits – trading	2.8	**—**	**5.5**	**—**	**—**	**—**	**25.7**	**—**	**—**	**31.2**	**31.2**
Total segment revenue		**375.4**	**506.0**	**802.4**	**777.9**	**429.3**	**770.2**	**17.4**	**—**	**—**	**3,678.6**

Year ended 31 December 2018	Notes	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central services £m	Total adjusted £m	Adjusting items £m	Total reported £m
Continuing operations											
Long-term contractual		337.4	296.4	571.2	657.9	298.5	540.4	26.6	2,728.4	45.3	2,773.7
Short-term contractual		34.7	38.0	229.5	29.2	55.2	200.5	—	587.1	47.7	634.8
Transactional (point in time)		7.8	160.2	1.9	93.4	86.0	146.4	3.5	499.2	10.7	509.9
Total segment revenue		379.9	494.6	802.6	780.5	439.7	887.3	30.1	3,814.7	103.7	3,918.4
Trading revenue		425.9	644.9	912.8	810.0	679.5	959.2	78.3	4,510.6	—	4,510.6
Inter-segment revenue		(46.0)	(150.3)	(110.2)	(29.5)	(239.8)	(71.9)	(48.2)	(695.9)	—	(695.9)
Total adjusted segment revenue		379.9	494.6	802.6	780.5	439.7	887.3	30.1	3,814.7	—	3,814.7
Business exits – trading	2.8	—	5.9	—	—	—	97.8	—	—	103.7	103.7
Total segment revenue		379.9	500.5	802.6	780.5	439.7	985.1	30.1	—	—	3,918.4

Geographical location

The table below presents revenue by geographical location.

	2019			2018		
	United Kingdom £m	**Other £m**	**Total £m**	United Kingdom £m	Other £m	Total £m
Revenue	**3,358.4**	**320.2**	**3,678.6**	3,609.7	308.7	3,918.4

Section 2: Results for the year continued

2.2 Revenue including segmental revenue continued

2.2.2 Order book

The tables below show the order book for each division, categorised into long-term contractual (contracts with length greater than two years) and short-term contractual (contracts with length less than two years). The length of the contract is calculated from the start of the service commencement date. The figures represent the aggregate amount of currently contracted transaction price allocated to the performance obligations that are unsatisfied or partially unsatisfied. The Group's order book has declined as contract wins in the year have not offset revenue recognised in the year. Revenue expected to be recognised upon satisfaction of these performance obligations is as follows:

Order book 31 December 2019	**Software £m**	**People Solutions £m**	**Customer Management £m**	**Government Services £m**	**Technology Solutions £m**	**Specialist Services £m**	**Group trading and central functions £m**	**Total £m**
Long-term contractual	**496.7**	**497.2**	**1,697.2**	**2,328.4**	**344.0**	**1,108.0**	**2.9**	**6,474.4**
Short-term contractual	**81.7**	**—**	**26.5**	**—**	**45.7**	**83.7**	**7.6**	**245.2**
Total	**578.4**	**497.2**	**1,723.7**	**2,328.4**	**389.7**	**1,191.7**	**10.5**	**6,719.6**

Order book 31 December 2018	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central functions £m	Total £m
Long-term contractual	554.9	715.3	2,012.2	2,187.5	380.4	1,224.1	19.7	7,093.7
Short-term contractual	—	—	—	—	—	2.3	—	2.3
Total	554.9	715.3	2,012.2	2,187.5	380.4	1,226.4	19.7	7,096.0

The table below shows the time bands of the expected timing of revenue to be recognised on long-term contractual at 31 December 2019:

Time bands of long-term contractual in order book	**Software £m**	**People Solutions £m**	**Customer Management £m**	**Government Services £m**	**Technology Solutions £m**	**Specialist Services £m**	**Group trading and central functions £m**	**Total £m**
< 1 year	**176.5**	**289.7**	**559.0**	**408.0**	**141.8**	**266.8**	**2.0**	**1,843.8**
1–5 years	**285.6**	**205.2**	**1,056.6**	**1,260.1**	**155.6**	**558.8**	**0.9**	**3,522.8**
> 5 years	**34.6**	**2.3**	**81.6**	**660.3**	**46.6**	**282.4**	**—**	**1,107.8**
Total	**496.7**	**497.2**	**1,697.2**	**2,328.4**	**344.0**	**1,108.0**	**2.9**	**6,474.4**

The order book represents the consideration to which the Group will be entitled to receive from the customers when the Group satisfies the remaining performance obligations in the contracts. However, the total revenue that will be earned by the Group will also include non-contracted volumetric revenue, new wins, scope changes and anticipated contract extensions. These elements have been excluded from the figures in the tables above as they are not contracted. In addition, revenue from contract extensions is also excluded in the order book unless they are pre-priced extensions whereby the Group has a legal binding obligation to deliver the performance obligations during the extension period. The total revenue related to pre-priced extensions that has been included in the tables above amounted to £605.4m (2018: £508.0m). The amounts presented do not include orders for which neither party has performed and each party has the unilateral right to terminate a wholly unperformed contract without compensating the other party.

Of the £6.7billion (2018: £7.1billion) revenue to be earned on long-term contractual, £4.4billion (2018: £4.1billion) relates to major contracts to the Group. This amount excludes revenue that will be derived from frameworks (transactional (point in time) contracts), non-contracted volumetric revenue, non-contracted scope changes and future unforeseen volume changes from these major contracts, which together are expected to contribute an additional £1.8billion (2018: £2.1billion) of revenue to the Group over the life of these contracts.

No single customer makes up more than 10% of the Group's revenues.

2.2.3 Deferred Income

The Group's deferred income balances solely relate to revenue from contracts with customers. Revenue recognised in the reporting period that was included in the deferred income balance at the beginning of the period was £1,119.3m (2018: £1,220.8m).

Section 2: Results for the year continued

2.3 Operating profit

2.3.1 Items charged/(credited) to operating profit

	Notes	2019 £m	2018 £m
Depreciation of property, plant and equipment	3.2	**60.3**	60.1
Depreciation of right-of-use assets	3.5	**99.2**	—
Impairment of property, plant and equipment	3.2	**14.7**	6.1
Amortisation of intangible assets	3.3	**81.4**	114.6
Impairment of intangible assets	3.3	**13.8**	61.7
Loss on sale of property, plant and equipment and intangibles		**1.8**	11.4
Minimum lease payments recognised as an operating lease expense		**—**	114.7
Foreign exchange differences		**2.9**	(9.6)
Restructuring costs	2.4	**159.4**	110.0
Contract fulfilment asset utilisation, impairment and derecognition	3.1.3	**102.3**	127.5
Contract termination gains		**(13.3)**	(6.7)
Accelerate deferred income unwind net of contract fulfilment asset releases relating to contract		**(24.9)**	(15.2)

The table above includes items within reported operating profit.

Contract fulfilment asset utilisation, impairment and derecognition: the Group undertook a comprehensive review of its major contracts to identify indicators of impairment of contract fulfilment assets. Following this review, management provided against costs capitalised as contract fulfilment assets of £9.6m (2018: £22.2m) within cost of sales.

Contract termination gains: customer contracts usually contain provisions to compensate the Group for exit costs and future profits in the event of early termination. In-year customer contract terminations in Government Services for customer convenience have led to associated exit fees earned by Capita of £9.6m (2018: £6.7m) being recorded as income in-year and £4.0m of fees retaining to final settlement of the prior year Prudential contract termination.

Accelerated deferred income unwind: in 2019 the Group recognised gains of £24.9m related to accelerated deferred income unwind and associated contract fulfilment asset derecognition. This primarily related to a contract in the Specialist Services division where the scope of our services changed due to the renewal of the contract. The other gains related to handbacks of various services in contracts within our Government Services division and the extension of a contract in Customer Management. In 2018 the gains of £15.2m related to the termination of two contracts in the Specialist Services division, the administration of Prudential's life and pensions business and our general insurance contract with Marsh.

Minimum lease payments: the implementation of IFRS 16 in 2019 has resulted in the recognition of a lease liability on the balance sheet.

2.3.2 Fees payable to auditors

The amounts included in the below table relate to fees payable to KPMG LLP and its associates:

	2019 £m	2018 £m
Audit and audit-related services		
The audit of the Company and Group financial statements	**3.7**	3.2
The audit of the financial statements of subsidiaries of the Company	**2.2**	1.8
Total audit and audit-related services	**5.9**	5.0
Non-audit services		
Other assurance services	**0.2**	1.6
Total non-audit services	**0.2**	1.6
Total audit and non-audit services	**6.1**	6.6

Total non-audit fees in respect of 2019 related to the review of interim results.

Section 2: Results for the year continued

2.4 Adjusted operating profit and adjusted profit before tax

AP Accounting policies

IAS 1 permits an entity to present additional information for specific items to enable users to better assess the entity's financial performance.

The Board has adopted a policy to separately disclose those items that it considers are outside the underlying operating results for the particular year under review and against which the Group's performance is assessed. In the Directors' judgement, these need to be disclosed separately by virtue of their nature, size and/or incidence, in order for users of the financial statements to obtain a proper understanding of the financial information and the underlying in-year performance of the business. Accordingly, these items are also excluded in the discussion of divisional performances in the strategic report. This policy is kept under review by the Board and the Audit and Risk Committee and is discussed in the Committee's report on pages 68–77. Those items which relate to the ordinary course of the Group's operating activities remain within adjusted profit.

The items below are excluded from the adjusted results:

		Operating profit		(Loss)/profit before tax	
	Notes	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Reported		**0.4**	34.9	**(62.6)**	272.6
Amortisation and impairment of acquired intangibles	3.3	**49.9**	143.5	**49.9**	143.5
Impairment of goodwill	3.4	**41.4**	33.8	**41.4**	33.8
Impairment of loans and investments		**—**	1.6	**—**	1.6
Litigation and claims		**(0.7)**	(1.8)	**(0.8)**	(1.8)
GMP and retirement age equalisation	5.2	**—**	5.4	**—**	5.4
Net finance costs	4.3	**—**	—	**6.3**	18.8
Contingent consideration movements	4.5	**(1.4)**	(5.0)	**(1.4)**	(5.0)
Business exit – trading	2.8	**16.7**	(17.7)	**16.7**	(17.7)
Business exit – non-trading expenses	2.8	**52.1**	29.7	**52.1**	29.7
Business exit – (gain)/loss on disposals	2.8	**—**	—	**—**	(309.7)
Significant restructuring		**159.4**	110.0	**159.4**	110.0
Impact of IFRS 16	6.4	**(11.7)**	—	**14.0**	—
Adjusted		**306.1**	334.4	**275.0**	281.2

1. Adjusted operating profit decreased by 8.5% (2018: 26.0%) and adjusted profit before tax decreased by 2.2% (2018: 26.4%). Adjusted operating profit of £306.1m (2018: £334.4m) was generated on adjusted revenue of £3,647.4m (2018: £3,814.7m) resulting in an adjusted operating profit margin of 8.4% (2018: 8.8%).
2. The tax charge on adjusted profit before tax is £43.5m (2018: £27.2m) resulting in adjusted profit after tax of £231.5m (2018: £254.0m).
3. The 2018 adjusted operating profit and adjusted profit before tax has been restated for business exits in 2019. This has resulted in adjusted operating profit decreasing from £335.3m to £334.4m and adjusted profit before tax decreasing from £282.1m to £281.2m.

Amortisation and impairment of acquired intangible assets: the Group recognised acquired intangible amortisation of £50.3m (2018: £86.7m) of which £0.4m relates to business exits (2018: £4.9m) and impairment of £nil (2018: £61.7m).

Impairment of goodwill: goodwill is subject to annual impairment testing and any impairment charges are reported separately. Refer to note 3.4 for further details.

Litigation and claims: the gain in 2019 is the net movement in historical provisions for litigation and claims which were excluded from adjusted profit when originally recognised due to their age and size.

The gain of £1.8m in 2018 arises from a release of £5.5m in respect of the above provisions recognised in 2017, off-set by a loss from the derecognition of an insurance asset of £3.7m. The original claim to which the asset related was excluded from adjusted profit due to its nature and size.

Net finance costs: net finance costs excluded from adjusted profits includes the movements in the mark to market valuation of certain financial instruments.

Business exits: the trading result of businesses exited, or in the process of being exited, and the gain or loss on disposals, are excluded from the Group's adjusted results.

Significant restructuring: in January 2018, the Group announced a multi-year transformation plan. In 2019 a charge of £159.4m (2018: £110.0m) was recognised in relation to the cost of the transformation plan. The costs include the following:

- **Cost to realise cost savings and efficiencies from the transformation plan £80m (2018: £55m):** including significant reductions in overheads, the elimination of duplicate roles and management layers, and the Group's operational excellence programme which will improve the consistency of our operations, reduce spans and layers, increasing the use of off-shoring and automation, adopting lean methodologies and being smarter in terms of how we work. These costs also include engaging the Group's property expertise to rationalise and increase the utilisation of Capita's property estate, in metro centres and regionally. As the Group continues to rationalise the property estate cost associated with onerous lease commitments and dilapidation liabilities will be captured and presented as part of the transformation adjustments.

Section 2: Results for the year continued

2.4 Adjusted operating profit and adjusted profit before tax

- **Professional fees £26m (2018: £31m):** incurred to support reigniting sales growth and increasing the proportion of centrally controlled spend, consolidating the supplier base and leveraging the Group's scale.
- **Transformation of central Group functions £53m (2018: £6m):** investment in programmes to improve the Group's central functions, including finance, sales, HR and IT. All costs associated with these programmes are recorded separately, excluding any costs capitalised as part of the investment and the ongoing depreciation and amortisation of such assets.

Impact of IFRS 16: the adoption of IFRS 16 has had a significant impact on the Group's financial statements and this has been excluded from adjusted profit to enable comparability of adjusted results as the comparable figures have not been restated. Details of the change in the Group's accounting policy in respect of lease accounting and an analysis of the impact of adopting IFRS 16 are set out in note 6.4.

2.5 Segmental information

The Group's operations are managed separately according to the nature of the services provided, with each segment representing a strategic business division offering a different package of client outcomes across the markets the Group serves. A description of the service provision for each segment can be found in the strategic report on pages 20-31.

The tables below present trading result for the Group's business segments for the years 2019 and 2018. As discussed in the strategic report on pages 9-11, a new Consulting division was created in 2019. For segmental reporting, Consulting is aggregated within the "Group trading and central services" segment. The division was formed following the transfer of businesses from the Software segment. During 2019, there were transfers of businesses between the Specialist Services and Technology Solutions segments. Comparative information has been restated accordingly.

Information on segmental revenue can be found in note 2.2.

Year ended 31 December 2019	Notes	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central services £m	Total adjusted £m	Adjusting items £m	Total reported £m
Adjusted operating profit	2.4	**102.9**	**34.9**	**54.9**	**58.8**	**50.7**	**141.7**	**(137.8)**	**306.1**	**—**	**306.1**
Restructuring	2.4	**(5.8)**	**(34.2)**	**(7.9)**	**(2.6)**	**(6.8)**	**(7.2)**	**(94.9)**	**—**	**(159.4)**	**(159.4)**
Business exits – trading	2.8	**—**	**(11.8)**	**—**	**—**	**—**	**(4.9)**	**—**	**—**	**(16.7)**	**(16.7)**
Total trading result		**97.1**	**(11.1)**	**47.0**	**56.2**	**43.9**	**129.6**	**(232.7)**	**306.1**	**(176.1)**	**130.0**
Non-trading items:											
Business exits – non-trading	2.8								**—**	**(52.1)**	**(52.1)**
Other adjusting items	2.4								**—**	**(77.5)**	**(77.5)**
Operating profit									**306.1**	**(305.7)**	**0.4**

Year ended 31 December 2018	Notes	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central services £m	Total adjusted £m	Adjusting items £m	Total reported £m
Adjusted operating profit	2.4	109.6	45.0	41.7	40.3	53.8	128.6	(84.6)	334.4	—	334.4
Restructuring	2.4	(9.5)	(12.5)	(11.8)	(6.3)	(4.4)	(14.4)	(51.1)	—	(110.0)	(110.0)
Business exits – trading	2.8	—	(3.7)	0.3	—	—	21.1	—	—	17.7	17.7
Total trading result		100.1	28.8	30.2	34.0	49.4	135.3	(135.7)	334.4	(92.3)	242.1
Non-trading items:											
Business exits – non-trading	2.8								—	(29.7)	(29.7)
Other adjusting items	2.4								—	(177.5)	(177.5)
Operating profit/(loss)									334.4	(299.5)	34.9

Geographical location
The table below presents the carrying amount of non-current assets by the geographical location of those assets.

	2019 United Kingdom £m	2019 Other £m	2019 Total £m	2018 United Kingdom £m	2018 Other £m	2018 Total £m
Non-current assets	**1,792.8**	**55.9**	**1,848.7**	2,040.3	51.4	2,091.7

Section 2: Results for the year continued

2.6 Taxation

AP Accounting policies

Tax on the profit or loss for year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of goodwill;
- except where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised, except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

2.6.1 Income tax charge on adjusted profit before tax
The income tax charge of £43.5m on adjusted profit before tax[1] resulted in an adjusted tax rate of 15.8% (2018: income tax charge of £27.2m and adjusted tax rate 9.7%). The adjusted tax rate is returning to a level closer to the UK corporation tax rate of 19%. In 2019, the difference from the UK statutory rate of tax is predominantly due to:

- the release of some of the uncertain tax positions relating to tax expenses which are no longer considered likely to arise, due to expiry of statute of limitation (note 2.6.4),
- prior year adjustments to align the tax positions to filed tax returns, and
- an unremitted earnings charge in respect of potential dividend distributions from subsidiaries subject to dividend withholding taxes levied by the overseas tax jurisdictions in which the subsidiaries operate (note 2.6.3).

2.6.2 Income tax charge
The income tax credit of £3.5m on reported loss before tax of £62.6m resulted in an effective tax rate of 5.6% (2018: income tax credit of £0.9m on profit of £272.6m and effective tax rate of (0.3)%). This is different from the UK statutory rate of tax of 19% predominantly due to non-deductible intangible impairment and an unremitted earnings charge, together with the release of uncertain tax provisions and alignment of positions to filed tax returns. The 2018 effective tax rate is further impacted by the non-taxable profit on disposal, detailed further in the tax reconciliation.

The major components of income tax charge/(credit) for the years ended 31 December are set out below:

Consolidated income statement	2019 £m	2018 £m
Current income tax		
Current income tax charge	**10.5**	11.1
Adjustment in respect of prior years	**(2.1)**	(7.0)
Deferred tax		
Origination and reversal of temporary differences	**(3.5)**	5.6
Adjustment in respect of prior years	**(8.4)**	(10.6)
	(3.5)	(0.9)

Consolidated statement of comprehensive income	2019 £m	2018 £m
Income tax on cash flow hedges	**(0.3)**	(0.1)
Deferred tax movement in relation to actuarial losses on defined pension schemes	**(18.1)**	22.9
	(18.4)	22.8

Section 2: Results for the year continued

2.6.2 Income tax charge continued

Consolidated statement of changes in equity	2019 £m	2018 £m
Deferred tax movement in relation to share based payment	**(0.8)**	(0.4)
	(0.8)	(0.4)

The reconciliation between both the total tax and the current tax charge/(credit) and the accounting profit multiplied by the UK corporation tax rate for the years ended 31 December is as follows:

		Total tax		Current tax	
		2019 £m	2018 £m	**2019 £m**	2018 £m
(Loss)/profit before tax		**(62.6)**	272.6	**(62.6)**	272.6
Notional (credit)/charge at UK corporation tax rate of 19% (2018: 19%)	a	**(11.9)**	51.8	**(11.9)**	51.8
Adjustments in respect of current income tax of prior years	b	**(2.1)**	(7.0)	**(2.1)**	(7.0)
Adjustments in respect of deferred tax of prior years	c	**(8.4)**	(10.6)	**—**	—
(Non-taxable income)/non-deductible expense – adjusted	d	**(0.3)**	4.3	**(0.3)**	4.3
Non-deductible expenses – business exit	e	**0.3**	4.2	**0.3**	4.2
Non-taxable income – specific items	f	**(0.3)**	(1.0)	**(0.3)**	(1.0)
Profit on disposal	g	**(0.1)**	(35.4)	**(0.1)**	(36.4)
Difference in rate recognition of temporary differences		**—**	(4.6)	**—**	—
Non-deductible goodwill impairment	h	**14.6**	11.0	**14.6**	11.0
Tax provided on unremitted earnings	i	**2.6**	12.8	**—**	—
Attributable to different tax rates in overseas jurisdictions	j	**(0.7)**	0.9	**(0.7)**	0.9
Movement in deferred tax unrecognised	k	**2.3**	(27.3)	**2.3**	3.0
Movement in uncertain tax positions	l	**0.5**	—	**0.5**	—
Accounting depreciation in excess of fixed asset tax deductions		**—**	—	**15.9**	15.5
Current tax impact on other timing differences	m	**—**	—	**(9.2)**	(3.5)
Utilisation of losses in current period	n	**—**	—	**(0.7)**	(0.4)
Transitional tax adjustment on adoption of IFRS 15	o	**—**	—	**—**	(38.3)
At the effective total tax rate of 5.6% (2018: (0.3)%) and the effective current tax rate of (13.4)% (2018: 1.5%)	a	**(3.5)**	(0.9)	**8.3**	4.1
Tax (credit)/charge reported in the income statement		**(3.5)**	(0.9)	**8.3**	4.1

a. The 2019 current tax charge of £8.3m (2018: £4.1m) results in an effective current tax rate of (13.4)% ((16.8)% if prior year adjustments are excluded), which is different from the UK statutory rate of tax of 19% predominantly due to depreciation, amortisation and impairment of fixed assets exceeding the tax deductions on the same assets. The impact of differing overseas tax rates is minimal and covered in footnote j. below.
b. The £2.1m prior year credit adjustment includes: (i) £7.2m credit caused by resolving some of the Group's previously uncertain tax positions; (ii) a £8.4m debit relating to adjustments which have a corresponding prior-year deferred income tax impact; and (iii) £3.3m credit following the finalisation of submitted tax returns.
c. Credits which have a corresponding prior year current income tax impact and true ups of temporary differences.
d. Higher in 2018 mainly due to non-deductible depreciation and accounting losses on disposal on non-qualifying assets.
e. Business exit: relates to non-deductible costs associated with the businesses detailed in note 2.8.
f. Specific items: relates to non-taxable contingent consideration releases detailed in note 2.4.
g. Relates to the application of the UK tax exemption on substantial shareholdings to relevant disposals.
h. Relates to the intangible asset impairments as detailed further in notes 2.4, 2.8 and 3.4.
i. Movement on the deferred income tax liability recognised on the unremitted earnings of those subsidiaries affected by withholding taxes.
j. Mainly relates to tax payable at higher rates in India and South Africa, offset by lower tax rates in other trading jurisdictions (Poland, Isle of Man and UAE) and the Luxembourg financing structure which has been unwound.
k. Relates to the derecognition (2018: recognition) of deferred tax on losses and other timing differences.
l. Current year increase in uncertain tax positions on the balance sheet.
m. The current tax reconciliation item is predominantly the deductible pension deficit contribution detailed further in note 2.10.2
n. Relates to the (utilisation)/carry forward of tax losses in the current period.
o. Relates to the tax transitional adjustment that arises on adoption of the new revenue recognition accounting standard in 2018 by some of the Group entities.

2.6.3 Deferred tax

Deferred tax assets and liabilities at 31 December:

	2019 £m	2018 £m
Deferred tax asset[1]	**181.6**	144.6
Deferred tax liability[1]	**(16.3)**	(15.2)
Net deferred tax asset	**165.3**	129.4

1. Analysed after jurisdictional netting has been applied to offset balances within countries.

Section 2: Results for the year continued

2.6 Taxation continued

Deferred tax at 31 December relates to the following:

	At 1 January 2019 £m	Charged/(Credited) to P&L £m	Charged/(Credited) to OCI and changes in equity £m	Charged/(Credited) to IFRS 16 impact[1] £m	Charged/(Credited) to Non-cash movement £m	At 31 December 2019 £m
Deferred tax assets						
Property, plant and equipment	34.9	25.3	—	—	(0.2)	60.0
Deferred income	4.7	1.2	—	—	(0.3)	5.6
Provisions	8.6	(3.4)	—	5.4	(0.2)	10.4
Share based payments	1.1	0.7	0.8	—	0.1	2.7
Pension schemes' liability	28.1	(7.4)	18.1	—	0.1	38.9
Tax losses[2]	100.6	(14.8)	—	—	0.2	86.0
	178.0	1.6	18.9	5.4	(0.3)	203.6
Deferred tax liabilities						
Contract fulfilment assets	(21.0)	4.2	—	—	—	(16.8)
Intangibles	(14.8)	8.6	—	—	—	(6.2)
Unremitted earnings	(12.8)	(2.6)	—	—	0.1	(15.3)
	(48.6)	10.2	—	—	0.1	(38.3)
Net deferred tax asset	129.4	11.8	18.9	5.4	(0.2)	165.3

1. The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Refer to note 6.4 for further details.
2. Mainly trading losses to shelter future profits and deferred interest.

The UK corporation tax rate remained at 19% in 2019 and will decrease further to 17% from 1 April 2020. The deferred tax balances have been adjusted to reflect this change.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised. The recoverability of deferred tax assets is supported by the deferred tax liabilities against which the reversal can be offset and the expected level of future profits in the countries concerned. The recognition for 2019 has been based on the three-year business plan for 2020, 2021 and 2022 which was approved by the Board. This is the same plan used to derive forecast cash flows for the goodwill impairment test, per note 3.4. For the 2019 deferred tax recognition review, the profit before tax in the business plan for 2020-2022 was used, excluding forecast restructuring costs. The scenarios run to validate the deferred tax recognition were also risk adjusted using historical performance to reflect additional contingencies relating to unsolutioned revenues, contract terminations, losses and renewal forecasts, and additional contract specific contingencies. As per the impairment test model, a long-term growth rate of 1.6% has been applied to years four (2023) and onwards in the deferred tax model.

These forecasts provide support that it is probable that there will be sufficient future taxable profits to enable the utilisation of the recognised deferred tax assets on losses within five years. Other deferred tax assets, which have a longer unwind period by their nature (i.e. property, plant and equipment and pension schemes liabilities) are being recognised on the basis that they will unwind within periods when profitability will arise.

The Group has unrecognised tax losses of £209.1m (2018: £206.0m) and other temporary differences of £45.5m (2018: £31.0m) that are available for offset against future taxable profits of the companies in which the losses or other temporary differences arose, but have not been recognised as their recoverability is uncertain. These are made up as follows:

(i) UK assets – £185.3m (2018: £161.0m) with no time expiry. The losses will be subject to enacted UK tax loss relief legislation which could result in restricted utilisation in the future. £78.5m of the losses were incurred by companies acquired by the Group and therefore not as a result of the Group's trading performance.

(ii) Overseas assets – £69.3m (2018: £76.0m), some of which are being subject to specific loss restriction rules but have no time expiry. £6.9m of the losses were incurred by companies acquired by the Group and therefore not as a result of the Group's trading performance.

Dividends received from subsidiaries are largely exempt from UK tax but may be subject to dividend withholding taxes levied by the overseas tax jurisdictions in which the subsidiaries operate. The gross temporary differences of those subsidiaries affected by such potential taxes is £80.2m (2018: £64.2m). A deferred income tax liability of £15.3m (2018: £12.8m) has been recognised on the unremitted earnings of those subsidiaries affected by such potential taxes as the Group is able to control the timing of reversal and it is anticipating dividends to be distributed.

Section 2: Results for the year continued

2.6 Taxation continued

2.6.4 Uncertain tax positions

The Group files income tax returns in several jurisdictions and some of these returns are open to, or subject to, tax authority audits or examinations. Tax returns contain matters that could be subject to differing interpretations of applicable tax laws and regulations and the resolution of tax positions, through negotiations with relevant tax authorities or through litigation, can take several years. Tax uncertainties are assessed throughout the year and specifically at the year-end with any associated provisions recognised considering the specific circumstances of each risk, including the merits of technical aspects, previous experience with tax authorities, recent tax law and if relevant, external specialist advice.

The Group has applied IFRIC 23 at 1 January 2019. IFRIC 23 addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. The Group applies judgement in quantifying uncertainties over income tax treatments and has considered whether it should adjust its uncertain tax provisions in line with this new criteria. The Group has recognised the cumulative impact arising on transition within retained earnings on the initial date of application.

The effect on the Group of adopting IFRIC 23 as at 1 January 2019 is an increase in income tax receivable of £5.4m and a decrease in trade and other payables, due to interest, of £0.8m, resulting in an increase in net assets of £6.2m and a decrease in retained deficit of £6.2m.

In the current period, the Group has released £7.2m of provisions in respect of uncertain tax positions relating to tax expenses which are no longer considered likely to arise, due to expiry of statute of limitation. The release is reflected within the current income tax prior year adjustment.

While it is difficult to predict the ultimate outcome in some cases, the Group does not currently anticipate that there will be any material impact on the Group's financial position or results of operations in the next financial year.

2.6.5 Capita's responsible approach to taxation

Capita has an open and positive working relationship with HMRC, has a designated customer compliance manager, and is committed to prompt disclosure and transparency in all dealings with HMRC and overseas tax authorities. The Group does not have a complex tax structure, nor does it pursue aggressive tax avoidance activities. The Group has a low-risk rating from HMRC. The Group has operations in a number of countries outside the UK. All Capita operations outside the UK are trading operations and pay the appropriate local taxes on these activities. Further detail, regarding Capita's approach to tax can be found on Further detail, regarding Capita's approach to tax can be found on the Policies & Principles area of the Capita website (https://www.capita.com/our-company/about-capita/policies-and-principles).

Capita contributed £183.1m (2018: £164.3m) in taxes from its UK operations in the year. This consisted of a net repayment of £7.9m (2018: £37.5m) of UK corporation tax; £17.9m (2018: £16.0m) in irrecoverable VAT payments; £136.9m (2018: £143.1m) in employer national insurance contributions; and £36.2m (2018: £42.7m) in other levies including business rates, import duties, the apprenticeship levy and environmental taxes. Additionally, the Group collected and remitted to the UK Government £319.3m (2018: £360.5m) of VAT and £317.0m (2018: £333.3m) of Capita employee PAYE and national insurance contributions. Capita entities in overseas jurisdictions paid £8.6m (2018: £4.6m) of tax on local profits.

2.7 Earnings/(loss) per share

AP **Accounting policies**

Basic earnings/(loss) per share amounts are calculated by dividing net profit for the period attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings/(loss) per share amounts are calculated by dividing the net profit for the period attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

		2019 Continuing operations p	2019 Total operations p	2018 Continuing operations p	2018 Total operations p
Basic earnings/(loss) per share	– adjusted	**13.09**	**13.09**	16.33	16.33
	– reported	**(4.18)**	**(3.88)**	17.99	18.37
Diluted earnings/(loss) per share	– adjusted	**13.09**	**13.09**	16.13	16.13
	– reported	**(4.18)**	**(3.88)**	17.77	18.15

The following reflects the earnings and share data used in the basic and diluted earnings/(loss) per share computations:

	Notes	2019 Continuing operations £m	2019 Total operations £m	2018 Continuing operations £m	2018 Total operations £m
Adjusted profit for the period	2.4	**231.5**	**231.5**	254.0	254.0
Less: Non-controlling interest		**(14.7)**	**(14.7)**	(14.9)	(14.9)
Adjusted profit attributable to shareholders		**216.8**	**216.8**	239.1	239.1
Reported (loss)/profit for the period		**(59.1)**	**(54.1)**	273.5	279.1
Less: Non-controlling interest		**(10.1)**	**(10.1)**	(10.1)	(10.1)
Total (loss)/profit attributable to shareholders		**(69.2)**	**(64.2)**	263.4	269.0

Section 2: Results for the year continued

2.7 Earnings/(loss) per share continued

	2019 m	2018 m
Weighted average number of ordinary shares (excluding trust and treasury shares) for basic earnings per share	**1,656.1**	1,463.9
Dilutive potential ordinary shares:		
Employee share options	**—**	18.3
Weighted average number of ordinary shares (excluding trust and treasury shares) adjusted for the effect of dilution	**1,656.1**	1,482.2

At 31 December 2019 25,313,414 options were excluded from the diluted weighted average number of ordinary shares calculation because their effect would have been anti-dilutive. Under IAS 33 – Earnings per Share, potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations. The Group made a loss in the current year from continuing operation hence the diluted (loss)/profit per share for each component of continuing operations needs to be the same amount as the basic (loss)/profit per share.

The earnings per share figures are calculated based on earnings attributable to ordinary equity holders of the parent company, and therefore excludes non-controlling interest. The earnings per share is calculated on an adjusted and total reported basis. The earnings per share for business exits, specific items and the impact of IFRS 16 are bridging items to adjusted and total reported earnings per share.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements. To adjust for the dilutive impact of the rights issue in 2018, Capita granted an additional 1.639 share options for every share option that an employee held to ensure that the fair value remained unchanged after dilution.

2.8 Business exits and assets held for sale

AP **Accounting policies**

Business exits
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. None of these business exits meet the definition of ‘discontinued operations’ as stipulated by IFRS 5, which requires disclosure and comparatives to be restated where the relative size of a disposal or business closure is significant, which is normally understood to mean a reported segment. However, the trading result of these businesses exits, and any gain or loss on disposal, have been excluded from adjusted results and to enable a like-for-like comparison of adjusted results, the 2018 comparatives have been restated to exclude 2019 business exits.

Assets held for sale
The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than continued use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

At 31 December 2019, the Group was in an active process to dispose of a business which met the held for sale criteria. As such it was treated as a disposal group held for sale at this date, and its results included within business exits and therefore excluded from adjusted results.

During 2019, the Group took the decision to exit a business. The exit is in progress and expected to complete in 2020. In accordance with our policy, the trading result of the business was included in business exits and therefore excluded from adjusted results.

As noted in the strategic report, further disposals are planned in 2020 as part of the simplification agenda. As these disposals did not met the definition of business exits assets for sale at 31 December 2019, their trading results were included within adjusted results.

In 2018, the Group disposed of five businesses and exited one business – Capita Specialist Insurance Solutions, Projen, Medicals Direct Group, Supplier Assessment Services (including Constructionline), ParkingEye and REI Health.

		Non-trading disposal			2019		Non-trading disposal			2018
Income statement impact	**Trading £m**	**Cash £m**	**Non-cash £m**	**Total £m**	**Total £m**	Trading £m	Cash £m	Non-cash £m	Total £m	Total £m
Revenue	**31.2**	**—**	**—**	**—**	**31.2**	103.7	—	—	—	103.7
Cost of sales	**(28.0)**	**—**	**—**	**—**	**(28.0)**	(54.2)	—	—	—	(54.2)
Gross profit	**3.2**	**—**	**—**	**—**	**3.2**	49.5	—	—	—	49.5
Administrative expenses	**(19.9)**	**—**	**(52.1)**	**(52.1)**	**(72.0)**	(31.8)	(1.0)	(28.7)	(29.7)	(61.5)
Operating (loss)/profit	**(16.7)**	**—**	**(52.1)**	**(52.1)**	**(68.8)**	17.7	(1.0)	(28.7)	(29.7)	(12.0)
Gain on business disposal	**—**	**—**	**—**	**—**	**—**	—	367.4	(57.7)	309.7	309.7
(Loss)/profit before tax	**(16.7)**	**—**	**(52.1)**	**(52.1)**	**(68.8)**	17.7	366.4	(86.4)	280.0	297.7
Taxation	**3.0**	**3.0**	**—**	**3.0**	**6.0**	(3.3)	(23.4)	—	(23.4)	(26.7)
(Loss)/profit after tax	**(13.7)**	**3.0**	**(52.1)**	**(49.1)**	**(62.8)**	14.4	343.0	(86.4)	256.6	271.0

Section 2: Results for the year continued

2.8 Business exits and assets held for sale continued

Trading revenue and costs represent the current year trading performance of those businesses up to the point of being disposed or exited. Trading expenses primarily comprise of payroll costs of £19.8m (2018: £19.5m) and IT costs of £17.3m (2018: £27.9m).

Non-trading administrative expenses primarily comprise of closure costs of £nil (2018: £1.0m), goodwill impairment of £35.3m (2018: £24.3m), acquired intangible amortisation of £nil (2018: £4.9m), impairment of property, plant and equipment of £14.7m (2018: £nil) which is partially offset by releases of provisions of £2.8m (2018: £0.5m).

Balance Sheet – disposal group

	2019 £m
Property, plant and equipment	**0.2**
Deferred tax asset	**0.1**
Intangibles	**2.9**
Trade and other receivables	**9.2**
Assets held for sale	**12.4**
Trade and other payables[1]	**4.4**
Overdraft	**3.5**
Liabilities held for sale	**7.9**

1. Trade and other payables includes income tax payable of £0.4m.

Business exit cash flows
Business exited generated operating cash outflows of £19.2m (2018: cash inflows of £9.0m).

2018 disposals
In 2018 the gain on disposal of £309.7m arises from the disposal of net assets of £69.0m for £400.7m consideration and costs of disposal of £22.0m. Cash proceeds of £400.7m net of cash disposed amounted to £389.5m.

			2018
Gain on business disposal	Cash £m	Non-cash £m	Total £m
Property, plant and equipment	—	19.9	19.9
Intangible assets	—	12.4	12.4
Goodwill	—	50.9	50.9
Trade and other receivables	—	8.5	8.5
Deferred tax asset	—	0.1	0.1
Trade and other payables	—	(26.8)	(26.8)
Deferred income	—	(4.6)	(4.6)
Income tax payable	—	(1.5)	(1.5)
Deferred tax liability	—	(0.9)	(0.9)
Provisions	—	(0.2)	(0.2)
Cash disposed of	11.2	—	11.2
Total net assets disposed of	11.2	57.8	69.0
Cash purchase consideration received	400.7	—	400.7
Costs of disposal – paid and accrued	(22.0)	—	(22.0)
Proceeds, less costs, on disposal	378.7	—	378.7
Gain on business disposal	367.5	(57.8)	309.7

2.9 Discontinued operations

Capita completed the disposal of its Asset Services businesses, including Capita Financial Managers Limited (CFM), to the Link Group on 3 November 2017. The disposal met the definition of a discontinued operation as stipulated by IFRS 5.

The credit of £5.0m in 2019, primarily relates to a £3.1m return of redress payments made to the Financial Conduct Authority (FCA) regarding the Connaught Income Series 1 Fund (2018: £5.6m credit in relation to provision releases).

Cash flows from other operating activities of £4.7m primarily relates to the above return of redress payments made to the FCA and £nil (2018: £19.0m) separation costs incurred in relation to the disposal.

The earnings per share impact from discontinued operations is 0.30p (2018: 0.38p) on basic earnings per share and 0.30p (2018: 0.38p) on diluted earnings per share.

Section 2: Results for the year continued

2.10 Cash flow information

AP **Accounting policies**

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. In the consolidated cash flow statement, cash and cash equivalents consist of cash and short-term deposits net of outstanding bank overdrafts. Cash at bank earns interest at fixed and floating rates based on prevailing bank deposit rates.

2.10.1 Additional cash flow information

Cash flow from operating activities declined year-on-year as a consequence of lost revenue, margin on new business and investment off-set by cost out and one-off benefits. Working capital outflow driven by contract terminations and renegotiations, partially offset by additional payments on account and reduced spend on contract transformations.

		2019		2018[1]	
	Note	Adjusted £m	Reported £m	Adjusted[2] £m	Reported £m
Cash flows from operating activities:					
Operating profit[1]	2.4	**306.1**	**0.4**	334.4	34.9
Adjustments for non-cash items:					
Depreciation[1]	3.2, 3.5	**58.1**	**159.5**	57.5	60.1
Amortisation of intangible assets	3.3	**30.9**	**81.4**	27.3	114.6
Share based payment expense	5.1	**3.0**	**3.0**	3.4	3.4
Employee benefits	5.2	**11.2**	**11.2**	12.3	17.7
Loss on sale of property, plant and equipment/intangible assets	2.3	**1.8**	**1.8**	11.4	11.4
Contingent consideration	2.4	**—**	**(1.4)**	—	(5.4)
Impairment of property plant and equipment	3.2	**—**	**14.7**	6.1	6.1
Impairment of intangible assets	3.3	**—**	**13.8**	—	61.7
Impairment of goodwill	3.4	**—**	**76.7**	—	58.1
Impairment of loans and investments	2.4	**—**	**—**	—	1.6
Impairment of right-of-use assets		**—**	**0.9**	—	—
Other adjustments:					
Movement in provisions[1]		**(6.0)**	**(19.0)**	2.8	(9.1)
Pension deficit contribution		**—**	**(71.1)**	—	(42.0)
Other contributions into pension schemes		**(17.0)**	**(17.0)**	(16.1)	(21.0)
Movements in working capital:					
Trade and other receivables[1]		**(7.0)**	**2.4**	97.4	89.3
Non-recourse receivables financing		**—**	**—**	(110.0)	(110.0)
Trade and other payables[1]		**(10.6)**	**(14.8)**	(97.2)	(91.7)
Deferred income		**(198.1)**	**(198.1)**	(243.7)	(243.7)
Contract fulfilment assets (non-current)		**(13.8)**	**(11.6)**	(13.7)	(11.7)
Cash generated/(used) by operations		**158.6**	**32.8**	71.9	(75.7)
Adjustments for free cash flows:					
Income tax (paid)/received		**(5.4)**	**(5.4)**	26.6	25.3
Net interest paid[1]		**(32.7)**	**(58.4)**	(39.0)	(52.5)
Purchase of property, plant and equipment	3.2	**(57.6)**	**(57.7)**	(73.0)	(89.4)
Purchase of intangible assets	3.3	**(124.6)**	**(124.7)**	(67.2)	(70.1)
Proceeds from sale of property, plant and equipment/intangible assets		**0.4**	**0.4**	1.9	1.9
Free cash flow		**(61.3)**	**(213.0)**	(78.8)	(260.5)

1. Capita has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Refer to note 6.4 for further details.
2. The 2018 adjusted cash flow has been restated for business exits in 2019. This has resulted in adjusted cash generated by operations increasing from £69.8m to £71.9m and adjusted free cash outflow decreasing from £82.5m to £78.8m.

Section 2: Results for the year continued

2.10 Cash flow information continued

2.10.2 Adjusted free cash flow and cash generated from operations

	Free cash flow		Cash generated/(used) by operations	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Reported	**(213.0)**	(260.5)	**32.8**	(75.7)
Pension deficit contributions	**71.1**	46.9	**71.1**	46.9
Significant restructuring	**148.5**	100.8	**148.5**	100.8
Business exits	**19.4**	10.3	**19.2**	(9.0)
Impact of IFRS 16	**(90.0)**	—	**(115.7)**	—
Other	**2.7**	23.7	**2.7**	8.9
Adjusted	**(61.3)**	(78.8)	**158.6**	71.9

A reconciliation of net cash flow to movement in net debt is included in note 2.10.3.

Pension deficit contributions: in November 2018, the Group agreed a deficit recovery plan with the Trustees of the Capita Pension and Life Assurance Scheme (the 'Scheme'). The payments under the agreed deficit recovery plan total £176.0m, of which £71.1m was paid in 2019 (2018: £42.0m). In 2019, no further contributions were made following closure of the Scheme in 2017 to future accrual for the majority of members of the Scheme (2018: £4.5m). These payments have been excluded from adjusted cash flows as the Group treats them as a debt like item.

Significant restructuring: in April 2018, the Group announced a multi-year transformation plan. In the period to 31 December 2019, a cash outflow of £148.5m (2018: £100.8m) was incurred in relation to the cost of the transformation plan, and restructuring costs relating to Capita's previously announced cost reduction plan.

Business exits: the cash flows of businesses exited, or in the process of being exited, and the proceeds on disposals, are disclosed outside the adjusted results. The 2018 results have been restated for those businesses exited, or in the process of being exited, in 2019 to enable comparability of the adjusted results.

Impact of IFRS 16: at 1 January 2019 the Group has initially applied IFRS 16, using the modified retrospective approach. This has resulted in a change in the presentation of lease principal payments from cash flows from operations to cash flows from financing activities. To improve the comparability of the Group's cash flow statement, the impact of IFRS 16 has been excluded from the adjusted results.

Other: includes the cash flows related to other items excluded from adjusted profit.

2.10.3 Reconciliation of net cash flow to movement in net debt

	Note	Net debt at 1 January 2019 £m	Lease liability adjustment[2] £m	Cash flow movements £m	Non-cash movement[3] £m	Net debt at 31 December 2019 £m
Cash, cash equivalents and overdrafts	4.5.4	**642.7**	**—**	**(523.2)**	**3.3**	**122.8**
Other loan notes	4.5	**(0.3)**	**—**	**—**	**—**	**(0.3)**
Private placement loan notes[1]	4.5	**(1,108.0)**	**—**	**97.9**	**19.4**	**(990.7)**
Cross-currency interest rate swaps[1]	4.5	**99.6**	**—**	**(10.9)**	**(11.4)**	**77.3**
Interest rate swaps[1]	4.5	**1.9**	**—**	**—**	**(0.9)**	**1.0**
Term loan	4.5	**(100.0)**	**—**	**100.0**	**—**	**—**
Lease liabilities[2]	4.4	**—**	**(643.9)**	**93.7**	**(12.4)**	**(562.6)**
Total net liabilities from financing activities		**(1,106.8)**	**(643.9)**	**280.7**	**(5.3)**	**(1,475.3)**
Deferred consideration	4.5	**(2.0)**	**—**	**1.3**	**—**	**(0.7)**
Net debt	4.1.1	**(466.1)**	**(643.9)**	**(241.2)**	**(2.0)**	**(1,353.2)**

1. The sum of these items held at fair value equates to the underlying value of the Group's private placement loan note's debt of £915.5m (2018: £1,006.5m). Cash flow movement in private placement loan notes includes both repayment of private placement notes of £96.8m and finance arrangement costs of £1.1m.
2. Lease liabilities relates to amounts due by the Group where the Group is a Lessee. Lease liability adjustment comprises the unwinding of the discounted lease payments. Refer to note 6.4 for further details on the impact of IFRS 16 on the Group.
3. Non-cash movement relates to foreign exchange on cash, fair value changes on the swaps, amortisation of loan notes issue costs, amortisation of the discount on the Euro debt issue and the IFRS 16 modifications, additions and terminations to our leases.

Section 2: Results for the year continued

2.10 Cash flow information continued

2.10.3 Reconciliation of net cash flow to movement in net funds/(debt) continued

	Note	Net debt at 1 January 2018 £m	Cash flow movements: Rights issue £m	Cash flow movements: Cash flow movements £m	Non-cash movement £m	Net debt at 31 December 2018 £m
Cash, cash equivalents and overdrafts	4.5.4	478.4	671.1	(505.6)	(1.2)	642.7
Other loan notes	4.5	(0.3)	—	—	—	(0.3)
Private placement loan notes	4.5	(1,664.0)	—	580.9	(24.9)	(1,108.0)
Cross-currency interest rate swaps	4.5	176.8	—	(103.6)	26.4	99.6
Interest rate swaps	4.5	5.4	—	—	(3.5)	1.9
Term loan	4.5	(100.0)	—	—	—	(100.0)
Finance leases[1]	4.4	(0.2)	—	0.2	—	—
Total net liabilities from financing activities		(1,582.3)	—	477.5	(2.0)	(1,106.8)
Deferred consideration	4.5	(13.1)	—	11.1	—	(2.0)
Net debt	4.1.1	(1,117.0)	671.1	(17.0)	(3.2)	(466.1)

1. Capita has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Refer to note 6.4 for further details.

Section 3: Operating assets and liabilities

This section shows the operating assets and liabilities used to generate the Group's trading performance. Liabilities relating to the Group's financing activities are addressed in Section 4. Current tax and deferred tax assets and liabilities are shown in note 2.6. Deferred income is shown in note 2.1.

In this section you will find disclosures about:

AP **Denotes accounting policies**

J **Denotes significant accounting judgements**

Key highlights

Return on capital employed (ROCE) [1]
Aim: Deliver ROCE in excess of our cost of capital

13.3%

(2018: 17.9%)

1. Definitions of the alternative performance measures and related KPI's can be found in section 8.2.

	Note	2019 £m	2018 £m	Year on year movement £m
Working capital	3.1	**(636.2)**	(875.8)	239.6
Trade and other receivables – current	3.1.1	**748.4**	771.7	(23.3)
Trade and other receivables – non-current	3.1.1	**26.4**	26.2	0.2
Trade and other payables – current	3.1.2	**(619.8)**	(668.7)	48.9
Trade and other payables – non-current	3.1.2	**(6.0)**	(11.6)	5.6
Deferred income – current	2.1	**(884.5)**	(980.3)	95.8
Deferred income – non-current	2.1	**(176.5)**	(277.3)	100.8
Contract fulfilment assets	3.1.3	**275.8**	264.2	11.6
Property, plant and equipment	3.2	**194.3**	213.6	(19.3)
Intangibles	3.3	**354.2**	328.7	25.5
Goodwill	3.4	**1,177.8**	1,259.0	(81.2)
Right-of-use-assets	3.5	**480.9**	—	480.9
Provisions – current	3.6	**(71.3)**	(96.8)	25.5
Provisions – non-current	3.6	**(9.3)**	(19.4)	10.1

The decrease in trade and other receivables was as a result of the timing of the collection of receivables (£42.8m) as well as a decrease in prepayments of £12.8m owing to the adoption of IFRS 16. This was offset by an increase in other taxes (£12.7m), staff loans (£6.0m) and accrued income (£8.8m).

The current trade and other payables decreased as a result of the investment made in improving supplier payment terms (£13.4m), a decrease in other taxes and social security of £16.0m, and a decrease in accruals of £30.3m. These movements were offset by an increase in other payables of £10.8m.

The decrease in deferred income was as a result of the normal reduction in deferred income balances as well as one-off reductions in contracts which were terminated or re-negotiated in the year.

Section 3: Operating assets and liabilities continued

Contract fulfilment assets increased as a result of additions of £114.3m predominantly in Government Services (£51.0m), Software (£35.8m) and Technology Solutions (£12.6m). This was offset by a utilisation of £90.7m mainly within Software (£31.2m), Government Services (£18.9m) and Technology Solutions (£14.2m), as well as an impairment of £9.6m across a number of contracts.

Property, plant and equipment decreased as additions of £57.7m in the year relating to Windows 10 upgrades and various investments across each division were offset by a £14.7m impairment of assets in respect of businesses being exited, and depreciation of £60.3m.

Intangibles increased as a result of £124.7m of additions relating primarily to investment in software implementations, such as the finance transformation (£26.5m), WorkDay in the HR function (£7.8m), and other investments across each division to drive future growth. This increase was offset by amortisation of £81.4m and an impairment of £13.8m, £12.3m of which related to the finance transformation (see note 3.3 for further details).

Goodwill decreased as a result of impairment charges of £76.7m, of which £35.3m relates to businesses being exited and £41.4m resulting from the annual impairment testing, and a reclassification to assets held for sale £2.8m.

A right of use assets were recognised as a result of the adoption of IFRS 16. See note 3.5.

The reduction in provisions of £35.6m was predominantly due to utilisation and release of provisions of £78.5m which was offset by £58.1m provided in the year for restructuring (£22.5m) and legal provisions (£21.6m).

3.1 Working Capital

3.1.1 Trade and other receivable

AP **Accounting policies**

Trade receivables: Trade receivables are recognised initially at cost (being the same as fair value) and subsequently at amortised cost less any provision for impairment, to ensure the amounts recognised represent the recoverable amount.

Impairment: For trade receivables, the Group applies the simplified approach permitted by IFRS 9, resulting in trade receivables recognised and carried at original invoice amount less an allowance for any uncollectible amounts based on expected credit losses. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Accrued income: Accrued income in relation to contract assets are recognised when the payments made by customers are less than the revenue recognised for the period end date.

	Current		Non-current	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Trade receivables	**392.8**	435.6	**—**	—
Other receivables	**48.4**	29.4	**4.3**	2.3
Current contract fulfilment assets[1]	**13.8**	11.1	**—**	—
Accrued income	**191.2**	182.9	**0.5**	—
Prepayments	**102.2**	112.7	**21.6**	23.9
	748.4	771.7	**26.4**	26.2

1. Refer to note 3.1.3 for non-current contract fulfilment assets.

Trade receivables are non-interest bearing and are generally on 30-day terms.

The Group's accrued income balances solely relate to revenue from contracts with customers. Movements in the accrued income balances were driven by transactions entered into by the Group within the normal course of business in the year (2018: other than £5.1m impairment arising on a contract in Government Services).

Movements in the loss allowance made against receivables were as follows:

	2019 £m	2018 £m
At 1 January	**11.2**	8.3
Utilised	**(0.3)**	(1.4)
Provided in the year	**3.2**	9.5
Released in the year	**(9.2)**	(2.5)
Business disposal/closure	**—**	(2.7)
At 31 December	**4.9**	11.2

The Group monitors the level of trade receivables on a monthly basis, continually assessing the risk of default by any counterparty.

Section 3: Operating assets and liabilities continued

3.1 Working Capital continued

3.1.2 Trade and other payables

	Current		Non-current	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Trade payables	**200.9**	214.3	**—**	—
Other payables	**21.5**	10.7	**3.0**	1.6
Other taxes and social security	**115.2**	131.2	**—**	—
Accruals	**282.2**	312.5	**3.0**	10.0
	619.8	668.7	**6.0**	11.6

Trade payables are non-interest bearing and are settled within terms agreed with suppliers.

3.1.3 Contract fulfilment assets

AP **Accounting policies**

The Group regularly incurs costs to deliver its outsourcing services in a more efficient way (often referred to as 'transformation' costs). These costs may include process mapping and design, system development, project management, hardware (generally in scope of the Group's accounting policy for property, plant and equipment), software licence costs (generally in scope of the Group's accounting policy for intangible assets), recruitment costs and training.

Contract fulfilment costs are divided into: (i) costs that give rise to an asset; and (ii) costs that are expensed as incurred.

When determining the appropriate accounting treatment for such costs, the Group firstly considers any other applicable standards. If those other standards preclude capitalisation of a particular cost, then an asset is not recognised under IFRS 15.

If other standards are not applicable to contract fulfilment costs, the Group applies the following criteria which, if met, result in capitalisation: (i) the costs directly relate to a contract or to a specifically identifiable anticipated contract; (ii) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and (iii) the costs are expected to be recovered.

The Group has determined that, where the relevant specific criteria are met, the costs for (i) process mapping and design; (ii) system development; and (iii) project management are likely to qualify to be capitalised as contract fulfilment assets.

The incremental costs of obtaining a contract with a customer are recognised as a contract fulfilment asset if the Group expects to recover them. The Group incurs costs such as bid costs, legal fees to draft a contract and sales commissions when it enters into a new contract.

The Group has determined that the following costs may be capitalised as contract fulfilment assets: (i) legal fees to draft a contract (once the Group has been selected as a preferred supplier for a bid); and (ii) sales commissions that are directly related to winning a specific contract.

Costs incurred prior to selection as preferred supplier are not capitalised but are expensed as incurred.

Utilisation: The utilisation charge is included within cost of sales. The Group utilises contract fulfilment assets over the expected contract period using a systematic basis that mirrors the pattern in which the Group transfers control of the service to the customer. Judgement is applied to determine this period.

Derecognition: A contract fulfilment asset is derecognised either when it is disposed of or when no further economic benefits are expected to flow from its use or disposal.

Impairment: At each reporting date, the Group determines whether or not the contract fulfilment assets are impaired by comparing the carrying amount of the asset to the remaining amount of consideration that the Group expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, the Group uses the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price will be removed for the impairment test.

J **Significant accounting judgements, estimates and assumptions**

Judgement is applied by the Group when determining what costs qualify to be capitalised in particular when considering whether these costs are incremental and when considering if costs generate or enhance resources to be used to satisfy future performance obligations and whether costs are expected to be recoverable. For example, the Group considers which type of sales commissions are incremental to the cost of obtaining specific contracts and the point in time when the costs will be capitalised. See note 2.1 for further information.

Section 3: Operating assets and liabilities continued

3.1 Working Capital continued

Movements in non-current contract fulfilment assets were as follows[1]:

	2019 £m	2018 £m
At 1 January	**264.2**	252.5
Additions	**114.3**	113.8
Prior year reclassification from current contract fulfilment assets	**—**	25.4
Impairment	**(9.6)**	(22.2)
Derecognition	**(2.0)**	(17.4)
Utilised during the year	**(90.7)**	(87.9)
Exchange movement	**(0.4)**	—
At 31 December	**275.8**	264.2

1. Refer to note 3.1.1 for current contract fulfilment assets.

Impairment: In 2019, the Group recognised an impairment of £9.6m (2018: £22.2m) within adjusted cost of sales, of which, £2.2m (2018: 22.2 relates to contract fulfilment assets added during the year.

Derecognition: In 2019, £2.0m (2018: £17.4m) was derecognised in relation to in year business exits. In the prior year, derecognition related to the Prudential and Marsh contracts which were terminated during 2018 and the Group had no further use for the assets.

3.2 Property, plant and equipment

AP **Accounting policies**

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation: Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- Freehold buildings and long leasehold property – over 50 years.
- Leasehold improvements – period of the lease.
- Plant and machinery – 3 to 10 years.

Impairment: The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement within administrative expenses.

Derecognition: An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset (retired). Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Section 3: Operating assets and liabilities continued

3.2 Property, plant and equipment

	2019 Leasehold improvement, land and buildings £m	2019 Plant and machinery £m	2019 Total £m	2018 Leasehold improvements, land and buildings £m	2018 Plant and machinery £m	2018 Total £m
Cost						
At 1 January	**103.0**	**175.7**	**278.7**	77.1	195.0	272.1
Additions	**18.0**	**39.7**	**57.7**	33.1	56.3	89.4
Disposal of business	—	—	—	—	(22.8)	(22.8)
Disposals – included in adjusted profit	**(2.4)**	**(4.6)**	**(7.0)**	(0.6)	(19.7)	(20.3)
Transfer to assets held for sale	**(0.2)**	—	**(0.2)**	—	—	—
Asset retirements	—	—	—	(5.9)	(33.1)	(39.0)
Exchange movement	**(0.3)**	**(4.2)**	**(4.5)**	(0.7)	—	(0.7)
At 31 December	**118.1**	**206.6**	**324.7**	103.0	175.7	278.7
Depreciation and impairment:						
At 1 January	**41.8**	**23.3**	**65.1**	32.7	20.1	52.8
Depreciation charged during the year	**9.6**	**50.7**	**60.3**	9.7	50.4	60.1
Disposal of business	—	—	—	—	(2.9)	(2.9)
Disposals – included in adjusted profit	**(2.2)**	**(3.8)**	**(6.0)**	(0.6)	(10.8)	(11.4)
Impairment – included in adjusted profit	—	—	—	6.1	—	6.1
Impairment – business exit	—	**14.7**	**14.7**	—	—	—
Asset retirements	—	—	—	(5.9)	(33.1)	(39.0)
Exchange movement	**(1.9)**	**(1.8)**	**(3.7)**	(0.2)	(0.4)	(0.6)
At 31 December	**47.3**	**83.1**	**130.4**	41.8	23.3	65.1
Net book value						
At 1 January	**61.2**	**152.4**	**213.6**	44.4	174.9	219.3
At 31 December	**70.8**	**123.5**	**194.3**	61.2	152.4	213.6

At 31 December 2019, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £6.7m (2018: £10.7m), relating to building improvement on a leased property and software upgrades.

3.3 Intangible assets

AP Accounting policies

Intangible assets acquired separately are capitalised at cost and those identified in a business acquisition are capitalised at fair value at the date of acquisition. In the case of capitalised software development costs, research expenditure is written off to the income statement in the period in which it is incurred. Development expenditure is written off in the same way unless and until the Group is satisfied as to the technical, commercial and financial viability of individual projects. Where this condition is satisfied, the development expenditure is capitalised and amortised over the period during which the Group is expected to benefit.

Following initial recognition, the carrying amount of an intangible asset is its cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. There were no indefinite-lived assets in 2019 or 2018.

Amortisation: Amortisation is charged on assets with finite lives and is disclosed as an administrative expenses in the income statement. Following initial recognition, the carrying amount of an intangible asset is its cost less any accumulated amortisation and any accumulated impairment losses.

The amortisation method used shall reflect the expected pattern of consumption of future economic benefits, generally amortised on a straight-line basis, the amortisation periods used are as follows:

- Intangible assets acquired in business combinations – 1.5 to 20 years.
- Intangible assets purchased or internally capitalised – 3 to 20 years.

Section 3: Operating assets and liabilities continued

3.3 Intangible assets continued

Impairment: Intangible assets with finite lives are only tested for impairment, either individually or at the cash-generating unit level, where there is an indicator of impairment.

Derecognition: Intangible assets are derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset (retired). Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

J Significant accounting judgements, estimates and assumptions

The measurement of intangible assets other than goodwill in a business combination: On the acquisition of a business, the identifiable intangible assets may include licences, customer lists and brands. The fair value of these assets is determined by discounting estimated future net cash flows generated by the asset as in most cases no active market for the assets exists and therefore no observable value. The use of different assumptions for the expectations of future cash flows and the discount rate would change the valuation of the intangible assets. The relative size of the Group's intangible assets, excluding goodwill, makes the judgements surrounding the estimated useful lives material to the Group's financial position and performance.

The assessment of costs capitalised as intangible assets to generate future economic benefits: Judgement is applied in assessing whether costs incurred, both internal and external, will generate future economic benefits. Significant judgements and estimates are applied in determining the carrying value of the assets, including assumptions made in respect of the status of the programme each asset relates to, and there may be a range of possible outcomes when a programme is complex.

			2019			2018
	Intangible assets acquired in business combinations £m	Capitalised/ purchased intangible assets £m	Total £m	Intangible assets acquired in business combinations £m	Capitalised/ purchased intangible assets £m	Total £m
Cost						
At 1 January	552.5	254.0	806.5	715.3	214.5	929.8
Subsidiaries acquired	—	—	—	2.7	—	2.7
Business disposal	—	—	—	(48.7)	(7.3)	(56.0)
Additions	—	124.7	124.7	—	70.1	70.1
Disposals – included in adjusted profit	—	(2.7)	(2.7)	—	(5.1)	(5.1)
Transfer to assets held for sale	—	(0.1)	(0.1)	—	—	—
Asset retirement	(179.2)	(12.2)	(191.4)	(123.3)	(18.8)	(142.1)
Exchange movement	(2.3)	(0.7)	(3.0)	6.5	0.6	7.1
At 31 December	371.0	363.0	734.0	552.5	254.0	806.5
Amortisation and impairment						
At 1 January	425.8	52.0	477.8	438.0	47.6	485.6
Amortisation charged during the year	50.3	31.1	81.4	86.7	27.9	114.6
Impairment – excluded from adjusted profit	—	13.8	13.8	61.7	—	61.7
Business disposal	—	—	—	(41.3)	(3.9)	(45.2)
Disposals – included in adjusted profit	—	(1.5)	(1.5)	—	(0.7)	(0.7)
Asset retirement	(179.2)	(12.2)	(191.4)	(123.3)	(18.8)	(142.1)
Exchange movement	—	(0.3)	(0.3)	4.0	(0.1)	3.9
At 31 December	296.9	82.9	379.8	425.8	52.0	477.8
Net book value (NBV)						
At 1 January	126.7	202.0	328.7	277.3	166.9	444.2
At 31 December	74.1	280.1	354.2	126.7	202.0	328.7

Intangible assets acquired in business combinations include brands (NBV 2019: £8.8m, 2018: £17.5m), IP software and licences (NBV 2019: £28.7m, 2018: £38.7m), contracts and committed sales (NBV 2019: £15.9m, 2018: £21.6m) and clients lists and relationships (NBV 2019: £20.7m, 2018: £48.9m).

Intangible assets capitalised or purchased include capitalised software development (NBV 2019: £237.0m, 2018: £161.6m) and other intangibles (NBV 2019: £43.1m, 2018: £40.4m).

The aim of the finance transformation is 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 is required on the core processes and procedures before the system can effectively be implemented. We have reviewed the costs capitalised and assessed that £12.3m is impaired, representing areas that we expect to redesign before going live. The carrying value of the investment at 31 December 2019, post impairment, is £58.6m. Further impairment may arise should there be a material change to the Group's operating model. This impairment is included within significant restructuring. We have continued to invest in shared service centres and offshoring, and in making improvements to the Group's existing reporting systems, processes and controls.

Section 3: Operating assets and liabilities continued

3.4 Goodwill

AP Accounting policies

Following initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill arising on acquisitions prior to 31 December 1997 remains set-off directly against reserves and does not get recycled through the income statement.

At the acquisition date, any goodwill acquired is allocated to the cash-generating units ('CGU') which are expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the CGU to which the goodwill relates. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured on the basis of the relative values of the operation disposed of and the portion of the CGU retained.

Acquisitions and disposals of non-controlling interests that do not result in a change of control are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. Any difference between the price paid or received and the amount by which non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the parent company.

Prior to the adoption of IAS 27 (Amended), goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

J Significant accounting judgements, estimates and assumptions

Measurement and impairment of goodwill: The amount of goodwill initially recognised as a result of a business combination is dependent on the allocation of the purchase price to the fair value of the identifiable assets acquired and the liabilities assumed. The determination of the fair value of the assets and liabilities is based, to a considerable extent, on management's judgement. Allocation of the purchase price affects the results of the Group as finite lived intangible assets are amortised. The Group determines whether goodwill is impaired on an annual basis or more frequently if required and this requires an estimation of the fair value less cost of disposal of the CGUs to which the intangible assets are allocated utilising an estimation of future cash flows and choosing a suitable discount rate.

	2019 Total £m	2018 Total £m
Cost		
At 1 January	**2,020.6**	2,071.2
Business disposal	**—**	(50.9)
Transfer to assets held for sale	**(2.8)**	—
Exchange movement	**(1.7)**	0.3
At 31 December	**2,016.1**	2,020.6
Accumulated impairment		
At 1 January	**761.6**	703.3
Impairment – excluded from adjusted profit	**41.4**	33.8
Impairment – business exit	**35.3**	24.3
Exchange movement	**—**	0.2
At 31 December	**838.3**	761.6
Carrying amount		
At 1 January	**1,259.0**	1,367.9
At 31 December	**1,177.8**	1,259.0

Cash-generating units
Reflecting the way management exercises oversight and monitors the Group's performance, the lowest level at which goodwill is monitored is at the divisional level for four divisions (Software, People Solutions, Customer Management and Consulting (see below)), and at a sub-divisional level for the other three divisions (Government Services, Technology Solutions and Specialist Services), and goodwill is allocated to these CGUs or groups of CGUs. As at the 31 December 2019, the Group has 10 CGUs or groups of CGUs for the purpose of impairment testing.

A new Consulting division was created in 2019 in line with the Group's strategy. This new division forms its own stand-alone CGU for goodwill testing. The division was formed following the transfer of businesses from the Software segment and the relevant goodwill has been reallocated to reflect this transfer. Reallocations have also been made between Specialist Services and IT Services to reflect a restructuring of certain businesses between the two CGUs in 2019.

As the transformation plan progresses, the Board will continue to assess the level at which management exercise oversight and monitors the Group's performance to ensure the allocation to CGUs remains appropriate.

Section 3: Operating assets and liabilities continued

3.4 Goodwill continued

Carrying amount of goodwill allocated to groups of CGUs:

CGU	Software £m	People Solutions £m	Customer Management £m	Government Services	Technology Solutions		Specialist Services £m	Consulting £m	Total £m
				Central Government	IT Services £m	Network Services			
At 1 January 2019	275.6	203.5	138.7	8.7	117.7	108.5	406.3	—	1,259.0
Restructures	(20.7)	—	—	—	91.5	—	(91.5)	20.7	—
Transfer to assets held for sale	—	—	—	—	—	—	(2.8)	—	(2.8)
Exchange movement	—	—	(1.7)	—	—	—	—	—	(1.7)
Impairment – business exit	—	(3.8)	—	—	—	—	(31.5)	—	(35.3)
Impairment	—	—	—	—	—	(41.4)	—	—	(41.4)
At 31 December 2019	**254.9**	**199.7**	**137.0**	**8.7**	**209.2**	**67.1**	**280.5**	**20.7**	**1,177.8**

Specialist Regulated Services and Local Government CGUs are not included in the table above as related goodwill was fully impaired in prior years.

Business exits

As set out in note 2.8, one business in Specialist Services that the Group intends to dispose of in 2020 has met the criteria to be treated as held for sale as at 31 December 2019. A portion of the goodwill relating to this business has been reclassified to assets held for sale, and the remaining amount impaired within business exits.

One business within People Solutions has met the criteria to be treated as a business exit as at 31 December 2019. Goodwill relating to this business has been impaired within business exits.

The impairment test

The Group's impairment test compares the carrying value of each CGU with its recoverable amount. The recoverable amount of a CGU is the higher of fair value less cost of disposal, and value in use. As the Group continues to implement the Group-wide transformation plan, described earlier in the strategic report, it has been determined that for 2019, fair value less costs of disposal will generate the higher recoverable amount. The valuation of CGUs under fair value less costs of disposal also assumes that a third-party acquirer would undertake a similar transformation plan to derive similar benefits in the business going forward. Fair value less costs of disposal have been estimated using discounted cash flows. The fair value measurement was categorised as a Level 3 fair value based on the inputs in the valuation technique used.

In undertaking the annual impairment review, the Directors considered both external and internal sources of information, and any observable indications that may suggest that the carrying value of goodwill may be impaired.

The enterprise value of each CGU is dependent on the successful implementation of the transformation plan. The objective of the new strategy announced in April 2018 is to become a more focused and predictable business with improved returns, stronger client relationships and sustainable free cash flow. If the transformation plan fails to drive improved returns and sustainable free cash flow in one or more of the CGUs, then this may give rise to an impairment of goodwill in future periods.

As set out in the Chief Financial Officer's review in the strategic report, although 2019 adjusted operating profit was in line with expectations, one-off gains offset a lower than planned level of growth in the second half of 2019, meaning the Group entered 2020 at a lower level than expected and reliant on an increased level of growth. In relation to Network Services, post the half year results announcement and as the market continues to change, forecast margins were impacted by high competition and market pressures, which was then reflected in the 2020 business plan. Whilst we continue to win new revenue, albeit not at the expected level of growth, the margin pressure is expected to continue until we move to provision of our digital transformation propositions. The impact of this was an impairment to the Network Services CGU of £41.4m.

In 2018, the deterioration of the local government market for large BPO contracts resulted in an impairment charge of Local Government goodwill and acquired intangibles.

The key inputs to the calculations are described below, including changes in market conditions.

Forecast cash flows

The bottom-up business planning process completed in early 2020 and the resulting three year business plan for 2020, 2021 and 2022 was approved by the Board. For the 2019 impairment test, the business plan for 2020-2022 was used to derive the cash flow forecasts for the purpose of the impairment test. Other than for movements in deferred income and contract fulfilment assets, cash flows are adjusted to exclude working capital movements as the corresponding balances are not included in the CGU carrying amount. The cash flows include forecast capital expenditure and restructuring, as well as an allocation of the costs of central functions. For the purpose of goodwill impairment testing, the business plan cash flow forecasts have been further risk adjusted using historical performance to reflect additional contingencies relating to unsolutioned revenues, contract terminations, losses and renewal forecasts, and additional contract specific contingencies.

The Board have considered an appropriate methodology to apply in allocating the costs of the central functions, which is a key sensitivity. Forecast CGU level 2021 EBITDA measures have been used for this purpose, as these are seen to represent a steady state forecast for the Group and an appropriate approximation of the attention and focus of the Group's central functions. As the transformation plan delivers, the Board will assess any changes required to ensure the allocation methodology continues to reflect the efforts of the central functions.

The long-term growth rate is based on inflation forecasts by recognised bodies and this has been applied to forecast cash flows for years four and five (2023 and 2024) and for the terminal period. The 2019 long-term growth rate is 1.6% (2018: 1.5%).

Discount rates

Management estimates discount rates using pre-tax rates that reflect the latest market assumptions for the risk-free rate, the equity risk premium and the net cost of debt, which are all based on publicly available external sources.

Section 3: Operating assets and liabilities continued

3.4 Goodwill continued

The table below represents the pre-tax discount rates used on the cash flows.

	Software	People Solutions	Customer Management	Central Government	Local Government	IT Services	Network Services	Specialist Regulated Services	Specialist Services	Consulting
2019	**11.5%**	**10.9%**	**10.7%**	**10.2%**	**15.6%**	**9.9%**	**9.9%**	**10.3%**	**10.6%**	**10.6%**
2018	12.7%	12.1%	11.9%	11.4%	16.8%	11.1%	11.1%	11.5%	11.8%	—

As set out above, discount rates used in 2019 are 1.2% lower than those for 2018. The key drivers for this decrease are changes in market assumptions for UK corporate bond yields and risk-free rates, and a decrease in the levered beta of peer group comparators.

Sensitivity analysis

The impairment testing as described is reliant on the accuracy of management's forecasts and the assumptions that underlie them and also on the selection of the discount and growth rates to be applied. In order to gauge the sensitivity of the result to a change in any one, or combination of the assumptions that underlie the model, a number of scenarios have been run to identify the range of reasonably possible alternatives and measure which CGUs are the most susceptible to an impairment should the assumptions used be varied. This sensitivity analysis is only applicable to the CGUs that have goodwill.

The table below shows how the enterprise value would be impacted (with all other variables being equal) by an increase in discount rate of 1%, or a decrease of 1% in the long-term growth rate (for the terminal period) for the Group in total and each of the CGUs, or if the severe but plausible downsides applied to the base-case projections for assessing going concern and viability, without mitigations. These include trading downside risks which assume the transformation plan is not successful in delivering the anticipated revenue growth and assumes a downside that also incorporates revenue attrition. The severe downside has incorporated 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. We have also considered the impact of all of the scenarios together and disclosed the impact on impairment in the final column.

	1% increase in discount rate £m	Long-term growth rate decrease by 1% £m	Severe but plausible downside £m	Combination sensitivity £m	Increase in 2019 impairment using combination scenario £m
Software	(69.0)	(51.8)	(315.4)	(379.3)	(37.2)
People Solutions	(46.4)	(34.8)	(266.3)	(299.5)	(129.0)
Customer Management	(64.5)	(50.1)	(294.4)	(353.1)	—
Central Government	(40.2)	(33.1)	(214.4)	(243.8)	—
IT Services	(43.9)	(33.7)	(184.9)	(224.2)	(93.0)
Network Services	(9.4)	(7.4)	(172.4)	(158.5)	(79.0)
Specialist Services	(67.8)	(50.6)	(142.6)	(229.5)	—
Consulting	(74.7)	(56.1)	(265.8)	(339.9)	—
Total	**(415.9)**	**(317.6)**	**(1,856.2)**	**(2,227.8)**	**(338.2)**

Management continue to monitor closely the performance of all CGUs and consider the impact of any changes to the key assumptions. Given the Group is in the middle of a multi-year transformation there is a higher range of potential future outcomes. A number of these downsides would give rise to a larger impairment.

3.5 Right-of-use assets

AP Accounting policies

At the inception of the lease, the Group recognises a right-of-use asset at cost, which comprises the present value of minimum lease payments determined at the inception of the lease. Right-of-use assets are depreciated using the straight-line method over the shorter of estimated life or the lease term. Depreciation is included within administrative expenses in the consolidated income statement. Amendment to lease terms resulting in a change in payments or the length of the lease results in an adjustment to the right-of-use asset and liability. Right-of-use assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be fully recoverable.

Right-of-uses assets exclude leases with a low value and term of 12 months or less. These leases are expensed to the income statement as incurred.

				2019
	Property £m	Motor vehicles £m	Equipment £m	Total £m
Net book value				
Adoption (note 6.4)	**500.8**	**8.7**	**58.7**	**568.2**
Addition of new leases	**20.5**	**0.1**	**6.4**	**27.0**
Depreciation charged during the year	**(73.9)**	**(4.5)**	**(20.8)**	**(99.2)**
Other movements	**(1.4)**	**—**	**(13.7)**	**(15.1)**
At 31 December	**446.0**	**4.3**	**30.6**	**480.9**

Other movements includes amendments to existing leases, impairment and terminations.

Section 3: Operating assets and liabilities continued

3.6 Provisions

AP Accounting policies

Provisions are recognised when the Group has a present legal or constructive obligation arising from past events, it is probable that cash will be paid to settle it and the amount can be estimated reliably. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows by a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a financing cost in the income statement. The value of the provision is determined based on assumptions and estimates in relation to the amount, timing and likelihood of actual cash flows, which are dependent on future events.

J Significant accounting judgements, estimates and assumptions

Judgement is required in measuring and recognising provisions related to pending litigation or other outstanding claims subject to negotiated settlement, mediation and arbitration, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the financial settlement. Because of the inherent uncertainty in this evaluation process, actual losses may be different from the originally estimated provision. Where practicable, the range of reasonably possible outcomes and sensitivities of the carrying amounts to the methodology, assumptions and estimates, the reason for the sensitivity, the expected resolution of uncertainties and the range of reasonable possible alternatives, are provided. Where no reliable basis of estimation can be made, no provision is recorded. However, contingent liabilities disclosures are given when there is a greater than a remote probability of outflow of economic benefits. See note 6.2.

Onerous contract provisions
See note 2.1 for further information.

Provisions
The movements in provisions during the year are as follows:

	Restructuring provision £m	Business exit provision £m	Asset services indemnity provision £m	Claim and litigation provision £m	Property provision £m	Other £m	Total £m
At 1 January 2019	12.0	17.5	3.0	46.4	19.9	17.4	116.2
IFRS 16 adoption reclassification to right-of-use assets[1]	**(3.5)**	—	—	—	**(11.7)**	—	**(15.2)**
Provisions provided for in the year	**22.5**	**2.1**	—	**21.6**	**3.7**	**8.2**	**58.1**
Provisions released in the year	**(2.3)**	**(5.6)**	—	**(11.7)**	**(0.8)**	**(3.9)**	**(24.3)**
Utilisation	**(22.6)**	**(6.5)**	—	**(15.1)**	**(2.8)**	**(7.2)**	**(54.2)**
Reclassification between categories	—	**3.0**	**(3.0)**	—	—	—	—
At 31 December 2019	**6.1**	**10.5**	—	**41.2**	**8.3**	**14.5**	**80.6**

1. On adoption of IFRS 16 (effective 1 January 2019), all leases within the scope of the standard were recognised as right-of-use assets and lease liabilities on the Group's balance sheet. This resulted in the reclassification of restructuring and property provisions of £15.2m against these right-of-use assets. Refer to note 6.4 for further details.

The provisions made above have been shown as current or non-current on the balance sheet to indicate the Group's expected timing of the matters reaching conclusion.

Restructuring provision: The provision represents the cost of reducing role count where communication to affected employees has crystallised a valid expectation that roles are at risk, there are likely to unwind over a period of 1 to 2 years. Additionally, it reflects the onerous nature leasehold property costs where properties are exited as a result of the transformation plan, these provisions are likely to unwind over a period of 1 to 25 years.

Business exit provision: The provision relates to the cost of exiting businesses through disposal or closure including professional fees related to business exits and the costs of separating the businesses being disposed. These are likely to unwind over a period of 1 to 5 years.

Capita Asset Services indemnity provision: Capita completed the disposal of its Asset Services businesses to the Link Group on 3 November 2017 and provided an indemnity against certain legacy claims. The remaining £3.0m provision has been transferred to business exit provisions. Due to the nature of these claims, the Group cannot give an estimate of the period over which this provision will unwind.

Claims and litigation provision: The Group is exposed to claims and litigation proceedings arising in the ordinary course of business. These matters are reassessed regularly and where obligations are probable and estimable, provisions are made representing the Group's best estimate of the expenditure to be incurred. Due to the nature of these claims, the Group cannot give an estimate of the period over which this provision will unwind.

Property provision: The property provisions remaining after the IFRS 16 adoption reclassification to right-of-use assets relate to unavoidable running cost of leasehold property where the space is vacant or currently not planned to be used for ongoing operations and for dilapidation costs. The expectation is that this expenditure will be incurred over the remaining periods of the leases which range from 1 to 26 years.

Other provisions: Relates to provisions in respect of other potential exposures arising due to the nature of some of the operations that the Group provides, the most significant of which are in respect of immaterial onerous contracts of £6.1m (2018: £7.4m). These are likely to unwind over a period of 1 to 10 years.

Section 4: Capital structure and financing costs

This section outlines the Group's capital structure and financing costs. The Group defines its capital structure as its cash and cash equivalents, non-current interest bearing loans and borrowings and equity. The Group aims to manage its capital structure to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders. The Group manages its capital structure to maintain a sustainable mix of debt and equity that ensures that the Group can pursue its strategy. The Group makes adjustments to its capital structure in light of changes in economic conditions and strategic operational risk. To maintain or adjust the capital structure, the Group may return capital to shareholders through dividends and share buy backs, sell assets, raise additional equity, or arrange additional debt facilities. In this section you will find disclosures about:

AP **Denotes accounting policies**

J **Denotes significant accounting judgements**

Key highlights

Headline gearing[2]: headline net debt to adjusted EBITDA[1]
Aim: Maintain the ratio of headline net debt to adjusted EBITDA in the range of 1x and 2x over the long term

2.0x

(2018: 1.1x)

Covenant gearing[2]: adjusted net debt to adjusted EBITDA[1]
Aim: Compliance with the ratio of adjusted net debt to adjusted EBITDA maximum permitted level of 3.0x to 3.5x in line with covenants of other financing arrangements

2.2x

(2018: 1.2x)

1. Definitions of the alternative performance measures and related KPI's can be found in section 8.2.
2. Headline gearing differs to covenant gearing. Headline gearing is based on the headline net debt of £790.6m (2018: £466.1m). Headline net debt excludes the Group's restricted cash of £42.1m (2018: £28.6m) included in the covenant gearing calculations which are based on the adjusted net debt of £832.7m (2018: £494.7m). Impact of IFRS 16 has been removed from both ratios. Refer to section 8.2 for further details.

Capital strategy

Upon completion of its transformation, the Group will determine and communicate a financial policy that provides clarity to debt and equity providers about how it will structure and manage its balance sheet. In the interim the Group's main objective in this regard is to develop a strong and flexible balance sheet that supports the investment needed to grow the business. The Group is advanced with plans to replace debt maturing in 2020 and early 2021 with net debt which has less restrictive covenants. The Revolving Credit Facility will be used to provide necessary liquidity in the short term. The capital from any disposals will be recycled to support the focus on driving growth in the Group's chosen markets, and shareholder returns will be reviewed as sustainable free cash flow grows.

Capital structure	2019 £m	2018 £m	Year on year movement £m
Cash	**(409.1)**	(957.5)	548.4
Overdraft	**286.3**	314.8	(28.5)
Lease liabilities	**562.6**	—	562.6
Private placement loan notes	**990.7**	1,108.0	(117.3)
Other loan notes	**0.3**	0.3	0.0
Term loan	**—**	100.0	(100.0)
Currency and interest rate swaps	**(78.3)**	(101.5)	23.2
Deferred consideration	**0.7**	2.0	(1.3)
Net debt	**1,353.2**	466.1	887.1
Undrawn Revolving Credit Facility	**414.0**	600.0	(186.0)
Capital	**1,767.2**	1,066.1	701.1

Key cash outlays in the year included net capital expenditure of £182.0m, repayment of debt and refinancing arrangement costs of £187.0m in total, and lease payments of £93.7m.

Lease liability movements are as a result of the adoption of IFRS 16.

Private placement loan notes decreased following the prepayment of certain Euro fixed rate bearer notes of £11.1m and repayment at maturity of US private placement loan notes of £74.8m in July 2019. The term loan matured and was repaid in May 2019.

Currency and interest rate swaps reduced both through expiry at the maturity of associated hedged debt and movement in the fair value of the remaining derivatives.

The Revolving Credit Facility (RCF) was undrawn at 31 December 2019. At this time the RCF was £414.0m. The addition of a further bank to the facility in February 2020 increased the RCF to £452.0m.

Section 4: Capital structure and financing costs continued

Net finance costs
Net finance costs have decreased by £9.6m to £62.4m (2018: £72.0m), the reduction is due to lower levels of debt and reduced early redemption costs of £28.2m arising from debt repayments and a decrease of £5.0m in net interest costs on defined benefit pension schemes, partially offset by interest on lease liabilities of £25.7m subsequent to the adoption of IFRS 16.

Liquidity
Liquidity remains a key area of focus for the Group. Financial instruments used to fund operations and to manage liquidity comprise US private placement loan notes, Euro fixed rate bearer notes, a Schuldschein loan, an RCF, leases and overdrafts.

The Group does not rely on sources of funding that are not contractually committed. To mitigate the risk of needing to refinance in challenging conditions, the Group is diversifying its sources of committed funding and are well advanced in spreading debt maturities to November 2027. In addition, the Group's RCF of £414.0m at 31 December 2019 (2018: £600.0m) provides flexible liquidity available to fund operations and a reasonable liquidity buffer allowing for contingencies. In December 2019, the facility was extended to 31 August 2022, (extendable for a further year to 31 August 2023 with the consent of the lenders by 31 August 2021). The addition of a further bank to the facility in February 2020 resulted in the facility increasing to £452.0m.

In addition to the RCF, in February 2020 the Group agreed a backstop liquidity facility of £150.0m. The backstop liquidity facility has an initial maturity in February 2021, and is extendable at the option of the Group to a final maturity in August 2022.

The Board is taking steps to extend the average term to maturity of its debt, and thereby reduce refinancing risk, by issuing new long-term debt instruments. The Board's view is that the appropriate leverage ratio for Capita over the medium term should be between 1 and 2 times headline net debt to adjusted EBITDA (prior to the adoption of IFRS 16). At 31 December 2019, the Group's headline gearing ratio was 2.0x (2018: 1.1x) before the adoption of IFRS 16. Net debt increased as a result of the adoption of IFRS 16.

The impact of IFRS 16 adoption on the Group's adjusted net debt to adjusted EBITDA debt covenant ratio is neutral, as the Group covenants are calculated using GAAP applied before the adoption of IFRS 16, 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.

Under the RCF and Euro fixed rate bearer notes covenants at 31 December 2019 the Group's adjusted net debt to adjusted EBITDA ratio was 2.2x (2018: 1.2x) compared to a maximum permitted value of 3.5x and annualised interest cover at 10.8x (2018: 8.2x) compared to a minimum permitted level of 4.0x. Under the US private placement loan notes covenant calculations, at 31 December 2019 the Group's adjusted net debt to adjusted EBITDA ratio was 1.7x compared to a maximum permitted value of 3.0x and annualised interest cover at 11.2x compared to a minimum permitted level of 4.0x. As the comparatives have not been restated on the adoption of IFRS 16, the December 2018 ratio only provides a meaningful comparison in the case of the other financing arrangements and therefore no comparatives are shown for the US private placement loan notes.

4.1 Net debt, capital and capital management

4.1.1 Net debt and capital
The components of the Group's net debt and undrawn available liquidity are summarised below. The key movement in the Group's capital is a result of the adoption of IFRS 16.

	Notes	2019 £m	2018 £m
Cash	4.5.4	**(409.1)**	(957.5)
Overdraft	4.5.4	**286.3**	314.8
Lease liabilities[1]	4.4.1	**562.6**	—
Private placement loan notes[2]	4.5.2	**990.7**	1,108.0
Other loan notes	4.5.2	**0.3**	0.3
Term loan	4.5.2	**—**	100.0
Currency and interest rate swaps	4.5.2	**(78.3)**	(101.5)
Deferred consideration	4.5.2	**0.7**	2.0
Net debt		**1,353.2**	466.1
Undrawn available Revolving Credit Facility	4.5.3	**414.0**	600.0
Capital		**1,767.2**	1,066.1

1. Capita has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Refer to note 6.4 for further details.
2. Private placement loan notes include USD and GBP private placement loan notes, Euro fixed rate bearer notes and a Schuldschein loan.

A reconciliation of net debt shown above to cash flow can be found in note 2.10.3.

4.1.2 Capital management
The primary objective of the Group's capital management is to ensure that it maintains a strong credit standing, evidenced by healthy capital ratios, to support its ongoing business operations and to maximise shareholder value. The Group manages its capital structure, and makes adjustments to it, in light of changes in economic conditions and needs of the business. The Group's capital management includes consideration of dividend payments or the return of capital to shareholders or issuing new shares. Focus on capital management forms an important component of Board meetings, with attention to various matters including return on capital employed, and a mix of funding sources to ensure sustainability and flexibility. The Group's capital management process ensures that it meets the financial covenants of its borrowing arrangements. There have been no breaches in the financial covenants of any loans or borrowings in the period.

The Group structures and uses long-dated debt, generally private placement loan notes and committed bank facilities, to enable it to manage refinancing risk and for the general corporate purposes of the Group. Various constraints prevent the Group using surplus cash to further reduce its gross debt, including regulatory requirements and the need to maintain adequate liquidity for operations over the course of the planning period. Capita plc supports the obligations of its various regulated financial services businesses. The board of each regulated firm is responsible for ensuring it has embedded capital management frameworks that ensure the availability of adequate financial resources at all times. During the year, each complied with all externally imposed financial services regulatory capital requirements applicable to them.

Section 4: Capital structure and financing costs continued

4.1 Net debt, capital and capital management continued

The Group historically made use of short-term non-recourse invoice financing, however such facilities were not used during the year and the Group does not expect to use such invoice financing in the future. In addition, the Group aims to pay suppliers on time in accordance with agreed terms and does not seek to accelerate payments from customers beyond terms previously agreed.

The Group seeks to maintain a conservative and efficient capital structure with an appropriate level of gearing as detailed in Liquidity (Section 4: Capital structure and financing costs) above. These ratios are monitored monthly by the Board to ensure that it has a sustainable capital base to support its clients and operations, invest in the business and deliver its strategy.

4.2 Financial risk

Financial risk management objectives and policies
The Group's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework, which is outlined on pages 40–47 of the strategic report. The Group's principal financial instruments comprise cash, bank loans, private placement loan notes, lease assets and liabilities and derivatives, the purpose of which is to provide liquidity for the Group's operations and to manage its financial risks. The Group has various other financial instruments including trade receivables and trade payables arising from its operations.

Derivatives comprise interest rate swaps, cross-currency interest rate swaps, and forward foreign currency contracts held with its relationship banks, all of which have investment grade credit ratings. The derivatives' purpose is to manage interest rate and currency risks arising from the Group's operations and its sources of finance. It is the Group's policy that no speculative trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board periodically reviews and agrees policies for managing each of these risks and they are summarised below.

4.2.1 Liquidity risk
The Group's policy is to hold cash and undrawn committed facilities at a level sufficient to fund the Group's operations and its medium-term plans.

The Group monitors the risk of a liquidity shortage through its business plan and liquidity cycle forecasts and analysis. The process considers the maturity of both the Group's financial instruments and projected cash flows from operations. The Group maintains a balance between continuity of funding and flexibility through the use or availability of multiple sources of funding over a broad spread of maturities up to November 2027. One such source of funding is the Group's committed bank facilities, which are available for operational funding and as a buffer for contingencies.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2019 based on contractual undiscounted payments:

At 31 December 2019	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Overdraft	286.3	—	—	—	—	—	286.3
Private placement loan notes	232.7	236.0	231.3	70.6	—	214.0	984.6
Interest on loan notes	31.3	25.0	14.0	8.9	7.3	12.1	98.6
Lease liabilities	101.6	86.6	68.1	60.4	50.6	384.6	751.9
Contingent consideration	5.0	—	—	—	—	—	5.0
Public sector subsidiary partnership payment	9.4	9.4	9.4	9.4	—	—	37.6
Put options of non-controlling interests	103.1	5.8	—	—	—	—	108.9
Cross-currency interest rate swaps	1.2	1.2	0.9	0.8	0.4	0.9	5.4
Other financial instruments	0.8	—	—	—	—	—	0.8
	771.4	364.0	323.7	150.1	58.3	611.6	2,279.1

At 31 December 2018	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Overdraft	314.8	—	—	—	—	—	314.8
Private placement loan notes	83.8	238.6	243.3	254.9	72.4	221.0	1,114.0
Interest on loan notes	45.0	32.6	26.2	14.8	9.2	20.0	147.8
Term loan	100.0	—	—	—	—	—	100.0
Contingent consideration	—	8.9	—	—	—	—	8.9
Public sector subsidiary partnership payment	9.4	9.4	9.4	9.4	9.4	—	47.0
Put options of non-controlling interests	107.3	—	11.2	—	—	—	118.5
Cross-currency interest rate swaps	1.3	1.3	1.3	0.9	0.9	1.4	7.1
Other financial instruments	2.2	—	—	—	—	—	2.2
	663.8	290.8	291.4	280.0	91.9	242.4	1,860.3

The above payments have been calculated based on the prevailing foreign exchange rates and interest rates at the end of the reporting period. For cross-currency interest rate swaps, only payments are included, receipts are excluded.

4.2.2 Foreign currency risk
The Group is not generally exposed to significant foreign currency transaction risk except where it purchases services in foreign currencies in Indian Rupee (INR) and USD. The Group seeks to mitigate the short term effect of this exposure by entering into forward foreign exchange contracts (including Non-deliverable Forward Contracts (NDFs)) to fix the GBP cost of highly probable transactions over a rolling 36 month future period.

Section 4: Capital structure and financing costs continued

4.2 Financial risk continued

To maximise hedge effectiveness the Group executes the forward foreign exchange contracts with terms matching the underlying cash flows.

At 31 December 2019, the Group held forward foreign exchange contracts against forecast internal monthly INR costs expected in the years up to and including December 2022. These forecast costs have been determined on the basis of the underlying cash flows associated with the delivery of services under executed customer contracts.

4.2.2 Foreign currency risk continued

In addition the Group holds foreign exchange forwards against committed costs relating to the purchase of cloud software services in USD in years up to and including April 2023.

The following table demonstrates the sensitivity of the Group's profit before tax and equity to a 5% strengthening/(weakening) in INR and USD exchange rates, assuming all other variables are unchanged, that would arise from the resulting changes in the fair value of the Group's forward exchange contracts.

	USD		INR	
	Effect on profit before tax £m	Effect on equity £m	Effect on profit before tax £m	Effect on equity £m
2019	**—**	**(1.2)**	**—**	**(3.9)**
2018	(2.2)	(1.3)	—	0.6

4.2.3 Interest rate risk

The Group manages its interest rate exposure, which arises from the Group's private placement loan notes, through a mix of fixed and variable interest rate debt, and through interest rate and cross-currency interest rate swaps. These swaps are designated fair value hedges against the fair value changes of the private placement loan notes.

The level of floating rate interest exposure, when considered with the floating rate interest received on cash and deposits gives the Group an acceptable overall interest rate risk profile. The interest rate profile of the Group's interest-bearing financial instruments was as follows:

At 31 December 2019	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Fixed rate							
Private placement loan notes	**92.3**	**35.7**	**171.1**	**27.4**	**—**	**122.3**	**448.8**
Floating rate							
Cash in hand	**(409.1)**	**—**	**—**	**—**	**—**	**—**	**(409.1)**
Overdraft	**286.3**	**—**	**—**	**—**	**—**	**—**	**286.3**
Private placement loan notes	**140.2**	**204.8**	**59.4**	**43.4**	**—**	**94.1**	**541.9**
Interest rate swaps	**—**	**(1.0)**	**—**	**—**	**—**	**—**	**(1.0)**
Cross-currency interest rate swaps	**(15.5)**	**(30.3)**	**(11.1)**	**(4.8)**	**—**	**(15.6)**	**(77.3)**

At 31 December 2018	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Fixed rate							
Private placement loan notes	—	92.8	36.0	191.5	27.5	125.4	473.2
Floating rate							
Cash in hand	(957.5)	—	—	—	—	—	(957.5)
Overdraft	314.8	—	—	—	—	—	314.8
Private placement loan notes	82.2	145.9	209.5	60.1	44.2	92.9	634.8
Term loan	100.0	—	—	—	—	—	100.0
Interest rate swaps	(0.5)	—	(1.4)	—	—	—	(1.9)
Cross-currency interest rate swaps	(9.3)	(21.8)	(35.5)	(12.2)	(5.3)	(15.5)	(99.6)

A sensitivity analysis to changes in interest rates shows that a 0.5% increase or decrease in interest rates, assuming all other variables are held constant, results in an £2.3m (2018: £3.2m) increase or decrease to profit before tax, and no impact on the Group's equity.

4.2.4 Hedges

Fair value hedges

The Group has in issue fixed rate USD and GBP private placement loan notes which it has hedged through a combination of interest rate and cross-currency interest rate swaps. The cross-currency interest rate swaps hedge the exposure to changes in the fair value of US dollar denominated loan notes. The loan notes, cross-currency and interest rate swaps have the same critical terms including the amount and the date of maturity.

The total loss in the year on the fair value hedges of £23.1m (2018: £27.5m) was equal to the gain/loss on the hedged items resulting in no net gain or loss in the income statement apart from hedge ineffectiveness from credit risk and currency basis risk. This effect of hedge ineffectiveness gave rise to a £2.8m debit (2018: £3.9m credit) to the income statement – shown in net finance costs, note 4.3.

Section 4: Capital structure and financing costs continued

4.2 Financial risk continued

The impact of the hedged item on the statement of financial position at 31 December 2019 is as follows:

	Notional Amount £m	Carrying Amount £m	Line item in the statement of financial position	Change in FV used for measuring ineffectiveness £m
Interest rate swaps	**26.0**	**1.0**	Financial assets	(0.9)
Cross-currency interest rate swaps – assets	**394.9**	**80.9**	Financial assets	(22.2)
Cross-currency interest rate swaps – liabilities	**(44.7)**	**(3.6)**	Financial liabilities	—

4.2.4 Hedges continued

The impact of the hedged item on the statement of financial position at 31 December 2019 is, as follows:

	Carrying Amount £m	Accumulated FV adjustment £m	Line item in the statement of financial position	Change in FV used for measuring ineffectiveness £m
Private placement loan notes	**990.7**	**78.3**	Financial Liabilities	23.1

Cash flow hedges

The Group holds a series of forward foreign exchange contracts, in the form of NDFs, designated as hedges of the highly probable transactions in INR of the Group's Indian operations and committed USD costs up to April 2023. The terms of the NDFs match the terms of these commitments. Fair value of cash flow hedges at 31 December 2019 are shown in note 4.5.2.

The cash flow hedges were assessed to be highly effective. The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of the hedging instruments. The following table provides an analysis of components of equity resulting from cash flow hedge accounting:

	2019 £m	2018 £m
At 1 January	**1.5**	1.9
Change in fair value	**1.0**	2.0
Reclassified to the profit or loss	**(2.6)**	(2.5)
Tax on movements on reserves during the year	**0.3**	0.1
At 31 December	**0.2**	1.5

4.2.5 Credit risk

The Group trades only with third parties that are expected to be creditworthy. It is the Group's policy that all clients who wish to trade on credit terms are subject to credit verification procedures. The Group manages its operations to avoid any excessive concentration of counterparty risk and the Group takes all reasonable steps to seek assurance from the counterparties to ensure that they can fulfil their obligations. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to credit loss is low and has not increased significantly.

The carrying amounts of the Group's financial assets and contract assets represent its maximum credit exposure.

The mark-to-market movement on derivatives includes the extent to which the fair value of these instruments has been affected by the perceived change in the creditworthiness of the counterparties to those instruments and that of the Group itself (own credit risk). The Group is comfortable that the risk attached to those counterparties is not significant and believes that the swaps continue to act as an effective hedge against the movements in the fair value of the Group's private placement loan notes.

4.3 Net finance costs

The table below shows the composition of net finance costs, including a reconciliation of net finance costs excluded from adjusted profit:

	Notes	2019 £m	2018 £m
Interest receivable		**(3.6)**	(2.6)
Private placement loan notes		**28.1**	40.4
Cash flow hedges recycled to the income statement	4.2.4	**(2.6)**	(2.5)
Bank loans and overdrafts		**4.2**	8.5
Net interest cost on defined benefit pension schemes	5.2	**4.4**	9.4
Interest payable		**34.1**	55.8
Net finance costs included in adjusted profit		**30.5**	53.2
Discount unwind on public sector subsidiary partnership payment	4.5.2	**1.3**	1.7
Non-designated foreign exchange forward contracts – mark-to-market		**2.1**	5.1
Interest on lease liabilities[1]		**25.7**	—
Fair value hedge ineffectiveness[2]	4.2.4	**2.8**	(3.9)
Private placement loan notes prepayments costs[3]		**—**	15.9
Net finance costs excluded from adjusted profit		**31.9**	18.8
Total net finance costs		**62.4**	72.0

1. The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Refer to note 6.4 for further details.
2. Fair value hedge ineffectiveness includes ineffectiveness from changes in currency basis, and the movement in mark-to-market valuations on hedge derivatives from the perceived change in the credit worthiness of the counterparties to those instruments. 2018 included early termination costs paid to noteholders on early repayment of private placement loan notes.
3. Private placement loan notes prepayment costs includes make-whole costs paid to noteholders on early repayment of principal in 2018.

Section 4: Capital structure and financing costs continued

4.4 Leases

AP **Accounting policies**

The Group leases various assets, comprising land and buildings, equipment and motor vehicles.

The determination whether an arrangement is, or contains, a lease is based on whether the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The following sets out the Group's lease accounting policy for all leases with the exception of leases with low value and term of 12 months or less which we have taken the exemption in the standard. These are expensed to the income statement.

The Group as a lessee – Right-of-use assets and lease liabilities
The accounting policy for right-of-use assets is included in note 3.5.

Lease liabilities are measured at amortised cost using the effective interest rate method. Lease payments are apportioned between a finance charge and a reduction of the lease liability based on the constant interest rate applied to the remaining balance of the liability. Interest expense is included within net finance costs in the consolidated income statement.

Lease payments comprise fixed payments, including in-substance fixed payments such as service charges and variable lease payments that depend on an index or a rate, initially measured using the minimum index or rate at inception date. The payments also include any lease incentives and any penalty payments for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease term determined comprises the non-cancellable period of the lease contract. Periods covered by an option to extend the lease are included if the Group has reasonable certainty that the option will be exercised and periods covered by the option to terminate are included if it is reasonably certain that this will not be exercised.

The lease liability is subsequently remeasured (with a corresponding adjustment to the related right-of-use asset) when there is a change in future lease payments due to a renegotiation or market rent review, a change of an index or rate or a reassessment of the lease term.

Payments associated with leases that have a term of less than 12 months or are of low value are recognised as an expense in the income statement as incurred.

The Group as a lessor
The Group acts as an intermediate lessor of property assets and equipment. When the Group acts as a lessor, it determines at lease commencement whether the lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership in relation to the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. The Group recognises lessor payments under operating leases as income on a straight-line basis over the lease term. The Group accounts for finance leases as finance lease receivables, using the effective interest rate method.

4.4.1 The Group as a lessee

Amounts recognised on the balance sheet	2019 £m	2018 £m	Type of financial instrument
Lease liabilities	**562.6**	—	Financial liabilities

The Group has made judgements in adopting IFRS 16 such as determining contracts in scope for IFRS 16, determining the interest rate used for discounting of future cash flows, and the lease term. The lease liability includes £14.3m of future lease payments (undiscounted) for leases with termination options that could be exercised but are recognised at full term. The potential future cash outflows of £44.2m (undiscounted) have not been included in the lease liability because the Group is reasonably certain that the leases will not be extended. The assessment of the lease term is reviewed if a significant event or change in circumstances occurs which affects this assessment and that is within the Group's control to change.

The total cash outflow for leases for the year ended 31 December 2019 amounted to £119.4m consisting of interest paid of £25.7m and capital element of £93.7m.

Right-of-use assets are discussed in note 3.5, maturity analysis of lease liabilities is included in note 4.2 and interest expense in note 4.3.

4.4.2 The Group as a lessor

Amounts recognised on the balance sheet	2019 £m	2018 £m	Type of financial instrument
Lease receivables	**14.9**	—	Financial assets

Lease receivables at 31 December 2019 comprises finance leases of £14.9m and operating leases of £nil. Rental income recognised by the Group during 2019 was £3.8m (2018: £nil).

Section 4: Capital structure and financing costs continued

4.5 Financial instruments and the fair value hierarchy

AP **Accounting policies**

Financial instruments – classification of financial instruments
The Group classifies its financial instruments in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (FVOCI) or through profit or loss (FVPL)); and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

Financial instruments – initial recognition
At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Purchases and sales of financial assets are recognised on their trade date (i.e. the date the Group commits to purchase or sell the asset). Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred such that the Group has transferred substantially all risks and rewards of ownership.

Debt instruments
Debt instruments are initially recognised at fair value less directly attributable transaction costs and are subsequently remeasured depending on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in net finance costs using the effective interest rate method.
- FVOCI: assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses).
- FVPL: assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented within net finance costs.

The Group reclassifies debt instruments when and only when its business model for managing those assets changes.

Equity instruments
Investments in equity instruments are initially recognised at fair value and are subsequently remeasured at fair value with the movement recognised through profit or loss, except where an election has been made for the movement to be recognised through other comprehensive income. An election can be made on initial recognition of equity instruments that are neither held for trading or assets acquired as part of a business combination. Once an election has been made all movements in fair value, with the exception of dividends, are presented through OCI and there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Impairment
The Group assesses, on a forward looking basis, the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Derivatives
Derivative financial instruments are initially recognised at fair value and are subsequently remeasured at fair value at the end of each reporting period with the movement recognised through profit or loss, except where derivatives qualify for cash flow hedge accounting. The effective proportion of cash flow hedges is recognised in other comprehensive income and presented in the hedging reserve within equity. The cumulative gain or loss is subsequently reclassified to profit or loss in the same period that the relevant hedged transaction is realised.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

4.5.1 Fair value hierarchy
The Group's financial assets and liabilities are classified based on the following fair value hierarchy:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

  With the exception of current financial instruments (which have a short maturity), the fair value of the Group's level 2 financial instruments have been calculated by discounting the expected future cash flows at prevailing interest rates. The valuation models incorporate various inputs including foreign exchange spot and forward rates and interest rate curves. In the case of floating rate borrowings face value (approximates to fair value because interest is set at floating rates where payments are reset to market values at intervals of less than one year.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

  Other financial instruments where observable market data is not available have been held at either amortised cost or cost (undiscounted cash flows), as a reasonable approximation of fair value.

During the year ended 31 December 2019, there were no transfers between fair value levels.

Section 4: Capital structure and financing costs continued

4.5 Financial instruments and the fair value hierarchy continued

4.5.2 Financial assets and liabilities and their fair value hierarchy classification

The following table analyses by classification and category the carrying value of the Group's financial instruments and identifies the level of the fair value hierarchy for the instruments carried at fair value:

At 31 December 2019	Note	Fair value hierarchy	At fair value through the P&L £m	At fair value through equity £m	Derivatives used for hedging £m	Amortised cost £m	Total £m	Current £m	Non-current £m
Financial assets									
Lease receivables[1]	4.4.2	Level 2	—	—	—	14.9	14.9	3.6	11.3
Cash flow hedges	4.2.4	Level 2	—	—	3.4	—	3.4	2.9	0.5
Non-designated foreign exchange forwards and swaps		Level 2	3.2	—	—	—	3.2	3.1	0.1
Interest rate swaps	a	Level 2	—	—	1.0	—	1.0	—	1.0
Cross-currency interest rate swaps	a	Level 2	—	—	80.9	—	80.9	15.5	65.4
Investments		Level 3	1.5	—	—	—	1.5	—	1.5
Other investments		Level 3	—	2.4	—	—	2.4	—	2.4
			4.7	2.4	85.3	14.9	107.3	25.1	82.2
Other financial assets									
Cash	4.5.4	Level 1	—	—	—	409.1	409.1	409.1	—
Total financial assets			4.7	2.4	85.3	424.0	516.4	434.2	82.2

At 31 December 2019	Note	Fair value hierarchy	At fair value through the P&L £m	At fair value through equity £m	Derivatives used for hedging £m	Amortised cost £m	Total £m	Current £m	Non-current £m
Financial liabilities									
Private placement loan notes	a	Level 2	—	—	—	990.7	990.7	232.5	758.2
Other loan notes		Level 2	—	—	—	0.3	0.3	0.3	—
Cash flow hedges	4.2.4	Level 2	—	—	0.5	—	0.5	—	0.5
Non-designated foreign exchange forwards and swaps		Level 2	2.6	—	—	—	2.6	1.6	1.0
Cross-currency interest rate swaps	a	Level 2	—	—	3.6	—	3.6	—	3.6
Public sector subsidiary partnership payment	b	Level 3	—	—	—	35.4	35.4	9.4	26.0
Contingent consideration	c	Level 3	5.0	—	—	—	5.0	5.0	—
Deferred consideration		Level 2	—	—	—	0.7	0.7	—	0.7
Put options of non-controlling interests	d	Level 3	—	108.7	—	—	108.7	103.0	5.7
			7.6	108.7	4.1	1,027.1	1,147.5	351.8	795.7
Other financial liabilities									
Overdrafts	4.5.4	Level 1	—	—	—	286.3	286.3	286.3	—
Lease liabilities[1]	4.4.1	Level 2	—	—	—	562.6	562.6	81.9	480.7
Total financial liabilities			7.6	108.7	4.1	1,876.0	1,996.4	720.0	1,276.4

1. Lease receivables relates to amounts due to be received for finance subleases where the Group is a Lessor and lease liabilities relates to amounts due by the Group where the Group is a Lessee. Refer to note 6.4 for further details on the impact of IFRS 16 on the Group.

Financial assets measured at amortised cost consist of cash, insurance assets recoverable, lease receivables and other investments. The carrying values of financial assets are a reasonable approximation of their fair value due to the short-term nature of the instruments. Included in other investments are £2.4m (2018: £2.7m) of strategic investments in unlisted equity securities which are not held for trading and the Group has elected to recognise in FVOCI. During the year £nil dividends were received and no disposals made in respect of strategic investments.

Financial liabilities measured at amortised cost consist of overdrafts, lease liabilities and loan notes. With the exception of certain series within the fixed rate private placement loan notes, the carrying value of financial liabilities are a reasonable approximation of their fair value. This is because either the interest payable is close to market rates or the liability is short-term in nature. The private placement loan note series that remain subject to fixed rate interest have a underlying carrying value of £450.0m and a fair value of £462.8m. Lease liabilities, relating to amounts due under leases where the Group is the Lessee, are measured at amortised cost using the effective rate method.

The Group's key financial liabilities are set out below:

a. Private placement loan notes

Private placement loan notes are issued at fixed rates of interest. Some of the series have been swapped into floating rates of interest.

To mitigate exposure to currency fluctuations the Group has entered into currency and interest rate swaps which effectively hedge movements in the loan notes' fair value arising from changes in foreign exchange and interest rates. The underlying carrying value of £915.5m (2018: £1,013.7m) attributable to aggregate private placement loan notes is calculated before considering: (i) the carrying value of currency and interest rate swaps of £81.9m (2018: £105.0m) included in financial assets and £3.6m (2018: £3.5m) included in financial liabilities; and (ii) £3.1m (2018: £7.2m) of hedging ineffectiveness and arrangement costs.

b. Public sector subsidiary partnership payment

The public sector subsidiary partnership payment liability is an estimate of the annual preferred payments to be made by AXELOS Limited. As the payment conditions have been reached and the liability cap met, sensitivity to changes in either the discount rate of 2.8% or projected cash flows have a nil impact.

Section 4: Capital structure and financing costs continued

4.5 Financial instruments and the fair value hierarchy continued

c. Contingent consideration
Contingent consideration arises in business acquisitions and are dependent on the future achievement of performance targets.

d. Put options of non-controlling interests
The liability represents the present value of the cost to acquire non-controlling interests in AXELOS Limited and Fera Science Limited (see note 4.7). The cost to acquire the non-controlling interest in AXELOS Limited is based on a set multiple of earnings before interest and tax specified in the put option agreement. The option held by the non-controlling shareholder of AXELOS Limited is currently exercisable, and as a consequence the liability has been classified as current. The option held by the non-controlling shareholder of Fera Science Limited is not expected to be exercised within the year and as a result the liability has been classified as non-current and discounted at an annualised rate of 2.3%.

A sensitivity analysis shows: a 10% increase or decrease in the earnings potential of the business results in a £10.8m increase or £10.8m decrease in the valuation; and a 1% increase or decrease in the discount rate applied to the valuation results in a £0.2m decrease or £0.0m increase in the valuation.

At 31 December 2018	Note	Fair value hierarchy	At fair value through the P&L £m	At fair value through equity £m	Derivatives used for hedging £m	Amortised cost £m	Total £m	Current £m	Non-current £m
Financial assets									
Insurance asset recoverable		Level 2	—	—	—	1.3	1.3	1.3	—
Cash flow hedges	4.2.4	Level 2	—	—	8.3	—	8.3	5.0	3.3
Non-designated foreign exchange forwards and swaps	a	Level 2	3.9	—	—	—	3.9	2.1	1.8
Interest rate swaps	a	Level 2	—	—	1.9	—	1.9	0.5	1.4
Cross-currency interest rate swaps	a	Level 2	—	—	103.1	—	103.1	9.3	93.8
Investments		Level 3	—	8.8	—	—	8.8	—	8.8
			3.9	8.8	113.3	1.3	127.3	18.2	109.1
Other financial assets									
Cash	4.5.4	Level 1	—	—	—	957.5	957.5	957.5	—
Total financial assets			3.9	8.8	113.3	958.8	1,084.8	975.7	109.1

At 31 December 2018	Note	Fair value hierarchy	At fair value through the P&L £m	At fair value through equity £m	Derivatives used for hedging £m	Amortised cost £m	Total £m	Current £m	Non-current £m
Financial liabilities									
Private placement loan notes	a	Level 2	—	—	—	1,108.0	1,108.0	82.2	1,025.8
Other loan notes		Level 2	—	—	—	0.3	0.3	0.3	—
Term loan		Level 2	—	—	—	100.0	100.0	100.0	—
Cash flow hedges	4.2.4	Level 2	—	—	1.2	—	1.2	1.2	—
Non-designated foreign exchange forwards and swaps		Level 2	1.4	—	—	—	1.4	1.4	—
Cross-currency interest rate swaps	a	Level 2	—	—	3.5	—	3.5	—	3.5
Public sector subsidiary partnership payment	b	Level 3	—	—	—	43.5	43.5	9.4	34.1
Contingent consideration	c	Level 3	8.9	—	—	—	8.9	—	8.9
Deferred consideration		Level 2	—	—	—	2.0	2.0	1.3	0.7
Put options of non-controlling interests	d	Level 3	—	118.5	—	—	118.5	107.3	11.2
			10.3	118.5	4.7	1,253.8	1,387.3	303.1	1,084.2
Other financial liabilities									
Overdrafts	4.5.4	Level 1	—	—	—	314.8	314.8	314.8	—
Total financial liabilities			10.3	118.5	4.7	1,568.6	1,702.1	617.9	1,084.2

The following table shows the reconciliation from the opening balances to the closing balances for Level 3 fair values.

	Contingent consideration £m	Subsidiary partnership payment £m	Put options of non-controlling interests £m	Investments and other investments £m
At 1 January 2019	8.9	43.5	118.5	8.8
Reclassified to investments in associates	—	—	—	**(6.4)**
Profit and loss movement	**(1.4)**	—	—	—
Utilised	**(2.5)**	**(9.4)**	—	—
Movement of put options recognised in equity	—	—	**(9.8)**	—
Additions	—	—	—	**1.5**
Discount unwind	—	**1.3**	—	—
At 31 December 2019	**5.0**	**35.4**	**108.7**	**3.9**

Section 4: Capital structure and financing costs continued

4.5 Financial instruments and the fair value hierarchy continued

4.5.3 Borrowings

The Group has available to it a Revolving Credit Facility of £414.0m which matures in August 2022 (extendable for a further year to August 2023 with the consent of the lenders by August 2021). The facility is available for the Group's immediate use and £nil was drawn down at 31 December 2019 (2018: £nil). In February 2020 an additional bank joined the facility, increasing the aggregate facility amount to £452.0m.

In addition to the Revolving Credit Facility, in February 2020 the Group agreed a backstop liquidity facility of £150.0m. The backstop liquidity facility has an initial maturity in February 2021, and is extendable at the option of the Group to a final maturity in August 2022.

Borrowing costs of £nil were capitalised in the year (2018: £nil). At 31 December 2019, the Group's private placement loan note series had an GBP equivalent underlying carrying value of £915.5m (see note 4.5.2a) analysed as follows:

Maturity	Denomination	Interest rate %	Face value (m)
30 June 2020	GBP	4.78	37.1
30 September 2020	GBP	3.73	55.7
19 July 2021[1]	GBP	4.76	26.0
27 October 2021	GBP	2.18	36.0
22 January 2022	GBP	3.26	18.6
27 October 2023	GBP	2.52	27.5
22 January 2025	GBP	3.54	7.4
22 April 2025	GBP	3.67	22.3
27 October 2026	GBP	2.77	18.6
22 January 2027	GBP	3.58	23.8
Total GBP denominated	GBP		273.0
30 June 2020	USD	4.80	185.7
19 July 2021	USD	4.50	175.3
26 July 2021	USD	4.75	37.1
27 October 2021	USD	3.03	18.6
22 January 2022	USD	3.33	29.7
22 April 2022	USD	3.43	48.3
22 January 2023	USD	3.45	39.4
27 October 2023	USD	3.37	17.8
22 January 2025	USD	3.65	74.3
27 October 2026	USD	3.59	19.3
22 January 2027	USD	3.80	27.5
Total USD denominated[2]	USD		673.0
10 November 2022	EUR	2.13	166.1
10 November 2022	EUR	2.13	16.0
10 November 2027	EUR	2.88	60.0
Total Euro denominated[3]	EUR		242.1

1. The Group has entered into interest rate swaps to convert the interest cost to floating rates based on 6-month GBP LIBOR.
2. USD denominated loan notes have a GBP equivalent underlying carrying value of £439.6m. The Group has entered into cross-currency interest rate swaps for the USD issues to achieve a floating rate of interest based on 6-month GBP LIBOR. Further disclosure on the Group's use of hedges is included in note 4.2.
3. Euro denominated loan notes have a GBP equivalent underlying carrying value of £202.9m.

4.5.4 Cash, cash equivalents and overdrafts

The Group has notional cash pools with certain banks under which the relevant banks may net cash balances with overdrafts held by other members of the Group. The Group's gross cash position is shown in the table below:

	2019 £m	2018 £m
Cash and cash equivalents	**409.1**	957.5
Overdrafts	**(286.3)**	(314.8)
Cash, cash equivalents and overdrafts	**122.8**	642.7

Cash includes £28.5m held in a 32-day notice account (2018: £28.5m held in a 3-month notice account).

Section 4: Capital structure and financing costs continued

4.6 Issued share capital

Allotted, called up and fully paid	2019 m	2018 m	2019 £m	2018 £m
Ordinary shares of 2 1/15p each				
At 1 January	**1,671.1**	670.1	**34.5**	13.8
Rights issue	**—**	1,001.0	**—**	20.7
At 31 December	**1,671.1**	1,671.1	**34.5**	34.5

In May 2018, the Group offered a rights issue to existing shareholders on the basis of 3 shares for every 2 fully paid ordinary shares held. The issue was fully subscribed and resulted in the issue of 1,001,032,281 ordinary shares at £0.70 per share.

Share premium	2019 £m	2018 £m
Ordinary shares of 2 1/15p each		
At 1 January	**1,143.3**	501.3
Rights issue	**—**	642.0
At 31 December	**1,143.3**	1,143.3

The rights issue in 2018 raised gross funds of £700.7m. The total amount capitalised to share capital and share premium was £662.7m (£700.7m less issuance costs of £38.0m).

Treasury shares	2019 m	2018 m	2019 £m	2018 £m
Ordinary shares of 2 1/15p				
At 1 January	**2.9**	2.9	**(0.1)**	(0.1)
Shares allotted in the year	**(0.3)**	—	**—**	—
At 31 December	**2.6**	2.9	**(0.1)**	(0.1)

In 2019, the Group made no purchases of shares into Treasury and allotted 281,762 (2018: 28,057) shares with an aggregate nominal value of £5,824 (2018: £580). The total consideration received in respect of these shares was £nil (2018: £nil).

Employee benefit trust shares	2019 m	2018 m	2019 £m	2018 £m
Ordinary shares of 2 1/15p				
At 1 January	**12.0**	1.6	**(11.1)**	(0.1)
Shares acquired during the year	**0.6**	10.4	**—**	(11.0)
At 31 December	**12.6**	12.0	**(11.1)**	(11.1)

The Group will use shares held in the employee benefit trust (EBT) in order to satisfy future requirements for shares under the Group's share option and long-term incentive plans. During the year, the EBT allotted nil (2018: 32,367) ordinary 2 1/15p shares with an aggregate nominal value of £nil (2018: £669) to satisfy exercises under the Group's share option and long-term incentive plans. The total consideration received in respect of these shares was £nil (2018: £nil). The Group acquired 0.6m (2018: 10.4m) ordinary 2 1/15p shares paying an average market price of £1.22 per share with the total value of £0.7m (2018: £11.0m).

The Group has an unexpired authority to repurchase up to 10% of its issued share capital.

4.7 Group composition and non-controlling interests

The Group's subsidiaries are listed in notes 7.3.4 and 7.3.16 of the parent company financial statements on pages 178 and 181-185. This list includes AXELOS Limited and Entrust Support Services Limited which both have 49% non-controlling interests, and Fera Science Limited which has a 25% non-controlling interest.

The Group holds a majority of the voting rights in all of these subsidiaries and the Directors have determined that, other than the entity commented on below, in each case the Group exercises de facto control.

On 23 September 2014, the Secretary of State for the Department for Energy and Climate Change granted Smart DCC Ltd (DCC), a wholly-owned subsidiary of the Group, a licence to establish and manage the smart metering communications infrastructure, governed by the Smart Energy Code. Each year the Group reassess whether it has control over DCC as required under IFRS 10. The Group's ability to control the relevant activities of DCC is restricted by DCC's operating licence. The power that the Group has over DCC's relevant activities by virtue of owning it is limited (given the restrictions in the licence). That power is held by the board of DCC where the Group has minority representation in compliance with the licence. The Group has therefore not consolidated DCC within its Group accounts. The disclosure of related party transactions with DCC is included in note 6.1.

Section 5: Employee benefits

This section details employee related items that are not explained elsewhere in the financial statements. In this section you will find disclosures about:

5.1 Share-based payment plans

5.2 Pensions

5.3 Employee benefits expense

AP **Denotes accounting policies**

J **Denotes significant accounting judgements**

Key highlights

Additional funding into the defined benefit scheme

£71.1m

(2018: £42.0m)

Net defined benefit pension liability

£252.5m

(2018: £219.0m)

Employee benefits expense

£1,919.9m

(2018: £1,993.1m)

The net defined benefit liability increased year on year despite additional funding of £71.1m paid into the scheme as part of the deficit funding plan.

Net defined benefit pension liability	2019 £m	2018 £m	Movement £m
Defined benefit obligation	**1,697.0**	1,430.5	266.5
Fair value of plan assets	**(1,444.5)**	(1,211.5)	(233.0)
Net defined pension liability	**252.5**	219.0	33.5

The main reason for the increase in liabilities over the year was due to the material fall in the yields available on good quality, long term corporate bonds – which is used to derive the discount rate to value the liabilities. The schemes are highly sensitive to the change in discount rates with a 0.1% change resulting in a £35.6m impact. The increase in the liability was mainly offset by an increase in the scheme assets due to employer contributions and higher than expected returns which were partly due to the material level of hedging in Capita's main defined benefit scheme.

The Capita Pension and Life Assurance Scheme (CPLAS) is the Group's main defined benefit scheme. The valuation of liabilities for funding purposes (the actuarial valuation) differs to the valuation for accounting purposes (which are shown in these financial statements) mainly due to different assumptions being used and different market conditions at the different valuation dates (the effective date for the actuarial valuation is 31 March). The assumptions used for funding purposes allow for an appropriate amount of prudence, with the discount rate being based on the actual assets of the CPLAS. While for accounting purposes the assumptions are determined on a best estimate basis in accordance with IAS19, with the discount rate being based on the yields available on high quality corporate bonds of appropriate currency and term. Management estimate that at 31 December 2019 the net liability of the CPLAS scheme was significantly less on a funding basis than on an accounting basis.

Section 5: Employee benefits

5.1 Share-based payment plans

The Group operates a number of executive and employee equity-settled share schemes.

AP Accounting policies

The fair value of the equity instrument granted is measured at grant date and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an option pricing model, only taking into account vesting conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest as a result of not meeting performance or service conditions. Where all service and performance vesting conditions have been met, the awards are treated as vesting, irrespective of whether or not the market condition is satisfied, as market conditions have been reflected in the fair value of the equity instruments.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the consolidated income statement, with a corresponding adjustment to equity.

Where the terms of an award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period adjusted for the incremental fair value of any modification i.e. the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the consolidated income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over the fair value being treated as an expense in the income statement.

The expense recognised for share based payments in respect of employee services received during the year to 31 December 2019 was £3.0m (2018: £3.4m), all of which arises from equity-settled share based payment transactions. Details of the schemes are as follows:

Deferred annual bonus plan
This scheme is applicable to Executive Directors. Under this scheme, awards are made annually consisting of only deferred shares, which are linked to the payout under the annual bonus scheme (details of which are contained in the Directors' remuneration report on pages 78–97).

The value of deferred shares is determined by the pay-out under the annual bonus scheme: half of the annual bonus is paid in cash and the remainder is deferred into shares under the deferred annual bonus plan. Directors have the option to defer up to 100% of their annual bonus into deferred shares or net bonus into a restricted share award. The deferred/restricted shares are held for a period of three years from the date of award, during which they are not forfeitable, except in the case of dismissal for gross misconduct.

The weighted average share price of options at the date of exercise in 2019 was £1.30. The weighted average share price during the year was £1.31 (2018: £1.48).

The total cash value of the deferred shares awarded during the year was £0.7m (2018: £nil).

Long-term incentive plans (LTIPs) – 2017
The 2017 LTIP was approved and adopted at the AGM on 13 June 2017. This scheme is open to Executive Directors and senior employees and shares will vest according to performance criteria.

For the 2017 award, vesting of the award will depend on EPS growth and return on capital employed measured over a three-year period. 75% of the number of shares which will vest is dependent upon the Company's EPS growth exceeding 3% and on banding within the scheme and 25% of the number of shares which will vest is dependent upon the Company's return on capital employed exceeding 11%, and on banding within the scheme.

For the 2018 award, vesting will depend on annualised cost savings, free cash flow and margin. 100% of the number of shares which will vest is dependent upon the Company's annualised cost savings reaching £205m; free cash flow reaching £240m; margin of 12%; and customer satisfaction and employee engagement 12 point positive swing in net promoter score (NPS) in each. 25% of the number of shares which will vest is dependent upon annualised costs savings reaching £160m; free cash flow reaching £180m; margin of 9%; customer satisfaction and employee engagement 6 point positive swing in NPS in each.

For the 2019 award, vesting will depend on free cash flow, EBIT margin and organic revenue growth. 100% of the number of shares which will vest is dependent upon the Company's free cash flow reaching £250m; margin of 12%; organic revenue growth £4,050m; customer satisfaction and employee engagement 12 point positive swing in NPS in each. 25% of the number of shares which will vest is dependent upon free cash flow reaching £190m; margin of 9%; organic revenue growth £3,900m; customer satisfaction and employee engagement 6 point positive swing in NPS in each.

Section 5: Employee benefits continued

5.1 Share-based payment plans continued

All of the above awards are subject to performance underpin – assessment of the underlying financial and operational performance of Capita over the performance period.

	2019 m	2018 m
Outstanding at 1 January	**29.7**	8.9
Awarded during the year	**17.2**	27.1
Exercised	**(0.3)**	—
Forfeited	**(8.6)**	(6.3)
Outstanding at 31 December	**38.0**	29.7
Exercisable at 31 December	**—**	—

The weighted average remaining contractual life of the above shares outstanding at 31 December 2019 was 1.5 years (2018: 1.5 years). There are no exercise prices for any options issued under the 2008 LTIP scheme.

All schemes
The fair value of the options granted/awarded during the year was £1.25 per share (2018: £1.10 per share). None of the existing option schemes have exercise prices.

The fair value for the 2017, 2018 and 2019 share scheme issues is effectively the market price of a Capita share at the date of grant. Accordingly, no assumptions have been disclosed. The fair value of equity-settled share options granted pre-2017 is estimated at the date of grant using a multiple simulation option pricing valuation model, taking into account the terms and conditions upon which the options were granted.

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. In addition, within the 2008 LTIP is an average share price floor under which the share award will not vest. This floor is based on the Company's average share price at the date of vesting. No other features of options grant were incorporated into the measurement of fair value.

5.2 Pensions

AP Accounting policies

Defined contribution pension schemes
The Group maintains a number of defined contribution pension schemes and for these schemes the Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense in the consolidated income statement as the related service is provided and as they fall due.

Defined benefit pension schemes
In addition, the Group operates a defined benefit pension scheme and participates in a number of other defined benefit pension schemes, all of which require contributions to be made to separate trustee-administered funds. The costs of providing benefits under these schemes are determined separately for each scheme using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of the defined benefit obligation) and is based on actuarial advice. Past service costs are recognised immediately in the consolidated income statement.

When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the consolidated income statement during the period in which the settlement or curtailment occurs.

Remeasurements of the net defined benefit asset/liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income and reflected immediately in retained earnings and will not be reclassified to the consolidated income statement. The Group determines the net interest expense/income on the net defined benefit asset/liability for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the then net defined benefit asset/liability, taking into account any changes in the net defined benefit asset/liability during the period as a result of contributions and benefit payments.

Current and past service costs are charged to operating profit while the net interest cost is included within net finance costs.

In respect of one of the defined benefit pension schemes in which the Group participates, the Group accounts for its legal and constructive obligation over the period of its participation which is for a fixed period only.

The liability on the consolidated balance sheet in respect of the defined benefit pension schemes comprises the total for each scheme, or group of schemes, of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. The policy to determine fair value of plan assets is covered in the note below. The value of a net pension benefit asset is restricted to the present value of any amount the Group expects to recover by way of refunds from the plan or reductions in the future contributions.

Section 5: Employee benefits continued

5.2 Pensions continued

J **Significant accounting judgements, estimates and assumptions**

The measurement of defined benefit obligations – the accounting cost of these benefits and the present value of pension liabilities involve judgements about uncertain events including such factors as the life expectancy of members, the salary progression of our current employees, price inflation and the discount rate used to calculate the net present value of the future pension payments. The Group uses estimates for all of these factors in determining the pension costs and liabilities incorporated in our financial statements. The assumptions reflect historical experience and our judgement regarding future expectations. The Group operates both defined benefit and defined contribution pension schemes.

Pension expense included in the consolidated income statement

	2019 £m	2018 £m
Defined contribution scheme	**108.2**	94.9
Defined benefit schemes		
Current Service cost	**7.0**	8.2
Administration costs	**3.9**	2.9
Past service cost	**0.3**	6.6
Total charged to profit before tax	**119.4**	112.6
Interest cost	**4.4**	9.4
Total in the consolidated income statement	**123.8**	122.0

At 31 December 2019, retirement obligations were disclosed in relation to 11 (2018: 10) defined benefit pension schemes. The main defined benefit scheme is the Capita Pension and Life Assurance Scheme.

The Capita Pension and Life Assurance Scheme (CPLAS)
CPLAS is the Group's main defined benefit scheme which closed to future accrual for most members in 2017 (less than 450 members continue to accrue benefits) and currently represents around 93% of total defined benefit obligations of the Group totalling £1,585.9m (2018: £1,342.7m). The CPLAS has plan assets of £1,353.1m (2018: £1,136.0m) and a net liability of £232.8m (2018: £206.7m).

Responsibility for the operation and governance of the CPLAS lies with a corporate Trustee which is independent of the Group. The Trustee Board is required by law to act in the interest of the CPLAS's beneficiaries in accordance with the rules of the CPLAS and relevant legislation (which includes the Pension Schemes Act 1993, the Pensions Act 1995 and the Pensions Act 2004). The nature of the relationship between the Group and the Trustee Board is also governed by the rules of the CPLAS and relevant legislation. The Trustee Board is chaired by an independent Trustee.

The assets of the CPLAS are held in a separate fund (administered by the Trustee Board) to meet long-term pension liabilities to beneficiaries. The Trustee Board invest the assets in line with their Statement of Investment Principles, which is regularly reviewed.

A full actuarial valuation of the Scheme is carried out every three years by an independent actuary for the Trustee Board, with the last full actuarial valuation carried out at 31 March 2017. The purpose of that valuation is to design a funding plan to ensure that the CPLAS has sufficient assets available to meet future benefit payments, based on assumptions agreed between the Trustee Board and the Group. The 31 March 2017 actuarial valuation showed a funding deficit of £185.0m (31 March 2014: £1.4m). This equates to a funding level of 86.1% (31 March 2014: 99.8%).

As a result of the funding valuation, the Group and the Trustee Board agreed the following plan to eliminate the deficit:

	2018	2019	2020	2021
Deficit contribution	£42.0m	£71.0m	£59.0	£4.0m

The next full actuarial valuation is being carried out with an effective date of 31 March 2020 and as part of that valuation the contribution requirements will be reviewed, and if necessary, amended.

Approximate funding updates are produced at each scheme anniversary when a full actuarial valuation is not being undertaken. The most recent of these, at 31 March 2019, showed a funding level of 96% (31 March 2018: 87%).

The Group expects to contribute £74.0m to the CPLAS over 2020.

The valuation of liabilities for funding purposes differs to the valuation for accounting purposes (which are shown in these financial statements) mainly due to different assumptions being used and different market conditions at the different valuation dates. The assumptions used for funding purposes are agreed between the Trustee Board and the Group and allow for an appropriate amount of prudence, with the discount rate being based on the actual assets of the CPLAS. While for accounting purposes the assumptions are determined on a best estimate basis in accordance with IAS19, with the discount rate being based on the yields available on high quality corporate bonds of appropriate currency and term.

In 2012, the Group established the Capita Scotland (Pension) Limited Partnership (the 'Partnership') with the CPLAS. Under this arrangement, intellectual property rights (IPR) in specific Group software was transferred to the partnership and the rights to use, develop and exploit this IPR was licensed back to the Group in return for an annual fee. The CPLAS's interest in the Partnership entitles it to an annual distribution of £8.0m for 15 years from inception.

Section 5: Employee benefits continued

5.2 Pensions continued

The Group's interest in the Partnership is fully consolidated into these Group financial statements. The Group has taken advantage of the exemption conferred by Regulation 7 of the Partnerships (Accounts) Regulations 2008 and has, therefore, not appended the accounts of this qualifying partnership to these financial statements. Separate accounts for the Partnership are not required to be, and have not been, filed at Companies House.

Under IAS 19 (Revised) the interest in the Partnership does not represent a plan asset for Group reporting purposes and therefore the CPLAS's deficit position presented in these accounts does not reflect the CPLAS's interest in the Partnership. Accordingly, distributions from the Partnership to the CPLAS are reflected in these Group accounts as pension contributions to the CPLAS on a cash basis as paid.

Other defined benefit schemes
The total employer contributions to the 'Other' schemes for 2020 are estimated to be £4.0m.

Admitted Body arrangement
For the Admitted Body scheme, under which benefits continued to accrue until the contract ceased on 16 January 2020. The Group was required to pay regular contributions as decided by the Scheme Actuary and as detailed in the scheme's Schedule of Contributions. In addition, the Group will be required to pay any deficit (as determined by the Scheme Actuary) that is remaining at the end of the contract. We expect the deficit contribution to be quantified in the first half of 2020, with this amount estimated to be up to £1.0m. This will settle the Group's liability to the Admitted Body scheme, In respect of this, the Group is carrying a sufficient level of provision in these financial statements.

Other UK schemes

- An allocated section of a Local Government Pension Scheme under which benefits are continuing to accrue. The latest full actuarial valuation (at 31 March 2019) showed there was a surplus on an ongoing basis and therefore no deficit contributions were required. There is no cross subsidy with other employer sections. However, when the last contributing member ceases to be an active member, then this will trigger an exit debt. At 31 March 2019, this was estimated at £3.3m.
- A segregated section of a multi-employer scheme under which benefits are not continuing to accrue. The latest full actuarial valuation (at 31 March 2016) showed the section was 67% funded and deficit contributions of £0.9m pa were payable until 2031. There is no cross subsidy with other employer sections.
- Three segregated sections in an industry-wide scheme for which only one section are benefits continuing to accrue. The latest full actuarial valuations (at 31 December 2018) showed that two of these sections were in surplus and therefore no deficit contributions were required. The third section showed a small deficit but the Trustees agreed that no deficit contributions would be required. There is no cross subsidy with other employer sections.
- Participation in a non-associated multi-employer scheme under which defined benefits are not continuing to accrue. The latest full actuarial valuation (at 30 September 2017) resulted in the Group requiring to pay deficit contributions of £0.4m pa until 2026. If the Group were to cease to be a participating employer in this scheme there would be an exit debt payable. At 30 September 2017, this was estimated at £11.9m.

Overseas defined benefit schemes
The Group is responsible for an Irish defined benefit scheme which is classed as a cross-border scheme where the beneficiaries of the scheme have their liabilities, and the trustees hold assets, denominated in Euro. The scheme is governed under UK regulations and subject to the further requirements applying to cross-border schemes. The latest full actuarial valuation (at 31 March 2019) showed a funding surplus and therefore no deficit contributions were required. There are no members left accruing benefits.

The Group is also responsible for two Swiss schemes that provide defined contribution benefits but with certain guarantees (and are therefore reported as defined benefit schemes under IAS19). They are administered and governed through collective foundations which are separate legal entities. Benefits are continuing to accrue in these schemes.

Additional defined benefit schemes
There are a further 48 (2018: 50) defined benefit pension arrangements in which various Capita businesses have participated during 2019. 43 of these arrangements relate to participation in funded and unfunded public sector schemes (referred to as Admitted Body Arrangements as described above) however contractual protections are in place allowing actuarial and investment risk to be passed on to the end customer via recoveries for contributions paid. The nature of these arrangements vary from contract to contract but typically allow for the majority of contributions payable to the schemes in excess of an initial rate agreed at the inception to be recovered from the end customer, as well as exit payments (for funded schemes) payable to the schemes at the cessation of the contract, such that the Group's net exposure to actuarial and investment risk is immaterial.

It is estimated that around £9m of employer contributions were paid to these 48 schemes during 2019.

Judgement is required in determining the appropriate accounting treatment for the participation in all of the above schemes, in particular as to whether actuarial and investment risk fall in substance on the Group. It is considered that the net risk to the Group from these defined benefit arrangements is immaterial and therefore the costs in relation to all of the above schemes have been included in the defined contribution pension charge and no amounts are recognised on the Group's balance sheet.

Risks associated with the Group's pension schemes
These defined benefit pension schemes expose the Group to various risks, with the key risks set out below:

Investment risk: the schemes invest in a wide range of assets with a view to provide long-term investment returns at particular levels. There is a risk that investment returns are lower than expected which, in isolation, could result in a worsening of the funding position of the schemes.

Interest rate risk: the IAS 19 discount rate is derived based on the yields available on good quality corporate bonds of suitable duration. If these yields decrease, then in isolation, this would increase the value placed on the IAS 19 obligation and result in a worsening of the funding position of the schemes.

Inflation risk: the liabilities of the schemes are linked to future levels of inflation. If future inflation is higher than expected then this would result in the cost of providing the benefits increasing and thereby worsening the funding position of the schemes.

Section 5: Employee benefits continued

5.2 Pensions continued

Longevity risk: if members live longer than expected, then pensions will be paid for a longer time which will increase the value placed on the liabilities and therefore worsen the funding position of the schemes.

In order to manage these risks, the Group and the trustees carry out regular assessments of these risks. For CPLAS, the main defined benefit scheme the following actions have been taken:

- The CPLAS Trustee Board has entered into two bulk annuity contracts with an insurer in respect of a small number of high individual liability pensioner members (one in 2015 and the second in late 2017) with total value included in the assets at 31 December 2019 of £70.9m (2018: £68.7m).
- The CPLAS Trustee Board has entered into a Liability Driven Investment programme. The level of risk that is managed by this is set by various market-related and funding trigger points.

Together, these actions have led to a current level of hedging (interest rate and inflation) of around 77% of CPLAS's liabilities measured on the Trustee Board's medium-term funding basis. As the funding level improves it is planned to further increase the level of hedging.

The hedging aims to match the value of the assets to the movement in liabilities arising from changes in market expectations of future inflation rates and future gilt yields. This is to help protect and reduce volatility in funding valuations which are used to determine the cash contribution requirements to the scheme. As these accounting disclosures use the yields available on corporate bonds to determine the accounting liabilities, the hedging may not have the same impact against changes as they do on a funding valuation. Over 2019, the yields available on long dated corporate bonds have fallen by more than long dated gilt yields. This means that whilst the hedge has been successful for funding purposes, with the assets moving broadly in line with funding liabilities, it has not had the same impact for the accounting liabilities and has contributed to the accounting deficit increasing over the year.

As part of this strategy and to retain exposure to growth assets, the CPLAS Trustee Board invest in derivatives to gain synthetic equity exposure. Therefore, the equity allocation shown below is in economic exposure terms (i.e. inclusive of the derivative based position).

To illustrate how sensitive the value of the defined benefit obligations are to different market conditions, the below table shows how much they would increase if the assumptions were changed as shown (assuming all other assumptions remain constant):

Change in assumptions compared with 31 December 2019 actuarial assumptions	Group Total £m
0.1% pa decrease in discount rate	**35.6**
0.1% pa increase in salary increases	**0.7**
0.1% pa increase in inflation (and related assumption, eg salary and pension increases)	**17.9**
1 year increase in life expectancy	**66.9**

Assets and liabilities
Under IAS19, plan assets must be valued at the fair value at the balance sheet date. The plan assets are made up of quoted and unquoted investments, and asset valuations have been sourced from the respective scheme's investment managers and custodians, based on their pricing sources and methodologies. Unquoted investments require more judgement as their values are not directly observable. The assumptions used in valuing unquoted investments are affected by current market conditions which could result in changes in fair value after the measurement date. For the main asset categories:

- Equities listed on recognised stock exchanges are valued at closing bid prices.
- Bonds are measured using a combination of broker quotes and pricing models making assumptions for credit and market risks and market yield curves.
- Properties are valued on the basis of an open market value or are valued using models based on discounted cash flow techniques.
- Assets in investment funds are valued at fair value which is typically the Net Asset Value provided by the investment manager.
- Certain unlisted investments are valued using a model based valuation such as discounted cash flow.
- The value of bulk annuity contracts have been assessed by discounting the projected cash flows payable under the contracts (projected by an actuary, consistent with the terms of the contract) and is equal to the corresponding liability calculated by reference to the IAS19 assumptions.

Section 5: Employee benefits continued

5.2 Pensions continued

The assets and liabilities of all of the defined benefit pension schemes (excluding additional voluntary contributions) at 31 December are:

						Group total
			2019			2018
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Scheme assets at fair value:						
Equities:						
– UK	4.2	26.3	30.5	5.2	0.3	5.5
– Overseas	93.9	219.6	313.5	102.8	99.3	202.1
– Private	—	0.6	0.6	—	0.7	0.7
	98.1	246.5	344.6	108.0	100.3	208.3
Debt securities:						
– UK Government	638.5	—	638.5	340.3	(0.1)	340.2
– UK Corporate	1.6	—	1.6	0.4	0.1	0.5
– Overseas Government	43.7	3.7	47.4	2.8	17.8	20.6
– Overseas Corporate	77.2	62.8	140.0	0.5	118.5	119.0
– Emerging Markets	0.7	31.7	32.4	0.3	29.2	29.5
– Private Debt	—	63.1	63.1	—	57.3	57.3
– Secured Loans	1.6	—	1.6	1.6	—	1.6
	763.3	161.3	924.6	345.9	222.8	568.7
Property	4.6	89.4	94.0	4.8	86.0	90.8
Infrastructure	1.3	—	1.3	0.5	—	0.5
Credit Funds	9.4	—	9.4	8.0	—	8.0
Asset Backed Securities	0.9	—	0.9	0.8	—	0.8
Hedge Funds	49.5	122.0	171.5	80.7	135.2	215.9
Absolute Return Funds	0.6	—	0.6	—	—	—
Diversified growth funds	5.4	—	5.4	4.9	—	4.9
Insurance Contracts	—	88.5	88.5	—	86.2	86.2
Cash	(198.5)	(3.7)	(202.2)	22.5	1.4	23.9
Other	2.4	3.5	5.9	1.4	2.1	3.5
	(124.4)	299.7	175.3	123.6	310.9	434.5
Total	737.0	707.5	1,444.5			1,211.5
Present value of scheme liabilities			(1,697.0)			(1,430.5)
Net liability			(252.5)			(219.0)

The total net liability that relates to other defined benefits schemes that is included in the table above is £19.6m (2018: £12.3m). Within this net liability, some schemes are in surplus which offsets this amount by £4.1m (2018:£5.9m).

These amounts do not include any directly owned financial instruments issued by the Group.

IFRIC 14
The Group has considered the impact of IFRIC 14 on the various schemes (in relation to either recognising a surplus or allowing for the impact of any funding commitments made) and has concluded, based on the interpretation of the rules for each of the schemes, that IFRIC14 would not limit the surplus or increase the deficits shown at this balance sheet date.

Reconciliation of retirement benefits
Explanation of constituents of the consolidated income statement.

The cost of providing the pension scheme over the year is broken down as follows:

- Service cost is the cost to the Group of future benefits earned by contributing members over the current financial period.
- Past service cost represents the change in the present value of scheme liabilities in the current period in relation to prior years' service.
- Administration costs are those entailed by the pension schemes over the current period.
- Interest cost/(income) is made up of the interest cost on pension liabilities and assets over the current period based on the discount rate adopted at the start of the period.

Section 5: Employee benefits continued

5.2 Pensions continued

The following table shows a reconciliation from the opening balances to the closing balances for the net defined benefit liability and its components:

	Defined benefit obligation		Fair value of plan assets		Group total Net defined liability	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
At 1 January	**1,430.5**	1,584.6	**(1,211.5)**	(1,177.8)	**219.0**	406.8
Included in the consolidated income statement:						
Current service cost	**7.0**	8.2	**—**	—	**7.0**	8.2
Administration costs	**3.9**	2.9	**—**	—	**3.9**	2.9
Past service cost	**0.3**	6.6	**—**	—	**0.3**	6.6
Settlements	**—**	—	**—**	—	**—**	—
Interest cost/(income)	**40.2**	38.7	**(35.8)**	(29.3)	**4.4**	9.4
Sub-total in consolidated income statement	**51.4**	56.4	**(35.8)**	(29.3)	**15.6**	27.1
Included in other comprehensive income:						
Actuarial loss/(gain) arising from:						
– demographic assumptions	**6.3**	(16.1)	**—**	—	**6.3**	(16.1)
– financial assumptions	**212.8**	(100.7)	**—**	—	**212.8**	(100.7)
– experience adjustments	**24.2**	(39.5)	**—**	—	**24.2**	(39.5)
– changes in asset ceiling/minimum liability	**—**	—	**—**	—	**—**	—
– reclassification of schemes[1]	**14.1**	—	**(11.6)**	—	**2.5**	—
Return on plan assets excluding interest	**—**	—	**(139.1)**	21.2	**(139.1)**	21.2
Foreign currency translation	**(0.6)**	1.1	**0.6**	(0.9)	**—**	0.2
Sub-total in other comprehensive income	**256.8**	(155.2)	**(150.1)**	20.3	**106.7**	(134.9)
Employer contributions	**—**	—	**(88.8)**	(80.0)	**(88.8)**	(80.0)
Contributions by employees	**1.4**	1.6	**(1.4)**	(1.6)	**—**	—
Benefits paid	**(43.1)**	(51.6)	**43.1**	51.6	**—**	—
Contract bulk transfers/business combinations	**—**	(5.3)	**—**	5.3	**—**	—
At 31 December	**1,697.0**	1,430.5	**(1,444.5)**	(1,211.5)	**252.5**	219.0

1. It is now possible to identify, in a consistent and reasonable basis, the share of assets and liabilities belonging to the Group in respect of its participation in the non-associated multi-employer scheme. The scheme has been brought on to the defined benefit balance sheet as at 1 January 2019 (net liability as at that date of £2.5m). Previously is was accounted for on a defined contribution basis.

The defined benefit obligation comprises £1,697.0m (2018: £1,430.5m) arising from schemes that are wholly or partly funded.

Of the total pension cost of £15.6m (2018: £27.1m), £7.3m (2018: £14.8m) was included in cost of sales, £3.9m (2018: £2.9m) was included in administrative expenses, and £4.4m in finance costs (2018: £9.4m).

Breakdown of liabilities for the CPLAS
Information about the defined benefit obligation for the CPLAS:

	Proportion of overall liability %	**Duration (years)**	Proportion of overall liability %	Duration (years)
	2019	**2019**	2018	2018
Active members	**6**	**23.9**	7	24.6
Deferred members	**62**	**23.3**	64	23.9
Pensioners	**32**	**13.4**	29	13.5
Total	**100**	**20.2**	100	20.9

Financial and demographic assumptions

Main assumptions[1]:	**All schemes 2019 %**	2018 %
Rate of price inflation – RPI/CPI	**3.00/2.00**	3.20/2.20
Rate of salary increase	**3.00**	3.20
Rate of increase of pensions in payment[2]:		
– RPI inflation capped at 5% per annum	**2.95**	3.10
– RPI inflation capped at 2.5% per annum	**2.10**	2.20
– CPI inflation capped at 5% per annum	**2.05**	2.25
– CPI inflation capped at 2.5% per annum	**1.65**	1.80
Discount rate	**2.05**	2.85
Expected take up maximum available tax free cash	**85.00**	85.00

1. Only the discount rate is relevant to the Admitted Body Scheme. Different assumptions apply to non-UK schemes, for example: the discount rate for the Irish Schemes are 1.20% per annum and for the Swiss schemes it is 0.15% per annum in 2019.
2. There are other levels of pension increase which apply to particular periods of membership.

Section 5: Employee benefits continued

5.2 Pensions continued

The average future life expectancy from age 65 (in years) for mortality tables used to determine scheme liabilities for the various different schemes at 31 December 2019 and 31 December 2018 are as follows:

	Member currently aged 65 (current life expectancy)				Member currently aged 45 (life expectancy at 65)			
	Male		Female		Male		Female	
	2019	2018	2019	2018	2019	2018	2019	2018
Capita Scheme[1]	22.7	22.7	24.2	24.3	23.1	23.1	25.2	25.4
Other Schemes[2]	22.7 to 24.2	22.7 to 24.2	24.2 to 24.8	24.3 to 24.4	23.1 to 25.9	23.1 to 25.9	25.2 to 26.2	25.4 to 26.2

1. The assumptions used for the Capita scheme are tailored for each member. The assumptions adopted make allowance for an increase in the longevity in the future. The rate for members currently aged 65 is derived from the pensioner membership and the rate for members reaching age 65 in 20 years' time is derived from non-pensioner membership.
2. This does not apply to the Admitted Body Scheme.

5.3 Employee benefits expense

	Notes	2019 £m	2018 £m
Wages and salaries		1,626.8	1,702.1
Social security costs		170.7	175.0
Pension costs	5.2	119.4	112.6
Share-based payments	5.1	3.0	3.4
		1,919.9	1,993.1

The aggregate amount of directors' remuneration (salary, bonus and benefits) is shown on page 91 of the remuneration report.

- The aggregate amount of gains made by Directors on exercise of share options was £nil (2018: nil) (refer to note 6.1).
- The remuneration of the highest paid Director was £789,678 (2018: £2,014,209).
- Payments have been made to a defined contribution pension scheme on behalf of four directors (2018: three Directors). For the highest paid director, pension contributions of £36,250 (2018: £36,250) were made.

The average number of employees during the year was made up as follows:	2019 Number	2018 Number
Sales	2,162	1,733
Administration	5,801	7,930
Operations	55,322	56,239
	63,285	65,902

The average number of employees above reflects continuing operations and excludes employees relating to discontinued operations.

Section 6: Other supporting notes

This section includes disclosures of those items that are not explained elsewhere in the financial statements.

In this section you will find disclosures about:

AP Denotes accounting policies

Key highlights

IFRS 16 Leases
The adoption of IFRS 16 has had a material impact for the Group as follows:

Balance sheet impact

Recognition of a new right-of-use asset
£480.9m
At 1 January 2019 £568.2m

Recognition of lease liabilities
£562.6m
At 1 January 2019 £643.9m

Impact retained earnings deficit
£(40.8)m
At 1 January 2019 £(26.8)m

Income statement impact

EBITDA
£110.9m

Operating profit
£11.7m

Loss before tax
£(14.0)m

Cash flow statement impact

Net cash outflow from operating activities
£(115.7)m

Net cash flow from financing activities
£(90.0)m

Operating profit and EBITDA improved as rental costs removed are only partially replaced by depreciation of lease assets on a straight line basis over the lease term. While EBITDA has improved, there is a loss before tax due to the combination of depreciation and interest being higher than the rental costs they replace. Interest charge which is determined based on the effective interest rate method is larger in the initial years owing to a higher lease liability.

Although IFRS 16 has no impact on the Group's total cash flow, outflows from financing activities increased while cash outflows from operating activities decreased, as recognition of rental costs, previously recognised solely as cash outflows from operations are now apportioned between interest paid and capital element of lease rental payments.

The Group's lease portfolio is expected to change over the next few years as a result of Group transformation plan, which includes a rationalisation of Capita's properties. Any changes to the lease portfolio will be accounted for when transacted as required under IFRS 16 and our Group policy. Costs and impairments on the right-of-use assets arising from the property programme will be excluded from adjusted profit in line with the current Group policy.

Section 6: Other supporting notes continued

6.1 Related-party transactions

Compensation of key management personnel

	2019 £m	2018 £m
Short-term employment benefits	**9.3**	11.9
Pension	**0.2**	0.2
Share-based payments	**2.6**	—
	12.1	12.1

Gains on share options exercised in the year by Capita plc Executive Directors were £nil (2018: £nil) and by key management personnel £0.1m (2018: £nil), totalling £0.1m (2018: £nil).

During the year, the Group rendered administrative services to Smart DCC Ltd, a wholly-owned subsidiary which is not consolidated (refer to note 4.7). The Group received £83.4m (2018: £64.3m) of revenue for these services. The services are procured by Smart DCC on an arm's length basis under the DCC licence. The services are subject to review by Ofgem to ensure that all costs are economically and efficiently incurred by Smart DCC.

Capita Pension and Life Assurance Scheme is a related party of the Group. Transactions with the Scheme are disclosed in note 5.2 – Pensions.

6.2 Contingent liabilities

Contingent liabilities represent potential future cash outflows which are either not probable or cannot be measured reliably.

The Group has provided, through the normal course of its business, performance bonds and bank guarantees of £58.1m (2018: £84.0m).

The Group is in discussions with a number of its life insurance clients, the outcomes and timings of which are uncertain but could result in the continuation of contracts with amended terms or the termination of contracts. If an operation is terminated, the Group may incur associated costs, accelerate the recognition of deferred income or the impairment of contract assets. As the outcome of these discussions is uncertain, the Group has not made any provision for a future outflow of funds that might result from the eventual outcome.

Capita completed the disposal of its Capita Asset Services businesses, including CFM, to the Link Group on 3 November 2017. Capita plc, as part of the sale of the Capita Asset Services businesses, has provided an indemnity against certain legacy claims.

The Group has been notified under a supplier contract of a potential liability relating to past services received. The basis of any liability is currently being discussed with the supplier, focusing currently on the method of any settlement. The preferred approach is to settle the potential liability, if any, via future committed spend with the supplier and accordingly the Group has not made any provision at 31 December 2019 for a future outflow of funds that might result. Additionally, there is currently no reliable estimate of any eventual outcome, and to disclose a potential range would be prejudicial given the early stage of the discussions with the supplier.

The Group entities are parties to legal actions and claims which arise in the normal course of business. The Group throughout the year needs to apply judgement in determining the merit of litigation against it and the chances of a claim successfully being made. It needs to determine the likelihood of an outflow of economic benefits occurring and whether there is a need to disclose a contingent liability or whether a provision might be required due to the probability assessment.

At any time there are a number of claims or notifications that need to be assessed across the Group. The disparate nature of the Group entities heightens the risk that not all potential claims are known at any point in time. Under the transformation plan, the support functions including commercial and legal are being strengthened and a Chief General Counsel has been appointed. This enhances the current processes in place to assess the likelihood of historical claims arising.

6.3 Post balance sheet events

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

Section 6: Other supporting notes continued

6.4 Adoption of IFRS 16 Leases

Adoption method
On adoption of IFRS 16 (effective 1 January 2019) the Group has elected to grandfather the assessment of which arrangements are leases. Contracts not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16.

Under the transition rules, the Group has applied IFRS 16 using the modified retrospective approach, with the cumulative effect of applying the standard recognised in retained earnings on 1 January 2019. Comparative information presented for 2018 has not been restated.

At transition
As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for all the leases on its balance sheet.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases:

- applied the exemption not to recognise right-of-use assets and liabilities for leases of low value or for which the lease term ends within 12 months of the date of initial application, on a lease-by-lease basis
- relied on previous assessments on whether leases are onerous for impairment of right-of-use assets
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease
- applied the exemption not to separate non-lease components such as service charges from lease rental charges

Under transition rules for leases classified as operating leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate at 1 January 2019.

Right-of-use assets are measured at cost, which comprised the initial amount of the lease liability adjusted for any lease payments made at or before the adoption date, less any lease incentives received at or before the adoption date and less any onerous lease provisions (reclassified on the opening balance sheet).

For a selection of material long-term leases, the Group has applied the modified retrospective method one approach, as if IFRS 16 had always been applied using the incremental borrowing rate at the date of initial application. Under this method, the difference between the right-of-use asset and lease liability was recorded in retained earnings.

At 1 January 2019 the Group had no lease commitments previously classified as finance leases under IAS 17.

The Group is not required to make any adjustments on transition to IFRS 16 for which it acts as a lessor, except for subleases. Under IFRS 16, the Group assessed the classification of subleases with reference to the right-of-use asset, not the underlying asset. This resulted in certain leases being classified as finance leases under IFRS 16 and recognition of a finance lease receivable (recorded within line item financial assets on the consolidated balance sheet).

AP Accounting policies

The new accounting policies are disclosed in note 3.5 for right-of-use assets and note 4.4 for lease liabilities and lessors.

Section 6: Other supporting notes continued

6.4 Adoption of IFRS 16 Leases continued

Impact of adopting IFRS 16:
A summary of the impact on the Group of adopting IFRS 16 is as follows:

	Note	As reported 31 December 2018 £m	IFRS 16 impact £m	At adoption 1 January 2019 £m
Non-current assets				
Property, plant and equipment		213.6	—	213.6
Goodwill		1,259.0	—	1,259.0
Intangible assets		328.7	—	328.7
Right-of-use assets	a	—	568.2	568.2
Contract fulfilment assets		264.2	—	264.2
Financial assets	b	109.1	14.1	123.2
Deferred taxation	c	144.6	5.4	150.0
Trade and other receivables		26.2	—	26.2
		2,345.4	587.7	2,933.1
Current assets				
Financial assets	b	18.2	3.0	21.2
Trade and other receivables	d	771.7	(14.9)	756.8
Cash		957.5	—	957.5
Income tax receivable		0.9	—	0.9
		1,748.3	(11.9)	1,736.4
Total assets		4,093.7	575.8	4,669.5
Current liabilities				
Trade and other payables	d	668.7	(26.1)	642.6
Deferred income		980.3	—	980.3
Overdrafts		314.8	—	314.8
Lease liabilities	e	—	95.3	95.3
Financial liabilities		303.1	—	303.1
Provisions	d	96.8	(6.4)	90.4
		2,363.7	62.8	2,426.5
Non-current liabilities				
Trade and other payables		11.6	—	11.6
Deferred income		277.3	—	277.3
Lease liabilities	e	—	548.6	548.6
Financial liabilities		1,084.2	—	1,084.2
Deferred taxation		15.2	—	15.2
Provisions	d	19.4	(8.8)	10.6
Employee benefits		219.0	—	219.0
		1,626.7	539.8	2,166.5
Total liabilities		3,990.4	602.6	4,593.0
Net assets/(liabilities)		103.3	(26.8)	76.5
Capital and reserves				
Issued share capital		34.5	—	34.5
Share premium		1,143.3	—	1,143.3
Employee benefit trust and treasury shares		(11.2)	—	(11.2)
Capital redemption reserve		1.8	—	1.8
Other reserves		3.1	—	3.1
Retained deficit	f	(1,135.3)	(26.8)	(1,162.1)
Surplus/(deficit) attributable to owners of the Company		36.2	(26.8)	9.4
Non-controlling interests		67.1	—	67.1
Total equity		103.3	(26.8)	76.5

a. Right-of-use assets: non-current assets have been impacted due to recognition of right-of-use assets on 1 January 2019. The right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the adoption date less any lease incentives received at or before the adoption date (reclassified on the opening balance sheet).

b. Finance lease receivable: Financial assets have been impacted by recognition of finance lease receivables where the Group acts as an intermediate lessor and has classified the sub lease as a finance lease because the sub-lease is for a substantial amount of the remaining term of the head lease. The finance lease receivables have been classified between current and non-current.

c. Deferred tax asset: Under IFRS 16, a lease liability was recognised on the balance sheet from 1 January 2019, which will be recognised through the income statement in subsequent periods. Right-of-use assets were also recognised on the balance sheet from 1 January 2019, which will be charged to the income statement in subsequent periods. Under IAS 12, the tax base of the net liability is the amount that will be deductible for tax purposes. A temporary difference is therefore created in relation to the net liability.

The impact of these changes is recognised for tax purposes via a tax adjustment which spreads over the weighted average lease period at 1 January 2019. Under the principles of IAS 12, a net movement of £5.4m is reflected as a transitional adjustment, arising from an increase in deferred tax assets as a result of the transition to IFRS 16.

d. Reclassification of balance sheet items: As noted above in a, the right-of-use asset is initially measured at cost plus lease payments made at or before the adoption date (prepayments), less any lease incentives received (rent free accruals) and less onerous provisions existing at the adoption date. These balances have been reclassified to right-of-use asset on adoption.

e. Lease liabilities: Financial liabilities have been impacted due to the recognition of lease liabilities. This liability is initially measured at the present value of the lease payments that are not paid at the adoption date, discounted using the Group's incremental borrowing rate. The lease payments comprise fixed payments, including in-substance fixed payments such as service charges and variable lease payments that depend on an index or a rate, initially measured using the minimum index or rate at commencement date. The lease liabilities have been classified between current and non-current.

f. Retained deficit: For a selection of material long-term leases, the Group applied the modified retrospective method one approach, where the right-of-use asset is calculated from the lease inception and depreciated – resulting in a charge to retained deficit representing the different between the right-of-use asset and the finance lease liability.

Section 6: Other supporting notes continued

6.4 Adoption of IFRS 16 Leases continued

In calculating the lease liability to be recognised on adoption, the Group used a weighted average incremental borrowing rate at 1 January 2019 of 4.6%. The below outlines the difference between the Group's operating lease commitment at 31 December 2018 and the lease liability recognised on adoption:

Lease liabilities recognised	1 January 2019 £m
Operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial statements	736.0
Discounted using the incremental borrowing rate at 1 January 2019	(113.5)
Extension and termination options reasonably certain to be exercised	21.4
	643.9

of which:	
Current	95.3
Non-current	548.6

In the period:
The impact to the income statement for the period to 31 December 2019 is as follows:

Consolidated income statement	Expected adoption impact for the year ending 31 December 2019 £m	Actual adoption impact for the year ending 31 December 2019 £m
EBITDA	112 – 117	110.9
Depreciation expense	99 – 104	(99.2)
Operating profit	12 – 14	11.7
Net finance costs on lease liabilities	(26) – (28)	(25.7)
Profit before tax	(12) – (14)	(14.0)

As a result of adopting IFRS 16, rental costs which were previously recognised in operating profit have been replaced by right-of-use asset depreciation and net finance costs on the finance lease liability. As the asset is depreciated on a straight line basis over the lease term and the interest is accrued using the effective interest rate method, while EBITDA has improved, profit is reduced in the earlier years as a result of applying IFRS 16.

Although IFRS 16 has no impact on the Group's total cash flow, outflows from financing activities increase while cash outflows from operating activities decrease, as recognition of rental costs, previously recognised solely as cash outflows from operations are now apportioned between finance charges and reduction of the lease obligation.

Due to the Group transformation plan, which includes a rationalisation of Capita's properties, the Group's lease portfolio is expected to change over the next few years. Any changes to the lease portfolio will be accounted for when transacted as required under IFRS 16 and our Group policy. Costs and impairments on the right-of-use assets arising from the property programme will be excluded from adjusted profit in line with the current Group policy.

Section 7: Company financial statements

This section presents the company only financial statements for Capita plc (the Company). In this section, you will find the following:

7.1 Company balance sheet

	Notes	2019 £m	2018[2] £m
Non-current assets			
Intangible assets	7.3.2	**91.9**	63.2
Tangible assets[2]	7.3.3	**39.0**	26.9
Investments	7.3.4	**568.9**	507.9
Financial assets	7.3.5	**67.0**	100.3
Deferred taxation	7.3.6	**6.8**	6.0
Prepayments and accrued income		**2.2**	2.8
		775.8	707.1
Current assets			
Financial assets	7.3.5	**21.5**	18.3
Amounts owed by subsidiary undertakings[1]		**2,598.8**	969.5
Trade and other receivables	7.3.7	**10.0**	5.9
Prepayment and accrued income[2]		**8.5**	7.8
Taxation recoverable		**63.6**	30.6
Cash		**2.6**	509.9
		2,705.0	1,542.0
Total assets		**3,480.8**	2,249.1
Current liabilities			
Amounts owed to subsidiary undertakings[1]		**1,588.9**	17.6
Trade and other payables	7.3.8	**20.7**	19.1
Accruals and deferred income		**26.8**	38.1
Overdrafts		**24.3**	107.8
Financial liabilities[2]	7.3.5	**1.7**	2.6
Provisions	7.3.9	**15.2**	28.4
		1,677.6	213.6
Non-current liabilities			
Borrowings	7.3.10	**202.9**	226.5
Financial liabilities[2]	7.3.5	**5.3**	3.4
		208.2	229.9
Total liabilities		**1,885.8**	443.5
Net assets		**1,595.0**	1,805.6
Capital and reserves			
Issued share capital	7.3.11	**34.5**	34.5
Employee benefit trust and treasury shares	7.3.11	**(11.2)**	(11.2)
Share premium	7.3.11	**1,143.3**	1,143.3
Capital redemption reserve		**1.8**	1.8
Merger reserve		**44.6**	44.6
Cash flow hedging reserve		**—**	0.8
Retained earnings		**382.0**	591.8
Total equity		**1,595.0**	1,805.6

1. During 2019 the Group undertook a restructuring of its intercompany loans. In the majority of cases, the Company has become principal lender or borrower in loans previously between subsidiary undertakings.
2. The Company has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Refer to note 7.3.1 for further details.

The Company's loss after taxation was £211.9m (2018: £120.1m loss).

The accompanying notes form part of the financial statements.

The accounts were approved by the Board of Directors on 4 March 2020 and signed on its behalf by:

Jon Lewis
Chief Executive Officer

Patrick Butcher
Chief Financial Officer

Company registered number: 02081330

Section 7: Company financial statements continued

7.2 Company statement of changes in equity

	Share capital £m	Employee benefit trust and treasury shares £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Cash flow hedging reserve £m	Retained earnings £m	Total £m
At 1 January 2018	13.8	(0.2)	501.3	1.8	44.6	—	708.5	1,269.8
Loss for the year	—	—	—	—	—	—	(120.1)	(120.1)
Other comprehensive income	—	—	—	—	—	0.8	—	0.8
Total comprehensive expense for the year	—	—	—	—	—	0.8	(120.1)	(119.3)
Share based payment	—	—	—	—	—	—	3.4	3.4
Shares issued/(purchased)	20.7	(11.0)	642.0	—	—	—	—	651.7
At 1 January 2019	34.5	(11.2)	1,143.3	1.8	44.6	0.8	591.8	1,805.6
Loss for the year	**—**	**—**	**—**	**—**	**—**	**—**	**(211.9)**	**(211.9)**
Other comprehensive income	**—**	**—**	**—**	**—**	**—**	**(0.8)**	**—**	**(0.8)**
Total comprehensive expense for the year	**—**	**—**	**—**	**—**	**—**	**(0.8)**	**(211.9)**	**(212.7)**
Share based payment	**—**	**—**	**—**	**—**	**—**	**—**	**2.8**	**2.8**
Shares purchased	**—**	**—**	**—**	**—**	**—**	**—**	**(0.7)**	**(0.7)**
At 31 December 2019	**34.5**	**(11.2)**	**1,143.3**	**1.8**	**44.6**	**—**	**382.0**	**1,595.0**

1. Capita is currently undergoing a multi-year transformation plan and therefore did not declare a dividend in 2019 or 2018.

The accompanying notes are an integral part of the financial statements.

Section 7: Company financial statements continued

7.3 Notes to the Company financial statements

7.3.1 Accounting policies

Basis of preparation
The financial statements have been prepared in accordance with Financial Reporting Standard 101 – Reduced Disclosure Framework (FRS 101) as issued by the Financial Reporting Council. The Company has not presented its own profit and loss account as permitted by Section 408 of the Companies Act 2006.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions.

The financial statements have been prepared on the historical cost basis and on the going concern basis, except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. The principal accounting policies adopted are the same as those set out in Sections 1 to 6 of the consolidated financial statements, except as noted below.

(a) Investments
Fixed asset investments are shown at cost, less provisions for impairment. The carrying values of fixed asset investments are reviewed for impairment if events or changes in circumstances indicate the carrying values may not be recoverable.

(b) Pension schemes
The Company participates in a number of defined contribution schemes and contributions are charged to the profit and loss account in the year in which they are due. These schemes are funded and the payment of contributions is made to separately administered trust funds. The assets of these schemes are held separately from the Company. The Company remits monthly pension contributions to Capita Business Services Limited, a subsidiary undertaking, which pays the Group liability centrally. Any unpaid contributions at the year-end have been accrued in the accounts of that company.

The Company also has employees who are members of a defined benefit scheme operated by the Group – the Capita Pension & Life Assurance Scheme (the 'Capita DB Scheme').

As there is no contractual arrangement or stated Group policy for charging the net defined benefit cost of the Capita DB Scheme is recognised fully by the principal employer which is Capita Business Services Limited, a subsidiary undertaking. The Company then recognises a cost equal to its contribution payable for the period. The contributions payable by the participating entities are determined on the following basis:

The Capita DB Scheme provides benefits on a defined benefit basis funded from assets held in a separate trustee-administered fund.

- The Capita DB Scheme is a non-segregated scheme but there are around 200 different sections in the Scheme where each section provides benefits on a particular basis (some based on final salary, some based on career average earnings) to particular groups of employees.
- At each funding assessment of the Capita DB Scheme (carried out triennially), the contribution rates for those sections containing active members are calculated. These are then rationalised such that sections with similar employer contribution rates (when expressed as a percentage of pensionable pay) are grouped together and an average employer contribution rate for each of the rationalised groups calculated.
- The Company's contribution is consequently calculated by applying the appropriate average employer contribution rates to the pensionable pay of its employees participating in the Capita DB Scheme.

A full actuarial valuation of the Capita DB Scheme is carried out every three years by an independent actuary for the Trustee, with the last full valuation carried out at 31 March 2017. The purpose of that valuation is to design a funding plan to ensure that the pension scheme has sufficient assets available to meet future benefit payments, based on assumptions agreed between the Trustee and the Group. The 31 March 2017 valuation showed a funding deficit of £185.0m (31 March 2014: £1.4m). This equates to a funding level of 86.1% (31 March 2014: 99.8%). The principal employer has agreed to make additional contributions to the Capita DB Scheme totalling £176m over the period from November 2018 to the end of 2021 to address the deficit. The next full valuation is expected to be at 31 March 2020. Note 5.2 of the Annual Report sets out more detail.

(c) Share-based payments
Subsidiary undertakings of the Company reimburse the Company through the intercompany account for charges attributable to their employees participating in the Company's share schemes.

(d) IFRIC 23
There is no material impact on the Company from the Group's adoption of IFRIC 23.

Section 7: Company financial statements continued

7.3.1 Accounting policies continued

Adoption of IFRS 16

The Company has applied IFRS 16 using the modified retrospective approach, with the cumulative effect of applying the standard recognised in retained earnings on 1 January 2019. The impact on the opening balance sheet is shown below:

		Note	At 31 December 2018 £m	IFRS 16 impact £m	At adoption 1 January 2019 £m
Non-current assets	Tangible assets	a	26.9	0.4	27.3
Current liabilities	Financial liabilities	b	2.6	0.1	2.7
Non-current liabilities	Financial liabilities	b	3.4	0.3	3.7

a **Right-of-use assets**: Tangible assets have been impacted due to recognition of equipment right-of-use assets on 1 January 2019. The right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the adoption date (reclassified on the opening balance sheet).

b **Lease liabilities:** Financial liabilities have been impacted due to the recognition of lease liabilities. This liability is initially measured at the present value of the lease payments that are not paid at the adoption date, discounted using the Group's incremental borrowing rate. The lease liabilities have been classified between current and non-current.

7.3.2 Intangible assets

	Capitalised software development £m	Other intangibles £m	Total £m
Cost			
At 1 January 2019	37.2	29.9	67.1
Additions	**45.1**	**—**	**45.1**
Retirement	**(0.1)**	**(0.6)**	**(0.7)**
At 31 December 2019	**82.2**	**29.3**	**111.5**
Amortisation			
At 1 January 2019	0.3	3.6	3.9
Charge for year	**1.3**	**2.8**	**4.1**
Impairment	**12.3**	**—**	**12.3**
Retirement	**(0.1)**	**(0.6)**	**(0.7)**
At 31 December 2019	**13.8**	**5.8**	**19.6**
Net book value:			
At 1 January 2019	36.9	26.3	63.2
At 31 December 2019	**68.4**	**23.5**	**91.9**

Other intangibles relates to software purchased from third parties. Refer to note 3.3 to the Group's consolidated financial statements for further detail on the impairment in 2019.

7.3.3 Tangible assets

	Plant and machinery	Short-term leasehold improvements £m	Equipment right-of-use-assets[1] £m	Total £m
Cost				
At 1 January 2019	25.2	12.3	—	37.5
Adoption of IFRS 16	**—**	**—**	**0.4**	**0.4**
Additions	**8.8**	**8.8**	**—**	**17.6**
Asset retirements	**(10.9)**	**(0.1)**	**—**	**(11.0)**
At 31 December 2019	**23.1**	**21.0**	**0.4**	**44.5**
Depreciation				
At 1 January 2019	9.9	0.7	—	10.6
Charge for year	**4.9**	**0.9**	**0.1**	**5.9**
Asset retirements	**(10.9)**	**(0.1)**	**—**	**(11.0)**
At 31 December 2019	**3.9**	**1.5**	**0.1**	**5.5**
Net book value:				
At 1 January 2019	15.3	11.6	—	26.9
At 31 December 2019	**19.2**	**19.5**	**0.3**	**39.0**

1. The Company has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Refer to note 7.3.1 for further details.

Section 7: Company financial statements continued

7.3.4 Investment

	Shares in subsidiary undertakings £m
Cost	
At 1 January 2019	507.9
Additions[1]	**61.0**
At 31 December 2019	**568.9**

1. During the year ended 31 December 2019, Capita plc invested £61.0m in Capita Employee Benefits Limited.

Direct investments	Registered office	Proportion of nominal value of issued shares held by the Company
Capita Employee Benefits Limited[2]	30 Berners Street, London, England, W1T 3LR	100%
Capita Legal Services Limited[2]	30 Berners Street, London, England, W1T 3LR	100%
Capita Financial Services Holdings Limited[1]	30 Berners Street, London, England, W1T 3LR	100%
Capita Group Insurance PCC Limited[2]	Dorey Court, Admiral Park, St. Peter Port, Guernsey, GY1 4AT, Guernsey	100%
Capita Gwent Consultancy Limited[2]	St David'S House Pascal Close, St. Mellons, Cardiff, CF3 0LW	51%
Capita Holdings Limited[1]	30 Berners Street, London, England, W1T 3LR	100%
Capita International Limited[2]	30 Berners Street, London, England, W1T 3LR	100%
Capita Life & Pensions Regulated Services Limited[2]	30 Berners Street, London, England, W1T 3LR	100%
SIMS Holdings Limited[2] (in liquidation)	30 Berners Street, London, England, W1T 3LR	100%
Capita International Retirement Benefit Scheme Trustees Limited[2]	30 Berners Street, London, England, W1T 3LR	100%
Capita Ireland Limited[2]	2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland	100%
Capita Life & Pensions Services Limited[2]	30 Berners Street, London, England, W1T 3LR	100%

1. Investing holding company.
2. Outsourcing services company.

Certain subsidiaries of the Group have opted to take advantage of a statutory exemption from having an audit in respect of their individual statutory accounts. Strict criteria must be met for this exemption to be taken and has been agreed to by the Directors of those subsidiary entities. Listed in note 7.3.16 to the Company financial statements are subsidiaries controlled and consolidated by the Group, where the Directors have taken advantage of the exemption from having an audit of the entities' individual financial statements for the year ended 31 December 2019 in accordance with Section 479A of The Companies Act 2006.

In order to facilitate the adoption of this exemption, Capita plc, the parent company of the subsidiaries concerned, undertakes to provide a guarantee under Section 479C of the Companies Act 2006 in respect of those subsidiaries.

Details of all indirect subsidiaries, as required under Section 409 of the Companies Act 2006, are reported in note 7.3.16 to the Company financial statements.

Section 7: Company financial statements continued

7.3.5 Financial instruments

	Financial assets 2019 £m	Financial liabilities 2019 £m	Financial assets 2018 £m	Financial liabilities 2018 £m
Cash flow hedges	—	—	8.3	1.2
Non-designated foreign exchange forwards and swaps	6.6	3.1	3.9	1.4
Other debt securities held	—	—	1.3	—
Lease liabilities[1]	—	0.3	—	—
Interest rate swaps	1.0	3.6	2.0	—
Cross-currency interest rate swaps	80.9	—	103.1	3.4
	88.5	7.0	118.6	6.0
Analysed as:				
Current	21.5	1.7	18.3	2.6
Non-current	67.0	5.3	100.3	3.4
	88.5	7.0	118.6	6.0

1. The Company has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Refer to note 7.3.1 for further details.

7.3.6 Deferred taxation

	2019 £m	2018 £m
The deferred taxation included in the balance sheet is as follows:		
Accelerated capital allowances	2.6	0.6
Losses	4.2	3.4
Provisions	—	2.0
	6.8	6.0

7.3.7 Trade and other receivables

	2019 £m	2018 £m
Trade receivables	0.2	1.3
Other debtors	1.0	0.9
Other taxes and social security	8.8	3.7
	10.0	5.9

7.3.8 Trade and other payables

	2019 £m	2018 £m
Trade creditors	18.4	15.6
Other creditors	2.3	2.6
Other taxes and social security	—	0.9
	20.7	19.1

7.3.9 Provisions

Provisions	2019 £m	2018 £m
At 1 January	28.4	130.4
Reclassified from amounts falling due after more than 1 year	—	0.6
Provisions provided for in the year	0.1	—
Provisions released in the year	(11.2)	(13.2)
Utilisation	(2.1)	(89.4)
At 31 December	15.2	28.4

The majority of the provisions relate to the claims and litigations provision (£7.1m) and business exit provision (£7.4m). Further detail on these provisions can be found in note 3.6 to the Group's consolidated financial statements.

Section 7: Company financial statements continued

7.3.10 Borrowings

	2019 £m	2018 £m
Private placement loan notes	**202.9**	226.5
Repayments fall due as follows:		
In more than 2 years but not more than 5 years	**152.6**	172.9
In more than 5 years	**50.3**	53.6
Total borrowings	**202.9**	226.5

The Company issued guaranteed unsecured private placement loan notes as follows:

	Interest rate (%)	Denomination	EUR (m)	Maturity
Fixed rate bearer notes	2.13	EUR	166.1	10 November 2022
Fixed rate bearer notes	2.88	EUR	60.0	10 November 2027
Schuldschein loan	2.13	EUR	16.0	10 November 2022
Total of euro denominated private placement loan notes			242.1	

7.3.11 Share capital

Disclosures about the share capital, share premium, employee benefit trust and treasury shares of the Company have been included in note 4.6 to the Group's consolidated financial statements.

7.3.12 Commitments and contingent liabilities

(a) The Company has a committed Revolving Credit Facility of £414.0m which matures in August 2022 (extendable for a further year to August 2023 with the consent of the lenders by August 2021) of which £nil was drawn down at 31 December 2019 (2018: £nil). In February 2020 an additional bank joined the facility, increasing the aggregate facility amount to £452.0m.

In addition to the Revolving Credit Facility, in February 2020 the Group agreed a backstop liquidity facility of £150.0m. The backstop liquidity facility has an initial maturity in February 2021, and is extendable at the option of the Group to a final maturity in August 2022.

(b) The Company has provided, through the normal course of its business, performance bonds and bank guarantees of £58.1m (2018: £84.0m).

7.3.13 Related-party transactions

In the following, figures for purchases and sales are for transactions invoiced during the year inclusive of Value Added Tax where applicable. All transactions are undertaken at normal market prices.

During the year, the Company sold goods/services in the normal course of business to Urban Vision Partnership Limited for £0.1m (2018: £0.1m). The Company purchased goods/services in the normal course of business for £nil (2018: £nil). At the balance sheet date, the net amount receivable from Urban Vision Partnership Limited was £nil (2018: £nil).

During the year, the Company sold goods/services in the normal course of business to Entrust Support Services Limited for £0.3m (2018: £0.6m). The Company purchased goods/services in the normal course of business for £nil (2018: £nil). At the balance sheet date, the net amount receivable from Entrust Support Services Limited was £nil (2018: £nil).

During the year, the Company sold goods/services in the normal course of business to AXELOS Limited for £0.3m (2018: £0.1m). The Company purchased goods/services in the normal course of business for £0.3m (2018: £nil). At the balance sheet date, the net amount receivable from AXELOS Limited was £0.1m (2018: £nil).

During the year, the Company sold goods/services in the normal course of business to Capita Glamorgan Consultancy Limited for £0.1m (2018: £0.1m). The Company purchased goods/services in the normal course of business for £nil (2018: £nil). At the balance sheet date, the net amount receivable from Capita Glamorgan Consultancy Limited was £nil (2018: £nil).

During the year, the Company sold goods/services in the normal course of business to Fera Science Limited for £0.3m (2018: £0.3m). The Company purchased goods/services in the normal course of business for £nil (2018: £0.1m). At the balance sheet date, the net amount receivable from Fera Science Limited was £nil (2018: £nil).

7.3.14 Pension costs

The Company operates a defined contribution scheme. The pension charge for the defined contribution scheme for the year was £1.4m (2018: £2.4m).

7.3.15 Share-based payments

The Company operates several share-based payment plans and details of the schemes are disclosed in note 5.1 of the Group's consolidated financial statements.

The Group recognised an expense for share-based payments in respect of employee services received during the year to 31 December 2019 of £3.0m (2018: £3.4m), all of which arises from equity-settled share-based payment transactions. The total Company expense, after recharging subsidiary undertakings, charged to the profit and loss account in respect of share-based payments was £2.1m (2018: £1.3m).

Section 7: Company financial statements continued

7.3.16 Related undertakings

The stated address relates to the place of incorporation of the entity, which is the same as its tax residence in all cases other than Capita Group Insurance PCC Limited which is incorporated in Guernsey, but which is tax resident in the UK.

Unless otherwise stated, all shareholdings are owned indirectly by the Company and represent 100% of the issued share capital of the subsidiary.

Company name	Share class
3C DIALOG Saalfeld GmbH [33]	€25,000.00 Ordinary
Acutest Limited [6]	£1.00 Ordinary
Adato GmbH [32]	€22,500.00 Ordinary
Akinika Debt Recovery Limited [8]	£1.00 Ordinary
Akinika Limited [8]	£1.00 Ordinary
Akinika UK Limited [8]	£1.00 Ordinary
Amity Communications Limited (in liquidation) [1]	£1.00 Ordinary
AMT Group Limited [4]	€1.00 Ordinary
AMT-Sybex (Engineering) Limited (in liquidation) [1]	£1.00 Ordinary
AMT-Sybex (I) Limited [4]	€1.00 Ordinary
AMT-Sybex (Managed Services) Limited [4]	€1.00 Ordinary
AMT-Sybex (Ni) Limited (in liquidation) [20]	£1.00 Ordinary
AMT-Sybex (Research) Limited [4]	€1.00 Ordinary
AMT-Sybex (Software) Limited [4]	€1.00 Ordinary
AMT-Sybex Group Limited [4]	€0.0012 Ordinary
AMT-Sybex Holdings Limited (in liquidation) [20]	£1.00 Ordinary
AMT-Sybex Limited [6]	£1.00 Ordinary
Artificial Labs Ltd [221]•	£0.00 Preferred A
Aspire Business Solutions Ltd (in liquidation) [1]	£1.00 Ordinary
Atlas Master Trust Trustee Limited [6]	£1.00 Ordinary
Axelos Limited [6] ▼	£0.01 Ordinary B
Barrachd Intelligence Solutions Limited (in liquidation) [19]	£1.00 Ordinary
Barrachd Limited [3]	£1.00 Ordinary
BCS Design Ltd [6]	£1.00 Ordinary
Beovax Computer Services Limited [6]	£1.00 Ordinary
Booking Services International Limited [6]	£1.00 Ordinary
Brentside Communications Limited [6]	£1.00 Ordinary
Brightwave Enterprises Limited [6]	£1.00 Ordinary
Brightwave Holdings Limited [6]	£1.00 Ordinary
Brightwave Limited [6]	£1.00 Ordinary
BSI Group Limited [6]	£1.00 Ordinary
BSI Holdings Limited (in liquidation) [1]	£1.00 Ordinary
Call Centre Technology Limited [6]	£1.00 Ordinary
Call Vision Technologies Ltd [6]	£1.00 Ordinary
Capita (3522258) Limited (in liquidation) [1]	£1.00 Ordinary
Capita (6588350) Limited [6]	£1.00 Ordinary
Capita (Banstead 2011) Limited (in liquidation) [1]	£1.00 Ordinary
Capita (D1) Limited [6]	£1.00 Ordinary
Capita (Dubai FZ) Limited [37]	US$1,000.00 Ordinary
Capita (Isle of Man) Limited (in liquidation) [9]	£1.00 Ordinary
CAPITA (Luxembourg) s.a r.l [16]	£1.00 Ordinary
Capita (Polska) Spóka z ograniczon odpowiedzialnoœci [23]	PLZ50.00 Ordinary

Company name	Share class
Capita (South Africa) (Pty) Limited [15]	ZAR1.00 Ordinary
Capita (USA) Holdings Inc. [14]	US$1.00 Ordinary
Capita Aurora Limited [6]	£1.00 Ordinary
Capita Birmingham Limited [12]	£1.00 Ordinary
Capita Building Standards Limited [6]	£1.00 Ordinary
Capita Business Services Ltd [6]	£1.00 Ordinary
Capita Business Support Services Ireland Limited [4]	€1.00 Ordinary
Capita Commercial Insurance Services Limited [6]	£1.00 Ordinary
Capita Consulting Limited (in liquidation) [1]	£1.00 Ordinary
Capita Corporate Director Limited [6]	£1.00 Ordinary
Capita CTI (USA) LLC [14]	US$1.00 Ordinary
Capita Customer Management Limited [6]	£1.00 Ordinary
Capita Customer Services (Germany) GmbH [34]	€1.00 Ordinary
Capita Customer Services AG [35]	CHF1.00 Ordinary
Capita Customer Solutions (UK) Limited [6]	£1.00 Ordinary
Capita Customer Solutions Limited [52]	€1.00 Ordinary
Capita Cyprus Holdings Limited [49]	£1.00 Ordinary
Capita Cyprus Limited [49]	€1.00 Euro
Capita Dubai Limited [6]	£1.00 Ordinary
Capita Employee Benefits (Consulting) Limited [6]	£1.00 Ordinary
Capita Employee Benefits Holdings Limited [6]	£1.00 Ordinary
Capita Employee Benefits Limited [6] *	£1.00 Ordinary
Capita Employee Benefits Services Limited (in liquidation) [1]	£1.00 Ordinary
Capita Energie Services GmbH [41] ◄	€1.00 Ordinary
Capita Financial Services Holdings Limited [6] *	£1.00 Ordinary
Capita Gas Registration and Ancillary Services Limited [6]	£1.00 Ordinary
Capita Glamorgan Consultancy Limited [6] ▼	£0.01 Ordinary B
Capita GMPS Trustees Limited [6]	£1.00 Ordinary
Capita Grosvenor Limited [6]	£1.00 Ordinary
Capita Group Insurance PCC Limited [28] *	£1.00 CG1
Capita Group Limited [6]	£1.00 Ordinary
Capita Group Secretary Limited [6]	£1.00 Ordinary
Capita Gwent Consultancy Limited [45] * ▼	£0.01 Ordinary A
Capita Hartshead Benefit Consultants Limited (in liquidation) [1]	£1.00 Ordinary
Capita HCH Limited [6]	£1.00 Ordinary
Capita Health and Wellbeing Limited [6]	£1.00 Ordinary
Capita Health Holdings Limited [6]	£1.00 Ordinary
Capita HELM Corporation Limited (in liquidation) [20]	£1.00 Ordinary
Capita Holdings Limited [6] *	£1.00 Ordinary
Capita IB Solutions (Ireland) Limited [4]	€1.00 Ordinary
Capita IB Solutions (UK) Limited [6]	£1.00 Ordinary
Capita India Private Limited [43]	INR10.00 Ordinary

Section 7: Company financial statements continued

7.3.16 Related undertakings continued

Company name	Share class
Capita Insurance Services Group Limited [6]	£0.10 Ordinary A (Cancelled)
Capita Insurance Services Holdings Limited [6]	£1.00 Ordinary
Capita Insurance Services Limited [6]	£1.00 Ordinary
Capita Intelligent Building Infrastructure Services Limited (in strike off) [6]	£1.00 Ordinary
Capita International Limited [6] *	£1.00 Ordinary
Capita International Retirement Benefit Scheme Trustees Limited [6] *	£1.00 Ordinary
Capita Ireland Limited [4] *	€1.00 Ordinary
Capita IT and Consulting India Private Limited (in liquidation) [46]	INR10.00 Ordinary
Capita IT Services (BSF) Holdings Limited [6]	£1.00 Ordinary
Capita IT Services (BSF) Limited [6]	£1.00 Ordinary
Capita IT Services Holdings Limited [6]	£1.00 Ordinary
Capita IT Services Limited [42]	£1.00 Ordinary
Capita Justice & Secure Services Holdings Limited [6]	£1.00 Ordinary
Capita Land Limited [6]	£1.00 Ordinary
Capita Legal Services Limited [6] *	£1.00 Ordinary
Capita Life & Pensions Regulated Services Limited [6] *	£1.00 Ordinary
Capita Life & Pensions Services Limited [6] *	£1.00 Ordinary
Capita Life and Pensions International Limited [6]	£1.00 Ordinary
Capita Life and Pensions Services (Ireland) Limited [39] *	€1.27 Ordinary
Capita Life and Pensions Services (Isle of Man) Limited [25]	£1.00 Ordinary
Capita Managed IT Solutions Limited [31]	£1.00 Ordinary
Capita Managing Agency Limited [6]	£1.00 Ordinary
Capita Mclarens Limited [46]	£1.00 Ordinary
Capita Mortgage Administration Limited [6]	£1.00 Ordinary
Capita Mortgage Software Solutions Limited [6]	£1.00 Ordinary
Capita Norman + Dawbarn Limited [36] ⊔	NGN1.00 Ordinary
Capita Offshore Services Private Limited (in liquidation) [43]	INR10.00 Ordinary
Capita Property and Infrastructure (Structures) Limited [6]	£1.00 Ordinary
Capita Property and Infrastructure Consultants LLC [2] △	AED1,000.00 Ordinary
Capita Property and Infrastructure Holdings Limited [6]	£1.00 Ordinary
Capita Property and Infrastructure International Holdings Limited [6]	£1.00 Ordinary
Capita Property and Infrastructure International Limited [6]	£1.00 Ordinary
Capita Property and Infrastructure Limited [6]	£1.00 Ordinary
Capita Property and Planning Limited (in liquidation) [1]	£1.00 Ordinary
Capita rentable GmbH [34]	€17,500.00 Ordinary
Capita Resourcing Limited [6]	£1.00 Ordinary
Capita Retail Financial Services Limited [6]	£1.00 Ordinary
Capita Scotland General Partner (Pension) Limited [42]	£1.00 Ordinary
Capita Secure Information Solutions Limited [6]	£1.00 Ordinary
Capita Secure Mobile Solutions Limited (in liquidation) [19]	£1.00 Ordinary
Capita Services (Isle of Man) Limited [25]	£1.00 Ordinary
Capita SIMS (India) Private Limited [43]	INR10.00 Ordinary
Capita Southampton Limited [6]	£1.00 Ordinary
Capita Süd GmbH [34]	€1.00 Ordinary
Capita Symonds (Asia) Limited [6]	£1.00 Ordinary

Company name	Share class
Capita Symonds India Private Limited [43]	INR10.00 Ordinary
Capita Translation and Interpreting Limited [6]	£1.00 Ordinary
Capita Translation and Interpreting LLC [27]	US$1.00 Ordinary
Capita Travel & Events Holdings Limited [6]	£1.00 Ordinary
Capita Travel and Events Limited [6]	£1.00 Ordinary
Capita West GmbH [37]	€25,000.00 Ordinary
Capita Workplace Technology Limited [6]	£1.00 Ordinary
Cardiff Research Consortium Limited (in liquidation) [1]	£1.00 Ordinary
CAS Services US Inc [26]	US$1.00 Ordinary
CCSD Services Limited [6]	£1.00 Ordinary
CHKS Limited [6]	£1.00 Ordinary
Clinical Solutions Acquisition Limited [6]	£1.00 Ordinary
Clinical Solutions Finance Limited [6]	£1.00 Ordinary
Clinical Solutions Holdings Limited [6]	£1.00 Ordinary
Clinical Solutions International Limited [6]	£1.00 Ordinary
Clinical Solutions IP Limited [6]	£1.00 Ordinary
CMGL Group Limited [6]	£1.00 Ordinary
CMGL Holdings Limited [6]	£1.00 Ordinary
Cobalt Insurance Holdings Limited [17] ◦	£0.10 Ordinary A
Cobex Corporate Member No. 1 Limited [40] ▶	£0.01 Ordinary
Complete Imaging Limited [6]	£1.00 Ordinary
Complete Imaging Trustee Company Limited (in liquidation) [6]	£1.00 Ordinary
Computerland UK Limited [6]	£1.00 Ordinary
Contact Associates Limited [6]	£1.00 Ordinary
Cost Advocates Limited (in liquidation) [1]	£1.00 Ordinary
CPLAS Trustees Limited [6]	£1.00 Ordinary
Creating Careers Limited [6]	£1.00 Ordinary
CS Clinical Solutions India Private Limited [43]	INR10.00 Ordinary
Cymbio Limited [6]	£1.00 Ordinary
Daisy Updata Communications Limited [38] ▲	£1.00 Ordinary B
Data Equipment Limited (in liquidation) [1]	£1.00 Ordinary
Data Mail Systems Limited (in liquidation) [1]	£1.00 Ordinary
Debt Solutions (Holdings) Limited [8]	£1.00 Ordinary
Design & Manage Europe Limited (in strike off) [6] ▲	£1.00 Ordinary
Dupree Holdings Limited [4]	€1.00 Ordinary
E.B. Consultants Limited [6]	£1.00 Ordinary
Eclipse (Hardware) Limited [6]	£1.00 Ordinary
Electra-Net (UK) Limited [6]	£1.00 Ordinary
Electra-Net Group Limited [6]	£1.00 Ordinary
Electra-Net Holdings Limited [6]	£1.00 Ordinary
Emercom Ltd [6]	£1.00 Ordinary
Entrust Education Services Limited (in liquidation) [1]	£1.00 Ordinary
Entrust Support Services Limited [48] ▼	£1.00 Ordinary X
Equita Limited [10]	£1.00 Ordinary
Equitable Holdings Limited [6]	£1.00 Ordinary

Section 7: Company financial statements continued

7.3.16 Related undertakings continued

Company name	Share class
ESA Design Limited (in liquidation) [1]	£1.00 Ordinary
Eureka Assessoria Empresarial Ltda [18] ▽	BRL1.00 Ordinary
Euristix (Holdings) Limited [6]	£1.00 Ordinary
Euristix Limited [6]	£1.00 Ordinary
Evolvi Rail Systems Limited [6]	£1.00 Ordinary
Expotel Hotel Reservations Limited [6]	£1.00 Ordinary
Fera Science Limited [6] ■	£1.00 Ordinary B
Fire Service College Limited [6]	£1.00 Ordinary
FirstAssist Services Limited [6]	£1.00 Ordinary
Fish Financial Solutions Limited (in liquidation) [1]	£1.00 Ordinary
FPS Group of Companies Limited (in liquidation) [1]	£1.00 Ordinary
Full Circle Contact Centre Services (Proprietary) Limited [15]	ZAR0.01 Ordinary
G L Hearn Limited [6]	£1.00 Ordinary
G L Hearn Management Limited [6]	£1.00 Ordinary
G2G3 Digital Limited (in liquidation) [1]	£1.00 Ordinary
Gissings Trustees Limited [6]	£1.00 Ordinary
Grosvenor Career Services Limited [6]	£1.00 Ordinary
Hallco 1626 Limited (in liquidation) [1]	£1.00 Ordinary
Health Analytics Ltd [6]	£1.00 Ordinary
IBS Opensystems (UK) Limited (in liquidation) [1]	£1.00 Ordinary
International Reservations Limited (in strike off) [6]	£1.00 Ordinary
International Travel Group Limited [6]	£1.00 Ordinary
ITR International Translation Resources Limited (in liquidation) [6]	£1.00 Ordinary
John Crilley Limited (in liquidation) [1]	£1.00 Ordinary
Knowledgepool Group Limited [6]	£1.00 Ordinary
Latemeetings.com Limited [6]	£1.00 Ordinary
Leadcall Limited [6]	£1.00 Ordinary
Legal & Trade Collections Limited (in liquidation) [1]	£1.00 Ordinary
Liberty Communication Services Ltd. (in liquidation) [1]	£1.00 Ordinary
Liberty Printers (Ar And Rf Reddin) Limited [6]	£1.00 Ordinary
Lovejoy Partnership Limited (in liquidation) [1]	£1.00 Ordinary
Madagans Limited (in liquidation) [1]	£1.00 Ordinary
Magnos (Holdings) Limited (in liquidation) [1]	£1.00 Ordinary
Market Mortgage Limited [6] ▲	£0.001 Ordinary Capita Shares
Marrakech (Ireland) Limited [4]	€1.00 Ordinary
Marrakech (U.K.) Limited [6]	£1.00 Ordinary
Marrakech Limited [4]	€1.00 Ordinary
Medicals Direct International Limited [6]	£1.00 Ordinary
Metacharge Limited [6]	£1.00 Ordinary
Micro Librarian Systems Holdings Limited (in liquidation) [6]	£1.00 Ordinary
Micro Librarian Systems Limited [6]	£1.00 Ordinary
Munnypot Limited [47] >	£0.01 Ordinary
NB Real Estate Group Limited (in liquidation) [1]	£1.00 Ordinary
NB Real Estate Holdings Limited (in liquidation) [1]	£1.00 Ordinary
Network Technology Solutions (UK) Limited (in liquidation) [1]	£1.00 Ordinary
NYS Corporate Ltd. [6]	£1.00 Ordinary

Company name	Share class
NYS Holdings Limited (in liquidation) [1]	£1.00 Ordinary
Octal Business Solutions Limited [6]	£1.00 Ordinary
Opin Systems Limited [42]	£1.00 Ordinary
Optilead Inc. [15]	US$0.001 Common Stock
Optilead Limited [6]	£1.00 Ordinary
Optima Legal Services Limited [30]	£1.00 Ordinary
Orange Bus Limited (in liquidation) [1]	£1.00 Ordinary
PageOne Communications Limited [6]	£1.00 Ordinary
Pardus Holdings Limited [22] ~	£1.00 Ordinary
Pay360 Limited [6]	£1.00 Ordinary
Pervasive Limited [6]	£1.00 Ordinary
Pervasive Networks Limited [6]	£1.00 Ordinary
PIFC Consulting Limited (in liquidation) [1]	£1.00 Ordinary
Premier Medical Holdings Limited [11] <	£1.00 Ordinary A
Rathcush Limited [4]	€1.00 Ordinary
RE (Regional Enterprise) Limited [6] ▼	£1.00 Ordinary A
Retain International (Holdings) Limited [6]	£1.00 Ordinary
Retain International Limited [6]	£1.00 Ordinary
Right Document Solutions Holdings Limited (in liquidation) [1]	£1.00 Ordinary
Ross & Roberts Limited [51]	£1.00 Ordinary
Sbj Benefit Consultants Limited [6]	£1.00 Ordinary
Sbj Professional Trustees Limited [6]	£1.00 Ordinary
SDP Regeneration Services 2 Limited [6]	£1.00 Ordinary
Security Watchdog Limited [6]	£1.00 Ordinary
Sigma Seven Limited [42]	£1.00 Ordinary
SIMS Holdings Limited (in liquidation) [1] *	£1.00 Ordinary
SIMS Limited [6]	£1.00 Ordinary
Smart DCC Limited [6]	£1.00 Ordinary
Smartpoint Limited (in liquidation) [1]	£1.00 Ordinary
Solid State Solutions Limited (in liquidation) [1]	£1.00 Ordinary
Sp Collect Ltd (in liquidation) [19]	£1.00 Ordinary
STL Technologies Limited (in liquidation) [1]	£1.00 Ordinary
Striesen Holdings Pty Ltd [8]	£0.21 Ordinaryshares
Symonds Project Management Consultancy (Beijing) Ltd [44]	US$0.00 Ordinary
Symonds Travers Morgan (Hong Kong) Limited [7]	HKD10.00 Ordinary
Synaptic Software Limited [6]	£1.00 Ordinary
Synetrix (Holdings) Limited (in liquidation) [1]	£1.00 Ordinary
Synetrix Limited (in liquidation) [1]	£1.00 Ordinary
Tascor E & D Services Limited [6]	£1.00 Ordinary
Tascor Services Limited [6]	£1.00 Ordinary
TELAG AG [29]	CHF1,000.00 Ordinary
Tempus Finance Limited [6]	£1.00 Ordinary
The Fisher Training Group Limited [6]	£1.00 Ordinary
The G2G3 Group Ltd. [42]	£1.00 Ordinary
The Royal Borough of Kensington and Chelsea Assured Homes Limited (in liquidation) [6]	£1.00 Ordinary
The Write Research Company Limited [6]	£1.00 Ordinary

Section 7: Company financial statements continued

7.3.16 Related undertakings continued

Company name	Share class
Thirty Three Group Limited [6]	£1.00 Ordinary
ThirtyThree APAC Limited [13]	HKD1.00 Ordinary
ThirtyThree USA Inc. [14]	US$1.00 Ordinary
Trustmarque Solutions Limited [6]	£1.00 Ordinary
Updata Infrastructure (UK) Limited [6]	£1.00 Ordinary
Updata Infrastructure 2012 Limited [6]	£1.00 Ordinary
Urban Vision Partnership Limited [24] ▶	£1.00 Ordinary B
Ventura (India) Private Limited [50]	INR10.00 Ordinary
Ventura (UK) India Limited [6]	£1.00 Ordinary

Company name	Share class
Venues Event Management Limited [6]	£1.00 Ordinary
Vilanova Management Limited [4]	€1.00 Ordinary
Vision 2 Learn Limited (in liquidation) [1]	£1.00 Ordinary
Voice Marketing Limited [6]	£1.00 Ordinary
Wabowden Limited [4]	€1.00 Ordinary
Western Mortgage Services Limited [6]	£1.00 Ordinary
Westpoint Limited (in liquidation) [1]	£1.00 Ordinary
Woolf Limited [6]	£1.00 Ordinary

Footnotes
- * Companies directly held by Capita plc.
- ~ Shareholding owned indirectly by the company and represent 11.32 % of the issued share capital of subsidiary.
- > Shareholding owned indirectly by the company and represent 16.16 % of the issued share capital of subsidiary.
- < Shareholding owned indirectly by the company and represent 19.90% of the issued share capital of subsidiary.
- • Shareholding owned indirectly by the company and represent 22.72% of the issued share capital of subsidiary.
- ○ Shareholding owned indirectly by the company and represent 24.60% of the issued share capital of subsidiary.
- △ Shareholding owned indirectly by the company and represent 49% of the issued share capital of subsidiary.
- ▽ Shareholding owned indirectly by the company and represent 49.9% of the issued share capital of subsidiary.
- ▲ Shareholding owned indirectly by the company and represent 50% of the issued share capital of subsidiary.
- ▶ Shareholding owned indirectly by the company and represent 50.1% of the issued share capital of subsidiary.
- ▼ Shareholding owned indirectly by the company and represent 51% of the issued share capital of subsidiary.
- ◀ Shareholding owned indirectly by the company and represent 74.9% of the issued share capital of subsidiary.
- ■ Shareholding owned indirectly by the company and represent 75% of the issued share capital of subsidiary.
- □ Shareholding owned indirectly by the company and represent 97.3% of the issued share capital of subsidiary.

Registered office addresses
1. 1 More London Place, London, SE1 2AF, United Kingdom
2. 1004 Bin Hamoodah Building, Khalifa St., PO Box 113 740, Abu Dhabi, United Arab Emirates
3. 145, Morrison Street, Edinburgh, EH3 8AG
4. 2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland
5. 24 Blythswood Square, Glasgow, G2 4BG, Scotland
6. 30, Berners Street, London, W1T 3LR, England
7. 31/F, 148 Electric Road, North Point, Hong Kong
8. 33/34 Winckley Square, Preston, Lancashire, PR1 3EL
9. 33-37 Athol Street, Douglas, IM1 1LB, Isle Of Man
10. 42/44 Henry Street, Northampton, Northamptonshire, NN1 4BZ, United Kingdom
11. 4Th Floor, Park Gate 161-163, Preston Road, East Sussex, Brighton, BN1 6AF, United Kingdom
12. 5th Floor, Fort Dunlop, Fort Parkway, Birmingham, B24 9FD, United Kingdom
13. 803, Manning House, 38 Queen's Road Central, Hong Kong
14. 850 New Burton Road, Suite 201, Dover, DE, 19904, United States
15. 8th Floor, Union Castle Building, 55 St Georges Mall, Cape Town, 8001, South Africa
16. 9, Allee Scheffer, L-2520, Luxembourg
17. 9, Bonhill Street, London, EC2A 4DJ, England & Wales
18. Alameda dos Guaramomis, no 930 , 1st Floor, Suite 01, Bairro, Moema, CEP 04076-011, Brazil
19. Atria One, 144 Morrison Street, Edinburgh, EH3 8EX
20. Bedford House, 16 Bedford Street, Belfast, BT2 7DT
21. Bourne House, 475 Goodstone Road, Whyteleafe, Surrey, CR3 0BL, England
22. C/O Pkf Littlejohn 2nd Floor, 1 Westferry Circus, Canary Wharf, London, E14 4HD, England
23. Centrum Biurowe Lubicz I,ul. Lubicz 23, Krakow, 31-503, Poland, Poland
24. Civic Centre, Chorley Road, Swinton, M27 5AS, United Kingdom
25. Clinch's House, Lord Street, Douglas, IM99 1RZ, Isle Of Man
26. Corporation Service Company 2711, Centerville Road, Suite 400, Wilmington, County of Newcastle, DE, 19808, United States
27. Corporation Trust Centre, 1209 Orange Street, Wilmington, New Castle, DE, 19801, United States
28. Dorey Court, Admiral Park, St. Peter Port, Guernsey, Guernsey, GY1 4AT
29. Hardturmstrasse 101, Zürich, 8005, Switzerland
30. Hepworth House, Claypit Lane, Leeds, LS2 8AE, United Kingdom
31. Hillview House, 61 Church Road, Newtownabbey, Co Antrim, BT36 7LQ
32. Käfertaler Str. 190, Mannheim, 68167, Germany
33. Kelzstraße 21, Saalfeld, 07318, Germany
34. Kommandantenstraße 22, Berlin, 10969, Germany
35. Konstanzerstrasse 17, Tägerwilen, 8274, Switzerland
36. Landmark Virtual Offices, Africa Re Building – Plot 1679, Karimu Kotun Street,Lagos, Victoria Island, Nigeria
37. Level No. 3, Gate Village 7, Dubai International Finance Centre, Dubai, PO BOX 49983, United Arab Emirates
38. Lindred House, 20 Lindred Road, Brierfield, Nelson, Lancashire, BB9 5SR
39. Montague House, Adelaide Road, Dublin 2, DUBLIN 2, Ireland
40. Mr S Fisher, The Grange, Bishops Cleeve, Cheltenham, Gloucestershire, GL52 8YQ, United Kingdom
41. Nassauer Ring 39-41, Krefeld, 47803, Germany
42. Pavilion Building, Ellismuir Way, Tannochside Park,Uddingston, Glasgow, G71 5PW, United Kingdom
43. Plant 06, Gate No.2, Godrej and Boyce Complex, LBS Marg, Pirojshahnagar, Vikhroli (West), Mumbai, 400 079, India
44. Room 615 Zhucheng Building, No Jia 6 Zhongguancun South Street, Beijing 100086, Haidian District
45. St David's House, Pascal Close, St Mellons, Cardiff, CF3 0LW, United Kingdom
46. The Beacon, 176 St Vincent Street, Glasgow, G2 5SG, United Kingdom
47. The Courtyard Shoreham Road, Upper Beeding, Steyning, West Sussex, BN44 3TN, England
48. The Riverway Centre, Riverway, Stafford, ST16 3TH, United Kingdom
49. Themistokli Dervi 3, Julia House, P.C. 1066, Nicosia, Cyprus
50. Tower B1, Margapatta City SEZ, Margapatta City, Hadapsar, Pune, Maharashtra, 411013, India
51. Unit 8, Wessex Park, Bancombe Road Trading Estate, Somerton, Somerset, TA11 6SB, United Kingdom
52. Unit B, West Cork Technology Park, Clonakilty, Cork, Ireland

Section 7: Company financial statements continued

7.3.16 Related undertakings continued

Listed below are subsidiaries controlled and consolidated by the Group, where the Directors have taken the exemption from having an audit of its financial statements for the year ended 31 December 2019. This exemption is taken in accordance with Companies Act Section 479A.

Company name	Company registration	Company name	Company registration
Brightwave Enterprises Limited	7066783	Debt Solutions (Holdings) Limited	3673307
Brightwave Holdings Limited	7462788	Euristix Limited	05420948
Brightwave Limited	4092349	Health Analytics Ltd	6947862
Capita Gas Registration and Ancillary Services Limited	5078781	Marrakech (U.K.) Limited	3785263
Capita HCH Limited	2384029	Pervasive Limited	5679204
Capita IT Services (BSF) Limited	1855936	Pervasive Networks Limited	3429318
CCSD Services Limited	5399460	SDP Regeneration Services 2 Limited	4626963
CHKS Limited	2442956	Tempus Finance Limited	6943069
Clinical Solutions Finance Limited	5337592	The G2G3 Group Ltd.	SC199414
Clinical Solutions International Limited	4394761	The Write Research Company Limited	04272836
Creating Careers Limited	3885966	Thirty Three LLP	OC372712
Cymbio Limited	6462086		

Section 8: Additional information

In this section

8.1 Shareholder information

In this section we have provided you with some key information to manage your shareholding in Capita plc.

Useful websites
Capita (www.capita.com/investors)
Our corporate site is our main external communication channel where we showcase our services, solutions and innovations from across the wider Company. It also contains an investor section, where institutional and private shareholders can access the latest announcements, financial and statutory information and reports.

Shareholder portal (www.capitashares.co.uk)
Capita's register of shareholders is maintained by Link Asset Services. Our shareholder portal is a secure online site where you can manage your shareholding quickly and easily. You can manage many aspects, such as viewing your holding, updating contact details, managing dividend payments, requesting to receive shareholder communications by email and registering. To register you will need your investor code, which can be found on your share certificate or dividend confirmation.

e-communications
Help us communicate with you in a greener, more efficient and cost-effective way by switching from postal to email communications, which means that we will notify you by email each time new shareholder communications have been placed on the Capita website.

Registering for e-communications is very straightforward. Go to our shareholder portal www.capitashares.co.uk. Further information about our shareholder portal is below.

Managing your shareholding
We aim to communicate effectively with our shareholders, via our website www.capita.com/investors. Shareholders who have questions relating to the Group's business or wish to receive further hard copies of annual reports should contact Capita's investor relations team on 020 7799 1525 or email: IRTeam@capita.co.uk.

If you have any queries about your shareholding or dividend payments please contact the Company's registrar, Link Asset Services:

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Email: enquiries@linkgroup.co.uk
Tel: +44 (0) 371 664 03001 (Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate.)

Lines are open 9.00am – 5.30pm, Monday to Friday excluding public holidays in England and Wales.

Share dealing
A quick and easy share-dealing service is available for existing Capita shareholders to either sell or buy Capita plc shares online or by telephone.

For further information go to: www.linksharedeal.com or telephone +44 (0) 371 664 0445[1]. Lines are open 8.00am – 4.30pm, Monday to Friday excluding public holidays in England and Wales.

If you have only a small number of shares which are uneconomical to sell, you may wish to donate them to charity free of charge through ShareGift (Registered Charity 1052686). Find out more at www.sharegift.org.uk or by telephoning 020 7930 3737.

1. Calls to 0871 numbers cost 12p per minute plus your phone company's access charge. Calls to 0371 numbers are charged at a standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate.

Company contact details
Registered office
Capita plc
30 Berners Street
London W1T 3LR
Tel: 020 7799 1525
Registered in England and Wales with registration number: 02081330

Investor Relations
IRTeam@capita.com
Director of Investor Relations – Stuart Morgan

Company Secretariat
secretariat@capita.com
Group Company Secretary – Francesca Todd

Company advisers

Independent auditor
KPMG LLP

Corporate brokers
Citi bank
Goldman Sachs

Bankers
Barclays Bank plc

Citi bank

Deutsche Bank AG

Goldman Sachs International Bank

ING Bank NV, London Branch

Lloyds Bank Plc

National Westminster Bank plc

Sumitomo Mitsui Banking Corporation

Corporate communications
Powerscourt

Registrars
Link Asset Services

8.2 Alternative performance measures

The Group presents various alternative performance measures (APMs) as the Directors believe that these are useful for users of the financial statements in helping to provide a balanced view of, and relevant information on, the Group's financial performance, position and cash flows. This includes key performance indicators (KPIs) such as return on capital employed, interest cover and gearing ratios by which we monitor our performance.

	2019	2018	Source
Revenue – continuing operations			
Reported revenue	**£3,678.6m**	£3,918.4m	Line item in income statement
Deduct: business exit	**(£31.2m)**	(£103.7m)	Line item in note 2.2.1
1. Adjusted revenue	**£3,647.4m**	£3,814.7m	
Operating profit – continuing operations			
Reported operating profit	**£0.4m**	£34.9m	Line item in income statement
Adjusting items in note 2.4	**£305.7m**	£299.5m	
2. Adjusted operating profit[1]	**£306.1m**	£334.4m	
Adjusted operating profit margin	**8.4 %**	8.8 %	Adjusted operating profit/adjusted revenue

		2019	2018	Source
ROCE-Pre IFRS 16				
Adjusted operating profit[1]	a	**£306.1m**	£334.4m	Note 2.4
Adjusted tax rate	b	**15.8 %**	9.7%	Section 2 – Taxation
Tax	c = a x b	**£48.4m**	£32.4m	Adjusted operating profit multiplied by tax rate
Adjusted operating profit after tax	d = a – c	**£257.7m**	£302.0m	Adjusted operating profit less tax
Current year net (liabilities)/assets	e	**(£23.2m)**	£103.3m	Line information in balance sheet excluding the impact from adoption of IFRS 16
Current year net debt before IFRS 16	f	**£789.9m**	£464.1m	Line item in note 2.10 – cash flow information, net debt excluding the impact of deferred consideration and finance leases that arose from the adoption of IFRS 16
Adjustments to capital employed	g	**£1,262.0m**	£1,276.5m	Includes post-tax impact of accumulated acquired intangible amortisation, fixed rate swaps, put options and pensions
	m^1 = e+f+g	**£2,028.7m**	£1,843.9m	Used in 2019 average capital employed
Less: acquisition spend in year	h	**—**	—	Consideration paid – cash acquired + debt acquired
Current year capital employed	i = e+f+g+h	**£2,028.7m**	£1,843.9m	
Prior year net liabilities	j		(£929.8m)	
Prior year adjusted net debt	k		£1,103.9m	
Comparative prior year adjustments	l		£1,359.7m	Includes post-tax impact of accumulated acquired intangible amortisation, fixed rate swaps, put options and pensions
Prior year capital employed	m^2 = j+k+l		£1,533.8m	Used in 2018 average capital employed
Average capital employed	n = (i+m)/2	**£1,936.3m**	£1,688.9m	
3. ROCE [KPI]	q = d/n	**13.3 %**	17.9 %	

		2019	2018	Source
Headline leverage (prior to the adoption of IFRS 16)				
Adjusted profit before tax[1]		**£275.0m**	£281.2m	Line information in note 2.4
Add back: adjusted net finance costs		**£30.5m**	£53.2m	Line information in note 4.3
Add back: adjusted depreciation and impairment on property, plant and equipment		**£58.1m**	£63.6m	Line information in note 2.10.1
Add back: adjusted amortisation		**£30.9m**	£27.3m	Line information in note 2.10.1
Adjusted EBITDA	a	**£394.5m**	£425.3m	
Net Debt		**£1,353.2m**	£466.1m	Line information in note 4.1.1
IFRS 16 impact		**(£562.6m)**	£—m	Line information in note 4.1.1
Headline net debt	b	**£790.6m**	£466.1m	Net debt excluding the impact of IFRS 16
4. Headline net debt to adjusted EBITDA ratio [KPI]	b/a	**2.0x**	1.1x	Headline net debt/adjusted EBITDA

1. Adjusted operating profit and adjusted profit before tax excludes items that are separately disclosed and considered to be outside the underlying operating results for the particular period under review and against which the Group's performance is assessed. See note 2.4.

8.2 Alternative performance measures continued

		2019	2018	Source
Covenants[4]				
Adjusted operating profit [1]		**£306.1m**	£335.3m	Line information in note 2.4
Add: business exit – trading		**(£16.7m)**	£16.8m	Line information in note 2.8
Add: share of earnings in associates		**(£0.6m)**	£—m	Line information in income statement
Deduct: non-controlling interest		**(£18.1m)**	(£12.5m)	Adjusted EBIT attributable to NCI
Add back: share-based payment charge		**£3.0m**	£3.4m	Line information in note 2.10.1
Add back: non-current service pension charge		**£4.2m**	£9.5m	See note 5.2
Add back: amortisation on purchased intangibles		**£31.1m**	£27.9m	Line information in note 3.3
Adjusted EBITA	a1	**£309.0m**	£380.4m	
Add: IFRS 16 impact		**£11.7m**	£—m	Line information in note 2.4
Adjusted EBITA (including IFRS 16)	a2	**£320.7m**	£380.4m	
Adjusted EBITA		**£309.0m**	£380.4m	Line item above
Deduct business exit – trading sold		**£—m**	(£19.7m)	Trading profit for businesses sold
Add back: depreciation and impairment on property, plant and equipment		**£75.0m**	£65.2m	See note 3.2
Covenant calculation – adjusted EBITDA	b1	**£384.0m**	£425.9m	
Add: IFRS 16 impact		**£110.9m**	£—m	See note 6.4
Covenant calculation – adjusted EBITDA (including IFRS 16)	b2	**£494.9m**	£425.9m	
Adjusted interest charge		**(£30.5m)**	(£53.2m)	Line information in note 4.3
Interest cost attributable to pensions		**£4.4m**	£9.4m	Line information in note 4.3
Cash flow hedges recycled to the income statement		**(£2.6m)**	(£2.5m)	Line information in note 4.3
Borrowing costs	c1	**(£28.7m)**	(£46.3m)	
5.1 Interest cover (US PP covenant)	a2/c1	**11.2x**		Adjusted EBITA/Borrowing costs with adjusted EBITA including the impact of IFRS 16 and borrowing costs excluding the impact of IFRS 16
5.2 Interest cover (other financing agreements)	a1/c1	**10.8x**	8.2x	Adjusted EBITA/Borrowing costs with both variables excluding IFRS 16
Net debt		**£1,353.2m**	£466.1m	Line information in note 4.1.1
Restricted cash[2]		**£42.1m**	£28.6m	Cash that may not be applied against net debt for covenant calculation purposes
Remove IFRS 16 impact		**(£562.6m)**	£—m	Line information in note 4.1.1
Adjusted net debt (excluding IFRS 16)	d1	**£832.7m**	£494.7m	
6.1 Adjusted net debt to post IFRS 16 adjusted EBITDA ratio (US PP covenant)[3]	d1/b2	**1.7x**		Adjusted net debt/adjusted EBITDA with adjusted net debt excluding the impact of IFRS 16 and adjusted EBITDA including the impact of IFRS 16
6.2 Adjusted net debt to adjusted EBITDA ratio [KPI] (other financing agreements)	d1/b1	**2.2x**	1.2x	Adjusted net debt/adjusted EBITDA with both variables excluding IFRS 16

1. Adjusted operating profit excludes items that are separately disclosed and considered to be outside the underlying operating results for the particular period under review and against which the Group's performance is assessed.
2. Restricted cash includes cash required to be held under FCA regulations, cash held in foreign bank accounts and cash represented by non-controlling interests and joint ventures.
3. As noted in the Group's annual report 2018, on 20 April 2018, Capita agreed various amendments with the noteholders under its US private placement notes. This included the carve-out of up to £100m worth of bonds and guarantees from the definition of indebtedness.
4. To enable the reader to understand the covenant information we submit to our external lenders the 2018 comparatives have not been restated.

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