

Capita plc
Annual Report 2021



Capita

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

 Read more about our purpose on page 4



Our business model

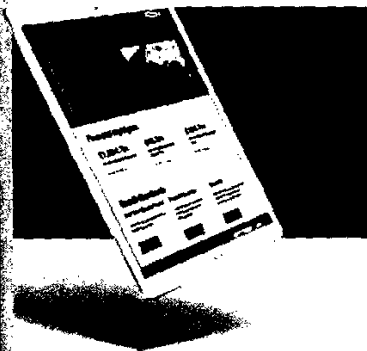


CEO's review



Our people

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



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Cautionary statement

The directors present the Annual Report for the year ended 31 December 2021 which includes a strategic report, corporate performance and audited accounts, in this year's Part 1. The 19 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 will be subject to the limitations and restrictions provided by such law. Whilst the directors' report refers to other reports or material, such as a website address, it has not been done to direct the reader to other sources of Capita plc information which may be of interest. Such additional materials do not constitute Part 1 of the report.

Our performance

During 2021, we completed our transformation, establishing a platform to drive sustainable improving financial performance, while continuing to strengthen the balance sheet. We also continued to focus on maintaining high standards of client service delivery and ensuring that all our stakeholders remain a priority for Capita.



Financial highlights and KPIs

Reported revenue

£3,182.5m

(2020: £3,534.8m)

Reported profit/(loss)
before tax
£285.6m

(2020: £119.1m)

Reported free
cash flow¹
£(237.1)m

(2020: £303.8m)

Adjusted revenue

£3,008.5m

(2020: £2,995.5m)

Adjusted profit before tax²
£93.5m

(2020: £5.1m)

Adjusted free cash flow³
£78.1m

(2020: £170.3m)

Reported earnings/(loss)
per share (continuing ops)
13.33p

(2020: 13.11p)

Adjusted earnings
per share⁴
1.61p

(2020: 1.11p)

 Read more in the Chief Financial Officer's review on pages 26 to 34.

1. Refer to alternative performance measures (APMs) on pages 219 to 222
2. Refer to note 2.7 to the consolidated financial statements
3. Refer to note 2.10 to the consolidated financial statements

Non-financial highlights and KPIs

Our non-financial highlights and KPIs are detailed in our Sustainability Report, which is available on our website at www.capita.com/sustainability. We are committed to transparency and will continue to report on our non-financial performance throughout the year.

We have a strong track record of improving our non-financial performance, and we are confident that we will continue to do so in 2022. Our focus is on reducing our carbon footprint, improving our diversity and inclusion, and enhancing our customer service.

We are also committed to ethical sourcing and responsible investment. We have implemented a number of measures to ensure that our supply chain is ethical and that our investments are responsible.

We will continue to work with our stakeholders to improve our non-financial performance and to ensure that we are meeting our commitments.

We are committed to transparency and will continue to report on our non-financial performance throughout the year. We will also be publishing our Sustainability Report in 2022.

4. Defined as earnings per share (EPS) as reported in the interim financial statements.
5. World Global Award for Sustainability (WGA) for best corporate governance performance.
6. Information is consistent with the best practice guidance issued in the 2021 data and
7. Group financial statements only.

About us

Our purpose

Capita is a consulting, technology, and digital services business.

We are driven by our purpose: to 'create better outcomes' – for our employees, clients and their customers, suppliers and partners, investors, and society.

Every day we help millions of people by delivering innovative solutions to transform and simplify the connections between businesses and customers, governments and citizens.

We partner with clients and provide them with the insight and cutting-edge technologies that allow them to focus on what they do best and make people's lives easier and simpler.

We operate across three divisions – Public Service, Experience and Portfolio – in the UK, Europe, India and South Africa.



We run London's congestion charge and ultra-low emission zone (ULEZ) on behalf of Transport for London (TfL).

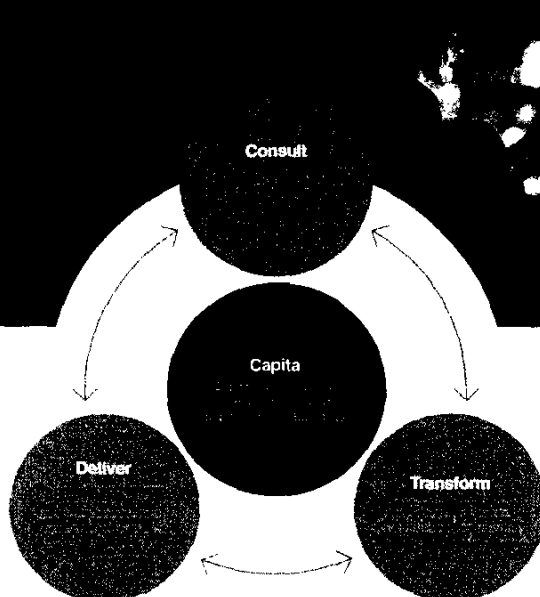


We help the British Army attract, source and select its officers and soldiers.



We administer the Teachers' Pension Scheme for the Department for Education.

What we do as a business



Capita's new structure

Two core growth divisions focused on distinct market and client needs; a third division of non-core businesses.



Divisional financial performance: (see also pages 19, 22 and 25) 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 219 to 222.

Divisional details and performance can be found on pages 16 to 25.

Public Service

The number one strategic supplier of business process services (BPS) and technology services to the UK Government.

Main verticals: Education & Learning; Local Public Services; Health & Welfare; Defence, Security & Fire; Justice, Central Government and Transport

Adjusted revenue¹ contribution

47%

(2020: 42%)



Adjusted divisional operating profit¹ contribution

51%

(2020: 12%)



Experience

The UK's leading customer experience business with a blue-chip client base designing, transforming and delivering high-quality customer service.

Main verticals: Telecoms, Media & Technology; Multi-Industry; Financial Services

Adjusted revenue¹ contribution

39%

(2020: 44%)



Adjusted divisional operating profit¹ contribution

36%

(2020: 75%)



Portfolio

An expanded portfolio of variable but non-core businesses.

Pillars: People; Property; Technology; Software; Business Solutions; Travel; FERA

Adjusted revenue¹ contribution

14%

(2020: 14%)



Adjusted divisional operating profit¹ contribution

13%

(2020: 13%)



Refer to APMs on pages 219 to 222

Our purpose

Our purpose is to create better outcomes for all our stakeholders.

Our purpose is to create better outcomes for all our stakeholders. We do this by being a leading provider of services and solutions that help our customers to improve their performance and reduce their costs.

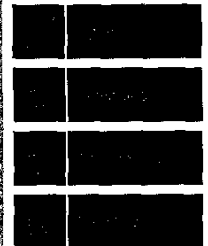
Our purpose is to create better outcomes for all our stakeholders. We do this by being a leading provider of services and solutions that help our customers to improve their performance and reduce their costs.



Capita 'creates better outcomes' for all its stakeholders:

Our people	Number of people in 2021 52,000
Clients and customers	Service delivery in 2021 99%
Suppliers and partners	Supplier payment compliance in 2021 98%
Investors	Share price movement in 2021 (2.7)p
Society	Reduction in carbon footprint in 2021 11.6m gross tonnes

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



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

Our strategy

To create a simpler, stronger and more successful business that will drive organic revenue growth and sustainable free cash flow.

Measured through our KPIs:

Aligning with our performance-based remuneration:

Simplify

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

Strengthen

- Winning more of the right work
- Improving cash generation and Portfolio disposal proceeds reducing net debt
- Extend debt maturities
- Investment in asset base, technology and people

Succeed

- Purpose-led, responsible business
- Innovative and creative
- Injecting to revenue growth
- Expect to deliver positive sustainable free cash flow² in 2022

Financial

Non-financial

Appointed by the Board for the executive directors determined by:

Executive directors' remuneration is determined by the Remuneration Committee, which is responsible for setting and reviewing the remuneration of executive directors. The Committee's terms of reference are set out in the Remuneration Policy, which is approved by shareholders.

2. Sustainable free cash flow = reported free cash flow excluding the impact of disposals

² Sustainable free cash flow = reported free cash flow excluding the impact of disposals

How we create value

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

Our markets: We operate in large and growing markets, at scale and often with significant market share.

Public: BPS spending growing at c.5% (Source: ForthMarketView)

Government spending in the UK with private organisations is around £110bn and spending on BPS is growing at around 5%. The forecast market growth is driven by government increasingly looking to leverage technology, new digital products and emerging capabilities such as artificial intelligence.

Experience: market growth of c.5% over next three years (Source: Everest)

The global customer experience market is valued at around £244bn and is expected to grow at around 5% over the next three years. The drive to digital includes a customer desire to shift to self-service, where convenience matters, and high-quality human interactions, supported by technology when needed.

Our expertise and resource

Market expertise

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

Technological resources

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

Client relationships

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

Our people

We are a people-focused business, built around 52,000 skilled and committed employees who have deep understanding of our clients' markets and needs.

International infrastructure

We have an international delivery platform, with more than 18,000 people providing technology solutions and customer engagement services, principally in Europe, India and South Africa.

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Strategic
report

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What we do as a business

Capita is a consulting, transformation and digital services business.

We are focused on creating value and better outcomes by working collaboratively with our clients as partners.

We provide consulting and professional services, drawing on our practical experience, provide digitally enabled services and solutions, often under multi-year contracts.

We consult, transform and deliver.

Consult

We work collaboratively with clients as partners, drawing on our experience and delivering solutions.

Transform

We create innovative solutions to transform businesses and services.

Deliver

We provide digitally enabled services and operations, often under multi-year contracts.

Our consultants:

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

Our transformation services:

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

Our digital services:

- Help simplify clients' services.
- Assist better decision making.
- Contribute to process acceleration.
- Improve end-customer experiences.

Generating financial value

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 2021, approximately 72% of Group adjusted revenue was underpinned by long-term contracts, with around 16% from short-term contracts. Our order book at 31 December 2021 was £6.1bn.

Transactional services

Approximately 12% of adjusted revenue¹ comes from our transactional businesses where we sell products and professional services to our clients across a wide range of functions. In 2021, this represented £349.2m of adjusted revenue¹.

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 shareholders. During 2021, we delivered transformation cost savings of £123m by reducing the cost of poor quality, structuring our business better and adopting efficiency-generating technologies such as automation.

Generating cash flow

We aim to generate sustainable free cash flow from revenue growth, increasing profit margins through greater efficiency and eliminating the cash cost of poor quality operations. During 2021, adjusted free cash flow¹ fell from £170.3m to £78.1m, reflecting the reversal of the abnormally high level of pandemic-related cash generation achieved in 2020.

Better outcomes for stakeholders

Our people



Clients and customers



Suppliers and partners



Investors



Society



¹ Refer to APMs on pages 219 to 222

Establishing the platform for growth



Sir Ian Powell
Chairman

“

The completion of Capita's transformation has resulted in a clear, improved and simpler operating model. The fundamentals needed to build a successful company are in place.”

In 2021, Capita made further progress towards becoming a sustainable, profitable business capable of delivering positive free cash flow

The fundamentals needed to build a successful company are in place – strong service delivery, a stronger balance sheet, and a simpler, more efficient and stable structure. We have addressed the major financial and operational debt that the business faced. The business is now more predictable, and operates with the values and behaviours that align with Capita's purpose.

The effort and investment required to achieve all this should not be underestimated, but it has been essential to create a business that has a future and that people want to work for and with.

Despite the progress made to improve so many aspects of the business, the year was disappointing for our shareholders who have been patient and supportive, attributes which we do not take for granted. They now need to experience the benefits of the company's completed transformation

I would like to thank all of Capita's people for their total commitment in a year of disruption caused by external forces and the final stages of operational restructuring which now provides the platform to achieve the key goal of meaningful growth.

In 2021, the company saw organic growth, albeit marginal, for the first time in six years. The retention of key contracts, the winning of new work, a strong pipeline and the addition of new clients in fast-growing markets all give cause for optimism.

2021 was a pivotal year for Capita where much was achieved, including the end of the transformation, a significant reduction in debt and moving the pension fund into surplus.

These achievements now need to be built upon to deliver consistent, predictable outcomes for all parties engaged with the company and in particular those who have invested in its future.

Strategy and performance

The completion of Capita's transformation has resulted in a clear, improved and simpler operating model

The divisional structure – Public Service, Experience and Portfolio – put in place in 2021 is robust and straightforward and enables the Group to be fully focused on executing its growth strategy.

In recent years, a huge amount of work has resulted in improved quality and reliability of operational delivery, discipline and controls around the work we take on, and a consistent approach to how we do that work.

As a result, Capita's reputation is far better than when we started the transformation and is helping to produce the revenue opportunities for sustainable growth across the company.

The Board and governance

We are continually striving to improve the governance of Capita and to reflect the changing needs of the company in the skills and experiences of the Board.

In May, Tim Weller joined the company as Chief Financial Officer and the Board as an executive director, bringing with him almost 20 years' experience as a CFO and extensive business knowledge which is highly relevant to Capita.

In February 2022, we welcomed Nneka Abulokwe as an independent non-executive director. Nneka is a highly respected technology leader and entrepreneur, whose digital innovation expertise will be of great benefit to Capita.

Our employee directors, Lyndsay Browne and Joseph Murphy, continued their important work on the Board; and we will ensure that the employee voice and perspective remains a vital, ongoing part of the Board constitution.

Baroness Lucy Neville-Rolfe left the Board in 2021 and I would like to thank her for her four years of service as a non-executive director.

I would also like to thank all members of the Board for their commitment, continued support and hard work.

As we restructured our divisions and reduced the size of some of our support functions, a number of people who had played crucial roles in the transformation left the company and I would like to thank all of them for their contributions.

Values and culture

Our purpose remains the central driving force across Capita. We aim to 'create better outcomes' for all stakeholders – our people, clients and customers, suppliers and partners, investors, and society.

Throughout the Covid-19 crisis, the safety and wellbeing of our people has been our number one priority.

We are also determined to support the lowest paid people in our business and are proud to be accredited for our commitment to the real living wage.

At the same time, we have continued to focus on increasing diversity and inclusion across the organisation. The diversity of the Board is improving, and we are pleased that four of our nine Executive Committee members are women.

We have also continued to work hard to address our gender and ethnicity pay gaps – but there is still more to be done.

We were disappointed to have seen a fall in our employee net promoter score. This partly reflects structural and operating changes across the company, amid the continuing challenges of the pandemic.

But we remain determined to create an engaging, rewarding and supportive environment to attract and retain great leaders and colleagues.



There is still much to be done at Capita, but 2021 was a year of progress in which many goals set at the beginning of the year were achieved."

We are also focused on strengthening our credentials as a responsible business by delivering on our environmental, social and governance (ESG) objectives.

In February 2021, as part of our commitment to help fight climate change, we set our science-based carbon emissions reduction targets – and have pledged to achieve full net zero, including across our supply chain, by 2035.

Looking forward

Over the past five years, the changes necessary to give Capita a sustainable future have been substantial and difficult. The scale of the transformation was greater than could have been imagined, but the progress made under new leadership since 2017 has been significant and deserving of recognition.

There is still much to be done at Capita and challenges remain, but 2021 was a year of progress in which many goals set at the beginning of the year were achieved.

Despite headwinds, we have established the platform for long-term revenue growth and sustainable free cash flow.

We now need to execute on our business plans and ensure this progress delivers returns to investors.

Sir Ian Powell
Chairman

A year of significant change

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Jon Lewis
Chief Executive Officer

“

We now have a foundation in place to deliver sustainable, improving financial performance and look forward to delivering this as we move into 2022 and beyond.”

Summary

2021 was a year of significant change at Capita as we completed our transformation and established the platform for long-term success. We now have a foundation in place to deliver sustainable, improving financial performance and look forward to delivering this as we move into 2022 and beyond.

At the same time, we will continue to prioritise being a purpose-led, responsible business, this is our licence to operate. We are pleased to have maintained a high customer net promoter score (cNPS). However, our employee NPS (eNPS) was disappointing, reflecting the degree of change in the business and the continued impact of the pandemic, and we have a comprehensive plan in place to address this. We have also made good progress with diversity and we have committed to a net zero plan.

In August, we established our new, simplified divisional structure which will deliver significant benefits in the future: two core divisions that focus on public and private sector digital

transformation and technology outsourcing services, clarity of focus on our markets and clients, benefits expected from greater operational efficiency, and a third division of non-core businesses that will be disposed of. The proceeds from these disposals will be used to continue to strengthen our balance sheet.

Our contract delivery, which is the foundation for the turnaround and revenue growth, has remained strong. We fixed the last of our legacy problem contracts, resolving both Primary Care Support England (PCSE) and Electronic Monitoring Services (EMS) transformation issues in the year. Client trust in us is far better than when we started the transformation, and we are winning new scopes of work as a result.

Our ability to deliver sustainable revenue growth is fundamental to our long-term success. We delivered modest revenue growth in 2021, reversing six years of declines, and expect this trend to continue to improve. We have high retention rates,

are winning incremental scopes of work with our existing clients and are starting to win business with new clients. Our weighted pipeline of opportunities for 2022 is substantial and broad based.

During 2021, we took action to reduce operating and administrative costs by a further £123m and, over the transformation, the total amount of cost savings has been more than £425m. The main areas have been in operational excellence – ‘doing things better, doing things once’ – as well as in more efficient management structures, property and Group IT and procurement savings. There is more to come as we focus on the benefits of standardisation and efficiency in each division and in a lean Group overhead structure.

We continued to strengthen the balance sheet and successfully completed a number of key disposals, exceeding our target of £700m of proceeds, which has enabled us to address our funding commitments in 2021 and 2022. We will continue to strengthen the balance sheet with further disposals, as well as improving the pension fund position.

The transformation is now finished. We have a simpler and more focused structure in place, strong positions in growing markets and a structurally lower cost base. We are continuing to strengthen the balance sheet. The platform is in place to grow revenue,

Harnessing our collective power to reach net zero

Our net zero timeline

2025
Operational net zero

Operational net zero by 2025

Neutralise operational Scope 1 and 2 emissions

2030
Operational and travel

Operational and travel net zero by 2030

Neutralise operational Scope 1 and 2, and business travel emissions

2035
Full net zero

Full net zero completion by 2035

Neutralise operational Scope 1 and 2, business travel and supply chain emissions

increase margins and cash conversion and to drive positive free cash flow.

Financial results

Adjusted revenue¹ at Capita has grown for the first time in six years, albeit modestly, to £3,008.5m (2020: £2,995.5m). This was underpinned by some major contract wins, in particular the Royal Navy training contract and in the Public Service division as a whole. These offset the impact of contract losses, mainly from 2020, in the Experience division, as well as the net revenue loss of Covid contracts won in 2020. We also expected further benefits from a recovery in our Covid-affected businesses, such as Agito (our travel & events business), but lockdowns and slow market recovery affected this significantly.

Adjusted profit before tax¹ increased by £68.1m this year to £93.5m (2020: £5.4m). This principally reflected the benefit of transformation cost savings, new revenue and the unwind of the prior year holiday accrual, offsetting revenue losses and the reinstatement of the employee bonus scheme. Reported profit of £285.6m (2020 loss: £49.4m) benefited significantly from profits on disposal of Education Software Solutions (ESS) and AXELOS in

particular, offsetting the write down of our historical finance systems asset as well as onerous contract provisions in our closed book Life & Pensions business.

Cash generation is a key metric for the business. Our adjusted free cash flow¹ was £78.1m (2020: £170.3m), but we also had to fund £328.2m of additional cash commitments, including £104.1m of VAT deferred from last year, pension payments of £155.5m and our final year of below-the-line restructuring payments of £68.6m. Reported free cash outflow in 2021 of £(237.1)m (2020 inflow: £303.8m) reflects these additional payments.

We continued to strengthen the balance sheet during the year, with net debt reducing to £879.8m at 31 December 2021 (£1,077.1m at 31 December 2020), funded mainly through our disposal programme. In early 2022 we reached our total of £700m of target proceeds, ahead of schedule, enabling us to meet £440m of debt maturities in 2021 and 2022. More broadly, we are also targeting a reduction in our other financial obligations, including further pension deficit contributions and reducing our lease commitments through our property footprint reduction.

“Revenue at Capita has grown for the first time in six years.”

¹ Refer to alternative performance measures (APMs) on pages 219 to 222

cNPS remains high

+29pts

2021/22

Purpose

Our purpose – to create better outcomes – is our licence to operate in our markets and therefore a fundamental part of our strategy, with cNPS and eNPS scores linked to remuneration, as well as being a driver of revenue through the social value and net zero components of government contracting.

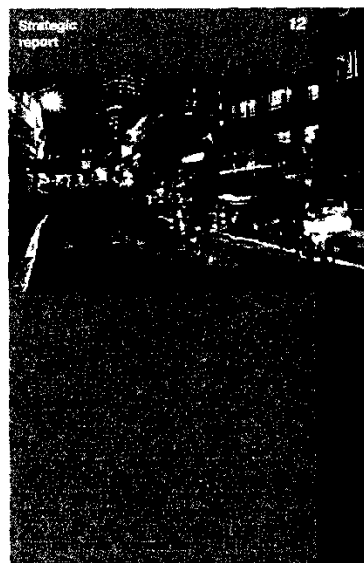
The cNPS remains high at +29 points, albeit slightly down on last year (+32), which we believe is more a reflection of the exceptional work done in 2020 to support our clients through the early days of Covid and moving to remote working. We continue to strive to delight our clients.

Our eNPS declined this year by 22 points. While we expected some decline as a result of the scale of the transformation activity in the year, this was more pronounced than we had anticipated and, in an already challenging labour market, represents a key challenge in engagement and retention. While employees felt positive in their immediate surroundings and activities, there were strong views that we needed to focus more on the longer-term opportunities at Capita. We are addressing this through plans for better communication and engagement, clearer investment in training and development, and implementing a more attractive employee value proposition. This will be a significant area of focus in 2022.

Our plans to increase the diversity of our people recognises the need to represent the communities that we work in, our desire to attract and retain high-quality talent, and to broaden the range of thinking and innovation in the business. Our Board has increased its diversity, particularly with the appointments of Neelam Dhawan and Nneka Abulokwe, and 44% of the Executive Committee is now female, with 22% Black, Asian and minority ethnic representation. But there is still more to be done throughout the organisation.

In 2021, we set out an ambitious plan to take us to net zero by 2035 ahead of the UK Government's target of 2050. Underpinned by science-based targets, our three-phased approach aims to see us reach operational net zero by 2025 and operational and business travel net zero by 2030. This will involve reducing business travel emissions and transitioning our fleet to electric vehicles by 2032. We will work closely with our suppliers and over 50% of our supply chain has now signed up to science-based targets. We reduced our Scope 1 and 2 emissions by 42% in 2021 compared with our 2019 base line, largely due to the impact of Covid.

Looking at other stakeholders, our supplier metrics have also improved, with 98% of all suppliers being paid within government guidelines of 60 days, a three percentage point increase from last year.





Winning business and growing revenue

Our markets

We operate in the outsourced digital transformation, business process services (BPS) and technology markets, in the public and private sectors, which are large and growing. The markets that we address are growing at around 5% a year, with niches growing at more than double that rate.

Both core divisions, Public Service and Experience, have strong positions in their markets, as the UK Government's largest IT outsourcing supplier and as the UK's leading customer service provider, respectively. Our ability to win work at scale and our insight into our clients' systems, processes and end-customers after many years of experience is what drives our leading positions in those markets. We collaborate with some of the world's leading providers of technology, such as Microsoft, Salesforce and Amazon Web Services (AWS), as well as developing our own software and solutions, which enable us to deliver the best customer service outcomes.

Operational delivery supporting contract retention and new business

That our improvement in operational performance is once again a core strength of the business has been a fundamental part of the transformation, establishing our clients' trust and winning new revenue. We now have a reputation for strong delivery with key growth

clients, such as TfL for whom we delivered a significant cloud migration and additional scale of existing platforms.

Our operational KPIs have remained high across the business. Our day-to-day service level KPIs stayed at c.99% through the year and our IT infrastructure is now significantly more reliable, with critical incidents down by 88% since January 2018 and our average resolution time 29% quicker than the industry benchmark.

We have now finished fixing failing legacy contracts from when we started the transformation, with PCSE and EMS resolved in the year as planned.

The return on this investment, apart from the improvement in cash flow and profit, is that we have won new scopes of work with many of our clients where we historically had delivery issues: the extension of the British Army Recruitment (RPP) contract, the ULEZ with TfL, the award of the Turing scheme administration with the Department for Education; and further work with the Ministry of Justice.

Our win rate on contract renewals remains high at 93%, reflected in the high cNPS scores, and we have seen the annual revenue attrition on our contract base now reach a more normal 3% a year, compared with almost double that in recent years. Overall, we have a more solid revenue foundation on which to build growth opportunities.



Both core divisions have strong positions in their markets.

Winning revenue

We are now starting to deliver the contract wins that will underpin that revenue growth, as we leverage scale and client insight, alongside our re-established operational reliability. The focus of the core divisions into market verticals means that we can now bring a range of products and capabilities together to focus on specific client needs, which is a significant change for us. The benefit of this approach is already evident in the recent successes at the Ministry of Defence, and within our Financial Services and Telecoms verticals.

In 2021 we won £3.8bn of total contract value (TCV), an increase of 31% on 2020's £2.9bn. This included a small number of large contracts (Royal Navy, two European telecoms contracts and two financial services clients) but just under 60% of the TCV was won in contracts valued under £50m. The bulk of the TCV was won in the Public Service division which saw TCV growth of 54% year on year, while the Experience division was broadly flat. The Portfolio division grew strongly with an increase of 12% in TCV to £572m (2020: £512m). The in-year benefit of the total contract wins was £1,208m, 10% higher than 2020, with a comparative decline in Experience due to the

one-off Covid work secured in 2020 offsetting new work in Public Service. Within the divisions, the Public Service book to bill was 1.7x (2020 1.3x) reflecting the balance of business won, while Experience was 0.7x (2020 0.7x) partly reflecting the delay of some major contracts, like the BBC.

In the second half, we won some important renewals in both divisions, including Personal Independence Payments (PIP) for the Department for Work and Pensions (DWP), an extension to the Standards and Testing Agency contract with the Department for Education, and contracts with the RSPCA, Thames Water and a global fast-moving consumer goods client. We also secured new scopes of business with existing clients such as in the Defence Fire and Rescue (DFRP) contract, surface transportation for TfL and an extension to our successful Job Entry Targeted Support (JETS) programme in Scotland. Our focus on new clients started to produce promising results towards the end of the year, with a recent contract award from the Fintech company, Trade Republic, with more in the pipeline for 2022. Since the year end we have also won a £456m TV licensing contract extension with the BBC.

Our order book grew to £6.1bn (2020 £5.9bn). Group book to bill at the year end was 1.2x, slightly less than we expected after the BBC extension moved into 2022, but still indicating a strong base for future revenue growth.

Building a pipeline for future revenue growth

Looking forward, we are now better structured to continue to grow revenue, bringing together our strong market positions, new client-facing structure and improving client offerings. As we drive greater efficiency from our new divisional and Group structure, we will also become more competitive. Finally, we will continue to leverage the 'consult, transform and deliver' model that is expected to secure more opportunities for the Group, as well as improving the margin mix of the business we execute.

We have continued to build our pipeline of new opportunities. The 2022 unweighted pipeline is £9.4bn, a 7% increase on 2021 when adjusted for the Royal Navy training contract, which was signed on 11 January 2021. The 2022 weighted TCV pipeline for the year is £2.501m, 42% higher than at the same point in 2021 (2020 £1.758m) excluding the Royal Navy training contract. This is split broadly equally between Experience (£1.320m) and Public Service (£1.130m), showing that significant opportunities exist in both divisions and, based on our conversion rate last year, gives us an encouraging outlook for 2022.

Post year end, we have closed a number of contracts that we had expected in 2021 including the BBC TV licensing extension. Other significant bids expected in the first half of 2022 are for a financial services company NHS England and the DWP.

Operational excellence, efficiency and scale to drive margins

Reducing cost

Over the course of the transformation, we have made cost savings of more than £425m to bring the cost base in line with a smaller, more efficient and more focused business. Savings in 2021 totalled £123m, which were again focused on operational excellence, taking out spans and layers of management as we integrated businesses and operations, and savings in the overhead and Group functions. These cost savings were a major driver of our profit improvement in 2021.

Our operational excellence programme is focused on process and productivity improvement and will be enhanced by benefits derived from our new structure, including standardisation and best practice experience from around the Group, as well as deployment of digital services and robotic process automation. We made procurement and IT savings of £28m through consolidation and benchmarking suppliers, negotiating improved terms, leveraging scale benefits and using more data-driven decision making.

Reducing the size of our property portfolio continues to be a major driver of cost savings in the business. During the year, we realised £26m of cost savings as we closed 55 properties, on top of the 49 that were closed in 2020, reducing the associated lease obligations by £49m. Capita has now reduced its property footprint by 25% over the past two years.

Completing the transformation and implementing our new leaner structure allowed savings in the Group overhead and functions to be delivered in 2021. Ongoing savings are planned through increased productivity and reducing internal structural inefficiencies, for example through further property rationalisations and materially reducing the number of legal entities in the Group.

Managing inflation

As for most other businesses in the UK, inflationary pressures increased in 2021, alongside increasing levels of staff attrition. This was experienced across all our businesses but in particular for IT professionals in India, consultants and for our call centre staff in the UK.

Our first priority has been to invest in our people. A fully staffed, engaged workforce delivers better service quality, additional revenue opportunities and lower staff turnover. This means investment in recruiting, training and development as well as better employee engagement and wage increases.

As a contracting business, we are used to dealing with inflation and two-thirds of our client contracts include terms that allow us to pass on inflationary costs. Taking into account transactional revenue (c.12% of our Group revenue, 56% of which will be disposed through the Portfolio division), as well as contracts that will end or be renegotiated in the next 18 months, the unhedged exposure to inflation remains relatively small.

As a result, we are confident that the profit impact of inflation can be mitigated over time, with no material impact to profit expected in 2022.

Longer term, we see employee wage pressures at our clients as a potential driver for further outsourcing and use of digital technology.

Strengthening our balance sheet and delivering positive free cash flow

Reducing debt

One of the biggest priorities in the transformation was to reduce our financial obligations to a more sustainable level.

In the past four years we have reduced gross debt by £1.1bn, made over £300m in pension deficit funding contributions, and addressed our organisational deficit, including expenditure on IT equipment and structure, fixing legacy contracts, and investing in systems.

Last year, we announced a business disposal programme targeting to raise £700m to meet the significant additional cash commitments in 2021 of deferred VAT, restructuring and pension deficit payments, and to ensure sufficient liquidity to pay debt maturities in 2021 and 2022. That target has now been achieved, ahead of schedule, with the agreed sale of Trustmarque, within the Technology pillar, on 28 January 2022 meaning we have realised total disposal programme proceeds of around £750m.

We will continue our plan to reduce debt through the disposal of the non-core Portfolio division. Excluding the Technology pillar, the division now has around £338m of revenue.

£27m of profit, before allocation of Group overheads, and £30m of operating cash flow on a 2021 proforma basis. This includes the Agilito business that in 2021 was still loss-making and cash-negative as a result of the impact of Covid.

Since the beginning of 2022, we have launched processes to dispose of two further pillars within the Portfolio division, representing around £188m of revenue and £20m of profit before allocation of Group overheads, on a 2021 proforma basis.

We also continue to ensure our other stakeholders are fairly treated. As a result of our pension deficit payments and investment returns, our pension scheme funding target is slightly ahead of where we expected. Some of the disposal proceeds will be used to accelerate future funding payments so that we expect the Group's pension schemes to be self-sufficient as part of the next actuarial review.

Finally, as noted above, our property portfolio rationalisation has also led to the reduction in our lease liability which, at 31 December 2021, was £424m, a 10% reduction in the year (2020: £473m). This is expected to fall further as we reduce and renegotiate lease durations and dispose of Portfolio properties.

Targeting sustainable free cash flow²

Now that we have completed the transformation, we are targeting the delivery of growing, positive sustainable free cash flow², starting in 2022.

Cash conversion in the divisions is targeted to improve as deferred income balances on

our legacy transformational contracts roll off and we continue to improve our cash management processes.

Our adjusted free cash flow¹ in 2021 reflected the unwind of 2020 cash preservation initiatives to protect the business from the impact of Covid-19 and reported free cash in the period reflected expenditure on the final year of the transformation and repayment of VAT deferred from 2020. These below-the-line commitments will substantially disappear in 2022.

Over the next couple of years, we also expect the pension deficit payments to reduce materially, as the pension scheme transitions to self-sufficiency.

Our lease payments, net of receipts, are also expected to decrease in line with our property footprint, having already reduced from £95.2m in 2020 to £82.1m in 2021.

Outlook

Year ending 31 December 2022

In 2022, we expect to deliver revenue growth, positive sustainable free cash flow² and to continue to strengthen the balance sheet.

Our revenue growth is built on strong contract performance in 2021, our order book, lower attrition, a growing pipeline of new business in both Public Service and Experience, as well as ongoing recovery from Covid-affected businesses.

Notwithstanding the margin benefit from revenue growth and the flow through of the cost benefits from the divisional restructure

implemented in 2021, we expect operating profit margins to reduce slightly in 2022. This reflects the full-year impact of prior-year contract losses and the structural decline in the closed book Life & Pensions in Experience, operational changes in the Army recruitment contract in Public Service, as well as the cost of recruiting and training staff to support our growth.

Next year, we will include restructuring, pension deficit contribution and VAT payments within our adjusted free cash flow¹. With higher cash-backed profit and the significant decrease in the payments noted above, we expect to deliver positive sustainable adjusted free cash flow¹ in 2022.

As we continue to make disposals, we expect net debt to decrease materially.

Medium term

Beyond 2022, we expect core Capita to continue to build on the platform we have established today.

We will target revenue growth at least in line with the mid single-digit range of our core markets and deliver high single-digit Group EBITDA margins. We expect to grow free cash flow, as cash conversion increases to between 70% and 80% and additional cash commitments fall away.

We will maintain a prudent approach to our capital structure, and will target a leverage ratio of around 1x net debt EBITDA on a pre-IFRS 16 basis.

Jon Lewis
Chief Executive Officer

1. Refer to APFs on pages 219 to 222.

2. Sustainable free cash flow = reported free cash flow excluding the impact of disposals.



“The Public Service division is well positioned for growth.”

Andy Bland
Chief Executive Officer

Public Service

Public Service is the number one strategic supplier of business process services (BPS) and technology services to the UK Government.

We are a socially responsible supplier to government that uses applied digital transformation and BPS to improve the productivity of government operations and the citizen experience of public services.

We believe that innovative, purpose-driven, quality public services are critical to delivering safer, greener and healthier communities.

Public Service is structured across five market verticals: Education & Learning, Local Public Services, Health & Welfare, Defence, Fire & Security, and Justice, Central Government & Transport, as well as the non-consolidated Smart DCC subsidiary.

We use a ‘consult-transform-deliver’ matrix operating model underpinned by a strong digital capability.

¹ Refer to APMs on pages 215 to 232
² Tensell
³ TechMarketView

Adjusted revenue¹

£1,410.4m

(2020: £1,273.0m) 10.8%

Adjusted operating profit²

£98.3m

(2020: £12.9m) 662.0%

Adjusted revenue by type (%)



1. 82% Long-term contractual
2. 9% Short-term contractual
3. 4% Transactional

Revenue by market (%)



1. 18% Education & Learning
2. 19% Local Public Services
3. 15% Health & Welfare
4. 18% Defence, Fire & Security
5. 30% Justice, Central Government & Transport

Financial performance

Divisional financial summary	2021	2020	Change %
Adjusted revenue ¹ (£m)	1,410.4	1,273.0	10.8
Adjusted operating profit ² (£m)	98.3	12.9	662.0
Adjusted operating margin ³ (%)	7.0	1.0	
Adjusted EBITDA (£m)	148.3	87.7	69.1
Adjusted cash generated from operations ³ (£m)	120.0	95.6	25.3
Order book (£m)	3,286.3	2,736.6	20.1

Business units

- Education & Learning
- Local Public Services
- Health & Welfare
- Defence, Fire & Security
- Justice, Central Government & Transport

Employees

- 12,000

Client distribution

- UK

Major contract wins and renewals

- A new contract with the Royal Navy worth £925m over 12 years
- Scope expansion on the DFRP and Smart DCC contracts worth £127m
- A new contract for the JETS programme in Scotland worth £29m across two years
- A new 23-month contract worth £6m by the Department for Education to support students participating in the Turing Scheme

Competitors

- Atos
- Sopra Steria
- CGI
- TCS
- Cognizant
- Accenture
- DXC Technology
- BSS
- Cap Gemini
- Kainos
- Serco
- Maximus

Our markets and growth drivers

Government spending in the UK with private sector organisations is c.£110bn² and it is estimated that the software and IT services market is valued at c.£13.3bn. Our current core addressable market is around c.£12.5bn. The BPS element of that, comprising both the business process outsourcing (BPO) and digital BPS sub-segments, is growing at c.5% per annum.

The BPS market is shifting quickly towards being more digitally and data-enabled and cloud-based as the UK Government is increasingly looking to leverage technology, digital products and emerging capabilities.

Data analytics, predictive and artificial intelligence, robotic process automation, cloud and cyber protection are all being deployed to deliver improved service through technology transformation and delivery, using repeatable standardised technology and methodologies, technology stacks, partner ecosystems, tools and intellectual property.

As a result, BPS that is heavily dependent upon technology enabled transformation (namely digital BPS) is growing at over 10% a year.

Public Service has a market share of around 15%³ in software & IT services (SITS) and around 30%⁴ in the UK Government BPS

Our near-term aim is to consolidate Public Service's position as market leader in UK public sector BPS.

Public Service competes against a number of providers across the spectrum of services that we provide, including Atos, Sopra Steria, CGI, TCS, Cognizant, Accenture, DXC Technology, BSS, Cap Gemini, Kainos, Serco and Maximus.

Our strategy

Our strategy is to be a purpose-led, socially responsible business that uses applied digital transformation and BPS to improve the productivity of government operations and the citizen experience of public services.

Our near-term aim is to consolidate Public Service's position as market leader in UK public sector BPS through selectively addressing attractive opportunities in BPO (eg DFRP, PIP, RPP) and digital BPS (JETS, TfL, Department for International Trade).

The Public Service division is well positioned for growth, benefiting from its breadth of coverage, domain understanding, scale, and sales and delivery capability in our respective verticals, each of which presents significant opportunity. This is already evident in our strong recent track record of contract wins, scope increases on our current contract base and high renewal rates.

Our digital capability includes design experience, data mastery, a modern software engine and an automation toolkit that is combined with technology partners such as Microsoft Azure where it makes sense to use them. We are building a standardised platform, where we can use our process insight to present a 'digital first' solution for our clients' needs. Recently we built our Grants solution on this proposition, developing a platform that has been successfully integrated on a contract with the Department for International Trade and we believe there are a number of further applications for the product.

Investing in growth

Capita's strong competitive-edge comes through our deep knowledge of the public sector and an ability to deliver complex service and technology transformation and integration projects.

We took £32m of structural cost out of the division in 2021 by eliminating duplication, reducing overheads and reviewing office usage.

By bringing together all our public sector activities into the new Public Service division, we are better able to sell the full range of our services via an integrated strategic account management approach, for example, better combining our Capita One software solution with our strong presence in local government.

We have an effective team that can leverage our insight with an increasingly standardised approach to growing pipeline and disciplined bidding. We continue to use our consulting capability to identify major market opportunities and to broaden Capita's client partnering model.

Alongside large one-off contracts, we are beginning to access more regular pools of revenue through our access to government frameworks, using a single team and better account management, consulting and partnership. Over the past 18 months we have successfully been included on more than 30 frameworks worth £25bn over the next five years.

At 31 December 2021, the total unweighted pipeline was £8,149m, a decrease of £3,855m from December 2020, with £2,422m of TCV won, including the Royal Navy training contract so the book to bill at year end was 1.7x (2020: 1.3x). Weighted pipeline was £1,305m (2020: £2,272m, £1,347m excluding the Royal Navy training contract). We renewed 89% of contracts that we bid for, while our win rate on new opportunities was 54%. The order book at

the year end was £3,286m, an increase of £550m since 31 December 2020.

Post year end, we secured a new scope of work with the Royal Navy. Significant upcoming bids in 2022 are for work with NHS England, the DWP and the London Borough of Barnet.

Cost and operational excellence

We see good margin and profit opportunity in the division over the next few years.

We successfully embedded the Public Service delivery model in August 2021 and since then we have maintained consistently high levels of client service, improving contract financial performance and creating additional opportunities on contracts.

As well as the revenue benefits noted above, there are also significant efficiencies from our divisional standardised processes and use of the Technology and Software Solutions (TSS) shared service function within Capita. Operational excellence and efficiency have continued to improve profitability in the division.


We also continued to take structural cost out of the division, with £32m saved in 2021. This was from eliminating duplication within the new structure, lower divisional overhead and property savings due to a review of office usage, with reductions in footprint across two major sites.

We run the JETS programme in Scotland on behalf of the DWP. The programme sees us support people made unemployed by the pandemic into new roles. Since we started delivering the scheme in 2021, we have helped over 4,000 people into new roles. We have done so by helping them develop the skills and confidence needed to apply for roles in sectors of the Scottish economy that are growing. Following our strong performance on this contract, the DWP awarded us with a contract extension which will see us continue to run the programme to March 2023.

[Read more online at capita.com/out-work](https://www.capita.com/out-work)



Our consortium, Team Fisher, which includes Raytheon UK, Elbit Systems UK, Fujitsu, the University of Lincoln and several smaller British suppliers, has successfully met all initial milestones in our 12-year programme to transform and modernise the Royal Navy's shore-based training across 16 sites. Capita's consortium has continued to make strong progress since taking over the contract in April 2021 when Capita and its partners transferred more than 800 colleagues to deliver and facilitate training for service personnel. Training has continued smoothly with no interruption to planned training through the handover process.

 Read more online at capita.com/our-work



Throughout the year there was continued emphasis on our remaining historically problematic contracts

- In May we completed the last legacy transformation element of the PCSE contract. The GP payments and pensions transformation successfully went live, enhancing efficiency and consistent operational delivery
- We continue to deliver the day-to-day monitor service on our EMS contract with the Ministry of Justice and during the year we mutually agreed a conclusion to the EMS transformation project.
- On the RPP, extended in December 2020, we achieved 100% of the recruitment target for regular soldiers and officers for the year and expect to reach full operating capability with our cloud conversion project in 2022

As a result, we have now finished fixing the previously failing legacy contracts

The major contracts within the division delivered an overall cash inflow in the year, which shows our continual progress and strong management of contract delivery

We have also executed on expectations with new major transformational contracts, with key service commencement dates met on the newly won Royal Navy training contract with no service credit deductions incurred. We continue to win additional expansions of our services on

the DFRP contract due to our strong contract delivery. In addition, the ULEZ contract with TfL went live on schedule in October 2021.

Financial performance

Adjusted revenue¹ increased by 10.8% to £1,410.4m following significant contract wins including the Royal Navy training contract, our first full year of DFRP and commencement of the JETS programme. There was recovery in some of the transactional parts of Local Government and Capita One, as Covid restrictions eased and activity levels increased. We also benefited from Covid-related projects in our Intelligent Communications business and the one-off deferred income release from the conclusion of the EMS transformation project. The impact of contract losses significantly reduced in 2021, mostly relating to the local government sector

Adjusted operating profit¹ improved by 662.0% to £98.3m, reflecting the year-on-year uplift from 2020 impacts such as the first-year loss on DFRP and contract-related provisions and impairments. There was significant improvement in contract financial performance, mainly from tight contract cost control

There have been continued savings from successful cost out programmes within operational efficiency and procurement as well as from the new structure and service delivery model.

Adjusted cash generated from operations¹ increased by 25.5% to £120.0m reflecting the improved EBITDA performance of the division, partially offset by the unwind of prior-year advanced receipts on DFRP and contract investment following the commencement of the Royal Navy training contract.

Outlook

We expect the revenue growth rate in Public Service to normalise as the Royal Navy training contract annualises towards mid-single digits, in line with the market, delivered by a strong pipeline of opportunities, winning more from current and new frameworks and major contract renewals.

In the medium term, we expect to target high single-digit to low double-digit EBITDA operating margins, as we continue to win work at appropriate rates of return and as we drive ongoing operational, structural and overhead efficiency.

¹ Refer to APMs on pages 218 to 222



Increasingly, the value we bring to our clients is achieved by using digital services to transform the customer experience.¹

Aimee Chapple
Chief Executive Officer

Experience

Experience is one of Western Europe's leading customer experience businesses. It is the market leader in the UK and ranks third in EMEA.

'We are experts in designing, transforming and delivering frictionless experiences for our clients and their customers. Our services include omni-channel contact-centre management, speech analytics, social media analytics, data and insight, application development and robotics process automation. We also have a strong position in regulated financial services which requires robust systems and governance.'

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.

Adjusted revenue¹

£1,184.7m

(2020: £1,307.7m) -9.4%

Adjusted operating profit¹

£69.1m

(2020: £80.9m) -14.6%

Adjusted revenue by type (%)



- 1 75% Long-term contractual
- 2 20% Short-term contractual
- 3 5% Transactional

Secondary revenue split (%)



- 1 39% Telecoms, Media & Technology
- 2 21% Multi-industry
- 3 40% Financial Services

Financial performance

Divisional financial summary	2021	2020	Change %
Adjusted revenue ¹ (£m)	1,184.7	1,307.7	(9.4)
Adjusted operating profit ¹ (£m)	69.1	80.9	(14.6)
Adjusted operating margin ¹ (%)	5.8	6.2	
Adjusted EBITDA ¹ (£m)	141.5	142.2	(0.5)
Adjusted cash generated from operations ¹ (£m)	55.8	145.0	(61.5)
Order book (£m)	2,271.8	2,428.7	(6.5)

¹ Refer to APF16 on pages 219 to 222

Business units

- Telecoms, Media & Technology
- Multi-Industry
- Financial Services

Employees

- 30,000

Client distribution

- UK, Ireland, Germany and Switzerland

Major contract wins and renewals

- An extension for up to seven years for a long-standing major European telecommunications client with TCV of £528m
- A three-year renewal worth £58m with our market-leading Tesco Mobile client
- A new win with a FinTech client to provide multilingual customer service across 15 languages worth £9m
- An eight-year renewal with the RSPCA building on our 17-year partnership

Competitors

- Atento
- Teleperformance
- Webhelp
- Accenture
- Concentrix
- T-Tech
- Sykes Enterprises
- Firstsource
- Majorel
- In-sourcing trend

Our markets and growth drivers

The global customer experience market is valued at more than £244bn⁴ and is expected to grow at around 5%⁴ between 2020 and 2024. Around 27% of the customer experience market is currently outsourced, with half of that focused in Telecoms, Media & Technology, and Financial Services. Growth opportunities still exist in these verticals, with further opportunities in other markets and segments that we serve.

We are the largest provider of customer experience services in the UK and Ireland with a market share of around 13%.

Our competitors in the customer experience segment are mostly global and include peers such as Teleperformance, Webhelp, Concentrix and Majorel.

The Covid pandemic accelerated the rise in customer propensity towards self-service and automation and in turn drove our clients' strategies to further digitise service offerings, as well as commit to the structural benefits of agents working remotely.

We aim to provide best-in-class services tailored to our clients' needs.

Our strategy

Our experience in delivering customer experience services in certain industries and geographies gives us the ability to understand our clients' challenges and put together solutions based on our technology, insight and digital platforms.

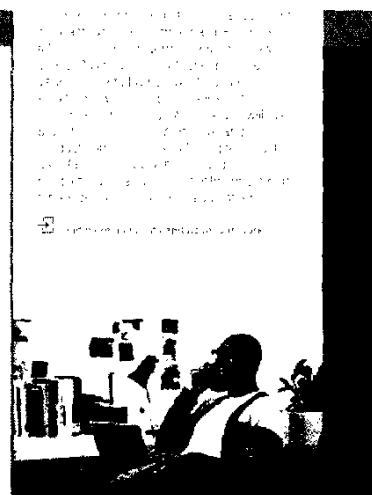
During the year we restructured Experience around market verticals and horizontal value-add capabilities, to move to client-centricity in all offerings. To drive our revenue opportunity, we have a new leadership team in the verticals with significant experience in those markets, improving our sales and marketing strategy and granularity of client offerings.

We deliver our services on both an on-shore and near-shore basis, with delivery centres in the UK, Europe, the Middle East, India and South Africa. This gives us access to specific skills and expertise (such as in languages or IT skills) that can be delivered 24 hours a day at a

competitive rate to our clients. Significant leverage is available from this cost base as we grow our revenues.

Our ambition is to provide best-in-class services within an advanced tool kit of services which can be tailored to client needs. This will use both in-house and third-party technology, such as the assisted conversation technology which is now utilised on a variety of contracts. Partnering with AWS, we have also developed a natural language platform which improves tailored customer experiences and reduces call handling times.

We are also focused on resolving the structural challenges facing the closed book Life & Pensions business, which has declining revenue in a few long-duration legacy contracts, on a high-cost platform. To mitigate the impact, we are focusing on service modernisation and identifying efficiencies in our provision of services. The unit had revenues in 2021 of £199m, adjusted profit before tax of £13m and negative free cash flow of £19m. We continue to focus on our regulated businesses and growth areas in insurance finance, pensions and mortgages.



As we have previously highlighted, the Experience division is around 18 months behind Public Service in its business improvement journey. Investment in revenue growth allied to operational productivity and efficiency and eliminating cash drag will drive profit and cash flow improvements in the longer term.

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Adjusted operating profit¹ reduced by 14.6% to £69.1m, reflecting the reduction in revenue and prior year one-off Covid-19 savings. This was offset by continued successful transformational cost savings on our wider cost-saving programme, as well as the year-on-year uplift from the 2020 mobilcom-debitel contract asset impairment.

We received termination notices on our Co-operative Bank and Carphone Warehouse contracts during the year, following both clients' decision to change their corporate strategy. The associated deferred income and contract assets are now being released over the termination period, compared with the previously assumed contract end dates on both contracts. There was a one-off benefit from the net deferred income release and exit fees, to compensate the Group for exit costs and future profit.

Adjusted cash generated from operations¹ reduced by 61.5% to £55.8m following the unwind of cash preservation measures and timing of invoicing on a telecoms contract in 2021.

In the medium term, we expect to target high single-digit to low double-digit EBITDA margins.

Outlook

As we have previously highlighted, the Experience division is around 18 months behind Public Service in its business improvement journey. Investment in revenue growth allied to operational productivity and efficiency and eliminating cash drag will drive profit and cash flow improvements in the longer term.

We expect revenue to stabilise in 2022. Our revenue growth objective in the medium term is to replicate that of our addressable markets, which will be driven by our more client-centric business model. We will also look to target higher-growth markets.

In the medium term, we expect to target high single-digit to low double-digit EBITDA margins in the division. This reflects the near-term building of revenue, delivering efficiencies in the operating cost base and reducing the overhead, while investing in our people and technology. As revenue growth becomes more established, operating leverage will drive further margin improvement.



66

Over the past two years, our businesses focused on maintaining excellent service levels.¹

Chantal Fries
Chief Executive Officer

Portfolio

Portfolio comprises all our non-core businesses that are intended for disposal. This includes assets from our historical Specialist Service division, as well as businesses transferred from other divisions in our previous divisional structure.

Adjusted revenue¹

£413.4m

(2020: £414.8m) -0.3%

Adjusted operating profit¹

£23.8m

(2020: £14.2m) 67.6%

Our markets and growth drivers

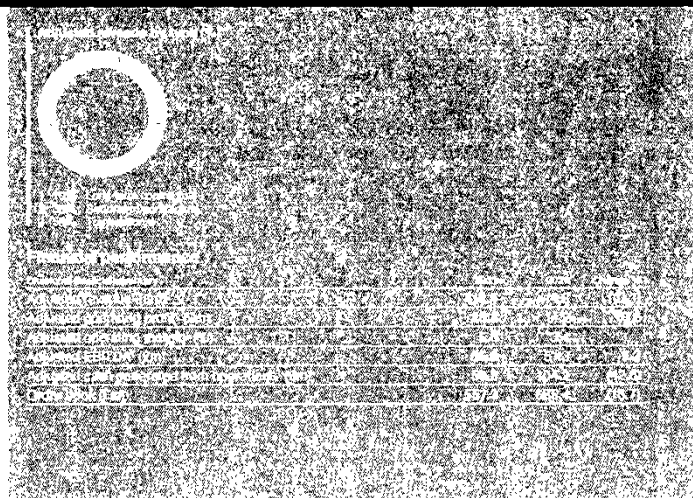
Portfolio includes a range of businesses serving public and private clients across multiple markets and sectors, which are generally mature.

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

Our strategy

The division comprises an enlarged portfolio of valuable but non-core businesses for which Capita is not the best owner and which we intend to sell at the appropriate time.

We have organised the division into 'pillars' comprising businesses with similar characteristics which allows us to effect disposals more efficiently and makes it easier to manage them in the interim.



¹ Refer to APTs on pages 219 to 222

Business pillars

Technology
Property
People
Software
Business Solutions
Travel
Enforcement
Optima

Client distribution

Public
Private

Major contract wins and releases

• **Winning** a multi-million pound contract to provide IT services to the UK's largest financial institution
• **Winning** a multi-million pound contract to provide IT services to the UK's largest financial institution
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• **Winning** a multi-million pound contract to provide IT services to the UK's largest financial institution

These pillars are Technology, Property, People, Software, Business Solutions, Travel and the FERA joint venture.

During 2021, we successfully completed the disposals of ESS, Capita Life & Pensions (Ireland) and AXELOS. We also announced the disposals of Secure Solutions and Services (SSS), our Speciality Insurance business and AMT-Sybex. SSS and AMT-Sybex completed early in the new year.

Following the year end, we agreed the sale of Trustmarque (comprising the businesses in our Technology pillar) for cash proceeds of c.£115m. In Q1, we launched the disposals of two further pillars. Combined, these two pillars generated £188m of revenue and £20m of profit before tax, before allocation of Group overheads, in 2021.

The majority of the remaining businesses are expected to be disposed of in 2022, depending on Covid recovery and general market conditions.

Cost and operational excellence

Over the past two years, our businesses focused on maintaining excellent service levels, despite the ongoing impact of the pandemic on a number of pillars within the division. As a result, the division's cNPS improved for the third consecutive year.

In areas which continued to face challenging market conditions, we undertook work to position the businesses better for new market conditions. Within Agito (our rebranded travel & events business) we focused on the efficiency of the long-term operating model and in Enforcement we supported clients to clear backlogs which built up in the pandemic to ensure focus on future volumes and local council needs.

We continued with our successful cost saving programme, delivering £18m of cost reduction in the year.

Financial performance

Adjusted revenue¹ decreased slightly by 0.3% to £413.4m, while some businesses saw revenue improvement with markets recovering from the impact of Covid, including Capita Resourcing and our Technology businesses. This did not offset the impact of significant projects ending. Some markets continued to be severely impacted by Covid, with recovery slower than anticipated. This particularly affected our Travel businesses (Agito and Evolve) as well as Enforcement and Optima, our remortgaging business.

Adjusted operating profit¹ increased by 67.6% to £23.8m as the revenue margin mix improved. Actions taken in 2020 to right-size the division and benefits from successful cost-saving initiatives continue to drive profit.

Adjusted cash generated from operations¹ decreased by 42.6% to £59.8m, mainly due to the unwind of 2020 events, as volumes increased and the working capital benefit in the prior year from volume reductions and cash preservation reversed.

Outlook

High single-digit revenue growth is expected, particularly supported by recovery in the Covid-affected businesses, based on assumptions of no further lockdowns.

We expect profit improvement to reflect the increase in revenue and to see the benefit of high operational leverage fall through to profit.

This outlook is based on the proforma scope of the division at year end.

¹ Refer to APFs on pages 219 to 222

Strengthening the balance sheet

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We have already exceeded the target we set of £700m in total disposal proceeds to be delivered by June 2022.”

Tim Weller
Chief Financial Officer

Summary of financial performance

	Financial highlights					
	Reported results – continuing operations			Adjusted results – continuing operations		
	Reported 2021	Reported 2020	Reported YOY change	Adjusted 2021	Adjusted 2020	Adjusted YOY change
Revenue	£3,182.5m	£3,324.8m	(4)%	£3,008.5m	£2,995.5m	0.4%
Operating profit/(loss)	£(86.6)m	£(32.0)m	(171)%	£139.1m	£51.1m	172%
Profit/(loss) before tax	£285.6m	£(49.4)m	678%	£93.5m	£5.4m	1,631%
EBITDA	£222.3m	£225.6m	(1)%	£295.1m	£228.4m	29%
Cash generated from operations	£(121.3)m	£434.2m	(128)%	£185.4m	£295.2m	(37)%
Earnings/(loss) per share	13.33p	(0.41)p	3,351%	1.61p	2.41p	(33)%
Free cash flow	£(237.1)m	£303.8m	(178)%	£78.1m	£170.3m	(54)%
Net debt	£(679.8)m	£(1,077.1)m	£197.3m	£(679.8)m	£(1,077.1)m	£197.3m

Overview

Adjusted revenue¹ was broadly in line with the prior year. Contract losses halved compared with 2020 benefiting from our sustained focus on retention and service delivery. Contract wins reflect the commencement of the Royal Navy training contract, Job Entry Targeted Support (JETS) contract and the annualised impact of the Defence Fire and Rescue Project (DFRP) contract.

The increase in adjusted profit before tax¹ reflects the benefit of stable revenues, cost savings from our transformation programme and the reduction in the holiday pay accrual in 2021 compared with 2020, offset by other cost increases, including the impact of the reinstatement of the employee bonus scheme. The adjusted profit before tax¹ in 2021 excludes the financial impact of a closed book Life & Pensions contract termination, which by virtue of size has been excluded from adjusted results as later described in this report. The Group continued to participate in the job retention scheme made available by the Government

to help ease the employment impact of Covid-19 and furlough related income of £4.9m (2020: £21.3m) was recorded in the period which was offset against the associated payroll costs.

Adjusted cash generated from operations¹ reduced by £109.8m to £185.4m reflecting the increase in adjusted operating profit¹ offset by movements in working capital.

Adjusted free cash flow¹ reduced by 54% in the period as the reduction in adjusted cash generated from operations was partially offset by lower capital expenditure and interest payments.

As part of our drive for simplification of the business, and strengthening the balance sheet, we continue to seek to dispose of a number of non-core businesses. During 2021 we completed the disposal of the Education Software Solutions (ESS) business and of AXELOS, realising cash proceeds of c.£343.5m and £182.2m respectively. We also announced the disposal of our Speciality Insurance

¹ Refer to alternative performance measures (APMs) in pages 219 to 223

business, subject to certain consents, the disposal of the AMT Sybex software business, for initial cash consideration of £23.0m, and potential additional consideration of up to £17.0m, subject to certain conditions, and the disposal of our Secure Solutions and Services (SSS) business for cash proceeds of £72.0m. The sale of both AMT Sybex and SSS completed in January 2022.

On 28 January 2022, we announced the disposal of the Trustmarque business for £111m on a cash free, debt free basis, and the Group expects to receive net proceeds of c.£115m at completion. Additional consideration of c.£3m is payable to Capita contingent on certain future events. The sale is subject to certain consents. The proceeds from this sale, subject to successful completion, mean we will exceed the target we set of £700m in total disposal proceeds to be delivered by June 2022.

These disposals form part of the Board-approved disposal programme and the preparation for a number of further disposals has commenced where there are opportunities to maximise the value from exiting non-core businesses. The Group expects to use the proceeds from this disposal programme to repay maturing debt, to make further deficit reduction contributions to the Group's defined benefit pension scheme and to invest in driving growth in the remaining core businesses. In 2021, we repaid £232.3m of private placement notes, and made pension deficit contributions of £155.5m.

In the second half of 2021, the Group moved to a new, three division, organisation structure.

creating a platform for revenue growth, increasing opportunities for savings from shared support services and a leaner Group overhead, all of which is expected to drive a richer contract margin mix and further efficiency.

Liquidity as at 31 December 2021 was £392.4m, made up of £345.7m of the undrawn element of our committed revolving credit facility (RCF) and £46.7m of unrestricted cash and cash equivalents net of overdrafts. The existing RCF expires on 31 August 2022, and in June we entered into a new £300m RCF covering the period from 31 August 2022 to 31 August 2023. The two RCFs incorporate provisions such that the amounts available under the facilities will be partially reduced when proceeds are realised from future business disposals. For full details refer to the Capital and financial risk management section later in this review.

The 31 March 2020 triennial valuation of the Capita Pension and Life Assurance Scheme (the Scheme) was concluded during the year and identified a deficit for funding purposes of £182.2m, which is expected to be recovered through agreed deficit contributions of £105m across 2022–2026 on top of the regular pension deficit contribution of £59m paid in 2021. The valuation of the Scheme liabilities for funding purposes differs to the valuation for accounting purposes mainly as a result of the different assumption principles required for funding and accounting purposes. At 31 December 2021, the Scheme showed a small surplus for accounting purposes of £7m on an accounting basis (2020 deficit £242m), which has been reflected in the Group's balance sheet as at

Adjusted revenue¹ bridge by key driver

	£m
Year ended 31 December 2020	2,995.5
One-offs in 2020	(14.7)
Year ended 31 December 2020 rebased	2,980.8
Contract losses	(104.3)
Ongoing contract scope and volume changes	(66.6)
Transactional revenue growth [*]	25.3
Contract wins	139.1
One-offs in 2021	34.2
Year ended 31 December 2021	2,969.5

^{*} Excludes DWP PIP contract modification from transactional to contractual

that date. Management estimates that, at 31 December 2021 the net asset of the Scheme on a funding basis consistent with the 2020 triennial valuation was approximately £40m (2020: net liability £155m). The Trustee of the Scheme has also agreed a more prudent secondary funding target which will enable the Scheme to reduce its reliance on the covenant of the Group. On this basis, at 31 December 2021, the funding level was around 91% (or a net liability of £165m) which is expected to be met by a mixture of the remaining deficit contributions of £105m and asset outperformance.

Adjusted results

Capita reports results on an adjusted basis to aid understanding of business performance. The Board has adopted a policy of disclosing separately those items that it considers are outside the underlying operating results for

the particular period under review and against which the Group's performance is assessed internally. In the directors' judgement, these items need to be disclosed separately by virtue of their nature, size and/or incidence for users of the financial statements to obtain an understanding of the financial information and the underlying in-period performance of the business.

In accordance with the above policy, the trading results of business exits, along with the non-trading expenses and gain or loss on disposals, have been excluded from adjusted results. To enable a like-for-like comparison of adjusted results, the 2020 comparatives have been re-presented to exclude 2021 business exits. As at 31 December 2021, the following businesses met this threshold and were classified as business exits and therefore excluded from adjusted results in both 2021

¹ Refer to APTs on pages 213 to 222

and 2020: ESS, AXELOS, Life Insurance and Pensions Servicing business in Ireland, AMT Sybex software: SSS; the Speciality Insurance business; and a software business.

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

Adjusted revenue

Adjusted revenue¹ was broadly in line with the prior year. The adjusted revenue¹ movements were as follows:

- one-off contract related items in 2020, including the release of deferred income and write-off of contract assets arising from contract terminations, settlements and modifications, provisions recognised on onerous contracts and contract related asset impairments;
- contract losses halving year-on-year reflecting sustained focus on retention and service delivery;
- ongoing contract scope and volume reduction reflecting pandemic-related work in 2020 and projects in Experience which did not repeat in 2021;
- unplanned contractual one-offs in 2021, including the release of deferred income and termination gains arising from contract terminations and modifications, including on the EMS contract with the Ministry of Justice in Public Service and The Co-operative Bank contract and a contract with a telecoms client in Experience;

- transactional revenue growth mainly driven by Public Service and to a lesser extent Portfolio; and
- the benefit of a number of notable contract wins, including the commencement of the Royal Navy training contract and the JETS contract which commenced in February, combined with the annualised impact of the DFRP contract in Public Service and smaller wins within Experience.

Order book

The Group's consolidated order book was £6,115m at 31 December 2021 (2020: £5,651m) as additions from contract wins and extensions in 2021 (£2,901m), including the Royal Navy training contract and contract extensions with two major European telecoms providers, exceeded the reduction from revenue recognised in the year (£2,297m) and contract terminations, business disposals and scope changes (£339m).

Adjusted profit before tax

Adjusted profit before tax¹ increased in 2021. The adjusted profit before tax¹ bridge opposite reflects the following items:

- to ensure a like-with-like starting point, the 2020 one-offs, which included contract asset impairments and contract provisions, are adjusted for;
- the margin effect of contract losses, scope and volume, transactional changes and contract wins were a net £26.9m negative, with new wins not yet offsetting the impact of contract losses and scope and volume reductions.

Adjusted profit before tax¹ bridge by key driver

	£m
Year ended 31 December 2020	5.4
One-offs in 2020 – contract-related	23.9
Year ended 31 December 2020 rebased	29.3
Contract losses	(44.4)
Ongoing contract scope and volume changes	(19.1)
Transactional revenue growth	8.5
Contract wins	28.1
One-offs in 2021 – contract-related	12.2
Cost savings	123.3
Other cost movements	(11.7)
Bonus	(47.7)
Holiday pay	15.0
Adjusted profit before tax¹	15.5

Adjusted operating profit to adjusted free cash flow¹

	2021 £m	2020 £m
Adjusted operating profit¹	139.1	51.1
Add: depreciation/amortisation and impairment property, plant and equipment and intangible assets	156.0	177.3
Adjusted EBITDA¹	295.1	228.4
Working capital	(123.5)	34.3
Other	13.8	32.5
Adjusted cash generated from operations¹	185.4	295.2
Net capital expenditure	(51.3)	(68.3)
Interest/tax paid	(56.0)	(56.6)
Adjusted free cash flow	78.1	170.3

¹ Refer to APL on pages 213 to 222

- unplanned contractual one-offs in 2021, including the release of deferred income and write-off of contract assets arising from contract terminations, settlements and modifications, and provisions recognised on onerous contracts. These resulted in net gains of £7.5m in Public Service and £4.7m in Experience which have not been excluded from adjusted results because they are considered to be in the normal course of business;
- the transformation programme continued to deliver substantial savings in 2021 with a £123.3m year-on-year benefit;
- other cost movements, primarily from general inflation, and
- the year-on-year impact of the reinstatement of the employee bonus scheme this year with £31.2m expensed during 2021 including £17.3m accrued at 31 December 2021 compared with the release of the 2019's £16.5m accrual in the first half of 2020, was partially off-set by a reduction in holiday pay accrual.

Moving forward, we expect to see the reward from the investment in cost transformation over the past few years, with revenue growth and operating leverage driving the bottom line, albeit this is expected to be partially offset in the short term in 2022 by the impact of cost inflation and staff attrition as the UK economy enters a high inflation, high employment period.

Adjusted profit before tax¹ excludes contract-related provisions and impairments of £43.1m in the closed book Life & Pension business in

Experience. These have been excluded from adjusted results due to their materiality and are detailed in the Reported results section.

Adjusted free cash flow

Adjusted free cash flow² in the year ended 31 December 2021 was an inflow of £78.1m (2020: inflow £170.3m). The decrease compared with the prior period is driven by a reduction in adjusted cash generated from operations³, capital expenditure and interest payments.

Adjusted cash generated from operations³ benefited from the improvement in adjusted profit before tax¹ explained above, offset by a material working capital outflow compared with an inflow in 2020. In 2020, the Group's cash flow benefited from shorter public sector payment cycles as part of the Covid-19 response and advanced payments from a small number of major clients at 31 December 2020. As expected, 2021 has been impacted by the unwind of these advanced receipts together with the natural expansion in working capital as the Group transitions to growth.

Capital investment reduced year on year following the 2020 completion of a number of transformation-related projects

Reported results

Adjusted to reported profit

As noted above, to aid understanding of our underlying performance, adjusted operating profit¹ and adjusted profit before tax¹ exclude a number of specific items, including significant restructuring, the amortisation and impairment of acquired intangibles, including goodwill, and the impact of business exits.

Adjusted¹ to reported profit bridge

	Operating profit/(loss)		Profit/(loss) before tax	
	2021 £m	2020 £m	2021 £m	2020 £m
Adjusted¹	139.1	51.1	93.5	5.4
Amortisation and impairment of acquired intangibles	(12.0)	(26.4)	(12.0)	(26.4)
Impairment of goodwill	(11.5)	—	(11.5)	—
Litigation and claims	9.3	(0.7)	9.3	(0.7)
Net finance costs	—	—	(1.4)	(1.5)
Business exit	(20.1)	60.5	399.1	90.3
Business exit – on-hold disposal costs	—	(7.5)	—	(7.5)
Contract-related provisions and impairments	(43.1)	—	(43.1)	—
Significant restructuring	(148.3)	(109.0)	(148.3)	(109.0)
Reported	13.4	78.1	21.8	78.4

Impairment of goodwill

Following the corporate reorganisation in the second half of 2021, the Group reviewed the historical assessment of cash generating units (CGUs) and the allocation of goodwill. Reflecting the way management now exercises oversight and monitors the Group's performance, the Board concluded that the lowest level at which goodwill is monitored is at the divisional level for Public Service and Experience, and at a sub-divisional level for Portfolio, and goodwill has been reallocated to these new CGUs or group of CGUs, as appropriate. At 31 December 2021, this resulted in an impairment of goodwill in the Travel CGU within the Portfolio division as the travel industry continues to be impacted by Covid-19 which is reflected in the projected near-term cash flows as well as the increase in comparable companies' discount rates

Transformation programme savings

£123m

Year on year benefit

¹ Refer to APLs on pages 219 to 222

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

Business exits

Business exits include the effects of businesses that have been disposed of or exited during the period and the results of businesses held-for-sale at the reporting date. Individual businesses within the Portfolio division under the new corporate structure will be treated as held-for-sale where their disposal is seen to be highly probable and is expected to complete within the following 12 months. At 31 December 2021 business exits comprised:

- the ESS business whose disposal was completed on 1 February 2021;
- the Life Insurance and Pensions Servicing business in Ireland whose disposal was completed on 1 March 2021;
- the AXELOS joint venture with the UK Government whose disposal was completed on 29 July 2021;
- the AMT Sybex software, SSS and Speciality Insurance businesses which were in the process of being sold and which met the held-for-sale criteria. Accordingly, these businesses were treated as disposal groups held-for-sale at this date. The disposal of the AMT Sybex Software and SSS businesses completed subsequently in 2022 (refer to note 6.3 of the consolidated financial statements for further details).

- a software business in the Portfolio division that the Group has decided to exit; and
- the exit costs, including professional fees, salary costs and separation planning costs, relating to further planned disposals for which the held-for-sale and business exit criteria were not met at 31 December 2021.

In accordance with our policy, the trading results of these businesses, along with the non-trading expenses and gain on disposal, were classified as business exits and therefore excluded from adjusted results. To enable a like-for-like comparison of adjusted results, the 2020 comparatives have been restated to exclude the 2021 business exits.

Further businesses are planned for disposal as part of the Group's simplification strategy. However, given the status of the relevant disposal processes, the businesses did not meet the criteria to be classified as assets held for sale at 31 December 2021 and, accordingly, their trading results are included within adjusted results. This includes the Trustmarque business whose disposal was announced on 26 January 2022 (refer to note 6.3 of the consolidated financial statements for further details).

Significant restructuring

In 2018, the Board launched a multi-year transformation programme to support the objectives of simplifying and strengthening Capita. The programme was extended to property rationalisation, procurement centralisation, transformation of support functions including investment in growth, and operational excellence initiatives, including

investment in automation. These activities were designed to improve the cost competitiveness of the Group and secure Capita's position in the markets it serves and strengthen governance and control.

The transformation programme included planned improvements to the Group's financial reporting systems. New financial systems were due to go live in the second half of 2019 and, while progress was made, a decision was taken to defer the go-live because more work was required on the core processes and procedures before the system could be effectively implemented. Several interim activities were progressed during both 2020 and 2021 and the technical asset including the IT infrastructure, software and codebase were preserved.

The new system was deemed necessary to provide effective functionality across the then six reporting divisions, supported by the central functions and covering a multifaceted legal entity structure. In addition, the decision to invest in new financial reporting systems was predicated on the fact that the Group's existing ERP platform would not be supported by the relevant supplier beyond 2025.

During 2021, the Group simplified its divisional and management organisation structure with ongoing programmes to streamline the legal entity structure of the Group. As a result, the Board concluded in late 2021 that continued investment in a new system was not critical to support the finance transformation. This coincided with confirmation from the supplier that the Group's existing ERP platform will be supported until at least 2030.

These developments allowed management to reconsider the technical imperative to move to a new ERP platform and to assess the extent to which the Group would be better served by continuing to use its existing platform. It has become clear that it is feasible to use the existing platform and, in doing so, avoid the disruption, additional cost and risk of a transition to a new platform. The simplified operating model makes possible a continuation of the systems already available with more limited investment to achieve the required functionalities that will deliver the prime objectives of standardisation, automation and improved quality of information.

Therefore, the Board approved a revised approach at the end of 2021 to focus on optimising the existing financial reporting systems and not migrate to an entirely new finance system. As such, an impairment of £53.5m was recognised at 31 December 2021 representing the book value of the elements of the new finance system which are no longer expected to be utilised.

The Group has continued to invest in shared service centres and offshoring, and in making improvements to the Group's existing reporting systems, processes, and controls. Further enhancements are planned for 2022, that will take into consideration the Government's proposed audit and governance reform, including the potential adoption of a UK-Sarbanes-Oxley regime.

The costs of the transformation programme, including redundancy costs, are excluded from adjusted operating profit as significant restructuring. 2021 is the final year of major

investments in the transformation programme where the costs are excluded from adjusted results. From 1 January 2022, any residual restructuring costs will be included within adjusted results.

Contract-related provisions and impairments

The new corporate structure has simplified internal reporting, which has highlighted those businesses that represent a drag on the Group's cash resources. This includes the Life & Pensions business that provides outsourced administration services for the associated closed pension books which we maintain on behalf of a small number of clients.

The Group has highlighted in prior reporting the structural challenges associated with the closed book Life & Pensions contracts. These provided for upfront cash inflows to support initial transformation activities with a much lower level of cash inflows once the transformation phase was completed. Under the Group's long-term contract accounting policy (see note 2.1 of the consolidated financial statements), the cash flow profile of these contracts has resulted in deferral of profit into future years which is not backed by net cash flows (because the relevant cash receipts arose in the early years of contract execution). Additionally, some of the contracts contain evergreen clauses allowing the customers to extend the contracts indefinitely until the run-off of the underlying pensions books is complete.

The Life & Pensions business has remained in structural decline as some customers, with

legacy IT systems, have switched to suppliers who can provide a single digital platform for all their books. The Group has sought to drive efficiencies to mitigate this fall off in volumes, while supporting customers who have selected new outsource providers or taken the activities back in-house.

The closed books and contractual dynamics have led to onerous conditions to service these contracts. The Board has been required to assess the likely length of the remaining contracts, given the pattern and experience of contract terminations while also recognising the evergreen clauses. Accordingly, management has in prior years provided for the onerous contract conditions based on the best estimate of the remaining contract terms. The contingent liability note has highlighted that should the contracts end earlier or extend for longer this may result in a material reduction or increase in the provision recorded.

During 2021, the Group has continued to support a major customer on the transfer of services to another supplier. This is taking significantly longer than initially expected. Management has reassessed the lifetime estimate to include not only the onerous contract terms but also the period and likely costs to support the final handover of services. This assessment has extended across all contracts that contain evergreen clauses, including those where there are ongoing discussions regarding either termination or transfer of services. This reassessment, reflecting the development in the latter half of 2021, provides cover for contracts to extend out to 2026. This has resulted in an increase to the

Adjusted to reported free cash flow

	2021 £m	2020 £m
Adjusted¹	78.1	170.3
Pension deficit contributions	(155.5)	(29.5)
Significant restructuring	(68.6)	(64.1)
Litigation and claims	(18.5)	—
Business exits	41.2	102.2
Business exits – on hold disposal costs	—	(7.5)
Non-recourse trade receivables financing	(9.7)	13.6
VAT deferral	(104.1)	118.8

contract provision and impairment of contract assets totalling £43.1m which has been reported as an adjusting item (see note 2.4 to the consolidated financial statements). In prior years the financial impacts of such contract judgements have not been shown as adjusting items because they were considered to be normal course of business, not material in the context of the Group's results and not associated with the transformation plan. However, due to the quantum of the charge arising from the 2021 reassessment, the Board consider it appropriate to separately disclose this as an adjusted item to highlight the impact on the results in the period.

Further detail of the specific items charged in arriving at reported operating profit for 2021 is provided in note 2.4 to the consolidated financial statements.

Adjusted to reported free cash flow

Reported free cash flow was lower than adjusted free cash flow¹, principally reflecting pension deficit contributions (which the directors consider to be debt-like in nature) and the cash costs of the significant restructuring programme, partially offset by cash inflows on business exits.

In addition, in both 2021 and 2020, the benefit from the Covid-19-related Government VAT deferral measures and utilisation of a non-recourse trade receivables financing facility were also excluded from adjusted free cash flow¹. The VAT deferral benefit has largely reversed during 2021. The non-recourse trade receivables financing facility was put in place in the early stage of the Covid-19 pandemic to mitigate the risk of customer receipts slippage.

¹ Refer to APL's on pages 219 to 222

Cash flow headwinds

As previously reported, in 2021 the Group was impacted by material cash outflows arising from reversal of the VAT deferral noted above, pension deficit contributions and significant restructuring. The actual cash outflows in 2021 together with forecast outflows for 2022 in respect of these items is set out in the table opposite.

One of the largest outflows in 2021 was the repayment of deferred VAT under the Government's Covid-19 support measures.

There have been substantial catch-up pension deficit contributions in the year. Following agreement reached in June with the pension Trustees in respect of the 2020 triennial valuation, we expect to make a further regular deficit contribution of around £30m in 2022.

Moving into 2022, restructuring costs are expected to be materially lower and it is not planned that these costs will be excluded from adjusted results beyond the current financial year.

The material reduction in the cash outflows in 2022 arising from these items, is one of the key factors underpinning the expected transition to sustainable free cash flow² from that year onwards.

Impact on net debt

Net debt at 31 December 2021 was £879.8m (31 December 2020: £1,077.1m). The reduction in net debt largely reflects the proceeds from the ESS and AXELOS disposals.

Over the medium term, following the completion of our Portfolio divestment programme, we will be targeting a pre-IFRS 16 headline leverage ratio for Capita of around 1.0 times headline net debt to adjusted EBITDA¹.

The calculations of the net debt to adjusted EBITDA¹ and interest cover ratios for covenant purposes in respect of the Group's US private placement loan notes and other financing arrangements are set out in the APM appendix to the consolidated financial statements.

At 31 December 2021, the US private placement loan notes net debt to adjusted EBITDA¹ covenant ratio was 1.5 times (31 December 2020: 1.8 times) and was 2.0 times for all other financing agreements (31 December 2020: 2.5 times) compared with maximum permitted levels of 3.0 times and 3.5 times respectively.

At 31 December 2021, the interest cover¹ covenant ratio was 9.9 times for the US private placement loan notes and 9.6 times for other financing arrangements (31 December 2020: 8.5 times and 7.8 times respectively) compared with minimum permitted levels of 4.0 times for all debt instruments.

The Group was compliant with all debt covenants at 31 December 2021.

Cash flow headwinds

	Actual 2021 £m	Forecast 2022 £m
VAT deferral	104.1	16.0
Pension deficit contributions	155.5	30.0
Below-the-line restructuring	58.6	—
Total	318.2	46.0

Net debt

	2021 £m	2020 £m
Opening net debt	(1,077.1)	(1,356.7)
Cash movement in net debt	208.5	344.1
Non-cash movements	(11.2)	(64.5)
Closing net debt	(879.8)	(1,077.1)
Remove closing IFRS 16 impact	448.4	508.1
Headline net debt (pre-IFRS 16)	(431.4)	(569.0)
Cash and cash equivalents net of overdrafts	101.5	141.1
Debt net of swaps	(532.9)	(710.1)
Headline net debt to adjusted EBITDA¹	1.5x	1.8x
Debt to adjusted EBITDA¹ (including IFRS 16)	2.0x	2.5x

Liquidity

	2021 £m	2020 £m
RCF	385.7	452.0
Backstop liquidity facilities	—	150.0
Less: drawing on facilities	(40.0)	—
Undrawn committed facilities	345.7	602.0
Net cash, cash equivalents net of overdrafts	101.5	141.1
Less: restricted cash ¹	(54.8)	(34.5)
Available liquidity	391.9	708.6

¹ Refer to APMs on pages 215 to 222.

² Sustainable free cash flow – reported free cash flow excluding the impact of disposals.

Capital and financial risk management

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, RCFs, leases and overdrafts.

The Group's RCF provides flexible liquidity available to fund operations and £40m was drawn under this facility at 31 December 2021 (2020: undrawn).

The Group's RCF expires on 31 August 2022 and in June 2021 the Group entered into a new RCF for £300m covering the period from 31 August 2022 to 31 August 2023. The two RCFs incorporate provisions such that they will partially reduce in quantum as a consequence of specified transactions, and subsequent to the year end, the first RCF reduced to £377.5m following the receipt of disposal proceeds. Further details of these facilities can be found in section 4 to the consolidated financial statements.

The Group secured a committed backstop liquidity facility in February 2020. This reduced to £93.5m on 30 June 2020 with the disposal of the Eclipse business. It was then supplemented by a second backstop liquidity facility, bringing the combined value of the two facilities back to £150.0m. Both backstop liquidity facilities terminated on 1 February 2021 with the receipt of proceeds from the disposal of the ESS business.

As part of the Group's mitigation of the impact of Covid-19, in June 2020 a non-recourse invoice discounting facility was executed. The value of invoices sold under the facility at 31 December 2021 was £3.9m (31 December 2020: £13.6m).

At 31 December 2021, the Group had £101.5m of cash and cash equivalents net of overdrafts, and £512.9m of private placement loan notes, fixed-rate bearer notes, and Schuldschein loan. These debt instruments mature over the period to 2027, with repayment of £217.7m and £66.3m in 2022 and 2023 respectively. The 2022 and 2023 maturities are expected to be funded through the Group's existing facilities, cash and cash equivalents and from the proceeds of the Group's ongoing portfolio divestment programme without the need to obtain new financing. As such, a measured approach will be taken to any potential refinancing with time taken to implement a longer-term debt solution at the appropriate moment.

In March 2022, the Group executed with one of its relationship banks a committed backstop bridge facility. The facility provides £70m of additional liquidity and it incorporates provisions such that it will be cancelled or will partially reduce in quantum as a consequence of specified transactions, including on the completion of the announced disposal of Trustmarque. The committed facility has an expiry date of 31 August 2023 with an option by the lender, for a further one-year extension. The facility is subject to covenants, which are the same as the RCF.

Going concern assumption

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

In carrying out the going concern assessment, the Board has recognised that, in a severe but plausible downside scenario, the mitigants to the possibility of insufficient liquidity in the going concern assessment period will require third party agreements and approvals which represent events that are outside the direct control of the Company. Accordingly, there are material uncertainties applicable to going concern assessments, as defined in auditing and accounting standards, related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

Nevertheless, reflecting the Board's confidence in the benefits expected from completion of the transformation programme and execution of the approved disposal programme coupled with the potential to obtain further financing beyond its existing committed funding facilities the Group and Parent Company continue to adopt the going concern basis in preparing these consolidated financial statements as set out in section 1 to the consolidated financial statements.

Year-end liquidity

£392.4m

(2020: £708.6m)

Headline leverage post IFRS 16

2.7x

(2020: 3.1x)

Viability assessment

The Board's assessment of viability over the Group's three-year business planning time horizon is summarised in the viability statement on page 62.

Pensions

The 31 March 2020 triennial valuation of the Scheme was concluded during the year and identified a deficit for funding purposes of £182.2m which is expected to be recovered through deficit recovery contributions of £30m in each of the years ending 31 December 2022 and 2023, in addition to the contributions totalling £59m already paid by the Group at 31 December 2021. As part of the triennial valuation, the Group also agreed to pay an additional £15m a year between 2024 and 2026 in order to enable the Scheme to target a lower-risk investment strategy facilitating lower reliance on the covenant provided by the Group.

In addition to the above, £35.7m of deficit contributions in respect of the previous funding agreement, plus a special contribution of £50.1m to buy back the intellectual property rights as part of the ESS disposal, were paid to the Scheme in 2021. At 31 December 2021, £5.0m was held in escrow and will be released to the Scheme in 2022.

The total net defined benefit pension position for accounting purposes moved from a net liability at the start of the year (liability: £252.1m) to a small net asset by 31 December 2021 (asset: £5.8m). The main reasons for this movement were the £150.5m of deficit funding contributions paid into Scheme, along with

favourable market conditions (particularly the material increase in the yields available on good quality, long-term corporate bonds offset to some degree by an increase in future inflationary expectations) that are used to derive the assumptions, and higher than expected asset returns. This was also partly offset by experience over the year (with actual inflation being higher than expected).

The valuation of the Scheme liabilities for funding purposes (the actuarial valuation) differs from the valuation for accounting purposes (which are shown in these financial statements) mainly due to different assumption principles being used based on the different regulatory requirements of the valuations. Management estimate that at 31 December 2021 the net asset of the Scheme on a funding basis (ie the funding assumption principles adopted for the full actuarial valuation at 31 March 2020 updated for market conditions at 31 December 2021) was approximately £40m (31 December 2020: net liability £155m).

The Trustee of the Scheme has also agreed a secondary more prudent funding target to enable it to reduce the reliance the Scheme has on the covenant of the Group. On this basis, at 31 December 2021, the funding level was around 91% (or a net liability of £165m). The deficit of £165m, is expected to be met by a mixture of the remaining deficit contributions of £105m and asset outperformance. The Trustee of the Scheme has agreed with the Company to accelerate the payment of some of the deficit contributions on a £ for £ basis in the event of disposal proceeds being used to fund mandatory prepayments of debt.

Consolidated balance sheet

At 31 December 2021 the consolidated net assets were £296.5m (2020: net liabilities £81.1m).

The movement from net liabilities to net assets is predominantly driven by the expiry of the put option to acquire the non-controlling interest in AXELOS, the Group's joint venture with the UK Government, and the gains realised on the disposal of both ESS and AXELOS in the year.

Parent Company balance sheet

The company's market capitalisation was significantly less than the net assets of the Parent Company at 31 December 2021 and the directors gave consideration as to why this might be the case and whether assets on the Parent Company balance sheet may be impaired. The factors considered included, the differing basis of valuations (point in time nature of the market capitalisation and that third parties value the services sector on income statement multiples versus long-term view using a discounted cash flow for the basis of impairment testing under accounting standards), sum-of-the-parts view and the multiples achieved on recent disposals, and that the sector may be trading at or below book value with the market making a general assessment of the sector and all companies within the sector which can ignore the liquidity profile and specific risks of an entity. Management's estimate of the value in use of the Group used in the testing of goodwill and intangibles for impairment at 31 December 2021 gave a value for the Group that exceeded the market capitalisation at that date, and supported the Parent Company net assets.

An impairment test was performed at 31 December 2021 in respect of the Parent Company's investments in subsidiaries and amounts owed by subsidiary undertakings. No material impairments were identified in respect of the Parent Company's investments in subsidiaries, and an impairment of £48.6m was recognised in respect of amounts owed by subsidiaries.

Putting our people first

Like so many other businesses, we have continued to be challenged by the effects of Covid-19, while making sure that the health, safety and wellbeing of our colleagues is our number one priority

Workforce

52,000

It was a challenging year for Capita and its people for many different reasons. We started – and ended – 2021 in a pandemic, while as a business, after continuing to embed our hybrid ways of working, we moved from six divisions to three

This was part of our ongoing strategy to simplify and strengthen. We have restructured the divisions to make us more client-centric, focused on growth, while continuing to keep our cost base under review. These changes mean we are now a simpler and stronger organisation, operating more effectively.

During the year, our People function supported the move to three divisions, while updating the systems and processes in the function itself, continued to deliver on many of the priorities in

our 'HR 2020' strategy, and worked to provide the right support and guidance to our colleagues across the organisation.

But such challenges and changes also mean it has never been more important that we continue to listen to what our colleagues are thinking and feeling

We carry out an internal survey every year to help us understand how engaged our colleagues are with Capita and its plans, how they are feeling, and what they think about working for the business.

The people survey results showed teams and managers are doing a great job. Trust levels are high within teams, there are regular discussions about performance, and colleagues feel that their managers care about their wellbeing and help them succeed to their full potential. Overall, our people rate their managers at an average of 87% across all our manager commitments, which form a key part of our values and behaviours.

The results demonstrate the success of our commitment to our new ways of working and

our virtual first approach, with 90% of colleagues agreeing that their manager is supportive of flexible or hybrid working.

The results also show we are making great progress in building a more diverse and inclusive workplace, with 81% of respondents reporting 'I can be myself at work', 88% saying that their manager has taken, or would take, action against any form of discrimination, and 87% confirming they feel safe at work. These results reflect the hard work delivered across the organisation to improve diversity and inclusion and to make it a more honest, open and safe place to work

However, despite many positive results in the survey, we have seen a decline in our overall engagement figures with a 22-point negative swing in our employee net promoter score. There are also additional areas where it is clear, according to the feedback, we are falling short.

As a result, we have introduced a new employee listening tool with a renewed focus on action plans, engaged with leadership teams across the business to further consult and listen to our colleagues, and agreed a range of next steps to address key areas of concern throughout 2022.

HR operations

We also face a different set of challenges, amid the most competitive recruitment market in a generation. We are focusing on resourcing – how we can recruit and retain the best talent – while refining our employee value proposition (EVP), and standing out among the crowd has never been more important

Focusing on the health, safety and wellbeing of all Capita employees has remained our number one strategic priority during the pandemic.





We will continue to define, communicate and execute Capita's performance and development strategy to maximise our employees potential through skills development and progression.

As retention is the key element of our recruitment challenges, we continue to work on the performance and development of our colleagues, growing the Capita Academy and adding new learning modules. Socially responsible resourcing also remains a priority and you can read more about our Kickstarter programme on page 37.

Our workforce has reduced by around 3,200 colleagues over the past year, predominantly due to the sale of businesses, redundancies because of the pandemic and changes as part of our transformation, and a cautious approach to recruitment. Our voluntary turnover was 30% (2020: 20%).

Continuing to focus on the health, safety and wellbeing of all colleagues

Focusing on the health, safety and wellbeing of all Capita employees has remained our number one priority during the pandemic. As part of our transformation, for the first time all health-related functions have come together into one group – Team Health – under the leadership of the Group Senior Medical Officer. These health functions are wellbeing, health, safety and the environment (HSE), safeguarding, clinical governance, and occupational health.

Team Health provides guidance and standards to support the divisions and business units. It also works increasingly closely with our team of more than 1,000 clinicians to harness skills, knowledge and expertise – to drive our approach to caring for colleagues and deliver best practice to our clients.

In 2021, we also conducted a review of the occupational health provision for all our UK colleagues, resulting in the appointment of a new occupational health provider, Health Partners. They will work closely with us to deliver occupational health and wellbeing programmes that align directly with our Group health strategies. Alongside this, we continue to provide occupational health support in all our global locations through targeted approaches, such as insurance plans and employee assistance programmes.

In our HSE, safeguarding and wellbeing functions, we undertook a formal external legal review of our requirements. We released new policy documents in most functions, along with new Group standards, setting out in detail the requirements for training and processes for all colleagues at every level of the business. We continue to engage closely with divisional and business unit leads to ensure that we comply with these standards and meet our legislative requirements. We developed wellbeing initiatives to support all our global colleagues, including targeted programmes of events for World Mental Health Day and World Menopause Day.

We continued our work to protect all colleagues in our global locations. Our multidisciplinary approach to our pandemic response was led by a member of the Group executive team, and involved Team Health and colleagues from our commercial leadership, HR, property and facilities, and resilience teams. It is delivered by our colleagues in the frontline business units.

Overall, we have taken a proactive approach to protecting colleagues and our clients, carefully balancing the needs of colleague safety with service delivery and commercial growth, but always making sure our people's wellbeing remains our number one priority. Capita guidance is informed by government guidelines in all countries in which we operate. We received positive feedback about our work in this area from colleagues, partners and customers.

Our plans for 2022 include continuing to develop and embed new policies and standards within the divisions and business units, driving assurance programmes around these requirements, growing the wellbeing and health components of our new occupational health services, and increasing the digital transformation of the tools we use to care for all employees.

Performance and development

We will continue to define, communicate and execute Capita's performance and development strategy to maximise our employees' potential through skills development and progression. This will be underpinned by our career pathway framework, which we commenced mapping during 2021. We provide a global academy approach to learning that gives individuals access to development, delivers the business effect required and enables growth in individuals and the business.

We have seen good levels of engagement with the learning resources over the past year, eg.

c.77,000

digital learning modules accessed by our people over the year (c. 20% of our 370,000)

c.7,300

management facility sign-ups (all of which completed at least one of more than 100,000 in 2021)

390

collaborative learning sign-ups (all of which completed at least one of more than 100,000 in 2021)

c.11,900

collaborative learning sign-ups (all of which completed at least one of more than 100,000 in 2021)

c.31,300

digital learning modules accessed by our people over the year (c. 20% of our 370,000)

c.9,600

management facility sign-ups (all of which completed at least one of more than 100,000 in 2021)

c.3,900

collaborative learning sign-ups (all of which completed at least one of more than 100,000 in 2021)

c.1,500

collaborative learning sign-ups (all of which completed at least one of more than 100,000 in 2021)

Capita Academy

For the Academy, Capita's learning institute, 2021 was a year of engaging with colleagues and highlighting our resources across Capita. We continued to build a solid resource bank within the Academy, which provides colleagues with a suite of accessible learning and supports their ongoing development. We introduced Lean (organisational excellence courses based on the Lean Six Sigma principles) project management to the Academy suite of tools. We continued to invest in our manager population

by offering a coaching programme in partnership with Better Up that provided valuable support for 100 key colleagues.

We supported many wellbeing initiatives, offering digital modules including ones on social distancing and working remotely. In addition specialist speakers provided practical tools and techniques for personal wellbeing. We invested in our content development including a focus on anti-racism, licence to hire, global induction rebuild and personal profiling workshops. We also shared our approach to wellbeing and other materials with clients and families, supporting our wider community.

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

Professional development

We offer 68 different professional development programmes across the UK and 750 colleagues enrolled on one of our levy-funded programmes in 2021, taking our on-programme learners up to 1,400. We are proud of our success to date, which includes:

- Being nominated for Apprenticeship Programme of the Year at the Learning Awards.
- £7.5m of our apprenticeship levy spent since the Academy started.

- Line management upskilling using Advance and Accelerate programmes for 710 managers
- Capita in India was recognised as a Great Place to Work® with all 15 people practices individually certified.

Investment in apprenticeships at all levels has continued to grow and is providing ongoing opportunities to build the skills required for our ongoing business success and for serving our clients successfully in support of growth.

Youth employability

We recognise that young people have been disproportionately affected by the pandemic, and that those who are most disadvantaged remain furthest from the workforce, despite the recent bounceback in the jobs market. Those who are most affected include people who are Black, from minority ethnic backgrounds, disabled, from disadvantaged socioeconomic backgrounds and those with caring responsibilities. We have not only increased the number of opportunities available to young people, but also actively sought to attract, engage and employ young people from these groups.

Capita was one of the first organisations to sign up to the UK Government's Kickstart Scheme. From the start of 2021 to date, we have offered 56 Kickstart placements, with the majority being delivered virtually. 60% of our Kickstarters have secured a permanent role in Capita after the programme.

We also aim to increase the number of direct entry apprenticeships available over the next few years

Developing colleagues' potential

We continue to strengthen our approach to performance development, ensuring managers can have meaningful and effective development, career and wellbeing discussions with colleagues to build their skills for the future.

In 2021, we aligned our performance process across most of the Group. For mid-year reviews, we launched our behavioural competencies, aligned with an online capability assessment tool helping individuals assess and acknowledge areas where they can improve their skills and develop their capability

Supporting future leaders

Our Executive MBA programme now has around 90 entrants. It is funded from the apprenticeship levy and helps high-potential colleagues to develop their leadership skills and progress at Capita.

We also launched and developed a mutual mentoring programme which has been rolled out to more than 270 colleagues. The programme has helped to educate and raise the awareness of our leaders about the challenges facing many colleagues, and supports a more inclusive workplace.

To improve diversity at senior levels, we continue to support high-potential women and individuals from under-represented groups through cross-company mentoring opportunities. In 2021, 80 colleagues were enrolled in these programmes. We are delighted to have won the Moving Ahead Mentee of the year award 2021.

Reward

While we focused our pay reviews on the lowest paid employees in 2021, as a real living wage employer, we also worked to redesign our incentive plans to improve consistency across the businesses.

Following cancellation of the bonus in 2020, our management bonus plan for 2021 was split over the two half years (for Executive Committee and below) with both halves achieving payouts for plan participants.

We introduced three new platforms to make life easier – Benefex for benefits, Level for salary advances and savings, and Hartlink for pensions – as well as launching several financial wellbeing products as part of our benefits package.

We also concluded a major remuneration policy review following extensive consultation with investors and our new remuneration policy was approved at the 2021 AGM, see page 98 of the directors' remuneration report for more details.

The need to stand out among the crowd with a compelling EVP has never been more important – particularly across digital platforms.

Resourcing

The effect of the pandemic on employment has been more profound and long-lasting than the initial effects experienced in 2020, such as job retention schemes (furlough) and issues of unemployment.

The impact of Covid-19 has driven, what look to be, permanent changes in people's perspective on employment and their work-life balance, significantly affecting the way employers need to position themselves in the external market. This has been compounded by skills shortages in many sectors of the economy. The need to stand out among the crowd with a compelling EVP has never been more important – particularly across digital platforms.

Hiring demand across Capita in 2021 exceeded pre-pandemic levels and continued to follow the trends seen in the external market, driven by the 'great resignation' phenomenon. In the UK, around 11,700 people started their careers with Capita (60% of all our hiring) and across all our operating geographies, the total number of hires was more than 19,400, with South Africa

and India accounting for 17% and 11% of all hires respectively. Pleasingly, the work that started in 2019 to move away from a dependency on employment agency supply, to a new direct delivery hiring model powered by our own shared services team in Mumbai continued to deliver genuine value to the business. The requirement to use third-party recruitment agencies reduced for a second consecutive year from 13% (2020) to 8% (2021) with a corresponding increase in direct delivery rising from 77.5% (2020) to 89% (2021). Notably roles placed with agencies also continue to be directly sourced by the internal team and, by taking this action, more than £1m in agency fees was saved. This trend is consistent with the overall market but it is one to watch in 2022 as this will affect our ability to retain top talent.

Systems and transformation

In 2021 we supported the transformation of the business, aligning and updating HR systems to represent the new structure being put in place.

We moved all employee benefits to a new benefits platform, expanding the benefits offering and providing a better user experience for employees following the disposal of our employee benefits business. As a result of that disposal, Capita Atlas pensions platform also went live in September 2021 receiving positive feedback from employees across Capita.

We launched an HR chatbot, Herbot, at the beginning of 2021 which helps with common transactions and queries from employees. Given the success experienced with Herbot engagement, we plan to make it available via

Microsoft Teams and expand the types of queries being handled and allow for further automation with Workday.

Our People Hub continues to provide support across HR, with the response rate increased to 99.11% of calls to the hub being answered within 15 seconds. The team have also been vital in administering and implementing the UK's Coronavirus Job Retention Scheme for any affected Capita colleagues, and additionally supporting the redeployment process.

Property portfolio

We continued to transform and simplify our property footprint with further consolidation during 2021 with 55 locations closed globally. Our move to hybrid ways of working has been rolled out successfully, aided by the introduction of our desk booking app which allows our colleagues to book desks at 19 key 'hub and spoke' office locations around the UK. This is also being rolled out in our global portfolio.

We continue to look to invest in our locations as we create more flexible and better equipped space, providing our colleagues with improved technology to complement our ways of working. This allows us to come together both face-to-face and virtually, to collaborate and to meet with clients and stakeholders. To support this we have recycled more than 5,000 items of furniture internally from the sites we have closed.

While our office spaces are still being used for direct delivery work and for colleagues to benefit from collaborative working, we are focused on making sure they will be used carefully to ensure people only travel when they need to. This forms part of Capita's ambitious set of plans to reduce corporate travel emissions by 75% by the end of the decade – and be net zero across all parts of the business by 2035.

As part of our responsible business commitment we have also donated more than 2,300 items of furniture to more than 30 schools. Additionally, a number of office chairs and filing cabinets have been donated to the NHS.



We continue to strengthen our approach to performance development, ensuring managers can have meaningful and effective development, career and wellbeing discussions with colleagues to build their skills for the future.

Engaging with our stakeholders



Section 172 statement

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



Our people

Why they are important

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

What matters to them

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

How we engaged

- People surveys
- Regular all-employee communications
- Employee director participation in Board discussions
- Employee focus groups and network groups
- Workforce engagement on remuneration

Topics of engagement

- Protection of employees during Covid-19
- HR policies during Covid-19
- Future ways of working as a result of Covid-19
- Creating an inclusive workplace

Outcomes and actions

Issue of Capita-specific Covid-19 guidance and regular updates, new and temporary HR policies, increased provision and support for employee wellbeing and flexible working, and simplification of property portfolio and office space.

Risks to stakeholder relationship

- Our ability to recruit due to the global economic bounceback
- Our ability to retain people, impacting the quality of service we can provide
- Our ability to change our culture and practices in line with our responsible business agenda

Key metrics

Employee NPS and people survey completion level

Further details

Our people section on pages 35 to 39
Responsible business section on pages 42 to 49
Directors' remuneration report pages 96 to 119



Clients and customers

Why they are important

They are recipients of Capita's services, and Capita's reputation depends on delighting them.

What matters to them

High-quality service delivery, delivery of transformation projects within agreed timeframes, rapid response to support pandemic planning, and responsible and sustainable business credentials.

How we engaged

- Client meetings and surveys
- Regular meetings with government and annual review with Cabinet Office
- Created a senior client partner programme giving an experienced, single point of contact for key clients and customers

Topics of engagement

- Remote working on client services as a result of Covid-19
- Current service delivery
- Possible future services
- Co-creation of client value propositions

Outcomes and actions

Feedback provided to business units to address any issues raised, client value propositions team supporting divisions with co-creation ideas, and senior client partner programme undertaking client-focused growth sprints to build understanding of client issues and ideas to help address them.

Risks to stakeholder relationship

- Loss of business by not providing the services they want
- Damage to reputation by not delivering to their requirements

Key metrics

Customer NPS, specific feedback on client engagements

Further details

Chief Executive Officer's review on page 12
Client relations section on page 48



Suppliers and partners

Why they are important

They share our values and help us deliver our purpose; maintain high standards in our supply chain, and achieve social, economic and environmental benefits aligned to the Social Value Act.

What matters to them

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

How we engaged

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

Topics of engagement

- Supplier payments
- Sourcing requirements
- Supplier performance
- Supplier Charter

Outcomes and actions

Alignment of payments with agreed terms, supplier feedback on improvements to procurement process, improvement plans and innovation opportunities, and improved adherence to supplier charter.

Risks to stakeholder relationship

- Environmental issues
- Commitment to tackling net zero
- Supply chain resilience

Key metrics

% of supplier payments within agreed terms, supplier relationship management feedback score, SME spend allocation, and supplier diversity profile

Further details

Supplier engagement section on page 48



Investors

Why they are important

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

What matters to them

Reporting on strategic, operational and ESG factors, financial performance, access to the Board and senior management, and regular communication

How we engaged

- Financial and other reports and trading updates
- Regular investor programme with Board and feedback throughout the year
- Discussions around AGM on resolutions and governance topics
- Dedicated investor relations contacts and email inbox
- Regular Board reports from investor relations function and external advisers

Topics of engagement

- Transformation progress
- Balance sheet and liquidity
- Ongoing impact of Covid-19
- Governance

Outcomes and actions

More frequent market communication; and increased level of engagement with largest shareholders.

Risks to stakeholder relationship

- Changes to outsourcing market, eg government policy
- Delivery on strategic and financial objectives
- Key aspects of governance, eg remuneration

Key metrics

Revenue, profit, free cash flow, net debt and gearing, and AGM voting

Further details

Shareholder engagement section on page 73
Principal decisions table on page 73



Society

Why they are important

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

What matters to them

Social mobility, youth skills and jobs; digital inclusion, diversity and inclusion, climate change, business ethics and accreditations and benchmarking

How we engaged

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

Topics of engagement

- Youth employment
- Tackling digital inclusion
- Workplace inequalities
- Climate change

Outcomes and actions

Publication of net zero plan, real living wage accreditation, youth and employability programme; and commitments to tackle racism and enhance ethnic diversity

Risks to stakeholder relationship

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

Key metrics

Net zero by 2035, community investment, workforce diversity and ethnicity data, including pay gaps

Further details

Our people section on pages 35 to 39
Responsible business section on pages 42 to 49

Focusing on what matters

Our five-year responsible business strategy ensures we remain focused on addressing the issues where we can have the biggest impact through our own operations and through the products and services we provide to our clients.

In 2021, we continued to focus our responsible business priorities on the issues that mattered most – our colleagues' wellbeing, creating an inclusive workplace, tackling economic inequalities, fighting climate change, and ensuring we continue to operate responsibly throughout our business.

The fallout from the pandemic has led to a shift in societal expectations and certain issues have been particularly prominent. Even as the pandemic slowed, people struggled to maintain their mental wellbeing and had to adapt to new ways of working in the longer term. Recognising this, we created a new wellbeing framework taking into account that remote and hybrid working has become the norm and colleagues needed support and guidance to adapt. Regular communication has been crucial and we created new channels to increase accessibility and visibility of our communication including a new colleague website to access regularly updated Covid-19 information and set up new networks such as our Working Together Apart community so colleagues can stay connected.

Inequalities in society worsened for many groups and we continued to focus on building a diverse and inclusive workplace. We want to create an environment where diversity is valued and respected and all colleagues can bring their whole selves to work. During 2021, we shared our ethnicity pay gap data publicly for the first time. We rolled out several education and awareness schemes around race and ethnicity for colleagues, including a mutual mentoring programme designed to support participants to better understand race-related challenges, and thousands of colleagues successfully completed our new anti-racism training. We stepped up our commitment to support colleagues with a disability and achieved level 2 of the Disability Confident scheme (employer) in addition to working with external agencies to ensure that career opportunities with Capita are made more visible and accessible. We made progress on gender diversity at the most senior levels and at the date of this report four of our nine Executive Committee members are women, including two of our three divisional CEOs and our newly

During 2021, we set out our plans to reach net zero by 2035.

appointed Chief General Counsel, and we will prioritise gender balance issues across mid and senior levels for 2022.

We continued to support young people with employability and skills through our charity partnerships, Kickstart placements and two early careers apprenticeship programmes and launched a pilot project to provide real work placement opportunities to prison leavers to help bring positive changes to their lives.

COP26 highlighted to the world how critical the need is for global climate action and we are determined to play our part. During 2021 we set out our plans to reach net zero by 2035 after having our company-wide, short-term 1.5°C carbon reduction targets verified by the Science Based Target initiative (SBTi). Our three-phased approach aims to reach operational net zero by 2025, operational and business travel net zero by 2030, and full net zero by 2035 – including our supply chain.

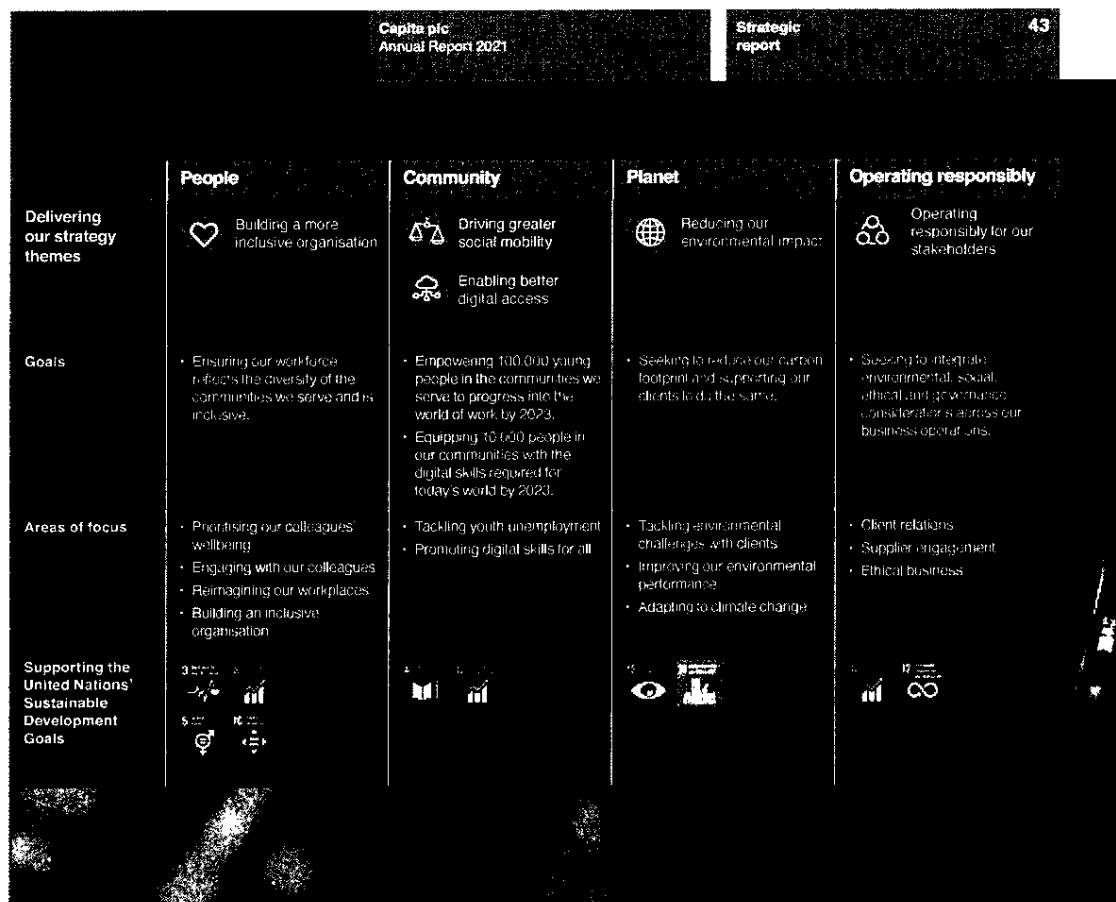
Engaging with our colleagues

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

Given the high levels of uncertainty that emerged in 2020, it has never been more important to motivate and engage our colleagues – whether through campaigns such as #justsaythanks and our Working Apart but Together pledge through visible leadership, or by involving our people in shaping our future ways of working. The Working Together Apart Yammer Community has more than 8,300 members. We also ran our annual people survey which was completed by more than 30,000 colleagues globally. For more information on the survey see page 35.

Building an inclusive workplace

At Capita, we are committed to creating an environment where diversity is valued, respected and included, and where we benefit from all colleagues sharing their different perspectives and bringing their whole selves to work. In this way, each person can do their part to create better outcomes. We are committed to this goal not just because it helps us deliver



better for our clients and end-users, but because we believe it's the right thing to do

During 2021, we continued to build on our previous work to create a more inclusive workplace for all our people. This included:

- Continuing to grow and support our seven global employee network groups
- Being a real living wage employer
- Introducing an option for all employees to share their pronouns on Workday, Outlook and Teams in order to support our colleagues of different gender identities.
- Launching a new 'sensitively curious' programme, where employees can ask sensitive questions in a safe space and have them answered by a colleague with the relevant lived experience.
- Delivering Capita's first Group entry level apprenticeship programme, supported by a 'no CV' and 'motivation and behaviours' hiring approach to remove bias and improve diversity. Based on its success, we are now expanding this approach to additional roles.
- Running an ongoing lunch and learn series to build awareness and understanding of our similarities and differences. In 2021 this included topics such as: gender pronouns, religious celebrations, being of mixed-heritage, neurodiversity, and many more. This is in addition to our ongoing celebration of awareness events, including Pride, International Women's Day, Black History Month, Black Lives Matter, Mental Health Awareness week and International Day of People with Disabilities.

- Introducing a new survey system to allow for analysis by demographics. We are now able to work with each of our employee network groups on specific results relevant to their area of focus
- Updating and publicly sharing Capita's diversity and inclusion policy

We also delivered a programme of socially responsible resourcing that has:

- Created a market-leading real living wage Kickstart programme – 56 young people benefited in 2021.
- Developed a suite of teaching materials (videos and lesson plans) to support disadvantaged students to be able to access employment for Teach First.
- Launched project compass to provide real work placement opportunities to prison leavers – with a pilot in 2021 run in association with Project Remake.
- Developed the first ever work experience programme for pupils permanently excluded from school in collaboration with Making The Leap.

Our focus on racial diversity

In 2021, we continued our strong focus on supporting our racially diverse colleagues, and particularly our Black colleagues. This is in line with the three commitments we developed in 2020, which are to:

1. Ensure an inclusive culture with zero tolerance of racism.
2. Have a sustainable representation of ethnic diversity, which reflects the communities we operate in, at all levels of the workplace

Employee gender diversity at 31 December 2021

Board



Executive Committee



Group senior managers



All employees



3. Educate about and raise awareness of racism in the workplace, through the power of our networks.

Key activities in 2021 included:

- Introducing a zero-tolerance procedure and supporting policy related to anti-racism and anti-discrimination
- More than 31,300 colleagues completed our tailored, in-house anti-racism training.
- More than 250 people participated in our bespoke mutual mentoring programme, connecting senior leaders with colleagues from a racially diverse background where they follow a 10-month programme to develop better understanding of race-related challenges
- More than 100 colleagues expanded their horizons by participating in one of three external mentoring programmes supporting female and minority ethnic colleagues.
- Selecting candidates to take part in the pilot of RISE, our new inclusive leadership programme aimed at unblocking leadership opportunities for racially diverse colleagues in the UK.
- Signing up to the 10,000 Black Interns programme, with our first cohort joining us in 2022.
- Sponsoring Black Tech Fest.
- Sharing our ethnicity pay gap data for the first time
- Continuing to work with our Black Lives Matter advisory group, to deliver a programme of action to create a more equitable and inclusive workplace for our Black employees.

c.£0.9m

Supporting our colleagues with a disability

In 2021, we were proud to achieve Disability Confident Employer status for the whole Capita Group. In 2022, we aim to raise this status to being a Disability Confident Leader, by increasing our focus on how we support colleagues with a disability. Examples of work in 2021 and early 2022, included

- Working with JobCentre Plus, Vercida and Evenbreak to ensure that career opportunities with Capita are visible and accessible.
- Implementing a reasonable adjustment passport with a guidance document to simplify the process for disabled colleagues to request, secure and maintain adjustments.
- Reviewing key policies and procedures to provide better support and clarity for individuals with a disability.
- Working with our Capita ability employee network (CAN) to analyse our people survey variances based on whether colleagues identify as having a disability

Turning the dial on gender

Throughout 2021, we continued to focus on how we can address our gender pay gap and, particularly, increase the representation of women in senior roles. This is a challenging area for Capita, and we expect it will continue to be a priority area for us in 2022 and beyond. We are particularly pleased that four of our nine Executive Committee members are women at the date of this report, including two of our three divisional CEOs and our newly appointed Chief General Counsel, but we know we have more work to do across our leadership levels

Examples of activities delivered in 2021 and early 2022 include

- Extending our requirement for women on senior shortlists
- Accelerating female development through our mentoring and high-potential scheme, including focused external mentoring programmes.
- Increasing our options for flexible work in order to make more leadership roles accessible to women with caring responsibilities
- Driving greater inclusivity throughout the hiring process by introducing a 'licence to hire' inclusive hiring training programme for all recruiting managers, as well as using a digital behaviours-based assessment that removes bias from the early stages of candidate screening.

- Mapping our career path framework across the full organisation in order to identify and share career path opportunities for our people, and also identify gender ratios at comparable job levels across the organisation
- Working with our gender employee network group to analyse 2021 survey results and develop a targeted action plan for 2022.

Tackling economic inequalities

The Covid-19 pandemic highlighted the importance of providing continuing support to our local communities. Research has shown that it is the already disadvantaged who have borne the brunt of the consequences of the crisis, from significant educational disruption through to the highest levels of job insecurity, furlough and unemployment. Throughout 2021, we maintained our focus on equipping young people with the skills they need for the workplace and enhancing social mobility and we invested more than £910,000 in charitable causes, particularly in our local communities, through charitable donations, volunteering, gifts-in-kind and employee fundraising.

We continued to support our corporate charity partners, Teach First and Young Enterprise, as they adapted their programmes to provide online support to young people improving their employability skills. In support of Young Enterprise, we sponsored the Young Money

Challenge which challenged young people aged 4 to 19, to think about responsible consumerism and how their spending choices can impact the planet. We also sponsored the UK Social Mobility Awards for the fifth year running

Enhancing our response to the issue of youth skills and employment, our youth employability programme continued apace, working with The Youth Group charity to support young people in education and as they enter the workplace

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

Since October 2020 we have worked closely with the UK Department for Work and Pensions (DWP) and The Youth Group to deliver a highly commended Kickstart programme for Capita. In 2021, we offered 56 placements with most being delivered virtually. A diverse group of young people started their placements and we are pleased that many have been retained by the business or gone into full time education

Climate change is one of the defining issues of our time and it has never been more important for businesses to commit to significantly reducing emissions.

In addition to Kickstart, 2021 saw the launch of two early careers apprenticeship programmes. The first welcomed 30 apprentices studying towards a degree apprenticeship in Digital and Technology Solutions offering rotations across our business units including placements within Cloud, Artificial Intelligence, Data and People & Transformation.

The second was a pilot programme within our Pensions Solutions business supporting 15 individuals into the business as Apprentice Pensions Administrators working with our strategic partner Corndel to deliver a business fundamentals apprenticeship specifically tailored for those new to the professional working world.

Digital inclusion

We worked in 2021 with Good Things Foundation, the digital inclusion charity, to inspire senior leaders in England to set ambitious strategies to tackle digital inequality. The Covid-19 pandemic has highlighted the need for greater digital inclusion across the country – to ensure people from all backgrounds, including the disadvantaged, have both access to devices and the skills necessary to use them.

Our partnership engaged with several combined authorities in England to help them develop their approaches to digital inclusion. It led to the creation of a roadmap providing practical ideas for digital inclusion strategies aimed at tackling digital inequality. We also grant-funded a number of community partners who helped more than 570 individuals to learn digital skills as well as input into the roadmap.

Research shows 20% of adults over 65 in the UK are digitally excluded, and, while this is an improvement on 2020's 29%, it still left many in loneliness and lacking support networks at a time when so much of people's lives has had to be lived online. Capita colleagues volunteered their time during the year to take part in Business in the Community's ClickSilver Connections scheme which provides mentors to help older and vulnerable people to connect with friends and family, source essential items, find information and gain digital confidence.

Fighting climate change and improving biodiversity

As was clear during the COP26 conference, climate change is one of the defining issues of our time and it has never been more important for businesses to commit to significantly reducing emissions and avoid the worst consequences of global warming.

During 2021, having achieved verification by the SBTi of our company-wide short-term 1.5°C carbon reduction targets, we set out our plans to reach net zero carbon by 2035. This is one of the top priorities for Capita's Board and we will be linking net zero commitments to executive pay from 2022. We are pleased with our progress to date on this issue and by our achievement of a score of A- in our CDP disclosure for environmental performance.

With 52,000 colleagues across the globe, Capita is acutely aware of its own internal responsibilities when it comes to taking a lead on issues of sustainability. We launched our 'do one thing' campaign in the run-up to COP26 to

better inform and engage colleagues on the ways they can support achieving net zero by changing their own behaviour.

We also continue to focus on delivering solutions to support sustainability through our work with clients. Through our Smart Data Communications Company (DCC), we continue to drive a low-carbon economy by building and implementing a new secure data network to connect smart meters to the systems of energy suppliers and network operators, which is projected to save 45m tonnes of carbon by 2034 in Britain alone. By the end of 2021, we had connected over 17 million smart meters to our network, saving around 500,000 tonnes CO₂ equivalent (tCO₂e) per annum, paving the way for better use of energy. At Capita, we also launched the expanded ULEZ with TfL, making the zone 18 times larger than previously – a huge step forward for clean air in the UK capital, and benefiting far more people in the city by reducing congestion and air pollution. 92% of vehicles entering the capital are now complying with the minimum emission standards.

COP26 also highlighted the importance of protecting and enhancing nature, as well as the climate, biodiversity being intrinsically linked to reducing carbon emissions. Capita has embarked on several projects to protect nature in the UK and Brazilian Amazon. Smart DCC, which has been carbon neutral since 2020, offsets all emissions it cannot reduce using a Carbon Trust certified scheme. For each tCO₂e offset, one tree is planted in the UK and an additional tCO₂e is offset to guarantee the emission reductions through the Reduced

Emissions from Deforestation and Degradation project within the Verified Carbon Standard framework that is located in the Brazilian Amazon. In the UK, the trees are typically planted across school grounds, parks, farms, woodlands and other biodiversity sites, providing wildlife habitats and often bringing educational and community benefits.

As part of our contract with the DWP to deliver the JETS programme in Scotland, which launched at the start of 2021, we have supported over 4,000 job seekers, who had become unemployed due to the Covid-19 pandemic, into new roles in sectors such as hospitality, retail, care and construction and planted a tree for every person we placed in sustainable employment. The trees will be planted through Revere, an innovative nature restoration finance organisation, across the Cairngorms, Loch Lomond and Trossachs national parks.

In February 2021, we set verified company-wide science-based 1.5°C carbon reduction targets which are to reduce absolute Scope 1, 2 and 3 (business travel) greenhouse gas (GHG) emissions by 46% by 2030 from a 2019 baseline and to ensure that 50% of our

suppliers by spend, covering purchased goods and services and capital goods, will have science-based targets by 2025. Progress against our targets will be monitored annually.

Net zero plan

Underpinned by our science-based targets, 2021 saw us set out an ambitious and far-reaching roadmap to take us to net zero by 2035. These are challenging targets which we are committed to at every level of our organisation. Our three-phased approach aims to reach operational net zero by 2025, operational and business travel net zero by 2030, and full net zero by 2035 – including our supply chain. We will submit our 2035 net zero target to SBTi for verification in May 2022, to ensure our target methodology is in line with the highest standards.

Annual GHG emissions

Following the onset of the pandemic, we significantly reduced business travel and, even as lockdowns have eased, travel bounceback has been mitigated by our new, virtual first ways of working. Our electricity emissions have also reduced, both through efficiency and reduction in property portfolio. However, due to the pandemic, we have had to increase fresh air

Annual GHG emissions

	2021	2020	2019
Scope 1 (tCO ₂ e)	15,021*	18,980*	18,961*
Scope 2 (tCO ₂ e) (location-based)	24,088*	28,359*	41,894*
Scope 2 (tCO ₂ e) (market-based)	10,328*	23,526*	27,651*
Scope 3 (tCO ₂ e)	4,500*	7,881*	30,823*
Total gross tonnes of CO ₂ e (location-based)	43,609	55,219	91,677
Total gross tonnes of CO ₂ e (market-based)	29,848	50,366	77,434
100% renewable power progress (as % of total power)	80%	68%	63%
Transition to low emission vehicles:			
Diesel	62%	77%	99%
Hybrid electric	32%	19%	1%
Pure electric	5%	4%	0%
Average CO ₂ e	96g/km	99g/km	109g/km
Fleet vehicle energy source			

Table of progress against targets

Progress against SBTi verified 1.5°C science-based GHG reduction targets	2021 target	2021 actual	2030 target
Scope 1 (tCO ₂ e)	17,368	15,021	10,201
Scope 2 (tCO ₂ e) (market-based)	25,328	10,328	14,876
Scope 3 (business travel)	28,161	4,500	16,540
Scope 3% suppliers by spend with science-based targets verified by SBTi	29%	39%	85%
Other metrics	2021	2020	2019
100% renewable power progress (as % of total power)	80%	68%	63%
Transition to low emission vehicles:			
Diesel	62%	77%	99%
Hybrid electric	32%	19%	1%
Pure electric	5%	4%	0%
Average CO ₂ e	96g/km	99g/km	109g/km
Fleet vehicle energy source			

Notes:

Total gross tonnes of CO₂e/km revenue (location-based) in 2021 and 2020 has been calculated using statutory revenue. In 2019 adjusted revenue has been used.

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

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

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

Milestone 1: Operational net zero	Milestone 2: Operational + travel net zero	Milestone 3: Full net zero
2024 Operational (Scope 1 & 2)	2027 Operational (Scope 1 & 2) + business travel emissions	2035 Operational (Scope 1 & 2) + business travel + supply chain emissions

circulation in our buildings, many of which have remained open to service our client obligations throughout this period. This has significantly increased the amount of heat required to maintain a comfortable temperature, hence our Scope 1 emissions have not decreased in line with the other Scopes.

In 2021, we also published our second disclosure statement against the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosure (TCFD) (see page 50).

Following our commitment to be net zero by 2035, the challenges that will be most difficult to address are decarbonisation of our heating systems and collecting, monitoring and managing the reduction of emissions from our nearly 21,000 suppliers. We are already making progress on the switch to renewable power, transition to low emission vehicles, and reducing business travel emissions (where we are ahead of target).

Methodology

We measure our environmental performance by reporting our carbon footprint annually in terms of tonnes CO₂ equivalent (tCO₂e), an absolute measure and tonnes CO₂ equivalent per £1m revenue and per person (intensity measures). 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 with Part 7 of The Companies Act 2006 (Strategic Report and Director's Report) Regulations 2013 which requires certain disclosures in respect of GHG emissions (the Strategic Report GHG Emission disclosures). We engaged an external agency, Corporate Citizenship, to provide independent limited assurance over the selected GHG emissions data (highlighted in the table on page 47 with a *) using the assurance standards ISAE 3000 and 3410. Corporate Citizenship has issued an unqualified opinion over the selected data, its full assurance statement is available at www.capita.com/responsible-business/resources-and-reports.

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

Operating responsibly

We have maintained our focus on operating responsibly throughout our business with the aim of helping our clients to respond to the Covid-19 pandemic and deal with wider societal challenges.

Client relations

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

In 2021 we received feedback from more than 950 individuals across 663 clients. This enabled us to achieve a 56% response rate (up from 53% in 2020) and the results give Capita a cNPS score of +29 for 2021.

Although the 2021 cNPS score is three points lower than 2020, the number of detractors has decreased by 19 to 126. The overall cNPS score decrease was due to a larger volume of passive responses (405 in 2020 compared with 431 in 2021). +29 is still a large improvement on our 2018 and 2019 scores and it is a 13-point positive swing since we began reporting.

Supplier engagement

Around 92% of our total supply chain are small and medium-sized enterprises (SMEs), including sole traders and micro-businesses. We continued to recognise the impact that the pandemic has had on many of these suppliers

with varying demand for products and services often severely affecting their cash flow. Consequently, we have paid them in line with our payment terms, which are stricter than the UK Government's Prompt Payment Code. In 2021, we paid 95% of our sole traders, micro-organisations and SME suppliers within our agreed payment terms.

We spent more than £2bn in 2021 with nearly 21,000 direct suppliers in 82 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. We want to work with suppliers who share our values and support us in delivering our purpose.

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

Our supplier charter, which is available on our website, remains at the core of strengthening our commitments to support more SMEs, increasing the diversity of our supply chain, promoting supply chain resilience and encouraging ambitious carbon reduction targets. All new and renewing suppliers are expected to comply with this charter.

We are signatories to the Prompt Payment Code, reporting our payment practices and performance to the government every six months. 98% of our suppliers were paid within 60 days or less.

Employees on the Board

Listening to and involving our colleagues is key to living our purpose and values at Capita, as well as fostering an engaged and inclusive workplace. Our two employee non-executive directors will complete their term in the summer of 2022 and in 2021 a process to recruit opened

Employee voices are more important than ever and we want to ensure that we bring even more diverse and innovative thinking to our senior leadership this time at executive level. We intend to set up a new leadership council that will brainstorm solutions and challenge our strategies and organisational issues, providing advice and recommendations to the Executive Committee from an employee perspective. Eight employees will join the leadership council in 2022 and will be paired with an Executive Committee member (on a six-month rotating basis) to receive one-to-one mentoring, and have a chance to input into the strategy of the business.

Targeting bribery and corruption

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

Upholding human rights

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

Protecting privacy

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

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

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: fighting climate change and improving biodiversity pages 46 to 47
Employees	• Code of conduct (E) • Health, safety and environmental policy (E) • Diversity and inclusion policy (E) • Employee handbook (I)	• Our people section pages 35 to 39 • Responsible business: building an inclusive workplace pages 43 to 45 • Diversity data page 44
Human rights	• Human rights policy (E) • Supplier charter (E) • Modern slavery statement (E) • Information and cyber security policy (E) • Privacy policy (E) • Employment screening policy (I) • Procurement policy (E)	• Responsible business: operating responsibly – supplier engagement page 48 • Responsible business: operating responsibly – upholding human rights page 49
Social matters	• Community and charity policy (E) • Community and charity standard (I) • Volunteering FAQ (I) • Matched funding FAQ (I) • Fundraising FAQ (I)	• Responsible business: digital inclusion page 46 • Responsible business: youth employability page 37
Anti-corruption and anti-bribery	• Code of Conduct: Anti-bribery and corruption policy (E) • Financial crime policy (E)	• Responsible business: targeting bribery and corruption page 49
Due diligence and outcome	• Risk management framework • Annual internal audit plan • Risk register • Audit and Risk Committee report	• Risk management framework pages 53 to 55 • Audit and Risk Committee report pages 86 to 95
Business model		• Business model pages 6 and 7
Non-financial KPIs		• Non-financial KPIs page 1 • Responsible business

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

Task Force on Climate-related Financial Disclosures

TCFD statement of compliance

Capita has made disclosures consistent with the TCFD recommendations in accordance with the FCA Policy Statement 20/17 and Listing rule LR 9.8.6R(8). Core information to respond to each of them is reported on the following pages. Additional detail can be found on our website. Below is a summary of the TCFD recommendations not fully disclosed against in this report and any plans to achieve full disclosure in the future.

Strategy – physical risk impact: based on our initial climate risk assessments, in the near term, transition risks were deemed to be more material to the business than physical risks. As such, in 2021 we prioritised analysis of transition risks and in 2022 we will be undertaking a review to quantitatively identify and assess physical risks that are relevant to our business and global operations.

Strategy – climate scenario analysis: in 2021, Capita conducted a qualitative assessment to rank and prioritise identified transition risks and opportunities. In 2022, we will continue climate scenario analysis to quantify the potential financial impact of our priority risks and opportunities. This will inform Capita's understanding of the resilience of its business strategy under different timeframes and forward-looking scenarios, including a well-below 2°C scenario.

Metrics – climate metrics & targets: Following the publication of cross-industry climate-related metrics and target categories from the TCFD in 2021, and through the development of our climate risk assessment we intend to monitor and report additional metrics and targets. In the near term we are also looking to develop categorisation of our services that are low carbon-aligned, in order to track revenue coming from these climate-related opportunities.

TCFD Disclosure

Planned actions
in 2022

Governance

Board responsibility for climate-related risks and opportunities:

Capita's Board is responsible for promoting long-term sustainable success, generating value for shareholders and contributing to wider society. This includes its role in ensuring climate-related issues are appropriately considered when setting business strategy, deploying capital, agreeing remuneration metrics, and setting corporate policy. To achieve these responsibilities, the Board is assisted by three committees:

- The Audit and Risk Committee (ARC) assists in managing risk systems, including managing climate change as a principal risk.
- The Remuneration Committee is responsible for setting policies for executive pay and incentives and approving changes to existing remuneration plans. In 2021, the committee announced that executive remuneration will become linked to the achievement of Capita's climate targets during 2022.
- The Executive Committee responsible business committee has senior level oversight of climate-related issues and is chaired by our CEO.

In 2021, the Board signed off Capita's net zero 2035 target and the escalation of climate change as a principal risk as per the recommendations of Capita's executive risk committee.

Management's responsibility for climate-related risks and opportunities:

Climate-related responsibilities are assigned to specific management-level positions that coordinate activity across and within each business division:

- **Capita's Chief Executive Officer:** overall responsibility for climate-related risks & opportunities and for ensuring that climate issues are appropriately considered at Board level.
- **Divisional Heads of Responsible Business:** deliver on Capita's sustainability initiatives and commitments, including those relating to climate change.
- **Divisional Heads of Risk:** adapt Group-wide risk policies and identify climate-related risks to align with their business divisions and operating context, which feedback to Group level.
- **Group Head of Environment:** ownership of the climate change principal risk and managing development of Capita's net zero strategy. Works closely with the Group Risk and Compliance functions, particularly around the climate change principal risk.

Strategy

In 2021, Capita conducted a climate scenario analysis to identify and assess climate risks and opportunities over forward-looking climate scenarios. Climate risks and opportunities are assessed across short-term (0 to 3 years), medium-term (4 to 6 years), and long-term (10+ years) time horizons to reflect the longer-term impacts from climate change. Capita has used the hypothetical climate scenarios developed by Network for Greening the Financial System (NGFS). These include three scenario categories: orderly transition (for orderly transition action), disorderly transition (for when action is late and sudden), and 'not house world' (for limited action resulting in significant warming). The climate scenario analysis is expected to be completed in 2022 and consists of two key phases:

- Integrate quantitative climate scenario analysis to assess the financial impacts of key climate risks & opportunities.

TCFD Disclosure

Planned actions in 2022

TCFD Disclosure

Planned actions in 2022

Strategy continued

Phase 1 (completed in 2021): qualitative risk & opportunity assessment

- Gap analysis** against TCFD recommendations to identify actions to achieve full disclosure, and a peer review of sector climate-related disclosures
- Internal stakeholder engagement** to examine potential operational impacts from climate change. Teams engaged included Procurement, Business Growth & Continuity, Risk Management, Responsible Business and Financial planning. Each team has identified relevant climate related risks and opportunities for their function
- Qualitative assessment of risks and opportunities** across relevant geographies, time horizons and climate scenarios based on scores for vulnerability, likelihood and magnitude assessment criteria (results can be found on Capita's website). This enables the prioritisation of climate impacts for further analysis in phase 2

Phase 2 (to be initiated in 2022): quantify financial impact from the most material climate risks and opportunities and integrate into financial planning and business strategy

- Quantitative climate scenario analysis** will seek to calculate the climate adjusted financial value associated with some of the most material risks and opportunities. The results will be shared with risk management and financial planning teams to further integrate climate considerations into Capita's business strategy
- Physical risk assessment** will be undertaken for critical sites across Capita's portfolio. This includes a forward-looking assessment of relative exposure to water stress, heat stress, sea level rise, wildfires, floods and hurricanes & typhoons over a high global warming scenario (IPCC RCP 8.5 GHG emissions scenario). The results will inform property portfolio management decisions

Priority transition risks and opportunities

Although the climate scenario analysis will continue in 2022, the three climate transition impacts currently of highest strategic importance to the business are identified below:

Transition category	Potential impacts	Capita response
Markets: shifting customer demand for low carbon aligned goods, services and suppliers	New, growing markets related to Capita's low-carbon related goods and services	Products & services: Capita must build its strategic focus on growing of its service offering of consulting and technical low carbon solutions across both Public Service and Experience divisions
	Increasingly stringent carbon performance requirements from customers	Resilience: Capita's net zero target and transition plan will drive decarbonisation across our value chain

Strategy continued

Technology: technological limitations, costs, and complexities associated with phasing out fossil fuels from Capita's operations

Business cost and feasibility of procuring and generating low-carbon energy through new energy sources for a geographically diverse asset portfolio.

Energy source: Capita already procures renewable electricity at all controlled UK sites with intent to extend globally and at landlord-controlled sites where possible. Further opportunity to, undertake assessment of specific options for heating and onsite renewables across sites.

Reputational: risk of failing to deliver against science-based net zero target, due to supply chain emissions

Partial dependency on supplier decarbonisation and target setting. Could result in higher exposure to climate-related penalties and taxes.

Resilience: Capita encourages suppliers to measure and set targets for their emissions, as a result of enhanced due diligence on carbon performance in supplier selection criteria.

Climate-related opportunities:

Capita provides solutions that enable GHG emission reductions and sees this as an important growth opportunity as clients seek ways to decarbonise. In 2021, we supported the UK Government to deliver London's ULEZ helping minimise transport emissions. Additionally, our Smart DCC business enables data-driven analysis of energy consumption, predicted to save 45m tonnes of carbon by 2034 in the UK alone. We provide consulting services to support clients decarbonising their buildings, and in 2021 we worked with over 50 councils to provide resilience services to under pressure planning teams, to increase delivery of major developments such as large windfarm schemes and low-energy housing. Additionally, Capita's climate transition plan to achieve net zero offers numerous opportunities to streamline business-wide efficiencies, reduce emissions and operating costs, and support our customers' net zero commitments as a supplier.

Climate transition plan:

Capita is committed to achieving net zero by 2035, a target we will be validating with the SBTi during 2022. Further details on our climate transition plan can be found on our climate change hub webpage. Key climate initiatives underway to reduce our emissions footprint include:

- Streamlining Capita's global property portfolio to reduce building-related emissions.
- Maintaining our energy efficiency programme, which identifies energy anomalies and enables data-driven efficiency improvements across Capita's property portfolio.
- Procuring renewable electricity across all Capita's controlled UK sites, with intent to extend coverage to 100% of tenanted buildings occupied where possible.
- Transitioning vehicles to EV or hybrid, with 33% of fleet transitioned to date.
- Promoting hybrid and virtual working to reduce commuting and business travel emissions.
- Increasing the proportion of supply chain spend on suppliers with science-based GHG reduction targets.

TCFD Disclosure

Risk management

Climate change is fully integrated into our risk management system and in early 2021, was escalated to a Group-wide principal risk. As a principal risk, climate change is given the highest level of governance to ensure a quarterly review by the ARC and Board, and ownership is assigned to the Group Head of Environment.

Risk identification & assessment process:

Since establishing climate change as a principal risk, Capita held several internal interviews to understand how risks and opportunities manifest for Capita's different divisions and functions. A longlist of risks and opportunities was developed and cross-referenced against a peer review and TCFD resources, and was qualitatively analysed in 2021. In 2022, this longlist will be quantitatively analysed, and subsequently decisions will be made around whether to accept, transfer, mitigate or control these more granular climate-related risks, using Capita's Group-wide risk management framework.

In Capita's Group-wide risk assessment process, ongoing and emerging risks are continually monitored across emerging legal, health, safety and environmental regulations (such as the UK Government's PPNI 05/21), using watermarks and an online compliance tool. Identified risks are added to Capita's risk register and escalated to the Executive Committee if needed. Each identified risk is evaluated against six impact categories: Finance, people, legal & regulatory, technology, customer, and strategy. Whichever impact has the highest score will determine the risk's overall risk score, which is then pitched against four levels of likelihood.

Risk management process:

Capita's risk evaluations are governed by three key layers of risk committee: ARC, executive risk committee, and divisional risk committee. Once Group-wide risks are added to Capita's risk register, the register is devolved to Public Service and Experience to identify, evaluate and clarify climate-related risks based on their specific function and operating context. Resources are assigned to implement risk management plans by the executive risk committee. Divisional assessments are fed back to the Group level.

As with all Group-wide risks, the climate change principal risk scoring process identifies key controls and mitigating actions to reduce risk from inherent to residual level. Further risk reduction actions are taken to bring residual risk down to the risk appetite level set by the Board. Current climate risk controls include adopting a science-based emissions reduction target, monitoring supply chain emissions, climate factors integrated into due diligence when onboarding new suppliers, business continuity planning to ensure climate resilience, a travel policy to reduce inter-office travel, and ongoing monitoring of health, safety and environment legislation. These controls and the effectiveness are reviewed regularly.

Planned actions in 2022

- Commence a deep dive into divisional risk scorecards
- Develop process of understanding physical and transition risks
- Outputs will support risk prioritisation and assessment process

TCFD Disclosure

Metrics and targets

Climate-related metrics:

The business is committed to developing cross-industry climate-related metrics in accordance with the 2021 TCFD implementation guidance update.

- **Scopes 1-3 emissions:** we measure and disclose our operational (Scope 1 and 2) and business travel (Scope 3) GHG emissions annually within this annual report (page 78) and our full value chain via GPP's climate questionnaire, in accordance with the GHG Protocol's methodology.
- **Exposure to climate-related risks:** In 2022, it is expected that the results of the climate scenario analysis will inform the amount of potential financial exposure to material climate impacts.
- **Revenue from climate related opportunities:** In 2022, Capita will initiate the categorisation of services that directly/indirectly enable GHG emission reductions through customer implementation. Once defined, systems will be adapted to track low carbon-related revenues.
- **Capital deployment on management of climate risks and opportunities:** Capita has established a climate transition plan to achieve net zero, and the costs of achieving this target in alignment with the SBTi are being assessed in 2022.
- **Proportion of executive remuneration assigned to climate considerations:** Capita has committed to incorporate performance against its climate targets in remuneration policy in 2022.

Other climate-related indicators monitored:

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

Climate-related targets:

Capita has set a range of ambitious targets to reduce its impact on global warming, and its exposure to climate-related risks. In 2020, Capita set and validated its near-term SBT with SBTi. This commits Capita to reduce absolute Scope 1, 2 and 3 (business travel) emissions by 46% by 2030 from a 2019 base year, and for 50% of suppliers by spend across purchased goods and services and capital goods to have set SBTs by 2025 (if SBT-aligned). Capita also announced its net zero by 2035 target ambition in 2021 and has submitted long-term targets to the SBTi for validation. Following the release of the SBTi's net zero standard last year, this long-term SBT will require an ambitious 90% absolute reduction of Scope 1, 2 and 3 emissions from 2019, before counterbalancing residual emissions to achieve net zero.

- Secure SBTi validation of our net zero long-term SBT
- Engage more suppliers to achieve our supplier engagement target, as well as reduce operational (Scope 1 & 2) emissions
- Introduce climate-related executive remuneration metric

Risk management and internal control

Managing risks and opportunities

We recognise that effective internal control and risk management are essential to our long-term success and are fundamental in helping us achieve our strategic objectives and protecting shareholder value. Risk management is a core component of our business processes, which have been enhanced through our newly established organisational structures.

Managing risks through transformation

During the year, Capita completed the final Phase of its transformation by creating two core divisions, Public Service and Experience, and establishing a division responsible for managing the portfolio of businesses being held for disposal. The new operating structure became effective in August 2021. Throughout the period of organisational change, the company maintained its focus on risk management.

Before the organisational structure change, fully operational risk and assurance committees were in place in each of the former divisions, providing oversight and governance over risk management. In the current organisational structure, risk and assurance committees have been established at the divisional and functional levels. Further work will take place during 2022 to embed risk and assurance committees below the newly constituted divisions, both at a market vertical and business unit level.

Internal control and risk management journey

We continuously seek opportunities to enhance our risk management and internal control environment and to introduce greater rigour and standardisation in processes and controls as appropriate. During the year, Capita continued to progress many initiatives, including the key control questionnaire (KCQ) and finance

minimum control standards roll out. An internal control improvement programme was also initiated to take a systematic approach to enhancing internal key financial and non-financial controls with a view to preparing for potential UK-SOX attestation requirements under the proposals being developed by the Department for Business, Energy & Industrial Strategy. The Board recognises that Capita's control effectiveness remains overly dependent on management intervention and there is a lack of control documentation allowing for inconsistency in process across most of the Group. The Board and the Audit and Risk Committee (the Committee) do not underestimate the work needed to ensure that robust internal control and risk assessment frameworks are embedded fully. Work will continue to be undertaken during 2022 to enhance and improve the standardisation and overall effectiveness of the Group's internal control framework.

Key control questionnaire

A KCQ process was introduced in 2020 and completed again for 2021. The KCQ is used to assess the effectiveness of key entity and functional level controls by asking business leaders to attest to control compliance within their functional, divisional or business unit areas. The results from the KCQ process serve as a baseline for continuous improvement and identify a series of improvement actions to be implemented in subsequent periods.

Minimum control standards

In 2021, Group Finance enhanced the self-assessment process across the business and key functional areas to obtain assurance over the operation of key financial controls. It is intended that this process will continue to operate in 2022, in parallel with new and existing control initiatives.

An evaluation of financial controls is undertaken by the senior finance team to identify areas where these might only be partially effective or be inefficient in achievement of their purpose. Any material issues are dealt with through mitigating activities to ensure the effectiveness of the existing controls over financial reporting.

Risk oversight and governance

A risk-focused culture and tone is expected across all levels at Capita, reflecting the tone at the top of the Group set by the Board. The Board is ultimately accountable for providing strategic governance and stewardship of the company. Throughout 2021, the principal and emerging risks facing the company continued to be reviewed by the Board, including those risks that could threaten Capita's business strategy delivery, future performance, resilience and liquidity.

The Board is committed to the continuous improvement of our governance mechanisms and risk management processes, to ensure that risks, including new and emerging risks, continue to be identified and managed.

effectively at all levels of the Group. As part of this commitment, a comprehensive review of principal risks and their ownership was undertaken during the year to ensure that they remain relevant and appropriate. This included determining whether any new or emerging risks should be added to the principal risk profile.

The Committee, which has delegated responsibility from the Board for maintaining an effective risk management and internal control system, is responsible for overseeing the principal risks, their assessment and the response strategies in place to mitigate them. In 2021 the Committee reviewed, discussed and briefed the Board on risks, controls and assurance, including the annual assessment of the system of risk management and internal control, to monitor the effectiveness of the procedures for internal control over financial reporting, compliance and operational matters.

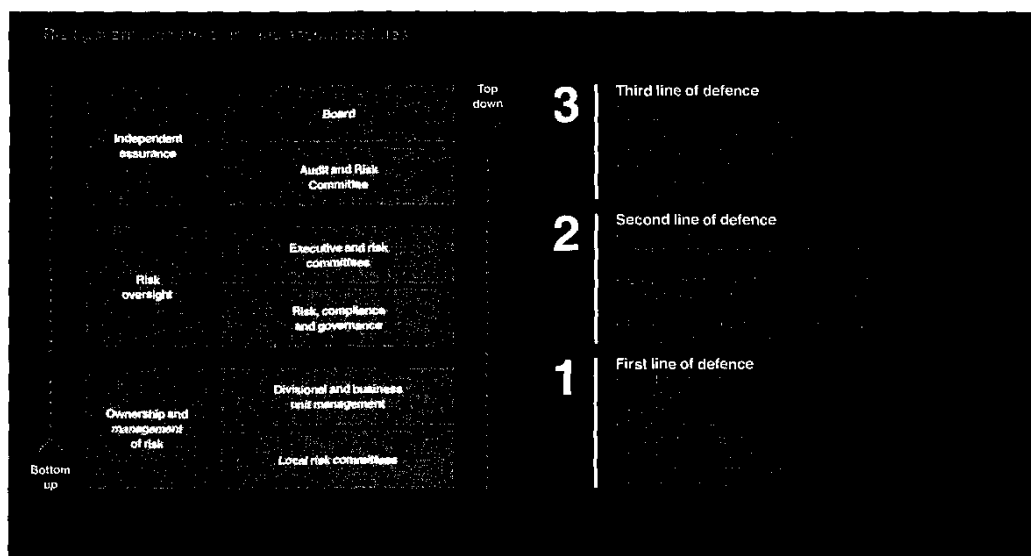
The executive risk and ethics committee (EREC) is responsible for identifying, assessing, overseeing and challenging principal risks across all Capita's unregulated businesses and provides regular updates to the Committee.

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 role of the financial services risk committee (FSRC) is to provide oversight of the regulated financial services businesses. The FSRC is chaired by an independent non-executive director and provides regular updates to the Committee.

On a day-to-day basis, divisional and functional leaders, senior leadership and business unit teams manage and monitor risks that they are accountable for.

Capita recognises that risk cannot be fully eliminated and that there are certain risks the Board and/or the senior leadership will accept when pursuing strategic business opportunities. However, these risk acceptance decisions are made at an appropriate authority level and reflect Capita's defined risk appetite. Capita's risk governance framework is illustrated below.



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

Risk management process

Our risk management framework was refreshed during 2021 with updates to the Group risk policy and risk management standard. The risk framework ensures that ownership and responsibility for identification, assessment and management of key risks and opportunities are embedded throughout the Group. The Board sets the context for risk management through defining the strategic direction and risk appetite for the organisation as a whole. The divisions, functions and business unit teams then work in collaboration to undertake a 'top down, bottom up' approach to identify, assess and respond to risks faced by Capita.

The risk management process is based on risk registers, the maintenance of which continues to be at the heart of our risk management process. Key risks in the registers have assigned risk owners who review them, on at least a quarterly basis, as part of the risk reporting process. The strength of existing controls is evaluated to determine whether any additional risk reduction actions are needed to manage the risk level to within the risk appetite set by the Board. In 2021, our principal risk classification was updated to include the 'vulnerable' risk level. This resulted in some risks being reclassified from 'uncomfortable' to either 'uncomfortable' or 'vulnerable'.

Risks are assessed at both an inherent (pre-controls) and residual (post-controls) level, against two scales addressing: (a) their likelihood; and (b) their potential impact on the group. The assessment of impact includes finance, customer & client, technology, people,

reputation and legal & regulatory. These risk assessments are designed to ensure a thorough assessment of the risks, as well as the associated causes, controls, mitigations and future risk reduction actions.

A risk and assurance committee timetable enables smooth flow of risk information between the business units, divisions, functions, the EREC and the Committee. Standard terms of reference, agenda and data points are being developed at each governance level to ensure risk management is consistently reported and understood across the Group.

Risk appetite

The Board sets the Group's risk appetite, as proposed by the EREC, to ensure that it reflects current external and market conditions. The risk appetite outlines: those risks Capita should not take; those which should be managed to an acceptable level, and those which should be accepted to deliver our business strategy.

As part of the ongoing risk management framework refresh, risk appetite statements are in the process of being developed for each principal risk. This will provide greater clarity to the organisation and to the risk owners on the acceptable level of risk set by the Board and the steps required to manage risk levels to within the agreed appetite.

The next step in our risk appetite journey is to develop key risk indicators for each principal risk which will be implemented during 2022 and used as a measure by the business to assess trends in the risk profile and whether the business is operating within appetite.

Emerging risks

The identification of emerging risks is carried out by both the divisions/business units, using a bottom-up approach, and the executive, from a top-down perspective. Regular reviews of risks, including emerging risks and project/programme risks, are included in risk and assurance committees within Capita's existing governance structures. Capita has not identified any emerging risks as all current key risks and those previously identified as being emerging are now 'live' risks.

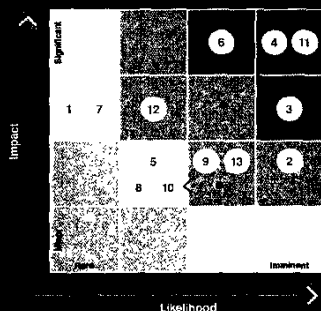
Principal risks

Principal risks are defined as those risks that are significant for the Group and are owned and managed by a specified member of the executive team who has accountability for ensuring that the risk is managed within the risk appetite levels set by the Board. Assigning risk ownership at executive level also ensures that an appropriate level of attention and focus is applied in addressing the principal risks.

In 2021, two principal risks were added to the Capita risk profile, around climate change and the wellbeing, health and safety of our people.

It is also noted that several principal risks have remained unchanged from prior years due to various challenges faced by the company and significant work remains to be done to improve these risks. The transformation to our new operating model will help address some of these challenges. For more details on the challenges faced and actions taken to address them, please refer to the CEO report on page 10.

The Capita principal risk profile as at 31 December 2021 is illustrated below



	Critical	The maximum level of risk Capita can bear and remain effective at delivering its strategy. Of immediate critical concern.
	Uncomfortable	Risk level will cause problems that would put uncomfortable pressure on delivery.
	Vulnerable	Risk level likely to cause problems that would put uncomfortable pressure on delivery.
	Acceptable	A business-as-usual risk manageable with the right people and processes in place to respond to the threat. A tolerable level of risk.

●→ Risk movement since 2020 year end

- Living our purpose** Failure to live our purpose and failure to change stakeholder perception so we are seen to live our purpose
- Strategy** Failure to define and resource the right medium-term strategy
- Innovation** Failure to innovate and develop new value propositions for clients and customers
- People attraction & retention** Failure to attract, develop, engage and retain the right people for current and future client propositions
- Culture** Failure to change the culture and practices of Capita in line with our responsible business agenda
- Data protection** Failure to protect data, information and IT systems
- Contracts** Failure to secure new contracts and/or extend existing contracts
- Delighting clients** Failure to delight clients and customers and deliver contractual obligations
- Internal control** Failure to develop and maintain a risk-based system of internal control
- Political climate** Failure to plan for, influence and respond to potential changes in the political climate
- Financial stability** Failure to maintain financial stability, viability and achieve financial targets, results
- Wellbeing, health & safety** Failure of Capita to protect the wellbeing, health and safety of all Capita's employees, service users, and others
- Climate change** Failure to adapt Capita and its services to the impacts of climate change

During the year, the likelihood and/or the impact of two principal risks changed. The severity of principal risk 4 below, increased when compared with the previous year:

Risk 4	Rationale for movement
Failure to attract, develop, engage and retain the right people for current and future client propositions	During the year, we started to see a significant shift in the labour market which increased the level of Capita's principal risk related to our ability to attract and retain colleagues and talent. This became a key topic that management focused on in order to mitigate its impact on our delivery with the risk level increased from uncomfortable to critical in Q3 2021. A programme was established to address this issue and actions are expected to continue during 2022.

The severity of principal risk 10 below, decreased when compared with the previous year:

Risk 10	Rationale for movement
Failure to plan for, influence and respond to potential changes in the political climate	During the year, we continued to build and maintain a good relationship with the UK Government. We developed a Group-wide public affairs strategy with guidance on positive interaction with political stakeholders to ensure consistent and credible engagement. The Board agreed that the likelihood of this risk had decreased, thus moving the risk level from uncomfortable to vulnerable in Q2 2021. Going forward, in 2022, this risk will change ownership and be managed at divisional level.

The Board remains confident that our existing governance mechanisms and risk management processes will ensure that risks, including emerging risks, continue to be identified and dealt with effectively. However, the Board recognises that a number of these risks are taking a number of years to address and bring back to an appropriate level. The completion of the reorganisation is intended to address this. The Board recognises the improvement made, which has resulted in Capita being a simpler business with a stronger operational platform to underpin its future development. At Capita, the principal risks are considered over the same three-year period as the viability statement. They are listed and described below, and for each risk, we disclose key mitigations and future actions to further manage the risk and improve internal control.

Principal risk and risk level	Potential impact	How we manage the risk
1 Failure to live our purpose and failure to change stakeholder perception so that we are seen to live our purpose Accountable officer: CEO	<ul style="list-style-type: none"> misalignment between the strategic objectives and the purpose of the business transformation does not change stakeholder perception brand and reputation adversely impacted clients, suppliers, and people don't want to work with, or for, Capita investors lose confidence in the Group's ESG credentials 	<p>We encountered challenges in the countries in which we operate and, with the change in our operating model during the year, we have taken appropriate actions to live our purpose and will endeavour to continue taking such actions in the future.</p> <p>Mitigation actions in 2021</p> <ul style="list-style-type: none"> Defined and published our net zero targets which were accredited by the Science Based Targets Initiative (SBTi) Made positive progress on our diversity & inclusion (D&I) agenda by taking action on gender and ethnic diversity at Board and Executive Committee level CEO chaired the BLM advisory group, overseeing targeted D&I initiatives Contributed to broader societal skills challenges by supporting the UK Government's Kickstart scheme Funded Covid-19 vaccine programmes for our colleagues in South Africa and India Held proactive, open and honest engagement with our clients and colleagues to better understand how we can continue to effectively support them Initiated our virtual first approach to working, demonstrating our commitment to our values <p>Future actions</p> <ul style="list-style-type: none"> Establish a responsible business committee, to oversee all of our responsible business and purposeful initiatives Further focus on how we deliver social value, and how this complements our core service offerings
2 Failure to define, resource and execute the right medium-term strategy Accountable officer: CEO	<ul style="list-style-type: none"> inability to evolve and deliver strategic objectives investment decisions with sub-optimal returns ineffective prioritisation of capital investment misalignment between Group and business objectives difficult to articulate and optimise investment case for investors 	<p>We have introduced a new operating model and created two divisions and a disposal portfolio. The two newly created divisions have developed their medium-term strategy in the year and will now focus on resourcing and executing their strategy.</p> <p>Mitigation actions in 2021</p> <ul style="list-style-type: none"> Implemented client-centric market vertical operating model Simplified and more focused Group strategy with two core divisions focused on growth Regular dialogue between Board, Executive Committee and divisional CEOs on evolution and delivery of strategy Creation of a disposal portfolio division to monetise non-core assets to enhance our balance sheet position A strengthened balance sheet, enabling more focus and flexibility on optimising our strategy <p>Future actions</p> <ul style="list-style-type: none"> Embed the operating changes and focus on growth in our areas of core competencies Continue to dispose of portfolio businesses at the right price to reduce debt and improve liquidity

Principal risk and risk level	Potential impact	How we manage the risk
3 Failure to innovate and develop new value propositions for clients and customers Accountable officers: Divisional CEOs	<ul style="list-style-type: none"> inability to grow and develop into new markets failure to compete with others who are innovative loss of new and existing business to competitors eroded corporate position in the market 	<p>Capita had six diverse divisions and businesses which limited our ability to focus and innovate and develop new customer value propositions. The two newly formed divisions will focus on progressing our innovation strategy.</p> <p>Mitigation actions in 2021</p> <ul style="list-style-type: none"> Developed a digital market strategy to help Public Service (PS) identify where it needs to develop capabilities and improve its ways of working to allow us to compete more effectively in the UK public sector market A Chief of Architecture has been recruited into PS to help define and develop the required tech stack with Technology Software Solutions (TSS) and the associated tech partner ecosystem Defined an end-to-end product management lifecycle including innovation Created a technology & product function to manage and govern end-to-end technology lifecycles Further developed multi-lingual conversational artificial intelligence capability to combine with Smartmate (Capita's language capability) to extend to other languages to support consumer engagement <p>Future actions</p> <ul style="list-style-type: none"> Continue to horizon scan new customer value propositions Develop stronger strategic partnerships with key technology providers to enable us to better leverage their products to serve our clients Explore opportunities to invest in the innovation and product teams to build future capability Roll out of the governance product lifecycle
4 Failure to attract, develop, engage and retain the right people for current and future client propositions Accountable officer: Chief People Officer	<ul style="list-style-type: none"> inability to win new work or deliver to clients due to lack of resources loss of key personnel/lack of succession increased staff attrition and increase in costs from buying in short-term contractors poor financial performance resulting in inability to grow reputational damage 	<p>Unprecedented recruitment activity in the labour market and unprecedented levels of UK employment have had a dramatic impact on our attrition levels. A multi-year people plan will focus on attracting, engaging, retaining and developing our employees and reduce attrition levels.</p> <p>Mitigation actions in 2021</p> <ul style="list-style-type: none"> Introduction of more flexible future ways of working Further improvement and standardisation of recruitment process and systems Listening to what our colleagues are telling us and turning these into actionable plans Ran diversity and inclusion awareness and training Employee performance reviews to help identify opportunities for development and increase engagement Referral scheme for colleagues to recommend candidates <p>Future actions</p> <ul style="list-style-type: none"> Further develop our people proposition and attraction strategy to respond to market challenges Continued focus on ensuring competitive pay and reward packages Implement a clear, consistent demand planning methodology which will enable proactive recruitment and retention Rationalise and reduce screening time for candidates and remove screening where not required Introduce a career path framework which enables people to plan and develop their careers

Principal risk and risk level	Potential impact	How we manage the risk
<p>5 Failure to change the culture and practices of Capita in line with our responsible business agenda</p> <p>Accountable officer: CEO</p>	<ul style="list-style-type: none"> • potential for new clients not to want to contract with Capita • unable to attract and retain talent • negative corporate reputation hampers our ability to deliver sustainable growth • lack of staff engagement and demotivated staff leading to attrition hindering ability to deliver strategic objectives 	<p>We will establish a responsible business committee to oversee all our responsible business and purposeful initiatives, to embed our purpose, values and behaviours and to identify opportunities that will enable us to further improve our culture and develop better working practices for our people</p> <p>Mitigation actions in 2021</p> <ul style="list-style-type: none"> • Initiated the review of our operating model to identify opportunities that will enable us to further improve our culture and develop better working practices for our people • Updated the Blue-Book in line with our responsible business agenda and focus on our client commitments to deliver better outcomes • Continued to embed our purpose, values and behaviours through contract review committee, individual objective setting, manager commitments, manager development through 'manager academy' and induction module • Significant focus on DEI activities, including employee network groups, anti-racism training, mutual mentoring, diverse hiring practices and people survey analysis by demographic <p>Future actions</p> <ul style="list-style-type: none"> • Regular engagement with our colleagues, driving improvements identified from annual employee survey and emphasising the right tone from the top • Implementation of diversity dashboards and reporting, to enable the identification of remedial actions where required • Embedding of pulse employee survey methodology and action planning • Implement phase two of the HR transformation programme • Launch Capita leadership course

Principal risk and risk level	Potential impact	How we manage the risk
<p>6 Failure to protect data, information and IT systems</p> <p>Accountable officer: Chief Technology Officer (CTO)</p>	<ul style="list-style-type: none"> • loss or theft of confidential client or customer data due to cyber attack • disruption to business operations of Capita and/or its customers due to cyber attack • loss of one or more of Capita's data centres • reputational damage leading to loss of new and existing business 	<p>A decentralised IT landscape with ageing technology and years of under-investment in our IT systems has made it a challenge for us to enhance our IT infrastructure. In our transformation we created a TSS function that will lead on providing operations oversight and monitoring of our IT systems and infrastructure across the company</p> <p>Mitigation actions in 2021</p> <ul style="list-style-type: none"> • The TSS Shared Service function has been created, bringing together all the technology services into a single function to standardise and enhance processes, delivering digital transformation and cyber security • Implemented improved tooling and process to increase data security and reduce the risk of data leakage • Implemented additional security controls for the end-user to reduce the possibility of ransomware or virus attacks • Continued to raise cyber security awareness across Capita via multimedia projects to ensure everyone fully understands their role in protecting data • Continued to consolidate smaller data centres into modern purpose-built data centres with increased resilience • Continued to reduce end of life out of support end user estates • Reviewed and mitigated security risks related to cloud systems and services <p>Future actions</p> <ul style="list-style-type: none"> • Establishment and execution of the technology strategy for TSS and the wider business to introduce standardisation and harmonisation of Capita's IT landscape • Enhance the understanding and reassessment of the pan-Capita technology risk profile by creating a centralised risk register • Identify a clear road map for technology to ensure full foresight of any upcoming technology obsolescence • Focus on a centralised and holistic view of the IT asset estate • Embed process and forums to ensure continuous alignment of technology across Capita • Develop and enhance existing procedures across Capita to monitor and manage emerging technology risk exposure

Principal risk and risk level	Potential impact	How we manage the risk
7 Failure to secure new contracts and/or extend existing contracts Accountable officers: Divisional CEOs	<ul style="list-style-type: none"> loss of contracts inability to acquire new business contract terms and service commitments are not met or understood exposure to unexpected costs/cost overruns or onerous terms brand and reputation damage financial claims, penalties and other disputes with clients adverse impact on contract profitability 	<p>We continue to bid and win new contracts that we are confident we have the resources and proven record to deliver on. The shift to our new operating model should allow us to develop and execute our Go To Market growth strategy, secure new contracts in line with our core competencies and give us greater chances for growth.</p> <p>Mitigation actions in 2021</p> <ul style="list-style-type: none"> Implemented market verticals in Experience that are aligned with operating model, governed through design authority to ensure alignment with growth strategy Business development board established to drive prioritisations for growth focused initiatives Embedded bi-monthly sales cadence calls to review progress and challenge issues Aligned our technology and product capabilities to ensure we have appropriate digital solutions <p>Future actions</p> <ul style="list-style-type: none"> Refresh the contract review committee (CRC) policy and deal review process, including incorporation of new H&S, safeguarding risk assessments and develop a fraud risk assessment process Refresh and roll out the CRC post-deal review process Assess and relaunch solution briefcase in Public Service Develop and embed the Public Service playbook (for example, how to use standard contracts) Update delegation of authority matrices to reflect new ways of working Improve coordination between Pursuit Programme and Performance teams Co-creation of our Go To Market strategies to influence market trends and solutions Driving up our digital capability, which will shape our future propositions Further develop client account plans that are centred on client and industry problem solving

Principal risk and risk level	Potential impact	How we manage the risk
8 Failure to delight clients and customers and deliver contractual obligations Accountable officers: Divisional CEOs	<ul style="list-style-type: none"> loss of existing contracts brand and reputation damage limited or no new business demotivated staff leading to attrition and loss of capability/capacity financial penalties and/or service credits 	<p>We will do more to delight those we provide services to and by introducing our new customer success framework and providing monthly governance over our contract and software performance, which will allow us to improve the services we provide to our customers and clients.</p> <p>Mitigation actions in 2021</p> <ul style="list-style-type: none"> Established monthly governance over contract and software performance and weekly review of SLA/KPI to enhance service delivery and focus on achieving customer service obligations New ways of working programme (move some services to work from office to home into business as usual solution) rolled out using project governance methodology <p>Future actions</p> <ul style="list-style-type: none"> Continue development of the divisional operating environment to drive simplification and strengthening of service delivery Increase automation of development operations Undertake improvements to operational performance reporting, to support earlier identification of potential performance concerns Undertake risk reduction operational maturity assessments to identify opportunities to deliver better outcomes for our clients Identify commonality in failures or issues across divisions, and address through coordinated action Roll out of foresight demand planning tool to better predict and manage recruitment pipeline and mitigate attrition risk across the business Introduce a new customer success framework

Principal risk and risk level	Potential impact	How we manage the risk
9 Failure to develop and maintain a risk-based system of internal control Accountable officer: CFO	<ul style="list-style-type: none"> fraud, misstatement and inaccurate financial reporting greater regulatory or other scrutiny increased costs associated with risk remediation activities breaches of law, statutory and legal reporting leading to regulatory fines in financial services sector and loss of key contracts reputational damage and adverse media interest leading to inability to secure new contracts 	<p>Our internal controls effectiveness is dependent on management experience and interpretation. A multi-year control improvement programme has been partially implemented but progress has been impacted by the reorganisation and changes to our finance systems approach. The move to two divisions aims to ease the simplification, standardisation, automation and documentation of controls in our key business processes.</p> <p>Mitigation actions in 2021</p> <ul style="list-style-type: none"> The KCO self-assessment process was further refined and implemented. This process required every business leader to attest to compliance with a core set of controls Risk and assurance committees were established at division level A project to standardise and improve our process and controls documentation was launched The delegation of authority document was revised in March 2021 <p>Future actions</p> <ul style="list-style-type: none"> Standardise finance processes and controls Further improve the coverage of financial policies and associated standards Refresh and update the delegation of authority document following the implementation of the new divisional structure
10 Failure to plan for, influence and respond to potential changes in the political climate Accountable officer: CEO	<ul style="list-style-type: none"> Covid-19 has continued to drive the formulation of new policy at speed affecting the operational environment for the business possibility of additional regulatory changes by new government impacting our reputation 	<p>We may encounter increased volatility in Government spending as they seek to reduce debt accumulated during the pandemic. Our continued commitment to being a leading responsible business, our reputation for reliable delivery and seeking contacts that enhance social value will remain our key focus.</p> <p>Mitigation actions in 2021</p> <ul style="list-style-type: none"> Engaged with government and other stakeholders in response to Covid-19 to understand policy impacts on Capita Monitored new policy developments and undertook horizon scanning for political, regulatory and economic developments impacting political climate Engaged with Government and other parties (e.g. regulators) to promote and protect reputation <p>Future actions</p> <ul style="list-style-type: none"> Continue to engage with UK Government and others to promote and protect reputation Continue to monitor policy developments, including emerging plans for government's strategic objectives including levelling up

Principal risk and risk level	Potential impact	How we manage the risk
11 Failure to maintain financial stability and achieve financial targets Accountable officer: CFO	<ul style="list-style-type: none"> poor cash flow and high levels of debt reduce liquidity available to invest in business development and growth loss of shareholder value loss of investor confidence 	<p>As a result of Covid-19, the impact of government policy, our willingness to spend less, our ability to continue to innovate and have the resources available to fulfil contractual obligations have impacted our financial stability and the strength of our balance sheet.</p> <p>By transforming to two divisions and creating a disposal portfolio which consists of businesses we are looking to divest, we aim to be better placed to reduce debt, focus resources on two core divisions and reduce Group overhead with the aim of delivering sustainable material free cash flow.</p> <p>Mitigation actions in 2021</p> <ul style="list-style-type: none"> Obtained lender consent for business disposals where required Completed the disposal of Education Software Solutions and AXE OS before the end of 2021 and announced the sale of Secure Solutions and Services Specialist Insurance and AMT-Sysex during the year Secured an extension to the Group's revolving credit facility (RCF) Completed the triennial pension valuation Continued close focus on working capital <p>Future actions</p> <ul style="list-style-type: none"> Completion of remaining planned disposals of businesses Agreeing a further extension to the Group's HCF and other borrowing facilities as appropriate

Principal risk and risk level	Potential impact	How we manage the risk
12 Failure of Capita to protect the wellbeing, safety, and health of all Capita's employees, the people we work with and our service-users Accountable officer: Chief General Counsel	<ul style="list-style-type: none"> poor health, injury and death of colleagues and service users legislative breaches/prosecutions, including corporate manslaughter costs associated with compensation and litigation reputational damage increased levels of absenteeism and recruitment/retention challenges increased insurance premiums loss of contracts or inability to win new contracts reduced willingness of contractors to work with Capita 	<p><i>Covid-19 has had an impact on the health, safety and wellbeing of our people, most of whom have been working from home for almost two years. We have created Team Health which will focus on protecting and improving the wellbeing, safety, and health of our employees and stakeholders.</i></p> <p>Mitigation actions in 2021</p> <ul style="list-style-type: none"> Improvements in the use of CASPER health and safety tool and improvements to SHAPE for homeworkers and office workers Embed the Group clinical governance framework into the new corporate divisional structure Implemented the Group Safeguarding framework including new risk assessment process and training modules Introduced the new wellbeing framework Transitioned to a new occupational health provider – Health Partners <p>Future actions</p> <ul style="list-style-type: none"> Develop and implement a culture of ownership and accountability for the wellbeing, safety and health of our people by Group, divisional, and business leadership Initial assessment and validation of Capita's legal and statutory wellbeing, safety and health requirements Embed and assure CRC HSE & Safeguarding risk assessments for new contracts Update approach and process to wellbeing, safety and health incident and near-miss reporting, management and analysis

Principal risk and risk level	Potential impact	How we manage the risk
13 Failure to adapt Capita and its services to the impacts of climate change Accountable officer: Chief General Counsel	<ul style="list-style-type: none"> unpredictable shift in markets to low carbon leading to increased costs and reduced revenue increased cost and uncertainty of investment in new technology and substitution of existing products and services reputational threats from slow adaptation to climate change increased cost of regulation and decarbonisation resulting from transition to a lower carbon economy impact on infrastructure service delivery and supply chain from extreme weather events impacts of global warming in different territories on business continuity and staff welfare 	<p>The threat of global warming has meant that our transition to a low carbon economy requires a fundamental change in how we manage our supply chain, our operations and how we assess changing demand and behaviours in our markets. We have developed a multi-year strategy that will allow us to become carbon neutral across our entire footprint by 2035.</p> <p>Mitigation actions in 2021</p> <ul style="list-style-type: none"> Established 1.5°C science-based carbon reduction targets verified by SBTi Committed to full net zero carbon by 2035 with interim milestones in 2025 and 2030 with comprehensive supporting business plan and development of performance metrics Increased the proportion of supply chain spend backed by science-based carbon reduction targets Working towards transition to 100% renewable power across our property portfolio and to hybrid and electric leased vehicles Developed a dedicated management information tool to monitor carbon emissions by activity, region, division, function and business unit Updated the travel policy to reduce travel and commuting, prioritising virtual first approach <p>Future actions</p> <ul style="list-style-type: none"> Link objectives and STIP bonus to net zero initiatives from 2022 Review the HSE policy to include specific environmental factors and creation of a new environmental standard Engage with suppliers and customers to ensure resilience to transitional and physical climate risk, developing low carbon business solutions supporting net zero commitments Further efficiency, renewable energy and travel reduction programmes

Viability statement

In accordance with provision 31 of the UK Corporate Governance Code 2018, the Board has assessed the viability of the Group and Parent Company over the three-year period to 31 December 2024, aligned with the period of the Group's bottom-up business planning process. The Board believes that a three-year period provides sufficient clarity to consider the Group and Parent Company's prospects and facilitates the development of a robust base case set of financial projections against which severe but plausible downside scenario stress testing can be conducted.

The completion of the Group's multi-year transformation programme during 2021 has created the platform for sustainable improving financial performance which underpins the viability of the Group and Parent Company. The Board particularly notes the following deliverables from the transformation programme.

- The simplification and strengthening of the Group's organisation design establishing two core divisions focused on public and private sector markets providing a platform for a return to revenue growth and delivery of efficiency savings
- A significant reduction in the Group's cost base, with continued in-year savings in 2021 of £123m which takes the cumulative savings during the transformation programme to £428m. This has successfully addressed the cost competitive objective which was a core element of the transformation programme.

- The ongoing successful execution of the Portfolio business disposal programme which has realised net cash proceeds totalling c.£900m since 1 January 2018, used to repay maturing debt, to make further deficit reduction contributions to the Group's main defined pension scheme and to invest in driving growth in the remaining core businesses.
- The repayment of £1.4bn of debt, including lease liabilities, since 1 January 2018.
- The successful extension during 2021 of the Group's revolving credit facility (RCF) to 31 August 2023.
- The payment of c.£300m of deficit reduction contributions to the Group's main defined benefit pension scheme since 1 January 2018, and the commitment to a further £105m of deficit reduction contributions across 2022-2026, which should enable the scheme to reduce its reliance on the covenant of the Group.

The foregoing elements of the transformation programme provide the backdrop to the three-year business plan approved by the Board in February 2022 and are key factors in the Directors' viability assessment. The main assumptions underpinning the base case financial projections in the Group's business plan are set out below.

- Return to organic revenue growth broadly in line with market trends in each of the two core divisions
- Operating profit margin expansion over the business plan period reflecting the benefit of operating leverage coupled with ongoing efficiency delivery

- Improving operating cash conversion as the structural working capital drag from a small number of large legacy transformation contracts diminishes.
- Completion of the Portfolio disposal programme during 2022 and 2023.
- The refinancing of the Group's £300m RCF following its maturity in August 2023.

The most material assumptions from a viability assessment perspective, which are also identified as material uncertainties in the severe but plausible downside scenario in the going concern assessment provided in section 1 to the consolidated financial statements, relate to the completion of the portfolio disposal programme and the refinancing of the RCF. Capita has a strong track record of executing major planned disposals and has been successful in obtaining new and extended financing facilities over the last few years. As such, in concluding on viability the Board believes that it is reasonable to assume that the Group will be successful in executing the disposal programme and in refinancing the RCF in line with the assumptions underpinning the base case financial projections.

The three-year base case financial projections were used to assess covenant compliance and liquidity headroom under different scenarios. This analysis included assessing the sensitivity of the financial performance of the Group to changes in trading conditions including reduced rates of revenue growth and efficiency delivery. In addition, the viability stress tests considered severe but plausible downside impacts on covenant and liquidity headroom from the

crystallisation of specific risks including those set out in the principal risks section on pages 57 to 61. The stress tests covered potential contract claims and performance issues, data breaches, cyber-attacks and delays in execution of the disposal programme.

The risks applied have not been probability weighted but rather consider the impact should each risk materialise by applying a 'more likely than not' test. These wide-ranging risks are highly unlikely to crystallise simultaneously and there are mitigations under the direct control of the Group that can be actioned to address a combination of risk crystallisations that may occur under a severe but plausible downside. These have been considered in the Board's viability assessment.

Based on this assessment, and reflecting the Board's confidence in the platform for improving financial performance resulting from completion of the transformation plan, the Group's ability to refinance and to execute the approved disposal programme, the Board has a reasonable expectation that the Group and Parent Company will be able to continue in operation and meet their liabilities as they fall due over the period of the viability assessment.

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

Claire Denton
Group Company Secretary

11 March 2022
Capita plc
The City, London, EC4A 3DF

Corporate governance



Chairman's report

Board strength and resilience is essential to operate successfully during a period of sustained disruption. I am therefore pleased to introduce the corporate governance section of this Annual Report and present my introductory statement on Board governance during 2021.



Sir Ian Powell
Chairman

“The majority of meetings in 2021 were held remotely using video-conferencing technology.”

Board leadership

The directors of the Company in office at the date of this report are listed on pages 67 and 68. There were several changes to Board membership during the year. Tim Weller was appointed Chief Financial Officer (CFO) and Executive Director on 12 May 2021 as a permanent replacement for Gordon Boyd, our interim CFO. David Lowden was appointed Non-Executive Director on 1 January 2021 and David became Senior Independent Director on 1 March 2021 following Gillian Sheldon's retirement from the Board on 28 February 2021 after eight and a half years. Neelam Dhawan, an experienced leader in the technology industry, was appointed Non-Executive Director on 1 March 2021.

Andrew Williams retired from the Board on 11 May 2021 after six years' service and Baroness Lucy Neville-Rolfe stepped down from the Board on 14 December 2021 following her appointment by the Department for Work and Pensions to lead a review of the state pension age. On 1 February 2022, we appointed Dr Nneka Abulokwe OBE to the Board as Non-Executive Director.

We are careful to ensure an appropriate balance of time commitments for each Board member. Directorships are reviewed regularly and any proposed external appointment is considered carefully. David Lowden was appointed non-executive director and chairman designate of Diploma PLC on 19 October 2021 and became chairman on 19 January 2022. David will retire from the Board of PageGroup plc on 30 April 2022. Matthew Lester was appointed non-executive director of Intermediate Capital Group plc on 1 April 2021.

We remain committed to workforce engagement and highly value the engagement of our employee non-executive directors, Lyndsay Browne and Joseph Murphy, in Board discussions. We have seen the value of their input into Board debate and we continue to believe in the importance of bringing

their contributions into Board committee meetings. Both Joseph and Lyndsay complete their three-year terms in the summer of 2022 and a recruitment process for a replacement is ongoing.

Board diversity

A diverse board broadens perspectives, enriches debate and ultimately improves the quality of decision making and we actively seek to improve the diversity of the Board. As at the date of this Annual Report, we continue to exceed the 33% target for female representation, and our ethnic diversity has continued to improve with the recent appointment of Nneka Abulokwe. Further information on diversity in the Group is on page 44.

	31 December 2021	1 February 2022
Female representation	30%	35%

Reappointment of directors

All members of the Board will stand for re-election (Tim Weller and Nneka Abulokwe for election) at the annual general meeting (AGM) in May. All continuing Board members have received a formal performance evaluation which demonstrates that each director continues to be effective and committed to the role.

Meeting schedule

The Board has a standing schedule to meet six times a year but holds further meetings as required. Board and committee meetings are structured around the Company's financial calendar. Agenda planning is undertaken in advance of every meeting to ensure an appropriate

allocation of time to important topics. The majority of meetings held in 2021 were held remotely using video-conferencing technology. Physical meetings are held where appropriate under prevailing Covid-19 conditions and relevant guidance.

Senior management

We review regularly the structure of our businesses and management to ensure they remain appropriate. The Executive Committee comprises the divisional executive officers and functional heads under the Chief Executive Officer's (CEO's) leadership.

Board effectiveness

Corporate governance principles

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

Leadership and purpose: articulation of Capita's purpose on the inside front cover and page 4

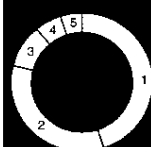
Division of responsibilities: governance framework on page 70.

Composition, succession and evaluation: Nomination Committee report on pages 84 and 85, and Board evaluation section below.

Audit, risk and internal control: Audit and Risk Committee report on page 94, and internal control and risk management statement on pages 53 to 61

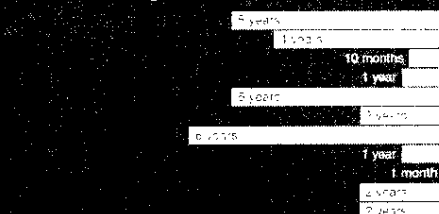
Remuneration: Remuneration Committee report on page 96.

Board time allocation (%)



- 1 45% Executive reports
- 2 34% Strategy
- 3 10% Governance (incl. Board evaluation)
- 4 6% IR / brand / reputation
- 5 5% Full and half-year results

Board directors: length of tenure



Culture

We recognise the importance of culture as a significant driver of business sustainability. The Board receives regular reports on HR activities that enable it to monitor developments in the Group's culture and provides supportive challenge to management. The dashboard below is an aggregation of key measures informing the Board's assessment of culture, and further information on each of these, and the Group's approach to investing in and rewarding its workforce, is set out in the people and responsible business sections of the strategic report on pages 35 to 39 and 42 to 49.

Metric	2021	2020
Movement in employee net promoter score (a measure of employee satisfaction)	-22 points	+7 points
People survey response rate (a measure of employee engagement)	66%	72%
Employee rating of manager commitments (a measure of how managers live our values and demonstrate our behaviours)	67%	62%
Voluntary turnover (a measure of employee commitment)	30%	20%

Although it is pleasing to see the increased rating for managers (a 5% annual increase), the factors behind the movements in employee net promoter score and voluntary turnover are being investigated and understood. The CEO and management team are treating this very seriously and will be taking steps to address these areas during 2022.

Board evaluation

Board evaluation is undertaken annually, with external evaluation every three years. An external evaluation was performed in 2021 by Independent Board Evaluation and key findings are set out below, together with actions taken during the year in response to the 2020 internal evaluation.

Finding from 2020 evaluation	Action in 2021
Transformation – ongoing development and delivery of the transformation strategy including balance sheet strength, reduction of operational complexity and reward incentives to reflect objectives	Revised remuneration policy including new restricted share award was approved by shareholders at the 2021 AGM
Risk management framework – with the Audit and Risk Committee review changing risk profiles with the transformation strategy	Certain principal risks were allocated Board time for deep dive review, particularly those impacted by the transformation, such as cyber and IT resilience

The external evaluation of the Board and its committees was undertaken by meeting observation and personal interviews with each Board member, the Group Company Secretary, members of the senior management team and external advisers. Findings were discussed with the Chairman and presented to the Board. Committee feedback was presented to the relevant committee chair and the Board's feedback on the Chairman was discussed with the Senior Independent Director. Feedback on individual directors' performance was provided by the Chairman as part of the annual review process.

The evaluation concluded that the Board had continued to perform well during the pandemic. Particular strengths were Board culture, stakeholder relationships and governance and compliance. The evaluation also identified certain aspects of the Board's work that could be improved and these areas, set out in the following table, were highlighted and discussed by the Board when the evaluation findings were presented.

Finding from 2021 evaluation	Proposed actions in 2022
Succession planning – further in-depth focus needed to ensure Board composition is appropriate for the Group as it shifts focus from transformation to growth	Allocate additional time, including on the Nomination Committee agenda, for review and discussion of succession plans
Strategy – Board has rightly focused on managing the pandemic amid a more complex and lengthy turnaround than originally envisaged. Additional focus on long-term strategy for the two core divisions would be beneficial.	Allocate Board time for additional regular divisional deep dive reviews as part of the overall strategy debate
Board skills matrix – debate and agree a Board skills matrix aligned to the redefined strategy	This has now been undertaken

Remuneration

Following consultation with major shareholders on the new restricted share plan for executive directors, a revised remuneration policy was approved by shareholders at the 2021 AGM. Further details can be found in the directors' remuneration report on page 103.

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

Board members

Chairman



Sir Ian Powell

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; and board member of London First

Executive Directors



Jon Lewis

Chief Executive Officer

Appointed: December 2017

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

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

External appointments: board member of Equinor ASA



Tim Weller

Chief Financial Officer

Appointed: May 2021

Key skills and experience: before joining Capita, Tim was at G4S for five years as its CFO and for three years before that as a Non-Executive Director. He has many years' experience as a CFO with Innogy, RWE, Thames Water, United Utilities, Cable & Wireless and Petrofac. He spent his early career at KPMG, where he trained to become a Chartered Accountant, becoming a partner in 1997.

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

External appointments: Non-Executive Director of The Carbon Trust



David Lowden

Senior Independent Director

Appointed: January 2021

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

Other current appointments: Chairman of Diploma plc; Senior Independent Director of Morgan Sindall plc; and, until 30 April 2022, Chairman of PageGroup plc.



Matthew Lester

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. He was formerly a Non-Executive Director at Barclays plc and has also held the position of Non-Executive Director and Chair of the Audit and Risk Committee at Man Group plc.

Other current appointments: Chairman of Kier Group plc; and Non-Executive Director of Intermediate Capital Group plc.



Georgina Harvey

Appointed: October 2019

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

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

Independent Non-Executive Directors



John Cresswell   

Appointed: November 2015

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

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



Neelam Dhawan   

Appointed: March 2021

Key skills and experience: Neelam has 40 years' leadership experience in the IT industry where she held senior positions in Hewlett-Packard, Microsoft, Compaq and IBM with responsibility for a wide range of areas including strategy, corporate development, software engineering and offshoring. She now advises multinationals on business and technology transformation and, until recently, was an advisor to IBM in India.

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



Nneka Abulokwe OBE   

Appointed: February 2022

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

Other current appointments: Non-Executive Director, Davies Group; Director of MicroMax Consulting Limited; external member of the Audit & Risk Committee, University of Cambridge; adviser to Cranfield School of Management Advisory Board and DoGood Africa



Lyndsay Browne 

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 financial manager in the Portfolio 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 

Appointed: July 2019

Key skills and experience: Joseph works in the technical advisory team in the Real Estate and Infrastructure business within the Portfolio division. 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

Directors who served during the year 2021

Gillian Sheldon, Andrew Williams and Baroness Lucy Neville-Rofe retired from the Board on 28 February, 11 May and 14 December 2021 respectively.

Committed to high standards of governance

Corporate Governance Code

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

Board changes during the year

On 12 May 2021, Tim Weller was appointed CFO in place of Gordon Boyd, interim CFO, who resigned with effect from the same date. On 1 January 2021, David Lowden was appointed a Non-Executive Director, and David succeeded Gillian Sheldon as Senior Independent Director (SID) on 1 March 2021 following Gillian's planned retirement from the Board on 28 February 2021 after eight and a half years. Neelam Dhawan was appointed a Non-Executive Director on 1 March 2021. Andrew Williams and Baroness Lucy Neville-Rolfe stepped down as non-executive directors on 11 May 2021 and 14 December 2021 respectively. Further information on Board changes is set out in the Nomination Committee report on page 84.

Board changes after year end

On 1 February 2022, Nneka Abulokwe was appointed a Non-Executive Director

Board composition

At 31 December 2021, the Board comprised 10 directors, made up of the Chairman, CEO, CFO, five independent non-executive directors and two employee non-executive directors. Details of each director's experience are set out in the directors' biographies on pages 67 and 68.

Composition of the Board at 31 December 2021 and at the date of this report is shown in the following tables.

Board composition at 31 December 2021:

Executive directors	Independent non-executive directors	Non-executive employee directors
Jon Lewis	Sir Ian Powell	Lyndsay Browne
Tim Weller	David Lowden	Joseph Murphy
	Matthew Lester	
	Georgina Harvey	
	John Cresswell	
	Neelam Dhawan	

¹ Independent on appointment in accordance with the Code

Board composition at the date of this report:

Executive directors	Independent non-executive directors	Non-executive employee directors
Jon Lewis	Sir Ian Powell	Lyndsay Browne
Tim Weller	David Lowden	Joseph Murphy
	Matthew Lester	
	Georgina Harvey	
	John Cresswell	
	Neelam Dhawan	
	Nneka Abulokwe	

¹ Independent on appointment in accordance with 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
- Financial reporting
- Major contracts
- Board membership
- Structure and capital
- Internal controls
- Shareholder communication



Nomination Committee

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

[Read more on page 84](#)



Audit and Risk Committee

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

[Read more on page 86](#)



Remuneration Committee

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

[Read more on page 88](#)

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

Executive directors

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

Non-executive employee directors

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

Board meetings and attendance

During 2021, the Board held six scheduled meetings. Additional ad hoc meetings are held as required. Attendance of the directors at Board and committee meetings is shown below, the maximum number of meetings a director could attend is in brackets.

	Audit and Risk Committee				Remuneration Committee	Nomination Committee
	Board					
Sir Ian Powell ¹	6(6)	n/a	n/a	n/a	3(3)	
Jon Lewis	6(6)	n/a	n/a	n/a	n/a	
Tim Weller ²	4(4)	n/a	n/a	n/a	n/a	
David Lowden ³	6(6)	6(7)	4(5)	3(3)		
Matthew Lester	6(6)	7(7)	5(5)	3(3)		
John Cresswell	6(6)	7(7)	5(5)	3(3)		
Georgina Harvey	6(6)	7(7)	5(5)	3(3)		
Neelam Dhawan	5(5)	6(6)	3(3)	2(2)		
Lyndsay Browne	6(6)	n/a	5(5)	n/a		
Joseph Murphy	6(6)	7(7)	n/a	n/a		
Gordon Boyd ²	2(2)	n/a	n/a	n/a		
Gillian Sheldon ⁴	1(1)	0(1)	2(2)	1(1)		
Andrew Williams ⁴	2(2)	2(3)	2(2)	2(2)		
Baroness Lucy Neville-Rolfe ⁴	5(6)	7(7)	3(5)	3(3)		

¹ Sir Ian Powell is not a member of the Audit and Risk or Remuneration committees, but was invited to, and attended, a majority of the meetings.

² Tim Weller was appointed to and Gordon Boyd resigned from the Board on 12 May 2021.

³ David Lowden was unable to attend a meeting of the Audit and Risk Committee and the Remuneration Committee held on the same date, due to a pre-existing commitment.

⁴ Gillian Sheldon, Andrew Williams and Baroness Lucy Neville-Rolfe resigned from the Board on 28 February, 10 May and 14 December 2021 respectively.

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

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

During 2021, 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 without the Chairman, led by the SiD.

Board leadership

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

Sir Ian as Chairman and David Lowden as SiD have held meetings comprising solely the non-executive directors. David also met with the non-executive directors without Sir Ian. Both Sir Ian and David 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 and directors' roles are set out above. Following presentations by executive and divisional management, and a disciplined process of review and challenge by the Board, clear decisions on policy or strategy are adopted, and the executive management are fully empowered to implement those decisions.

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 41.

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 75). The Board has determined that, except for the employee non-executive directors, all the non-executive directors who served during the year were independent and that, before and upon appointment as Chairman, Sir Ian Powell met the criteria of independence as outlined in the Code.

Board composition is a deliberate balance of newer and longer-standing members, and reflects the ongoing review and refreshment of Board membership to ensure a balance of skills and experience appropriate for the broad nature of Capita's businesses. The breadth of tenure and experience of the non-executive directors means the Board is well positioned to advise, challenge and support executive management as the Group progresses, following its multi-year 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 for any director requires disclosure (see page 75).

Matters reserved for the Board

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

- **Strategy and management**, including responsibility for the overall leadership of the Group, setting the Group's purpose, values and strategy, and monitoring alignment with culture.
- **Structure and capital**, including changes relating to the Group's capital structure and major changes to the Group's corporate structure, including acquisitions and disposals, and changes to the Group's management and control structure.
- **Financial reporting**, including the approval of the Annual Report, half-yearly report, trading statements, preliminary announcement for the final results and dividend, treasury and accounting policies.
- **Internal controls**, ensuring that the Group manages risk effectively by approving its risk appetite and monitoring aggregate risk exposures.
- **Contracts**, including approval of all major capital projects and major investments.
- **Ensuring satisfactory communication** with shareholders.

- **Board membership and other appointments**, including changes to the structure, size and composition of the Board, and succession planning for the Board and senior management.

Board of directors' induction and training

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

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

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

Tailored induction programmes were prepared for Tim Weller as CFO, David Lowden, Neelam Dhawan and Nneka Abulokwe to ensure they were properly equipped to fulfil their roles.

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. The previously separate roles of Chief General Counsel and Group Company Secretary were combined in the appointment of Claire Denton as Chief General Counsel and Group Company Secretary on 1 March 2022. Claire is available to all directors and is responsible for ensuring that all Board procedures are complied with. Claire has direct access and responsibility to the chairs of the standing committees and open access to all directors, and has been appointed as Secretary to the Audit and Risk, Remuneration, and Nomination committees.

Claire will meet regularly with the Chairman of the Board and the Chairs of the Audit and Risk, and Remuneration committees, and brief them on areas of governance and committee requirements.

Shareholder engagement

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

The Chair of the Remuneration Committee engaged with shareholders to discuss remuneration ahead of the 2021 AGM. 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.

Shareholder meetings

Shareholders are normally encouraged to attend the AGM but, due to Covid-19 restrictions, shareholder meetings in 2021 were held as closed meetings and a question and answer facility was made available to shareholders on the Company's website. Information for shareholders is available on the Company's website www.capita.com. The non-executive directors are normally available to meet with shareholders to understand their views more fully. The Chairman is normally available to meet with Capita's significant shareholders. Directors, including chairs of the various committees, are normally present at the AGM, subject to Covid-19 restrictions, to answer any questions.

Principal decisions

Principal decision*	Impact on long-term sustainable success	Stakeholder considerations	Further details
Restructuring of operating model: with effect from 2 August 2021, the Group was reorganised around a new operational structure comprising three divisions: Public Service, Experience and Portfolio, supported by shared services and functions.	Growth: the more streamlined structure was designed to help the Group focus on distinct growth markets and simplify internal operations. Principal risks: this was a large-scale reorganisation which could have negatively impacted staff engagement and retention. However, it was well received overall and positions the Group for its growth strategy.	Our people: decision had high impact on workforce – wellbeing and mental health needed continued support against the background of the ongoing pandemic and move to hybrid working patterns. Investors: the move to a simpler organisational structure makes it easier for our investors to understand and analyse Group activities.	People section on page 35.
Net zero: approval of an ambitious roadmap, underpinned by science-based targets, to achieve net zero carbon emissions by 2035.	Strategy: the approach adopted is in line with government requirements for strategic suppliers. Principal risks: this commitment addresses one of Capita's principal risks.	Society: addressing climate-related issues is a key stakeholder concern and the Group's commitment to net zero by 2035 demonstrates that we recognise this and are willing to take the necessary action.	Principal risks section on page 53.

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

Shareholder communications

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

Business relationships

Details regarding relationships with suppliers, clients and others, together with further cross-references, are provided in the section 172 statement on page 40.

Remuneration Committee

Details of the Remuneration Committee and its activities are given in the directors' remuneration report on pages 96 to 119.

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 53 to 55.

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 56 to 61.

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 2021 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 to 62. Details of the Group's business goals, strategy and model are on pages 2 to 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 69 to 82.

Management report

For the purposes of Rule 4.1.5R(2) and Rule 4.1.6R of the DTRs, this directors' report and the strategic report on pages 1 to 62 comprise the management report.

Post-balance sheet events

The following events occurred after 31 December 2021 and before the approval of these consolidated financial statements but have not resulted in adjustments to the 2021 financial results.

Disposal of AMT Sybex: the disposal of the AMT Sybex software business to Jonas Computing (UK) Limited completed on 1 January 2022. Cash proceeds of £23.0m were received on completion, which included the settlement of intercompany balances owed by AMT Sybex to the Group of £12.8m. Following an impairment of assets in 2021 based on the expected fair value less cost of disposal of the business, net assets of £17.7m were disposed of on completion. Total costs of disposal are estimated to be £3.4m, of which £1.7m were recognised at 31 December 2021. Potential additional consideration of up to £17m is payable to Capita over 24 months, subject to certain conditions.

Disposal of Secure Solutions and Services: the disposal of the SSS business to NEC Software Solutions UK completed on 3 January 2022. Cash proceeds of £72.0m were received on completion, which included the settlement of intercompany balances owed by SSS to the Group of £41.8m. Net liabilities of £0.3m were disposed of, and total disposal costs are estimated to be £4.2m (of which £2.9m were recognised at 31 December 2021). Consequently, we expect to record a total gain on disposal of approximately £26.3m.

Disposal of Trustmarque: the disposal of the Trustmarque business to One Equity Partners was announced on 28 January 2022 for £11.1m on a cash free, debt free basis, and the Group expects to receive net proceeds of c.£11.5m at completion. Additional consideration of c.£3m is payable to Capita contingent on certain future events.

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 204 to 217. FRS 101 applies IFRS as adopted by the UK 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 (Articles) of the Company and the provisions of the Companies Act 2006. All directors are subject to election at the first AGM after their appointment and, in accordance with Provision 18 of the Code, to annual re-election thereafter. A resolution to re-elect each director will therefore be proposed at the AGM on 10 May 2022.

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

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

Group activities

Capita is a purpose-led and responsible business which exists to create better outcomes for all its stakeholders. Our strategy is to simplify and strengthen in order to succeed. Capita's business model is based upon being a consulting, transformation and digital services organisation. We deliver innovative solutions to simplify the connections between businesses and customers, and between government and citizens. We partner with clients to transform their businesses and services. A review of the development of the Group and its business activities during the year is contained in the strategic report on pages 1 to 62. The operational and financial performance of its divisions are detailed on pages 16 to 25.

Results and dividends

The Group's reported profit before tax amounted to £285.6m from continued operations (2020 £49.4m loss). As previously announced, the directors do not recommend the payment of a final dividend (2020 nil). The total dividend for the year was nil (2020 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 give the Board power to authorise matters that give rise to actual or potential conflicts. Procedures are reviewed annually to ensure they are operating effectively.

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

Major shareholders

At 31 December 2021, the Company had received notifications in accordance with the DTRs that the following were interested in the Company's shares:

Shareholder	Number of shares	% of voting rights at 31 December 2021	Number of shares direct	Number of shares indirect
Schroders plc	309,357,054	19.37	–	309,357,054
RWC Asset Management LLP	269,397,809	15.99	269,397,809	–
Marathon Asset MGMT Limited	126,900,867	7.53	–	126,900,867
River and Mercantile Asset Management LLP	85,996,707	5.15	85,996,707	–
Veritas Asset Management LLP ¹	83,131,892	4.98	–	83,131,892
Ninety One UK Limited	76,779,117	4.60	–	76,779,117
BlackRock Inc.	74,230,358	4.45	–	74,230,358
Invesco Ltd	70,883,236	4.24	–	70,883,236
Veritas Funds PLC	55,009,900	3.30	–	55,009,900
Vanguard Group Inc.	54,711,874	3.28	54,711,874	–
Jupiter Asset Management Limited	53,573,060	3.21	–	53,573,060

¹ Includes the holding of Veritas Funds PLC.

On 24 January 2022, notification in accordance with the DTRs was received from Schroders plc that it held indirectly 503,103,914 shares, being 17.98% of voting rights. On 24 February 2022, notification in accordance with the DTRs was received from River and Mercantile Asset Management LLP that it held directly 12,087,565 shares, being 0.72% of voting rights. At 1 March 2022, 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 114

Share capital

At 4 March 2022, the number of ordinary shares of 2½p 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	1,684,273,523	
Treasury shares	0	
Total voting rights	1,684,273,523	
Employee Benefit Trust (EBT) shares	17,398,355	1.03%

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

During the year ended 31 December 2021, 13,000,000 new ordinary shares were issued, and options exercised pursuant to the Company's share schemes were satisfied by the transfer of shares from treasury (2,299,955 shares) and the EBT (7,560,173 shares). 672,214 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 2021 was 36.5p. The highest share price in the year was 55.98p and the lowest was 31.85p.

The Company renewed its authority to repurchase up to 10% of its own issued share capital at the AGM in May 2021. During the year, the Company did not purchase any shares (2020: nil).

Viability statement

This statement is detailed in full on page 62. The directors have assessed the viability of the Group over the three-year period to 31 December 2024, taking into account the Group's current position and the potential impact of the principal risks set out in the strategic report. Based on this assessment, the directors have a reasonable expectation that the Group and Parent Company will be able to continue in operation and meet their liabilities as they fall due over the period of the viability assessment.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report on pages 1 to 62. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 26 to 34. In addition, section 4 in the financial statements on pages 179 to 192 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 2021, the directors are required to consider whether the Group can continue in operational existence for the foreseeable future, being a period of at least 12 months from the date of approval of the financial statements.

The Board monitors closely the Group's funding position throughout the year, including monitoring compliance with covenants and available facilities to ensure it has sufficient headroom to fund operations. In addition, to support the going concern assumption, the Board conducts a robust assessment of the Group's financial projections for the foreseeable future, considering also the committed facilities available to the Group. The Board has considered risks to the projections under a severe but plausible downside. This includes adverse impacts arising from potential execution challenges or financial exposures on customer contracts and the ongoing uncertainties arising in the post-pandemic recovery period.

To mitigate these, the Board is focused on introducing significant new funds to the Group via a continuation of the approved disposal programme and refinancing of debt maturities, including the Group's RCF which matures in August 2023. The Group has a strong track record of executing major planned disposals and a successful history of securing effective refinancing. Therefore, after careful consideration and reflecting also the Board's confidence in the transformation, the Board has concluded that the Group and Parent Company will continue to have adequate financial resources to discharge their liabilities as they fall due over the going concern assessment period.

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

Auditor review

The auditor has reviewed:

- the statements regarding going concern (see page 76)
- the longer-term viability statement (see page 62)
- those parts of the statement of compliance with the Code relating to:
 - directors' and auditor's responsibilities
 - the 'fair, balanced and understandable' statement
 - confirmation of robust risk assessment, and monitoring and review of effectiveness of risk management and internal control systems
 - Audit and Risk Committee composition, role and responsibilities

Further details are in the auditor's report (on pages 120 to 132)

Disabled persons

As part of the Group's commitment to create a workplace that fully reflects the diversity of the communities we serve, and a working environment in which no one feels excluded, full consideration is given to all suitable applications for employment regardless of a candidate's disability, age, gender, religion or belief, sexual orientation or race. Colleagues who declare a disability are supported with reasonable adjustments made throughout the hiring process, the workplace or job content so no opportunity, including career development, is inaccessible. Opportunities also exist for employees of the Group who become disabled to continue in their employment with any reasonable adjustments being made or to be retrained for other positions in the Group. Demonstrating our commitment to ensure that both applicants and colleagues with disabilities and those with long-term health conditions have the opportunity to fulfil their potential and realise their aspirations, the Group became a Disability Confident Employer (Level 2) on 7 December 2021. Further the Group will be submitting the submission for Level 3 status – Disability Confident Leader – in early 2022.

The Board is focused on introducing significant new funds to the Group via a continuation of the approved disposal programme and refinancing of debt maturities, including the Group's RCF which matures in August 2023.

Employee development and engagement

Actions taken during the year regarding the consultation of and provision of information to UK employees are described in the people section on pages 35 to 39. Communication with employees in relation to Capita's financial performance is detailed in the remuneration report on page 100.

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.

Further information on employee development, consultation and engagement is included in the people and responsible business sections on pages 35 to 39 and 42 to 49 and the section 172 statement on pages 40 and 41.

Political donations

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

Greenhouse gas emissions

Details of the Group's greenhouse gas (GHG) emissions, including metrics and methodology, are set out in the table on page 78 and on page 47 of the strategic report.

GHG emissions (tCO₂e) and energy use (kWh) for period 1 January 2021 to 31 December 2021

Region	Current reporting year 2021			Comparison reporting year 2020		
	UK and offshore	Global (excluding UK and offshore)	Total	UK and offshore	Global (excluding UK and offshore)	Total
Energy used to calculate emissions (kWh)						
Gas and fuel	63,491,651	1,726,619	65,218,269	73,668,847	1,871,964	75,540,811
Electricity and district heat	80,477,379	26,513,142	106,990,520	81,491,440	16,112,463	97,603,902
Business travel - cars	12,502,976	2,271,999	14,774,974	46,912,511	3,351,543	50,264,055
Total energy used (kWh)	156,472,005	30,511,758	186,983,763	202,072,798	21,335,969	223,408,768
% of total energy used	84%	16%	100%	90%	10%	100%
Emissions from combustion of gas and fuel for heating tCO ₂ e (Scope 1)	11,318	320	11,639	15,594	592	16,186
Emissions from combustion of fuel in company vehicles tCO ₂ e (Scope 1)	1,845	71	1,916	1,695	86	1,782
Emissions from fugitive refrigerant gas tCO ₂ e (Scope 1)	1,466	0	1,466	1,011	0	1,011
Emissions from purchased district heat tCO ₂ e (Scope 2)	40	157	198	35	137	181
Emissions from purchased electricity (location-based) tCO ₂ e (Scope 2)	17,038	6,853	23,891	18,939	9,239	28,178
Emissions from purchased electricity (market-based) tCO ₂ e (Scope 2)	2,196	8,132	10,328	12,513	11,009	23,552
Emissions from business mileage - air, rail, tube, tram and light rail, taxi, bus, coach, ferry, hotel, waste tCO ₂ e (Scope 3)	3,860	640	4,500	6,829	1,032	7,881
Total gross tCO ₂ e Scope 1 and 2 (location based)	31,708	7,401	39,109	37,284	10,055	47,338
Total gross tCO ₂ e emissions (location based)	35,568	8,042	43,609	44,113	11,107	55,220
Total gross tCO ₂ e emissions (market based)	20,686	9,163	29,849	37,643	12,740	50,383
Intensity ratio - gross Scope 1 and 2 tCO ₂ e (location-based) per £1m turnover	31,708/£1m	7,401/£1m	39,109/£1m			
	UK revenue 2021	overseas revenue 2021	total revenue 2021	11.2	3.0	14.2
Intensity ratio - tCO ₂ e gross Scope 1 and 2 (location-based) per headcount	0.91	0.39	0.73	1.01	0.54	0.85

Methodology: Carbon emissions have been calculated following the GHG protocol using the operational control approach. Estimated energy figures have been used for buildings where direct meter data is not available, using Cobe guide E benchmarks for previous years' consumption outside UK if available. Any fuel figures provided in litres have been converted into kWh or tCO₂e using Gov.UK and Defra conversion tables. Mileage provided has been converted into tCO₂e using Defra conversions for the relevant engine size and fuel type. kWh figures for air, rail, taxi and other public transport have been omitted as not practical to convert from passenger km or passenger fares but CO₂e emissions have been calculated using Defra conversion factors.

Scope 1, Scope 2 and Scope 3 business travel are verified to ISAE 3000 by Corporate Citizenship

ISAE 3000 ISAE 3000 ISAE 3000 ISAE 3000 ISAE 3000 ISAE 3000

Energy efficiency action 2021

We invested in energy-efficiency measures across our estate and achieved significant emissions reductions in 2021.

Building plant upgrades and initiatives	CO ₂ e reduction per annum
Replacement LED lighting saving	65.1
Replacement chillers and air-conditioning units	207.6
Replacement of pumps and ventilation fans with high-efficiency units	51.5
Upgraded building management controls saving	12.4
Insulation	36.2
Replacement heating plant	5.3
Total CO ₂ e reduction	378.1

Our virtual meetings initiative resulted in further reductions in business travel CO₂e equivalent emissions although emissions began to climb in Q4 of 2021 but still 75% lower than pre-pandemic. We have set 2035 net zero targets to augment our short-term 1.5°C science-based targets for greenhouse gas reduction. This target covers our full value chain and is being evaluated by the SBTi. For 2022 our divisional executive officers have been tasked by the CEO to set net zero targets for their functions and businesses to drive progress against our net zero milestones and plan.

Financial instruments

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

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

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

The Group's committed bank facilities provide liquidity for the cash fluctuations of the business cycle and an allowance for contingencies. The Group does not rely on sources of funding that are

not contractually committed. The bank facilities and private placement loan notes all include provisions that would require repayment in the event of a change of control, which are typical of these arrangements.

The current RCF expires on 31 August 2022 and a Forward Start RCF is in place that will cover the year to 31 August 2023. The RCF was £40m drawn at 31 December 2021 (31 December 2020 undrawn).

The size of the available commitment will be right-sized each time the Group either refinances, raises funds through disposals, or raises equity. Both the current RCF and the Forward Start RCF include mandatory cancellation mechanisms that determine the amount of the cancellation in each case. The RCF commitment was £385.7m at 31 December 2021 (£452.0m at 31 December 2020). The RCF was reduced to £377.5m on 7 January 2022 following receipt of proceeds from disposals. The Forward Start RCF commitment is £300m and is also subject to partial mandatory cancellations upon the occurrence of the above events, should a threshold of aggregate receipts be reached. The commitments under both facilities are subject to a minimum value of £225m regardless of the quantum of receipts.

In addition to the RCF, at the start of 2021 the Group held £150m in committed bank backstop bridge facilities, which were cancelled on 1 February 2021 with the receipt of disposal proceeds.

In March 2022 the Group executed with one of its relationship banks a committed backstop bridge facility. The facility provides £70m of additional liquidity and it incorporates provisions such that it will be cancelled or will partially reduce in quantum as a consequence of specified transactions, including on completion of the announced disposal of Trustmarque. The committed facility has an expiry date of 31 August 2023 with an option for a further one year extension at the option of the lender. The facility is subject to covenants, which are the same as the RCF. Finally, certain property and assets used in the Group's operations are funded by lease arrangements. From time to time, the Group may act as lessor to third parties.

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

The Group's customers are offered credit terms that are consistent with market practice. The Group uses a non-recourse invoice discounting facility to mitigate the risk of late customer payment. The value of invoices sold under the arrangement at 31 December 2021 was £3.9m (2020: £13.6m). In addition, the Group's German business uses an invoice discounting arrangement relating to a

specific customer contract, and the value of invoices sold under that arrangement at 31 December 2021 was £12.5m (2020: £8.5m). The Group aims to pay its suppliers on time in accordance with agreed terms and does not seek to accelerate payments from customers beyond terms previously agreed.

As set out in note 6.2 (contingent liabilities), the Group has provided, through the normal course of its business, £28.7m letters of credit, performance bonds and guarantees (2020: £55.8m) – £11.6m 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 movements in interest rates and foreign exchange rates arise through the Group's operations and where financial instruments are transacted at floating rates of interest or in non-operational currencies. These exposures are managed through derivative transactions, primarily interest rate swaps, cross-currency interest rate swaps and forward foreign exchange contracts. Some of the exposure to movements in the GBP-EUR exchange rate is hedged through borrowings in EUR.

The Group is not generally exposed to significant foreign currency transaction risk. The principal exceptions relate to service delivery based in India, and committed costs relating to the purchase of cloud software services in USD. These exposures are managed through forward foreign exchange contracts, including non-deliverable forward contracts, which fix the GBP cost of highly probable forecast transactions denominated in INR and USD. Further details of the Group's financial instruments can be found in note 4.2 to the consolidated financial statements on pages 181 to 184.

In respect of credit risk, the Group trades only with parties that are expected to be creditworthy. It is the Group's policy that all clients who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debt is not significant. Credit risk also arises from financial assets such as cash, deposits, and the mark-to-market value of derivative instruments where positive. The risk of default is managed by limits on the exposure to any counterparty, and with reference to the public ratings of each.

Directors' indemnities

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

Powers of directors

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

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

Change of control

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

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

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

Rights and restrictions attaching to shares

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

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

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

Restrictions on transfer of shares

The Company's Articles allow directors 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 2022 AGM of the Company will be held at Linklaters LLP, One Silk Street, London EC2Y 8HQ on 10 May 2022. Details of the meeting format and the resolutions to be proposed are set out in the Notice of Meeting, which is sent to shareholders with the 2021 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 2021, shareholders granted authority for the Company to purchase up to 166,888,334 ordinary shares. This authority will expire at the conclusion of the 2022 AGM. No shares were purchased during 2021. A resolution to renew this authority will be put to shareholders at the 2022 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	187
9.8.4 (12–13)	Shareholder waiver of dividends	75

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

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

Company law requires the directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the

Companies Act 2006 and in accordance with UK-adopted international financial reporting standards (IFRSs) and the Disclosure Guidance and Transparency Rules of the UK's Financial Conduct Authority, 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 UK-adopted IFRSs
- State, for the Parent Company financial statements, whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements.
- Assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- Use the going concern basis of accounting unless they intend either to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

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

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

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

Directors' responsibility statement

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

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

The directors' report (pages 1 to 119) has been approved by the Board.

On behalf of the Board

Claire Denton

Chief General Counsel and Group Company Secretary

2021

2021

2021

Committees

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

Nomination Committee	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Reviews remuneration policies and contents of annual 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 data security and that all material risks have been properly identified and appropriately managed
Remuneration Committee	<ul style="list-style-type: none"> Sets policy for Board and senior management remuneration Approves individual remuneration awards Agrees changes to senior executive incentive plans
Disclosure Committee	<ul style="list-style-type: none"> Responsible for the appropriate identification and management of its disclosure information, including any decisions to relay public disclosure

Membership of the Company's standing committees at 31 December 2021 is shown below:

	C	NC	RC
Sir Ian Powell			
David Lowden	X	X	X
Matthew Lester	X	C	X
Georgina Harvey	X	X	C
John Creswell	X	X	X
Neelam Dhawan	X	X	X
Lyndsay Browne			X
Joseph Murphy		X	

(C) Chair

During 2021, the Nomination Committee met three times, the Remuneration Committee five times and the Audit and Risk Committee seven 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 71.

Nomination Committee report

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



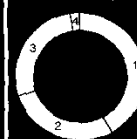
Sir Ian Powell
Chair, Nomination
Committee

The committee met three times in 2021 and the members' attendance record is shown on page 71. The Chief General Counsel and Group Company Secretary acts as Secretary to the committee and is available to assist committee members as required, also ensuring the distribution of timely and accurate information.

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

Responsibilities and activities

Nomination Committee time allocation (%)



- 1 42% Board appointments
- 2 28% Succession planning
- 3 28% Diversity
- 4 2% Governance

Diversity and inclusion

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

Further information on actions taken to address diversity, inclusion and wellbeing across the workforce is on pages 35 to 39 and 42 to 49 of the strategic report.

Gender and ethnicity balance

Government-backed diversity reviews have recommended FTSE 350 board diversity targets on gender (33% female representation) and ethnicity (at least one director of colour by the end of 2024). We have made progress on gender and ethnicity balance at both Board and senior management levels but there is still more to do throughout the organisation.

At 31 December 2021, female representation on the Board and among senior management¹ was 30% and 33% respectively. However, at 1 March 2022, female representation on the Board and among senior management¹ was 36% and 44% respectively. At 31 December 2021, female representation among senior management¹ and direct reports was 38%.

At 31 December 2021, ethnically diverse representation on the Board and among senior management¹ was 10% and 8% respectively. However, at 1 March 2022, ethnically diverse representation was 18% and 22% respectively.

Appointment process

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

Skills and experience

In January 2022, a Board skills matrix was debated to assist in ensuring the balance of skills and experience of the Board matched the future needs of the business.

Succession planning and Board composition

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

The committee aims to achieve an appropriate balance and continuity of skills on the Board. The process for recruiting a permanent CFO focused on the need for a person with significant finance and transformation experience, and with the appropriate skillset and seniority for the role.

Following her appointment by the Department for Work and Pensions to lead a review of the state pension age, Baroness Lucy Neville-Rolfe stepped down from the Board on 14 December 2021. Leaving the Board would enable Lucy to devote more time to the review and avoid any possible perception of a conflict of interest.

The committee was keen to improve further the Board's strength in technology and innovation, and the appointment of Nneka Abulokwe, who has significant experience of business and technology innovation, will benefit Capita's progress as we develop and move forward to execute on our growth strategy.

The external search agencies, Odgers Berndtson and Spencer Stuart were used respectively for the appointments of Tim Weller and Nneka Abulokwe, and those firms have no other connection with the Group or individual directors.

Board evaluation

Details of the annual board evaluation process are provided in my introduction to this corporate governance section of the Annual Report on page 66.

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

Continued oversight in a pivotal year

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.



Matthew Lester
Chair, Audit and
Risk Committee

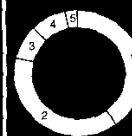
Terms of reference

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/corporategovernance.

The terms of reference are reviewed annually and updated as required.

Role and responsibilities

Audit and Risk Committee time allocation (%)



- 1 40% Risk management
- 2 39% Financial reporting (incl. external audit)
- 3 9% Internal audit
- 4 9% Private meetings with auditors
- 5 3% Governance

Risk and control framework

The Committee continued to monitor and navigate through the ongoing impact of Covid-19. In addition, the reorganisation referred to in the CEO report initially presented challenges but subsequently yielded real opportunities to enhance the effectiveness of risk management at Capita.

During the year, two principal risks were added to the Capita risk profile, around climate change and the wellbeing, health and safety of our people, most of whom continued to work from home since the pandemic began over two years ago.

Further progress was made on standardising some existing financial processes to drive efficiency and control improvements and further enhancements are planned for 2022. As in the prior year, a key control questionnaire process was completed across the Group where every business leader attested to compliance with key controls. This enables management to focus attention on control areas that need improvement. Work is ongoing to implement elements of an enhanced risk and control framework.

Further detail on the risk management and internal control environment is set out later in this report on page 94.

Transformation journey

2021 marked the culmination of the Group's period of corporate transformation. The multi-year transformation included the finance transformation and development of the Group risk and control framework. These were disrupted by the pandemic but the committee continued to assess the framework and its implementation regularly throughout 2021. A decision was taken at the end of the year to focus on optimising the current finance reporting systems and not migrate to an entirely new finance system. This followed careful consideration by the Board and the committee on investments made to date and the disruption, effort and cost required to put in place an effective finance system to support the finance transformation. The simplified operating model introduced in August 2021, the ongoing programme to rationalise the overly complex legal structure, and commitment from the Group's finance reporting system supplier for continued support for existing IT platforms underlie this decision. It led to an impairment of the previous investments in a new finance reporting system but the revised plan will expedite completion of the much needed standardisation and automation of Capita's finance processes and a more robust control framework. Further improvements to the Group risk and control framework, including financial controls, are planned for 2022, taking into consideration the Government's proposed audit and governance reforms, including the potential adoption of a UK Sarbanes-Oxley regime.

Committee membership and attendance

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

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

Committee performance was assessed as part of the externally facilitated Board evaluation (see page 66 for more information). The Board is satisfied that the combined knowledge and experience of its members is such that the committee discharges its responsibilities in an effective, informed and challenging manner and that, as a whole, the committee has competence relevant to the sector in which the Company operates. The Group Company Secretary, or their nominee, acts as Secretary to the committee and is available to assist the members of the committee as required, ensuring that timely and accurate information is distributed accordingly.

How the committee operates

The committee has an annual forward agenda to cover the key events in the financial reporting cycle, specific risk matters identified by the committee and standing items that the committee is required to consider in accordance with its terms of reference. The annual agenda is supported by agenda setting meetings held in advance of each committee meeting, led by me and attended by the CFO, members of the Group Finance team, the Chief General Counsel and the Director of Risk and Group Internal Audit. Their purpose is to identify key issues impacting the business that may require consideration by the committee. Reports are received from Group functions, including risk and internal audit, as appropriate. New sales wins and their contract terms are reviewed from a risk and accounting perspective as appropriate. Additional reports are provided as may be required. I report to the Board the key matters of discussion and make any significant recommendations as necessary.

How the committee discharged its roles and responsibilities in 2021

The committee held seven scheduled meetings during the year and attendance at each meeting is shown on page 71. 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 89 to 92.

Fair, balanced and understandable

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

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

“During 2021, the Committee maintained its oversight of financial reporting, audit and risk in a pivotal year for Capita's transformation.”

Communications with the Financial Reporting Council

In September 2021, the Company received a letter from the Financial Reporting Council (FRC) following its review of the Company's 2020 Annual Report and Accounts. The FRC requested further information in relation to recoverability of investments in subsidiaries and amounts owed by subsidiaries reported by the Parent Company.

Following provision of the information requested, the FRC closed its enquiry in November 2021. We undertook to add further disclosures in relation to the impairment assessment for investments in subsidiaries and these have been added Note 7.3.4 to the financial statements. Further disclosure observations made by the FRC were given full consideration and additional disclosures are included in the 2021 Annual Report and Accounts where material or relevant to do so.

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

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

Going concern and viability assessment

Matter considered

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

Action

The committee considered the projections within the business plan, agreed by the Board in February 2022, and the key assumptions underpinning the future cash flow and profit forecasts. The committee received reports from executive management and KPMG concerning the going concern and viability assessments, including the key risks identified. These included details on the key assumptions, the forecasting process including historical forecasting accuracy, the committed facilities available, and the mitigations within direct control of the Group. The committee also considered the risks identified and appraised the severity and plausibility of these in setting the downside scenario (see section 1 to the consolidated financial statements for details).

As alternatives to these operational mitigations, and to support the medium-term resilience of the Group, the Board had assessed the disposal programme and refinancing agenda. The committee concurred with the Board that the refinancing and disposal mitigations were preferable to the operational mitigations. The committee judged the likelihood of these mitigation actions succeeding by considering the Group's successful track record of executing disposals in recent years and the Group's history of securing effective refinancing. The committee concurred with the Board's assessment and confidence of the Group's ability to complete the planned disposals and refinancing agenda. The committee considered these mitigations as applicable both for the going concern period to August 2023 and the viability period to 31 December 2024.

The committee recognised that any refinancing and future disposals would require third party agreements and approvals. As these events are outside the direct control of the Company, they may give rise to material uncertainties. The committee reviewed the disclosures presented in section 1 of the consolidated financial statements together with the viability statement on page 62 to ensure there was sufficient detail provided to explain the basis of preparation and the Board's conclusion.

Outcome

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

The committee is satisfied that section 1 to the consolidated financial statements and the viability statement on page 62 include proportionate disclosures to inform users of the assessments undertaken by the Board.

Revenue and profit recognition

Matter considered

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

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

Action

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

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

Outcome

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

Contract fulfilment assets

Matter considered

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

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

Action

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

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

Outcome

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

Impairment of intangible assets, goodwill and Parent Company's investment in subsidiaries, and recoverability of receivables from subsidiary undertakings in the Parent Company

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, and receivables from, subsidiaries in its financial statements. The impairment and recoverability assessments require the application of judgement concerning future prospects and forecasts.

Action

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

The committee has also reviewed the robustness of the assessment of recoverability of receivables from subsidiary undertakings in the parent company, and challenged the appropriateness of assumptions used to calculate and determine any provisions required.

The committee also considered the letter received from the FRC during the year in relation to Parent Company investments (as referred to earlier in this report).

Outcome

The committee is satisfied with the impairment of goodwill and intangibles recognised in these financial statements which is in line with expectations given performance of certain areas of the business in the year in the face of Covid-19 headwinds.

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 stage of the transformation and associated execution risks.

The committee also considered that any impairment of investment in subsidiaries, or any provision against amounts receivable from subsidiaries, at the parent company level were appropriate and properly accounted for.

Items excluded from adjusted results

Matter considered

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

Action

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

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

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

Categories of expenditure include costs typically associated with major restructuring such as severance payments, but also include costs related to the offshoring of activities and the introduction of automation and digital solutions, a Group-wide property rationalisation and functional transformation projects. To support these activities, external professional fees are being incurred in addition to dedicated internal costs. Where such costs are incremental and directly related to the transformation plan, the committee has concluded that such costs should be included in the overall transformation costs that are separately presented. In 2021, this included impairment of the elements of the new finance reporting system which are no longer expected to be utilised.

The committee also considered the appropriate presentation to apply to provisions and impairments in respect of two streams of related services in Experience. In prior years, such contract judgements have not been adjusted, as they were considered to be in the normal course of business and not associated with the transformation plan. However, due to the quantum of the charge, the committee concluded that such charges should be excluded from adjusted results to highlight the impact on the in-year results.

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 2021.

Outcome

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

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

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

The committee will continue to review this policy in 2022 and beyond with a view to reducing the quantum of items excluded from both adjusted profit and free cash flow. As 2021 marked the end of the Group's period of corporate transformation, any residual restructuring costs will be recorded with adjusted results from 1 January 2022.

Provisions and contingent liabilities

Matter considered

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

Action

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

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

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

Outcome

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

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

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

Pensions

Matter considered

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

Action

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

Outcome

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

Other issues considered in relation to the financial statements

Materiality

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

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

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

Disclosure of information to the auditor

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

Statutory auditor

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

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

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

Auditor independence

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

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

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

Audit-related services and fees

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

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

Total non-audit fees during the year were £1.5m and related to the review of interim results and services as reporting accountant for the disposal of AXELOS Limited. Further details are provided in note 2.3.2 to the consolidated financial statements.

External auditor performance

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

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

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

Financial Reporting Council: audit quality inspections

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

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

Audit partner rotation

The lead audit partner is the lynch pin of the relationship between the committee and the audit team. Accordingly, I led the selection of the new audit partner and made the recommendation to the Board, having interviewed alternative candidates. The committee would like to note their appreciation of the hard work, expertise and professionalism shown by Robert Brent who rotates off the audit this year.

External auditor reappointment

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

The lead audit partner is rotated on a five-yearly basis. The current lead audit partner rotated onto the audit at the conclusion of the 2016 audit and will rotate off the audit team following the completion of the 2021 audit. There are no contractual obligations which restrict the committee's choice of auditor.

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

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

Review of risk management and internal control

Responsibility for reviewing the effectiveness of the Group's risk management and internal control systems is delegated to the committee by the Board. The principal risks and risk management processes are set out on pages 53 to 61.

Effectiveness and efficiency of risk management

During the year, the committee completed a robust assessment of the principal risks, including deep-dive reviews on six of the 13 principal risks. The assessment also considered any emerging risks that would threaten its business model, future performance, solvency or liquidity. The assessment process included regular engagement with the Executive Committee members accountable for the management of risk falling under their remit. As part of each deep dive, the committee reviewed existing controls and further risk reduction actions to ensure they were valid and effective in reducing the overall risk level.

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

- wellbeing, health and safety of our people
- cyber and information security
- IT resilience
- attracting, developing and retaining our people
- anti-bribery and corruption.

The enterprise risk management framework and control environment continues to be enhanced and embedded across Capita in the revised operating model. The committee concluded that risk management processes and the system of internal controls were adequate and there were no material weaknesses requiring specific disclosure. The committee reported the conclusions to the Board to support the annual confirmation that a robust assessment of the principal risks had been carried out.

Effectiveness and efficiency of financial controls

Detail on the status of internal financial controls is in the internal control and risk management section of this report and can be found on page 53. The committee concluded that, while these were not appropriately efficient for a Group of the scale and complexity of Capita, overall, they could be relied upon to be materially effective.

Internal audit

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

The committee approved a three-year plan in June 2021, which focuses on key business risks and processes. Conducting audits over these risks and processes will provide better insight into how risk is being managed and will provide comparison across business units. The three-year plan will serve as a baseline for audit activity and the internal audit function will continue to reassess as the plan progresses, to ensure it is delivered and adjusted in line with Capita's changing risk profile.

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

Insights from 2021 audits have continued to identify consistent themes including: lack of defined policy and procedures over key processes; risks being managed through the experience of our people and existing knowledge; roles, responsibilities and accountabilities not always clear; and lack of evidence to demonstrate monitoring and reporting of control activity. In all cases management responded with appropriate actions to mitigate the associated risks. There has been continued focus by senior management to improve the control environment through the timely closure of audit actions.

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

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

Anti-bribery and corruption

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

Speak Up

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

Privacy

Primary responsibility for divisional privacy compliance was transferred to the divisions on 2 August 2021. Each division has now appointed a Divisional Data Protection Officer or Lead who has assumed responsibility for ensuring that divisions provide their own first and second level assurance. This structure ensures that privacy is managed where data is created.

A central privacy team comprising the Data Protection Officer, Deputy Data Protection Officer and Data Privacy Manager sets privacy policies and standards for the whole Group and provides assurance at Group level and within Capita functions and shared services.

Privacy teams across Capita continue to provide privacy assurance, training and support to business units in line with the requirements of data protection legislation. As part of the Future Capita restructuring, the privacy function is undergoing a refresh to improve visibility of privacy-related issues and requirements. Initiatives include the creation of a new privacy site (including updated policies, guidance and standards), updated training, privacy communications and refresh of Capita's standard contractual data protection clauses.

Matthew Lester

Chair

Chair of the Audit and Risk Committee

Directors' remuneration report

Capita plc
Annual Report 2021



Georgina Harvey
Chair, Remuneration
Committee

Corporate
governance

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“

Our new remuneration policy is working well in supporting the continued progress of the Group under a new, simpler, more client-focused divisional structure.”

This report is split into three sections:

- The **annual statement** summarises how the committee discharged its roles and responsibilities in respect of 2021 and the proposed implementation of the directors' remuneration policy for 2022.
- A summary of the **directors' remuneration policy** (the policy) which was approved by shareholders at the 2021 annual general meeting (AGM). No changes are proposed for 2022.
- The **annual report on remuneration** sets out the remuneration arrangements and incentive outcomes for the year under review and explains how the policy will be operated for 2022.

The directors' remuneration report, excluding the policy, will be subject to an advisory shareholder vote at the 2022 AGM.

Annual statement

Dear shareholder,

I am pleased to present the directors' remuneration report for the year ended 31 December 2021.

As Capita emerges, like so many other companies, from the Covid pandemic and continues to progress under a new, simpler, more client-focused divisional structure, the committee has been focused on:

- Implementing our new policy, with the main change being a replacement of the long-term incentive plan (LTIP) with restricted share awards (RSAs) (together with the introduction of the associated new share plan rules), these changes were approved by shareholders at the 2021 AGM.
- Reintroducing the annual bonus plan for 2021, which was cancelled for 2020.
- Colleague wellbeing, receiving real living wage accreditation.

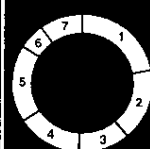
Details of the committee's approach to remuneration in 2021, and the proposed implementation of the policy for 2022, are set out below.

How the committee operates

The committee has an annual agenda covering the key planning and decision events in the annual remuneration cycle. Each meeting is supported by an agenda-setting discussion held in advance with the committee Chair, Chief People Officer and Group Reward Director to identify issues affecting remuneration that may require consideration by the committee. Regular reports, including updates on corporate governance and regulatory developments, are received from the

Remuneration Committee membership and attendance

Remuneration Committee time allocation (%)



- 1 22% Governance
- 2 17% Executive Directors' and Executive Committee members' remuneration
- 3 12% MBP
- 4 15% LTIP/RSA
- 5 18% Wider workforce
- 6 6% Shareholder consultation/feedback
- 7 10% Committee time only

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, engagement on how executive remuneration aligns with wider company pay policy, salary proposals for members of the senior team and approval of remuneration packages for new members of the executive committee.

Committee activities

The key workstreams of the committee during the year included:

- Reviewing shareholder feedback following extensive consultation and agreeing the directors' remuneration policy taken to the 2021 AGM
- Agreeing the vesting percentage, including the exercise of negative discretion, in respect of the 2018 LTIP awards for the performance period ended 31 December 2020 (no bonus was operated in 2020).
- Agreeing appropriate initial RSA levels under the new 2021 Capita Executive Plan.
- Agreeing the design and targets for the management bonus plan (MBP), renamed during the year from the short-term incentive plan.
- Determining the remuneration arrangements for executive director and senior management leavers/joiners
- Consideration of executive pay arrangements and alignment with those for the wider workforce.
- Reviewing and agreeing the approach to workforce engagement in respect of executive remuneration.
- Consideration of the project plan for a review of wider workforce strategy on pay and progression.

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

Clarity – Our policy is well understood by our senior management team and has been clearly articulated to our major shareholders and representative bodies (both on an ongoing basis and during the detailed consultation exercise in 2020/21 in respect of the last policy review).

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

Risk – Our policy has been designed to ensure that inappropriate risk-taking is discouraged and will not be rewarded via: (i) the balanced use of both short-term incentives and long-term share awards;

(ii) the significant role played by equity in our incentive plans (together with in-employment and post-cessation shareholding guidelines), and (iii) malus/clawback provisions and the committee's ability to use discretion to adjust vesting levels.

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

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

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

Remuneration for 2021

As noted in the 2020 report, the committee was concerned that the existing policy, based on the annual grant of LTIPs, was no longer working effectively. A detailed review of policy, which included an extensive shareholder consultation exercise, was carried out by the committee in the circa six months running up to the 2021 AGM with the main focus being a switch from LTIPs to RSAs (the rationale for this is set out in detail in the 2020 report). The approach to 2021 remuneration, noting the strong shareholder support received at the 2021 AGM, was as follows:

- The base salary level for the Chief Executive Officer (CEO) was maintained at £725,000 from 1 January 2020 (unchanged since his appointment in 2017).
- Tim Weller was appointed Chief Financial Officer (CFO) in May 2021 on a base salary of £545,000. The committee's rationale for Tim's salary positioning is set out on page 116 in the annual report on remuneration.
- Annual bonus potential was reintroduced for 2021 (the annual bonus plan for 2020 was withdrawn before targets were set, in response to Covid-19) at a maximum of 200% of salary for the CEO and 175% of salary for the CFO – unchanged from the previous policy levels. The bonus was based on adjusted profit before tax (20%), adjusted free cash flow (40%), organic revenue growth (20%) and strategic KPIs (20%).
- RSAs were granted under the Capita Executive Plan immediately after the 2021 AGM following shareholder approval of the new remuneration policy and share plan.

Annual bonus for 2021

Following a review of performance by the committee post year end, annual bonuses of 24.8% of maximum for the CEO and 25.8% of maximum for the CFO (pro-rated as a result of joining in year) were awarded. While the threshold targets in respect of adjusted free cash flow and PBT were not met, organic revenue performance (a key part of Capita's transformation plan) was between threshold and target and the strategic objectives were considered to have been met to a significant extent. Consistent with the shareholder approved remuneration policy, 50% of the bonus awards will be deferred into Capita plc shares for three years.

In considering the annual bonus awards for 2021, the committee also reviewed the broader stakeholder experience and concluded that:

- the senior executive team, and in particular the CEO and CFO (from appointment), should be rewarded for providing outstanding levels of leadership and continuing to deliver against the corporate transformation strategy during another year of uncertainty and disruption;
- following the application of committee discretion to reduce the 2019 annual bonus to zero, and the cancellation of the 2020 annual bonus plan in early 2020 before the targets had been set, any further application of negative discretion for the executive directors in respect of the 2021 annual bonus was not necessary or appropriate in the circumstances;
- while a small amount of furlough support was taken at the start of 2021 (c.£5m versus £21m in 2020) to protect a number of key roles, this was not considered to be material at c.0.3% of Capita's total salary bill for 2021, particularly noting the early action taken in respect of the 2020 annual bonus noted above and a number of other negative discretions applied over the last two years; and
- the equal split between cash and deferred shares, as per our approved policy, remains appropriate, noting that the RSA already provides a significant level of shareholder alignment and retention and as such, further deferral was not considered necessary.

Accordingly, the committee believes that the annual bonus awards to the executive directors for 2021 are both proportionate and appropriate.

The 2019 LTIP awards held by Jon Lewis, which are due to vest in March 2022, will vest at 12.5% of the maximum opportunity as a result of the strong performance on customer satisfaction targets (which have been a key part of Capita's transformation plan) over the three years to 31 December 2021. Further details in respect of this performance assessment and the value of the awards (which are materially reduced from the value as at the original grant date following the fall in share price since grant) are set out on page 113.

The committee is satisfied that total remuneration paid to each of the executive directors in respect of 2021 was appropriate when the progress against the transformation plan, and the stakeholder experience more generally, are considered.

Use of discretion

The committee retains the right to exercise discretion to override formulaic outcomes and ensure that the level of bonus and/or share award payable is appropriate. It may use its judgement to adjust outcomes downwards to ensure that any payments made reflect overall Company performance and stakeholder experiences more generally. Where exercised, the rationale for this discretion will be fully disclosed to shareholders in the annual report. A summary of the discretion exercised by the committee in respect of 2021 (and in respect of the prior year) is set out below.

	2020	2021
Annual bonus	In light of the impact of Covid-19, the annual bonus plan was withdrawn for 2020 for the executive directors (plus the executive committee and selected senior managers) before the targets were agreed.	The committee did not consider further application of downward discretion to be necessary or appropriate in 2021 following a review of Group and individual performance, the general stakeholder experience and noting discretion exercised in 2019 and 2020.
LTIPs	2020 LTIP award levels were reduced by around 70% compared with normal grant levels. In addition, and to reflect underlying financial and operational performance, the committee applied downward discretion when assessing the vesting of the 2018 LTIP.	2021 RSA levels were reduced from the normal policy grant level by around 17%.

Board changes in 2021

On 12 May 2021, Gordon Boyd resigned from his position as interim CFO and Executive Director, and Tim Weller was appointed as the new permanent CFO and Executive Director on the same date. Details of the remuneration arrangements in respect of Gordon's resignation and Tim's appointment are set out in the annual report on remuneration on page 116.

David Lowden and Neelam Dhawan were appointed as Non-Executive Directors on 1 January and 1 March 2021 respectively. David took over the role of Senior Independent Director with effect from 1 March 2021 following Gillian Sheldon's resignation as a Non-Executive Director and the Senior Independent Director on 26 February 2021. Andrew Williams and Baroness Lucy Neville-Rolfe resigned as Non-Executive Directors on 11 May 2021 and 14 December 2021 respectively.

Remuneration policy for 2022

Following shareholder approval of the policy at the 2021 AGM, with a high level of shareholder support, no policy changes are being proposed at the 2022 AGM. See pages 101 to 106 for a summary of the current approved policy.

Implementing the policy for 2022

The committee's intended approach to the implementation of the policy for 2022 is set out below.

Fixed remuneration: Jon Lewis' salary was increased in line with the average increase for the UK workforce from 1 January 2022 (his first salary increase since appointment in 2017) while Tim Weller did not receive a salary increase, given his recent appointment to the Board. Executive directors will continue to receive a workforce-aligned pension allowance (5% of salary, in line with other employees).

2022 annual bonus: The annual bonus plan will operate for 2022 with maximum opportunities continuing at 200% (CEO) and 175% (CFO) of salary. The financial performance metrics will be based on reported revenue, reported profit before tax and reported free cash flow (all equally weighted and totalling 80% of maximum bonus). The remaining 20% of maximum bonus will be based on strategic/individual objectives incorporating environmental, social and governance (ESG) targets.

2022 RSAs: The CEO was granted an RSA in 2021 over shares equal to 125% of salary and it was the committee's intention to move to 150% of salary RSA from 2022 onwards. In addition, the committee had intended to adopt a more market consistent underpin for 2022 (in addition to an underlying financial performance underpin, the committee also attached a total shareholder return (TSR) growth underpin to the 2021 RSAs). However, reflecting the prevailing share price, the committee has again agreed to grant the CEO's 2022 RSAs at no more than 125% of salary level (ie below the normal 150% of salary maximum) and apply the TSR underpin (ie TSR must be positive over the three years ending 31 December 2024) to the CEO's RSA for a second year.

In respect of the CFO's 2022 RSA, the committee has agreed to grant this at no more than 100% of salary albeit the TSR underpin will also be applied to his award. While this is higher than the 83% of salary 2021 RSA, the committee wishes to ensure that the CFO remains appropriately retained and incentivised, particularly in light of the application of the TSR underpin (which is currently underwater given that it commenced on 1 January 2022) which was not originally intended to apply when the CFO's remuneration package was agreed in 2021.

As such, the 2022 RSAs to be granted to executive directors in March 2022 will:

- be set at a maximum of 125% of salary for the CEO and 100% of salary for the CFO (albeit as noted below, the actual number of shares will not be determined until much closer to the grant date);
- normally vest after three years from grant subject to: (i) continued employment; (ii) satisfactory personal performance during the relevant vesting periods; and (iii) a positive assessment of performance against two underpins (see below); and
- deliver shares that, once vested, may not normally be sold until at least six years from the grant date (other than to pay relevant taxes)

In respect of the underpins for the 2022 awards:

- underpin 1: Capita's TSR over the three years ending 31 December 2024 must be positive for any RSAs granted to executive directors to vest; and
- underpin 2: the committee must be satisfied with the underlying performance of Capita and that there have been no environmental, social or governance issues resulting in material reputational damage. If this is not deemed to be met, the committee will consider a reduction to the final vesting level of the RSAs (including to nil).

The actual number of shares under award will be determined just prior to the date of grant based on the prevailing share price at that time and full details will be in the RNS issued immediately following grant.

Shareholder views

In taking a new remuneration policy to the 2021 AGM, the committee carried out an extensive consultation exercise with our major shareholders and the main representative bodies. Following a review of the feedback received, the committee made two changes to the original proposals being (i) an extension to the post-vesting holding period from the two years originally proposed to three years; and (ii) a reduction to the 2021 RSA levels from the normal policy levels. The committee believes that the process reflected a genuine consultation exercise and was pleased with the level of shareholder engagement and the support it received for both the new policy (97.13%) and the adoption of the Capita Executive Plan (96.99%).

Employee engagement

In 2021, Jon Lewis regularly communicated with all employees, including on our 2020 financial results. Employees are able to submit any questions about the Company – including in relation to the directors' remuneration policy and report, pay and benefits – both online and during live employee briefings. Lyndsay Browne, one of the employee non-executive directors, was appointed to the Remuneration Committee in 2020 with the intention of ensuring a colleague perspective on remuneration at the very top of the organisation.

The committee discussed the specific Code requirement to describe engagement with the workforce on how executive remuneration aligns with wider company pay policy, and how best this might be addressed at Capita. As committee Chair, I have initiated a programme of workforce engagement sessions which are attended by a cross-section of employees from different levels, divisions and territories within the Capita Group. These sessions cover the work of the committee, how executive remuneration is linked to performance, strategy on workforce pay and progression and how Capita executive pay policy links to wider company pay policy including how each element of the remuneration package cascades down the business. These sessions provide an opportunity for questions and answers and the provision of feedback is encouraged. Further workforce engagement sessions are planned during 2022.

Concluding thoughts

As Capita continues to progress under our new, simpler, more client focused divisional structure, the committee is satisfied that the new policy is operating as intended and will help to ensure that the senior management team is appropriately retained and incentivised. The committee will continue to listen to the views of our shareholders in respect of remuneration and, as such, 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 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

11 May 2022

Directors' remuneration policy

This part of the remuneration report sets out a summary of our remuneration policy which was approved by shareholders at, and took effect from, the 2021 AGM. The full policy approved by shareholders at the 2021 AGM is presented in the Annual Report 2020. No changes to the policy are proposed for 2022. The information provided in this section of the remuneration report is not subject to audit.

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 role, including setting the overarching principles, parameters and governance framework and determining each remuneration package. In addition, the committee reviews remuneration for the wider workforce and related policies and the alignment of incentives and rewards with culture. The committee also sets the Chairman's fee.

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

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

Consideration of shareholder views

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

Consideration of our people

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

Remuneration policy table

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

Base salary

Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
To attract and retain talent by ensuring base salaries are sufficiently competitive	<p>Normally reviewed annually 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:</p> <ul style="list-style-type: none"> Salaries in similar companies and comparably-sized companies Remuneration policy Economic climate Market conditions Group performance The role and responsibility of the individual director Employee remuneration across the broader workforce 	<p>There is no prescribed maximum monetary annual increase to base salaries. Any annual increase in salaries is at the discretion of the committee taking into account the factors stated in this table and the following principles:</p> <ul style="list-style-type: none"> 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	<p>Benefits include car allowance, private medical insurance, travel and property hire. 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.</p>	<p>Benefit provision varies between different executive directors. While there is no maximum level set by the committee, benefits provision will be set at a level the committee considers appropriate and be based on individual circumstances.</p> <p>Participation in the Company's HMRC-approved all-employee share plan will be limited by the maximum level prescribed by HMRC.</p>	Not performance-related

Pension

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

Annual bonus

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

Restricted share awards

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

Shareholding guidelines

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

Non-executive director (NED) fees

Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
Market competitive fees are set so as to attract and retain non-executive directors with required skills, experience and knowledge so that the Board can effectively carry out its responsibilities	<p>Reviewed periodically by the Board. Fee levels set by reference to market rates taking into account the individual's experience, responsibilities, time commitment and pay decisions for the broader workforce.</p> <p>NED fees comprise payment of an annual basic fee and additional fees for further Board responsibilities such as:</p> <ul style="list-style-type: none"> • Senior independent director • Audit and Risk Committee chair • Remuneration Committee Chair • The Chairman of the Board receives an all-inclusive fee. <p>Additional fees/allowances may also be paid for intercontinental travel for business purposes where appropriate.</p> <p>No NED participates in this Group's incentive arrangements or pension plan or receives any other benefits other than where travel to the Company's registered office is recognised as a taxable benefit in which case a NED may receive grossed-up costs of travel as a benefit.</p>	<p>As per the executive directors, there is no prescribed maximum monetary annual increase.</p> <p>Fees are limited to an aggregate annual sum of £1m increased only to take account of the effect of inflation as measured by the retail price index or such index as the directors consider appropriate or such other amount as the Company may by ordinary resolution decide.</p>	Not performance-related

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

Targets are normally set on either a 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 exceptional outperformance of challenging strategic plans approved at the start of each year.

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

- Who participates
- The form in which the awards are granted and settled (eg shares, nil cost options, cash)
- The timing of the grant of awards and/or payment
- The size of an award up to individual and plan limits and/or a payment
- Discretion relating to the measurement of any performance target/achievement and granting of awards in the event of a good leaver, scenario or a change of control or reconstruction of the Company
- Determination of whether or not a person is classified as a good leaver in addition to any specified criteria for incentive plan purposes
- Adjustments required in certain circumstances (eg share capital variation, rights issues, demergers, corporate restructuring, special dividends)
- The ability to vary or substitute the performance conditions under the plan if circumstances occur which cause a determination 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, and on its own merits. In the event that this committee were to make an adjustment of this sort, a full explanation would be provided in the next remuneration report.
- The ability to reduce the vesting level of awards (including to nil) where the Committee determines this is appropriate to do so.

The committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretion available 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 in advance of 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 the purposes of paragraph 19(2) of the committee, including a award of variable remuneration and in relation to an award of 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 document for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation without obtaining shareholder approval for that amendment.

Malus and clawback

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

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

Application of our remuneration policy

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

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

Directors' recruitment and promotions

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

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

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

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

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

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

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

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

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

Directors' service agreements and payments for loss of office

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

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

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

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

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

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

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

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

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

Non-executive directors' terms of engagement

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

Non-executive employee directors' terms of engagement

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

Inspection of service agreements/letters of appointment

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

Annual report on remuneration

This part of the remuneration report has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and paragraphs 9.8.6R and 9.8.8 of the Listing Rules. The annual report on remuneration will be put to an advisory shareholder vote at the 2022 AGM. The information on pages 107 to 119 has been audited as indicated.

FIT Remuneration LLP was appointed by the committee during 2020 to provide independent advice on executive remuneration matters. During the year, the committee received independent and objective advice from FIT primarily on market practice, governance updates, the introduction and operation of the new remuneration policy, joiners and leavers and remuneration-related disclosure within the accounts. FIT's fees were £87,000 (excluding VAT) during 2021 for its services (charged on a time plus expenses basis). The fees were considered appropriate for the work undertaken. No other services were provided to the Group by FIT.

FIT is a founding member of the Remuneration Consultants Group and, as such, operates voluntarily under the code of conduct in relation to executive remuneration consulting in the UK. The committee considers FIT's advice on remuneration to be independent and objective, and there is no connection with the Company or individual directors.

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

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

Shareholder voting at the AGM

The 2021 directors' remuneration report will be presented to shareholders at the 2022 AGM. At the 2021 AGM, the actual voting in respect of the ordinary resolution to approve the remuneration report for the year ended 31 December 2020 and the vote on the 2021 remuneration policy is set out below.

	Votes cast for	Votes cast against	Abstentions
Directors' remuneration report, other than the part containing the Directors' remuneration policy, for the year ended 31 December 2020	1 289 055 937	634 509	2 242 816
	99.95%	0.05%	
Directors' remuneration policy (2021 AGM)	1 254 719 423	37 105 242	108 597
	97.13%	2.87%	

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

Policy implementation for 2022

The committee's intended approach to the implementation of the policy for 2022 is set out below.

Fixed remuneration: Jon Lewis' salary was increased in line with the average increase for the UK workforce from 1 January 2022 (his first salary increase since appointment in 2017) while Tim Weller did not receive a salary increase, given his recent appointment to the Board. Executive directors will continue to receive a workforce-aligned pension allowance (5% of salary, in line with other employees).

2022 annual bonus: The annual bonus plan will operate for 2022 with maximum opportunities continuing at 200% (CEO) and 175% (CFO) of salary. The financial performance metrics will be based on reported revenue, reported profit before tax and reported free cash flow (all equally weighted and totalling 80% of maximum bonus). The remaining 20% of maximum bonus will be based on strategic/individual objectives incorporating environmental, social and governance (ESG) targets.

2022 RSAs: The CEO was granted an RSA in 2021 over shares equal to 125% of salary and it was the committee's intention to move to 150% of salary RSA from 2022 onwards. In addition, the committee had intended to adopt a more market consistent underpin for 2022 (in addition to an underlying financial performance underpin, the committee also attached a TSR growth underpin to the 2021 RSAs). However, reflecting the prevailing share price, the committee has again agreed to grant the CEO's 2022 RSAs at no more than 125% of salary level (ie below the normal 150% of salary maximum) and apply the TSR underpin (ie TSR must be positive over the three years ending 31 December 2024) to the CEO's RSA for a second year.

In respect of the CFO's 2022 RSA the committee has agreed to grant this at no more than 100% of salary albeit the TSR underpin will also be applied to his award. While this is higher than the 83% of salary 2021 RSA, the committee wishes to ensure that the CFO remains appropriately retained and incentivised, particularly in light of the application of the TSR underpin (which is currently *underwater given that it commenced on 1 January 2022) which was not originally intended to apply when the CFO's remuneration package was agreed in 2021*

As such, the 2022 RSAs to be granted to executive directors in March 2022 will:

- be set at a maximum of 125% of salary for the CEO and 100% of salary for the CFO (albeit as noted below, the actual number of shares will not be determined until much closer to the grant date);
- normally vest after three years from grant subject to: (i) continued employment; (ii) satisfactory personal performance during the relevant vesting periods; and (iii) a positive assessment of performance against two underpins (see below); and
- deliver shares that, once vested, may not normally be sold until at least six years from the grant date (other than to pay relevant taxes).

In respect of the underpins for the 2022 awards:

- underpin 1 Capita's TSR over the three years ending 31 December 2024 must be positive for any RSAs granted to executive directors to vest; and
- underpin 2 the committee must be satisfied with the underlying performance of Capita and that there have been no environmental, social or governance issues resulting in material reputational damage. If this is not deemed to be met, the committee will consider a reduction to the final vesting level of the RSAs (including to nil).

The actual number of shares under award will be determined just prior to the date of grant based on the prevailing share price at that time and full details will be in the RNS issued immediately following grant

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

A summary of the fees for 2022, which are unchanged from 2021 levels are as follows:

	Annual fee from 1 January 2022
Sir Ian Powell, Chairman	£325,000
David Lowden, Senior Independent Director	£75,000
Matthew Lester, Audit and Risk Committee Chair	£75,000
Georgina Harvey, Remuneration Committee Chair	£75,000
Nneka Abulokwe ¹	£64,500
John Cresswell	£64,500
Neelam Dhawan	£64,500
Lyndsay Browne	£64,500
Joseph Murphy	£64,500

¹ Nneka Abulokwe joined the Board on 1 February 2022

Directors' remuneration earned in 2021 – single-figure table (audited)

The table below summarises directors' remuneration received in 2021 (with prior year comparators).

		Base salary and fees ¹ £	Benefits ² £	Pension ³ £	Annual bonus ⁴ £	LTIIP ⁵ £	HSA ⁶ £	Total remuneration ⁷ £	Total fixed remuneration ⁸ £	Total variable remuneration ⁹ £
Sir Ian Powell	2021	325,000	–	–	–	–	–	325,000	325,000	0
	2020	284,375	–	–	–	–	–	284,375	284,375	0
Jon Lewis ³	2021	725,000	19,837	36,250	359,020	98,811	–	1,237,918	780,087	457,831
	2020	634,375	17,928	36,250	–	508,029	–	1,196,582	688,553	508,029
Tim Weller ¹	2021	299,337	9,588	14,967	135,296	–	–	459,188	323,892	135,296
	2020	–	–	–	–	–	–	–	–	–
David Lowden ⁴	2021	75,000	–	–	–	–	–	75,000	75,000	0
	2020	–	–	–	–	–	–	–	–	–
Matthew Lester	2021	75,000	–	–	–	–	–	75,000	75,000	0
	2020	65,829	–	–	–	–	–	65,829	65,829	0
Georgina Harvey	2021	75,000	–	–	–	–	–	75,000	75,000	0
	2020	65,625	–	–	–	–	–	65,625	65,625	0
John Cresswell	2021	64,500	–	–	–	–	–	64,500	64,500	0
	2020	56,438	–	–	–	–	–	56,438	56,438	0
Neelam Dhawan ⁵	2021	53,750	4,000	–	–	–	–	57,750	57,750	0
	2020	–	–	–	–	–	–	–	–	0
Lyndsay Browne ⁷	2021	64,500	–	–	–	–	–	64,500	64,500	0
	2020	56,438	–	–	–	–	–	56,438	56,438	0
Joseph Murphy ⁷	2021	64,500	–	–	–	–	–	64,500	64,500	0
	2020	56,438	–	–	–	–	–	56,438	56,438	0
Former Directors										
Gordon Boyd ⁸	2021	513,010	1,309	–	–	–	–	514,320	514,320	0
	2020	152,381	–	–	–	–	–	152,381	–	0
Patrick Butcher ⁴	2021	–	905	–	–	–	–	905	905	–
	2020	322,058	15,252	18,790	–	–	–	356,101	362,875	0
Gillian Sheldon ¹¹	2021	13,750	896	–	–	–	–	14,646	14,646	0
	2020	65,625	–	–	–	–	–	65,625	65,625	0
Andrew Williams ¹¹	2021	23,292	902	–	–	–	–	24,193	24,193	0
	2020	56,438	–	–	–	–	–	56,438	56,438	0
Baroness Lucy Neville-Rolfe ¹²	2021	62,163	–	–	–	–	–	62,163	62,163	0
	2020	56,438	–	–	–	–	–	56,438	56,438	0

1. As part of Capita's response to Covid-19, the executive and non-executive directors agreed to take a 25% reduction in salary fees for six months effective from 1 April 2020. The salary fees shown above reflect this voluntary reduction.

2. Benefits include all taxable benefits as defined by paragraph 11.1 of the regulations. This includes private medical insurance, company car allowance, work travel and the value of matching share awards under the LTI all-employee share scheme.

3. Details of the performance assessment and vesting of the 2019 LTIP award held by Jon Lewis are set out on page 119. The impact of share price movements on his awards based on the average three month share price for 31 December 2021 (41.34p) is as follows:

Base value of awards expected to vest, based on the share price at grant (1,782,786 shares x 12.5% x 122p)	£271,875
Expected value of awards at vesting (1,782,786 shares x 12.5% vesting x 44.34p)	£98,811
Impact of share price movements on vesting values	£173,064

The 2019 LTIP awards have been reviewed in the table above in respect of the prior year from 1,123,777 (based on a 3 month average share price to 31 December 2020 of 35.8p) to 1,508,049 (based on a share price of 12.92p as of the 21 April 2021 vesting date). RSAs granted to Jon Lewis and Tim Walker in May 2021 with performance underpins will be disclosed in the year ending just prior to the remaining vesting date.

4. **Tim Walker** was appointed CFO on 12 May 2021 following **Jonathan Boyd's** resignation on the same date. **Tim Walker's** remuneration is shown from the date of his appointment to 31 December 2021, albeit reflecting a period of unpaid leave.
5. **David London** was appointed as a non-executive director on 1 January 2021 and took up the position of senior independent director on 1 March 2021 following **Gillian Sheldon's** resignation from the Board.
6. **Nicklas Ohlsson** was appointed as a non-executive director on 1 March 2021. Fees for 2021 are shown from 1 March 2021 to 31 December 2021. **Nicklas** is based outside the UK and receives an allowance for physical attendance at a board meeting. This is shown in the benefits column.
7. **Lindsay Browne** and **Joseph Murphy** are employee directors. In addition to their fees as a non-executive director, both received earnings from the Group as an employee amounting to £102,922 for **Lindsay Browne** and £10,099 for **Joseph Murphy** for the period 1 January 2021 to 31 December 2021. As part of their participation in the Capita Share Ownership Scheme, **Browne** received 630 matching shares (2070) and **Joseph Murphy** received 630 matching shares (4270). The value of the matching shares is the sum of the cost of purchase over the period 1 January 2021 to 31 December 2021.
8. **Gordon Boyd** was appointed interim CFO on 16 November 2020 and stepped down from the Board on 12 May 2021 following the appointment of **Tim Walker**. Reflecting the interim nature of **Gordon's** role, he received a base salary of £10,000 per month; he was not eligible for any variable remuneration and did not receive pension contributions. The figure disclosed for 2021 are for the period 1 January 2021 to the date he stepped down on 12 May 2021 and include an element of accrued holiday pay.
9. **Patrick Butler's** base salary, benefits and pension are shown for the period 1 January 2020 to the date he stepped down from the Board on 16 November 2020.
10. **Gillian Sheldon** stepped down from the Board on 28 February 2021. Fees disclosed for 2021 are for the period from 1 January 2021 to 28 February 2021 and include an element of accrued holiday pay.
11. **Andrew Williams** stepped down from the Board on 11 May 2021. Fees disclosed for 2021 are for the period from 1 January 2021 to 11 May 2021.
12. **Baroness Lucy Neville-Rofe** stepped down from the Board on 11 December 2021. Fees disclosed for 2021 are for the period from 1 January 2021 to 11 December 2021.

Annual bonus for 2021 (audited)

The annual bonus for 2021 was operated at normal levels (200% maximum for the CEO and 175% of salary for the CFO) based on a combination of Group financial measures (adjusted free cash flow, adjusted PBT and organic revenue) and strategic targets. 25% of bonus was payable for achieving the threshold target, 50% was payable for achieving target performance, with 100% of the bonus payable for achieving the maximum target. Details of performance against the financial and strategic targets are set out below.

Financial targets (80% of the bonus)

	Weighting	Threshold target (25% vests)	Target (50% vests)	Stretch (100% vests)	Actual performance	Achievement against financial performance weighting
Adjusted free cash flow	40%	£101m	£112m	£124m	£73m	0%
Adjusted PBT	20%	£103m	£114m	£125m	£80m	0%
Organic revenue ¹	20%	£2,832m	£3,147m	£3,462m	£3,009m	39%
Financial measures bonus payout					78%	

1. Actual performance in the table above takes into account items which have been disclosed for the purposes of ICA's listing compliance performance.
2. Organic revenue excludes revenue from acquisitions and business exits.

Strategic objectives (20% of the bonus)

Achievement against the strategic and personal objectives represented 20% of the total annual bonus opportunity for each executive director. The objectives were focused on delivery of Future Capita (new corporate structure and operating model) and net zero strategies, securing long-term financing, improving financial and key non-financial controls, and development of a Group-wide finance function transformation project.

Jon Lewis

Objectives	Weighting (% of salary)	Assessment	Score (% of salary)
Develop a net zero emissions strategy	13.33%	<p>This target required the CEO to develop a detailed net zero emissions (NZE) strategy during 2021 including targets and timescales for achievement. In assessing this target, the committee noted that an executable and costed plan to achieve net zero by 2035 was defined and approved by the Board in September 2021 (including net zero emissions targets to be part of strategic objectives for the bonus plan in 2022). The net zero plan was accredited by the Science Based Targets initiative, prior to Board approval. Supplementary internal and external communication campaigns ran to raise awareness.</p> <p>In addition, Capita was rated green for NZE strategy in the annual Cabinet Office strategic supplier review and rated first of five complex outsourcing suppliers and eighth of all 40 strategic suppliers on mean carbon emissions reduction.</p> <p>The committee deemed this objective to be met in full.</p>	13.33%
Implement Future Capita strategy	13.33%	<p>This target required the implementation of Future Capita strategy including a new operating model. In assessing this target, the committee noted that redesign of the Future Capita strategy (six divisions down to two core and one non-core) was delivered on time, within budget, and in accordance with design principles, with no major challenges impacting reputation, colleagues or customers.</p> <p>All related systems were rewired in conjunction with this go-live.</p> <p>The planned second wave of actions were executed in October, including an entire rewrite of the operating model 'Blue Book' and subsequent cascade throughout the organisation.</p> <p>The cost competitiveness targets were exceeded, associated with operating model changes.</p> <p>Further, prudent operating model changes made to Executive Committee in Q4, resulting in £50m added cost saved.</p> <p>Given the change programme, some regression in employee NPS was to be expected but the outcome was nevertheless disappointing, after progress made prior to 2021. Importantly, customer NPS remains strong.</p> <p>In light of the disappointing result on employee NPS, the committee considers this objective to be partially met.</p>	11.33%
Resolution of legacy contracts delivery issues	13.33%	<p>This target required the CEO to focus on resolving legacy contract delivery issues. In assessing this target, the committee noted that:</p> <ul style="list-style-type: none"> Transformational elements of all legacy contracts were completed by end Q4 2021 to client satisfaction. Contractual SLA KPIs (at 31 December 2021) were as follows: Green – 90%, Amber – 9%, Purple – 1%. Legacy contract resolution was achieved with no major issues affecting reputation, clients or colleagues. There was a marked change in Governmental support and feedback for Capita, including positive feedback from our Crown Representative (including in our strategic supplier annual review), the Mayor of London, and the CEO of The Pension Regulator. <p>While significant progress was made in respect of the legacy contract position, the committee considers this objective to be partially met.</p>	9.33%
Total	40%		34% (85% of maximum)

• Resolution of legacy contracts delivery issues

Tim Weller (from 12 May 2021)

Objectives	Weighting (% of salary)	Assessment	Score (% of salary)
Development of financial and key non-financial controls improvements across the Group	17.5%	<p>The target required the CFO to lead the implementation of the project in the second half of 2021 focused on:</p> <ul style="list-style-type: none"> Principal risk to process mapping to identify gaps and control weaknesses, with findings to be reported to the Audit and Risk Committee by the end of 2021; and Carrying out an internal controls over financial reporting (ICFR) review to identify gaps and control weaknesses arising from implementation of minimum controls standards (MCS) in finance processes across the Group. Report findings to the Audit and Risk Committee by the end of 2021/early 2022. <p>In assessing this target, the committee noted that the principal risk to business process mapping exercise was launched in July 2021, with the financial controls improvement programme now an inherent part of the re-engineering of current finance systems and processes. Findings were reported to the Audit and Risk Committee in its December 2021 meeting. The programme continues to progress well as the finance function looks to build on the Group's robust key controls questionnaire process to provide a monitoring mechanism to deliver control improvement in 2022.</p> <p><i>The committee deemed this objective to be met in full</i></p>	17.5%
Development of Group-wide finance function transformation project	17.5%	<p>The target required the implementation of the overall project to have commenced by 31 December 2021 and specifically have:</p> <ul style="list-style-type: none"> Delivered the first phase of revised CEO-3 organisation design and wider finance team structure to be implemented by Q4 2021 Delivered significant progress towards presenting an S/4HANA business case for approval by the Board Presented the overall finance transformation project at the November 2021 Board <p>In assessing this target, the committee noted that finance organisation design changes to support Future Capita and to establish a more efficient and effective central finance team structure, were implemented by 31 December 2021. Key finance leadership roles have been populated and the team is now focussing on continuous improvement in system and process. The S/4HANA implementation was terminated in December 2021 recognising that the solution was no longer fit for purpose given the simplified structure of the Group and the SAP ECC will remain supported until at least 2030. The committee noted that this decision is expected to avoid a significant amount of further investment.</p> <p>The committee deemed this objective to be partially met as, while significant progress has been made in respect of the Group-wide finance function transformation, some modifications have been required as a result of the decision to terminate the S/4HANA implementation.</p>	14%
Total	35%		31.5% (90% of maximum)

Summary of total 2021 bonus awards

	Jon Lewis		Tim Weller	
	% of maximum	% of salary	% of maximum	% of salary
Total financial	7.8%	15.6%	7.8%	13.7%
Strategic/personal	17%	34.0%	18.0%	31.5%
Total (%)	24.8%	49.6%	25.8%	45.2%
Total bonus (£)		£359,020		£135,296

1. Calculated on a pro-rata basis from start date, absent rate, long-term period of unpaid leave

Following a review of performance by the committee post year end, annual bonuses of 49.6% of salary for the CEO and 45.2% of salary for the CFO (pay out determined on a pro-rata basis) were awarded. While the threshold targets in respect of adjusted free cash flow and PBT were not met, organic revenue performance (a key part of Capita's transformation plan) was between threshold and target and the strategic objectives were considered to have been met to a significant extent. Consistent with the shareholder approved remuneration policy, 50% of the bonus awards will be deferred into Capita plc shares for three years. Details on the committee's review against the broader stakeholder experience is set out in the Annual Statement on page 117.

Long-term incentive awards due to vest in 2022 based on performance to 31 December 2021 (audited)

The performance assessment in respect of the 2019 LTIP awards held by Jon Lewis is as follows:

Performance metric	Weighting	Threshold (25% vests)	Target (50% vests)	Stretch (100% vests)	Result ¹	Vesting – % of max
Free cash flow	25%	£190m	£210m	£250m	£2m	0%
EBIT margin	25%	9%	10%	12%	4.1%	0%
Organic revenue growth ²	25%	£3,900m	£3,950m	£4,050m	£3,009m	0%
Customer satisfaction	12.5%	6 point positive swing in NPS	8 point positive swing in NPS	12 point positive swing in NPS	13 point positive swing in NPS	12.5%
Employee engagement	12.5%	6 point positive swing in NPS	8 point positive swing in NPS	12 point positive swing in NPS	1 point negative swing in NPS	0%
Total vesting						12.5%

¹ Result in the table above takes into account items which have been disallowed for the purposes of calculating performance.
² Organic revenue excludes revenue from acquisitions and business exits.

For the three years ended 31 December 2021, performance against the financial metrics did not meet the threshold targets. In addition, while employee engagement was tracking well, it fell below threshold during 2021. However, performance against the customer NPS targets (considered to be a genuinely stretching target which remains a critical driver of the performance and improvement of the business) was very strong over the performance period with a 13 point positive swing delivering full vesting of this element. Based on this excellent customer performance, albeit noting that the share price performance has eroded the value of the shares that are due to vest significantly, the committee believes that the 12.5% vesting out of the total is appropriate due to the considerable work involved and progress made in improving customer satisfaction scores over the period and

progress made against Capita's transformation plan and the performance against the underpin more generally.

Based on the above outcomes, the estimated vesting of the long-term incentive for Jon Lewis in 2022 is:

	Awards granted	Shares vesting based on performance (12.5% of maximum)	Dividend equivalent shares ¹	Total shares expected to vest	Estimated value at vesting ²
Jon Lewis	1,782,786	222,848	–	222,848	£98,811

¹ Not dividend equivalent shares are payable on the 2019 LTIP award.
² Based on the average three-month share price to 31 December 2021 of 44.34p.

RSAs granted in 2021 (audited)

Following approval of the Capita Executive Plan at the 2021 AGM, no further awards will be granted under the LTIP. The 2021 RSAs granted to Jon Lewis and Tim Weller represented a reduction of around 17% in the number of shares that would otherwise be awarded as part of their normal annual grant under the newly approved remuneration policy. The share price at grant was 41.78 pence.

Name of director	Number of shares awarded	Face value of RSA	Percentage of salary
Jon Lewis	2,169,100	£906,250	125%
Tim Weller	1,082,695	£452,350	83%

RSAs granted to executive directors in 2021 will normally vest after three years from grant subject to: (i) continued employment; (ii) satisfactory personal performance during the relevant vesting periods; and (iii) a positive assessment of performance against two underpins (see below). Once vested, shares received may not normally be sold until at least six years from the grant date (other than to pay relevant taxes).

The underpins for the 2021 awards are as follows:

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

Directors' interests and shareholding guidelines (audited)

Executive directors are expected to hold 200% (300% for the CEO) of salary in shares in the Company. The guidelines include shares held beneficially and also shares within the deferred annual bonus (DAB) plan that have been deferred over the three-year period. RSA awards which are not subject to performance conditions/performance underpins and share awards which have vested but not yet been exercised. Any shares in the DAB, RSA awards which are not subject to

performance conditions/performance underpins and vested but unexercised LTIP awards used for this are calculated net of tax. Share awards that are subject to performance conditions are not included.

The remuneration policy adopted in 2021 incorporated post cessation shareholding guidelines which require executive directors to retain 100% of the relevant guideline (or the actual shareholding if lower at cessation) until the second anniversary of the date of cessation.

	Beneficially held interests at 31 December 2021	Beneficially held interests at 31 December 2020	Interests in share incentive schemes, awarded without performance conditions at 31 December 2021	Interests in share incentive schemes, awarded without performance conditions at 31 December 2020	Interests in share incentive schemes, awarded subject to performance conditions/underpins at 31 December 2021	Interests in share incentive schemes, awarded subject to performance conditions at 31 December 2020	Interests in share option schemes where performance/ vesting conditions have been met but not exercised at 31 December 2021	Interests in share option schemes where performance/ vesting conditions have been met but not exercised at 31 December 2020	Percentage of Shareholding target requirement at 31 December 2021
Sir Ian Powell	100,000	30,000	—	—	—	—	—	—	—
Jon Lewis	795,303	458,624	516,029	516,029	5,721,886	5,525,562	1,183,666	1,183,666	28%
Tim Weller	262,854	—	—	—	1,082,695	—	—	—	9%
David Lowden	75,000	—	—	—	—	—	—	—	—
Matthew Lester	49,186	49,188	—	—	—	—	—	—	—
Georgina Harvey	6,000	6,000	—	—	—	—	—	—	—
John Cresswell	20,500	20,500	—	—	—	—	—	—	—
Neelam Dhawan	—	—	—	—	—	—	—	—	—
Lyndsay Browne	11,240	6,416	—	—	—	—	—	—	—
Joseph Murphy	11,379	6,555	—	—	—	—	—	—	—
Gordon Boyd ¹	—	—	—	—	—	—	—	—	—
Gillian Sheldon ²	12,500	12,500	—	—	—	—	—	—	—
Andrew Williams ³	100,000	100,000	—	—	—	—	—	—	—
Baroness Lucy Neville-Rolfe ⁴	13,842	13,842	—	—	—	—	—	—	—

1. Calculated using the closing share price on 31 December 2021 (36.5p).

2. Gordon Boyd's beneficially held interests are shown at the date of his resignation on 11 May 2021.

3. Gillian Sheldon's beneficially held interests are shown at the date of her resignation on 28 February 2021.

4. Andrew Williams' beneficially held interests are shown at the date of his resignation on 11 May 2021.

5. Baroness Lucy Neville-Rolfe's beneficially held interests are shown at the date of her resignation on 14 December 2021.

Between the end of the 2021 financial year and 9 March 2022, Jon Lewis, Tim Weller and Joseph Murphy acquired 5,264 shares under the Capita share ownership plan, increasing their beneficial interest in ordinary shares of the Company to 797,058, 264,608 and 13,134 respectively. Although Capita does not have a formal policy on hedging shares, executive and non-executive directors attest annually they have not pledged any shares held in the Company.

Share plans (audited)

DAB plan

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

Unvested DAB deferred/restricted awards at 31 December 2021

Name of director	2019 award ¹	Total
Jon Lewis ²	516,029	516,029
Tim Weller ¹	n/a	n/a

¹ Jon Lewis and Tim Weller joined Capita on 1 December 2017 and 12 May 2021 respectively. Tim Weller was therefore not eligible for a bonus in 2019 (in respect of 2018 performance). As a result of no bonus award for 2019 performance and no bonus operated for 2020, there have been no further deferred bonus awards.

² The value of the 2019 deferred awards awarded on 21 March 2019 was included in the annual bonus value in the 2018's high-flyer table. This award is due to vest on 21 March 2022.

Unvested LTIP awards

Name of director	2019 award	2020 award
Jon Lewis	1,782,786	1,770,000

Details of the performance targets and expected vesting in respect of the 2019 awards are set out on page 115.

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

2019 awards:

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

2020 awards:

Performance underpin	Performance measure	Weighting	Threshold (25% vests)	Target (50% vests)	Stretch (100% vests)
Assessment of the underlying financial and operational performance of Capita over the performance period	Relative TSR	75%	Median TSR performance vs the constituents of the FTSE 250 (excluding investment trusts)	Pro-rating vesting between median and upper quartile performance on a straight line basis between 25% and 100%	Upper quartile TSR performance vs the constituents of the FTSE 250 (excluding investment trusts)
Responsible business scorecard ¹					
Client	10%	3 point positive swing in NPS	6 point positive swing in NPS	9 point positive swing in NPS	
Employee	10%	3 point positive swing in NPS	6 point positive swing in NPS	9 point positive swing in NPS	
Suppliers adherence to prompt payment code	5%		Maintain current	Exceed current	

Unvested restricted share awards

Name of director	2021 award
Jon Lewis	2,169,100
Tim Weller	1,082,695

There are no performance targets attached to the RSAs. However, vesting is subject to (i) continued employment; (ii) satisfactory personal performance during the relevant vesting periods; and (iii) a positive assessment of performance against two underpins (see below).

The underpins for the 2021 awards are as follows.

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

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 2.6% of the Company's share capital at 31 December 2021.

Executive directors' service agreements

Executive directors	Date of joining the Company	Notice period
Jon Lewis	1 December 2017	12 months
Tim Weller	12 May 2021	12 months

Non-executive directors' terms of engagement

Non-executive directors	Date of joining the Board	Expiry date of current appointment
Sir Ian Powell	1 September 2016	31 December 2022
David Lowden	1 January 2021	31 December 2023
Matthew Lester	1 March 2017	28 February 2023
Georgia Harvey	1 October 2019	30 September 2022
Nneka Abulokwe	1 February 2022	31 January 2025
John Cresswell	17 November 2015	16 November 2024
Nigam Dharwan	1 March 2021	29 February 2024
Baroness Lucy Neville-Rolfe*	6 December 2017	14 December 2021

* Baroness Lucy Neville-Rolfe stepped down from the Board on 14 December 2021.

Board changes

As per the announcement on 11 May 2021, Gordon Boyd stepped down from his position as interim CFO and Executive Director with immediate effect. Gordon Boyd was appointed on a short-term contract of £100,000 per month. He therefore received his base salary only up to the date of leaving (12 May 2021) and was not entitled to any further remuneration in respect of pension, bonus, share awards or termination payments.

Tim Weller was appointed as CFO and Executive Director on 12 May 2021 on a base salary of £545,000. While the Committee is conscious that this is higher than his predecessor's salary at Capita (£430,000), the Committee believes that the salary positioning is appropriate for the following reasons:

- Board experience: Tim is a seasoned board director and with 20 years' experience as a CFO. At his previous employer, Tim was CFO from 2016 to 2021.
- Market alignment: In order to recruit Tim, it was essential to offer a market aligned joining salary reflecting the size and complexity of the role. The market assessment was confirmed during the recruitment process.
- Previous remuneration: Tim joined from G4S where he received a significantly higher base salary (around £660k) and pension provision. While the on-target bonus and long-term incentives were broadly comparable to Capita in £ terms, the total value of Tim's previous remuneration package at on-target and maximum levels was significantly greater than the package at Capita.

Payments to former directors (audited)

No payments were made to former directors.

External appointments for executive directors

During the year Jon Lewis served as a non-executive director for Equinor ASA. He received and retained fees of NOK 604,826 for the period 1 December 2020 – 30 November 2021. Tim Weller is a non-executive director of The Carbon Trust for which he receives an annual salary of £17,000. The committee acknowledges these roles can benefit Capita through broadening Jon's and Tim's knowledge and experience.

Percentage change in remuneration levels

The table below shows change in base compensation, benefits and annual bonus for the Board directors in the 2021 and 2020 financial years, compared with the average for all employees of the Company (Capita plc)

	2021			2020		
	Base salary/fees	Taxable benefits ¹⁰	Annual bonus	Base salary/fees	Taxable benefits	Annual bonus
Executive directors¹						
Jon Lewis	14.3%	5.1%	100% ²	-12.5%	-36.9%	—
Tim Weller ³	—	—	—	—	—	—
Gordon Boyd ⁴	0%	100%	—	—	—	—
Patrick Butcher ⁵	—	-100%	—	-12.5%	-10.8%	—
Non-executive directors¹						
Sir Ian Powell	14.3%	—	—	-12.5%	-100%	—
David Lowden ⁶	—	—	—	—	—	—
Matthew Lester	13.9%	—	—	-12.5%	—	—
Georgina Harvey	14.3%	—	—	-12.5%	—	—
John Cresswell	14.3%	—	—	-12.5%	—	—
Neelam Dhawan ⁶	—	—	—	—	—	—
Lyndsay Browne ⁷	14.3%	—	—	-12.5%	—	—
Joseph Murphy	14.3%	—	—	-12.5%	—	—
Gillian Sheldon ⁸	14.3%	100%	—	-12.5%	—	—
Andrew Williams ⁸	14.3%	100%	—	-12.5%	—	—
Baroness Lucy Neville-Rolfe ⁹	14.3%	—	—	-12.5%	—	—
Employee population ¹	2.8%	4.4%	123.2%	5.5%	20.6%	-35.2%

- The percentage change shown for the directors is based on the single figure information disclosed on page 109. The increase in salary/fees for 2021 is due to the voluntary reduction taken by executive and non-executive directors in 2020 in response to Covid-19.
- Jon Lewis did not receive a bonus in 2020 as the bonus plan was cancelled in response to Covid-19. The increase is therefore shown as 100%.
- Tim Weller was appointed to the Board on 17 May 2021. Comparative figures are therefore unavailable.
- Gordon Boyd was appointed interim CFO on 16 November 2020 and stepped down on 12 May 2021. He received a base salary of £100,000 a month and was not eligible for any variable remuneration or pension contribution. On an annualised basis his salary therefore did not change between 2020 and 2021.
- Patrick Butcher stepped down from the Board on 16 November 2020. He therefore received no base salary/fees in 2021. Taxable benefits reduced from £15,252 in 2020 to £505 in 2021.
- David Lowden and Neelam Dhawan were appointed to the Board during 2021. Comparative figures are therefore unavailable.
- Percentage change numbers shown relate to fees as a non-executive employee director.
- Gillian Sheldon, Andrew Williams and Baroness Lucy Neville-Rolfe stepped down from the Board during 2021. For comparative purposes their 2021 fees have been annualised to show the percentage change since 2020.
- The employee population information shown is for UK employees employed in the Capita plc entity.
- Taxable benefits were £0 in 2020 but £1,309, £896 and £902 for Gordon Boyd, Gillian Sheldon and Andrew Williams respectively in 2021. The increase is therefore shown as 100%.

CEO pay ratio

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

Year	Method	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
2021	Option B	51:1	40:1	25:1
2020 ¹	Option B	61:1	44:1	29:1
2019	Option B	41:1	25:1	14:1

¹ In accordance with the regulations, the 2020 CEO's single figure has been updated to reflect the value of the LTIP based on the share price at the vesting date. The 2020 pay ratio figures have therefore been adjusted accordingly.

The 2021 remuneration figures for the employee at each quartile were determined with reference to the financial year ending 31 December 2021. Due to the complexity of Capita's corporate and workforce structure, Option B was used to calculate these figures. The committee believes that this approach provides a fair representation of the CEO to employee pay ratios and is appropriate in comparison to alternative methods, balancing the need for statistical accuracy with internal operational constraints.

A full-time and full-year equivalent total pay and benefits figure for 2021 was calculated for each quartile point employee using the single figure methodology. This was also sense checked against a sample of employees with hourly pay rates either side of the identified individuals to ensure that the appropriate representative employee was selected. No adjustments were made to the total pay and benefits figures (other than the approximate up-rating of pay elements where appropriate to achieve full-time and full-year equivalent values) and no components of pay have been omitted.

The table below sets out the 2021 full-time equivalent salary and total pay and benefits for the three identified quartile point employees

2021	25th percentile (P25)	Median (P50)	75th percentile (P75)
Salary	£18,251	£29,457	£39,833
Total pay and benefits	£24,386	£31,040	£48,997

The committee recognises that the 2021 ratios are slightly lower than last year. The CEO's single figure of remuneration for 2021 is marginally higher than the figure for 2020 (c3.4% increase) for the following reasons:

- The value of the 2019 LTIP vesting outcome (included in the 2021 single figure) is significantly lower than the 2018 LTIP (included in the 2020 single figure).
- The impact of the LTIP is partially offset by:

- an increase in the reported salary figure for the CEO (and other directors) for 2021, as the 2020 figure included a voluntary 25% reduction in salary/fees for six months as part of Capita's response to Covid-19 – no reduction applied to the CEO (or other directors) during 2021; and
- the 2021 single figure includes an annual bonus of £359,020 (24.8% of maximum) whereas the CEO (and wider workforce) received no annual bonus in respect of 2020.

The pay ratios have fluctuated since reporting commenced in 2019, primarily as a result of variability in incentive outcomes for the CEO.

Capita is committed to offering its employees a competitive remuneration package. Base salaries for employees, including our executive directors, are determined with reference to a range of factors including market practice, experience and performance in role. Due to the nature of his role, the CEO's remuneration package has higher weighting on performance-related pay (including the annual bonus and historical LTIP) 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, as reflected by the change in ratio from 2020 to 2021. For these reasons, the committee considers that the median CEO pay ratio is representative of the UK employee base.

Gender pay gap reporting

The Company's 2021 gender pay gap data will be available on the government website <https://gender-pay-gap.service.gov.uk> from April 2022.

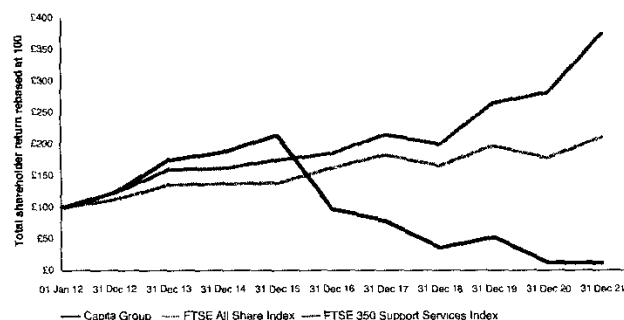
Relative importance of the spend on pay

The table below shows the spend on employee costs in the 2021 and 2020 financial years, compared with dividends

	2021 £m	2020 £m	% change
Employee costs	1,787.1	1,794.8	-1.5%
Dividends	—	—	—

Performance graph and CEO pay

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



The total remuneration figures for the CEO for 2021 and the previous nine years are shown in the table below based on the single figure methodology.

The annual bonus payout and LTIP award vesting level as a percentage of the maximum opportunity are also shown for this year.

RSA vesting percentages will be shown in respect of the estimated/actual value at vesting in respect of the year ending just prior to the vest date.

Year	CEO – single figure of total remuneration	Annual bonus (vs max opportunity)	Long-term incentive (vs max opportunity)
2021	£1,237,918	24.8%	12.5%
2020	£1,196,582	0%	60%
2019	£789,678	0%	0%
2018	£2,014,209	85%	0%
2017	£741,376	0%	0%
2016	£682,958	0%	0%
2015	£2,520,428	50%	71.4%
2014	£2,558,998	100%	67.2%
2013	£2,326,250	75%	54.5%
2012	£2,038,233	100%	47.8%

Note: the vesting percentages for the long-term incentives are averaged between the LTIP and the DAB vesting rates for 2012–2013 and 2015. For 2014, this is the actual vesting for the LTIP as there is no DAB maturity in 2014. Note: figures for 2012–2013 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. In accordance with the regulations, the 2020 CEO single figure has been updated to reflect the value of the LTIP based on the share price at the vesting date (rather than an estimate of the share price at vesting).

Approval of the directors' remuneration report

The directors' remuneration report was approved by the Board on 9 March 2022.

Georgina Harvey

Chair

Remuneration Committee

5 March 2022



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 2021 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 2021 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- The Parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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 and Risk Committee.

We were first appointed as auditor by the Directors on 18 August 2010. The period of total uninterrupted engagement is for the 12 financial years ended 31 December 2021. 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:	£6m (2020: £7m)
Group financial statements as a whole	0.2% of normalised Group revenue (2020: 4.4% of normalised Group profit before tax)
Coverage	86% (2020: 86%) of total Group revenue
	86% (2020: 74%) of total profits and losses before tax
	90% (2020: 88%) of total Group assets



Risks of material misstatement vs 2020		
Recurring risks for the Group	Going concern	◀▶
	Revenue and profit recognition	◀▶
	Impairment of goodwill	▲
	Items excluded from adjusted profit	◀▶
	Capitalisation and recoverability of contract fulfilment assets	◀▶
	Provisions and contingent liabilities	▶
	Pensions obligations	◀▶
Recurring risks for the Parent Company	Recoverability of the Parent Company's investment in, and amounts due from, its subsidiaries	◀▶

In the prior year we reported a material risk in respect of the recoverability of intangible assets acquired in business combinations alongside the recoverability of goodwill. The carrying value of intangible assets have decreased significantly following the completion of business disposals and asset retirements in the year. Therefore the level of our audit focus has reduced and accordingly the risk has been removed from our audit report for 2021.

2 Material uncertainty related to going concern

The risk	
<p>Going concern</p> <p>Refer to section 1 and the viability statement on page 62 and the Audit and Risk Committee report (pages 86 - 95).</p> <p>We draw attention to note 1 to the financial statements which indicates that the Board requires the completion of its planned business disposals programme and a refinancing to support the going concern assumption. Both require agreements and consents from third parties which are not within the direct control of the Company and accordingly these events and conditions constitute material uncertainties that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern and, therefore, that the Group and parent Company may be unable to realise their assets and discharge their liabilities in the normal course of business.</p> <p>Our opinion is not modified in this respect of these matters.</p>	<p>Disclosure quality</p> <p>The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and Parent Company.</p> <p>That judgement is based on an evaluation of the inherent risks to the Group's and Parent Company's business model and how those risks might affect the Group's and Parent Company's financial resources or ability to continue operations over a period to 31 August 2023 from the date of approval of these financial statements (the 'going concern period').</p> <p>There is little judgement involved in the Directors' conclusion that the mitigations required to address the risks and circumstances, described in note 1 to the financial statements, represent material uncertainties over the ability of the Group and Parent Company to continue as a going concern. This is because the mitigations are not within the direct control of the Company.</p> <p>Clear and full disclosure of the facts and the Directors' rationale for the use of the going concern basis of preparation, including that there are related material uncertainties, is a key financial statement disclosure and so was the focus of our audit in this area. Auditing standards require that to be reported as a key audit matter.</p>

Our response

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, and risks considered by the Directors in assessing whether the basis of preparation is appropriate. In addition, we assessed the overall balance presented in the basis of preparation and viability statements, and the clarity provided by the Board in relation to the mitigations required to support the going concern assumption of the Group and Parent Company.

We responded to the risks considered by critically evaluating the Board's assessment of both the base case and severe but plausible downside scenario. The focus of our audit covered the following key areas:

Our sector experience: We assessed the projections and assumptions by reference to our knowledge of the business and general market conditions including the potential risk of management bias. In addition to execution risk associated with the transformation plan, we critically assessed any prolonged impact of COVID-19, along with the risks and uncertainties associated with the Group's customers, suppliers and workforce. We formed our views based on our understanding of the business and the end markets the Group serves and how these have been impacted by the global pandemic.

We considered the risk factors as set out by the Board in the Principal Risks section of the annual report and accounts, and where relevant 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, including the severe but plausible downside forecasts.

We critically assessed the cash flow forecasts by considering the appropriateness of key assumptions used in preparing those projections, with a specific focus on the revenue growth assumptions and cost reduction plans. We evaluated these via enquiries with each of the divisional Executive Officers and Finance Directors, the Chief Executive Officer and Chief Financial Officer, and inspected the Board's plans and associated papers.

Historical comparisons: We assessed the ability of the Group to accurately forecast by comparing historical results to forecasts for key metrics. We assessed the most recent years' performance against budget, including sales growth and cost reductions and challenged the assumptions over the going concern period based on historical performances. We also assessed the actual performance in recent years vs the base case and downside case for the relevant year to challenge the quantum of risks applied in the forecasts.

Funding assessment: We reviewed the lender agreements, including the Revolving Credit facility (RCF) and the backstop bridge facility, to understand the terms including covenant requirements and any restrictions in the use of funds. We re-performed calculations, for 30 June 2022 and 2023 and 31 December 2022, prepared to assess compliance with the key financial covenant and tested for 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 and challenged whether the risks applied reflected progress to date in delivering the transformation programme and the ongoing effects from COVID-19 based on the impacts experienced by the Group since 2020. We assessed identified 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 Group.

Our findings: We found the going concern disclosure including the related material uncertainties to be proportionate (2020: disclosure finding with material uncertainties: proportionate).

3 Other key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. Going concern is a significant key audit matter and is described in section 2 of our report. We summarise below the other key audit

matters (unchanged from 2020 with the exception of the risk associated with the recoverability of intangible assets which has been removed from our audit report as described in section 1), 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

Revenue and profit recognition

The Group has reported revenues from continued operations of £3,182.5 million (2020: £3,324.8 million) and reported profit before tax of £287.1 million (2020: loss £49.4 million)

Refer to sections 2.1 and 2.2 and to the Audit and Risk Committee report (pages 86 – 95).

Accounting treatment

Professional standards require us to make a rebuttable presumption that the fraud risk associated with revenue recognition is a significant risk.

The incentive/pressures on management to achieve bonus targets and/or market consensus increase the risk of fraudulent revenue 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 regarding 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.

The execution risk associated with the 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 potential difficulties are not identified fully resulting in excessive profits being recognised or the lack of consideration of contract loss provisions. This risk was heightened due to the impact of COVID-19 on the delivery of performance obligations, and the economic uncertainties the pandemic introduced that may continue to impact assumptions concerning future performance metrics.

In situations where customers terminate, or partially terminate a contract, the cessation 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 across to another provider.

The effect of these matters is that, as part of our risk assessment, we determined that revenue and profit 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 the revenue and profit recognition accounting policies and the key judgments applied.

Our response

We performed the detailed tests below rather than seeking to rely on any of the Group's controls because our knowledge of the related IT controls indicated that we would be unlikely to obtain the required evidence in order to be able to support the effective operation of the controls.

Tests of detail: We obtained and inspected a sample of the contractual agreements to understand the contract terms and conditions that underpin the revenue and the profit recognition assumptions and to identify conditions under which variable revenue can arise. For the major contracts selected through our scoping exercise, where relevant, we also assessed the accounting papers prepared by the Company that set out the key judgments to apply.

Where contract negotiations are ongoing in relation to variable consideration, we made enquiries on the current status with those involved in the discussions and by reference to the associated signed contract or any variation amendments. Where significant variable consideration had been recognised, we obtained and inspected the contractual agreements to understand the contract terms and conditions that underpin the revenue recognition assumptions. Where relevant we inspected correspondence with customers or other supporting documentation in relation to the variations or scope change.

We considered the assumptions within the business plans and lifetime assessments, checking that onerous conditions had been recognised appropriately, particularly on contracts that have had a poor performance in the current year and those contracts that are in a pre-

inflection phase of transformation. We assessed any ongoing impact of COVID-19 on the key assumptions, together with any contract modifications agreed with the customer in response to the pandemic.

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 assessing critically the assumptions over future costs including projected savings and the actions required to achieve these by comparison to historical cost savings achieved on similar projects. Our assessment considered the levels of uncertainty contained in the forecasts, the extent to which Company actions alone could mitigate risks and any dependencies on the customer or other third parties. This assessment covered a sample of contracts including those identified by the Board as being high risk and comprising the major contracts in a pre-inflection phase.

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.

We challenged whether the key contract 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 proportionate 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 set 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 IFRS 15. In applying these policies there is room for judgement and we found that within that the Group's judgement was balanced (2020 finding: balanced).

We found the disclosures associated with the IFRS 15 policies to be ample (2020 finding: ample).

The risk

Impairment of Goodwill

The Group records goodwill of £951.7 million as at 31 December 2021 (2020: £1,120.5 million) – see sections 3.4.

Refer to the Audit and Risk Committee report on pages 86 – 95

Forecast-based valuation

As part of our risk assessment we considered the carrying value of 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. The Group has revised its Cash Generating Unit (CGU) structure as a result of the Future Capita re-organisation. This introduced judgement with regards to the reallocation of goodwill to each new CGU Group.

COVID-19 introduced unprecedented economic uncertainties and this led to increased judgement in forecasting future financial performance. The high level of uncertainty as to how the economy might recover from the pandemic and how the transformation programme might deliver over the remainder of 2022 and into 2023 and beyond, and the impact these may have on the Group's activities and performance, continues to render precise forecasting challenging. There is a high degree of uncertainty in making the key judgements and assumptions that underpin the Group's financial forecasts.

There is a risk that the Board have not adequately assessed the factors that could impact the future forecasts and performance of the business, including the execution risk associated with the delivery of the transformation plan and the economic uncertainties as economies recover from the pandemic. This could impact the assessment over the carrying value of goodwill, and the quantum of any impairment charges that may need to be recorded.

We determined that the recoverable amount of goodwill 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 completion of the transformation programme, the impacts that COVID-19 has introduced, and the relevance of the assumed growth assumptions to the sensitivities that are relevant when considering the carrying value of goodwill.

Our response

We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Comparing valuations: We compared the sum of the discounted cash flows to the Group's market capitalisation and assessed the rationale for the differences. We also compared the implied share price derived from the recoverable amount at the year end to the Company's share price throughout 2021 and assessed the reasonableness of the factors identified by the Board to explain the differences. Our assessment considered the impact of COVID-19 on the share prices of many listed entities during 2021, and the sectors and end markets that the Group is involved with.

Tests of detail: We tested the principles and integrity of the Group's discounted cash flow model. We compared the cash flows used in the

impairment model to the output of the Group's budgeting process and against the understanding we obtained about the business areas through our audit and assessed if these cash flows were reasonable

We assessed and challenged the goodwill reallocation approach applied by the Group following the reorganisation of the Group's reporting structure.

Historical comparison: We assessed the historical accuracy of the forecasts used in the Group's impairment model by considering actual performance against prior year budgets, recognising the impacts that COVID-19 introduced. We also assessed the forecast revenue growth with reference to the most recent results for 2020 and 2021.

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 considered 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 goodwill, checking that the sensitivity disclosures provided enough detail and proportionate information to inform a reader of the accounts.

Our findings: We found that the Group's cash flow forecasts and discount rates, when considered together, were optimistic (2020 finding: mildly optimistic), reflecting the dependency on the successful delivery

of the transformation program objectives and the continuing economic uncertainties introduced by COVID-19.

We found the Group's disclosures to be proportionate (2020 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

The Group has reported a profit before tax of £287.1 million for the year ended 31 December 2021 (2020: loss £49.4 million) and corresponding adjusted profit before tax of £93.5 million (2020: £5.4 million)

Section 2.4 details items excluded from adjusted profit. Refer to the Audit and Risk Committee report on pages 86 – 95.

Presentation appropriateness

The Group presents separately 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 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 in accordance with the Group's accounting policy, and 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.

There is a risk that items excluded from the reported GAAP measures are inappropriate and not in accordance with the accounting policy approved by the Board.

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 relevant and appropriate explanation of the items adjusted to ensure these are transparent and understandable and can be reconciled easily back to equivalent reported GAAP measures. There is a risk that the information provided is unclear and does not provide enough detail on the accounting policy approved by the Board, and in the case of restructuring does not set out the boundaries applied to determine which costs should be excluded from the reported measures.

Our response

We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

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 measures in addition to the reported metrics.

We examined the presentation of adjusted measures in the front half of the Annual Report and Accounts ('ARA') and considered this against applicable guidelines including the FRC publications on the presentation of alternative performance measures. This included the publications issued by the FRC during 2020 in response to COVID-19 with guidance provided on how listed entities should use the narrative to explain the effects of the pandemic on the Group's activities and performance, as well as the FRC Thematic Review on Alternative Performance Measures (APMs) issued in October 2021 which sets out an expectation of good quality disclosures around the use of APMs.

Assessing balance: We considered whether there are any items included in the adjusted measures that it would be more appropriate to exclude from these measures and vice versa.

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 the items that 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 ARA. We assessed the narrative and commentary within the ARA with reference to the relevant FRC guidance.

Our findings: The Board identified several items that individually had affected profit for the year (or prior year) and that required appropriate disclosure in the ARA to enable stakeholders to assess the Group's performance. This included items presented within the reported measures, and those excluded to arrive at the adjusted measures. We found that proportionate disclosure of these items had been provided in the ARA taken as a whole (2020 finding: proportionate).

The risk

Capitalisation and recoverability of contract fulfilment assets ('CFA')

The Group reported CFAs that as at 31 December 2021 totalled £286.7 million (2020: £294.8 million)

Refer to sections 2.1, 2.3 and 3.1.3, and to the Audit and Risk Committee report on pages 86 – 95.

Accounting application

IFRS15 requires that certain costs incurred on a contract, or an anticipated contract, that generate or enhance the resources of an entity to deliver the performance obligations, and meet the relevant criteria set out in the standard, should be capitalised and amortised over the expected contract life.

Subjective estimate

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. Judgment is required in applying the Group's accounting policy to assess whether the costs incurred will enhance the future economic benefits from the contract. Where contracts are at the pre-inflection stage, there is greater risk of recoverability as during this phase the CFA is being developed. This compares to contracts post inflection and in a 'business as usual' stage where the risk is reduced as the CFA has been proven and is being used to deliver the performance obligations, with amortisation over the expected contract life.

Where a contract is not performing as expected, the costs capitalised may not be recoverable and an impairment of the CFA may need to be recorded.

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 adequate to explain the capitalisation criteria that are used to assess whether items of expense should be recorded as a contract asset

Our response

We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Tests of detail: We tested on a sample basis the costs capitalised as CFAs by reference to the criteria set out in the Group's accounting policy. For the costs sampled we obtained third party support, or for internally generated time we obtained the relevant costing rates and records, to support the basis of capitalisation.

We assessed on a sample basis the useful economic lives applied to the CFAs and evaluated the expected contract life by reference to the contract terms or where appropriate any agreed extensions to the original contract.

Sensitivity analysis: Where a contract has performed below budget and expectations, we assessed whether there was uncertainty regarding the recoverability of the CFA through future contract profitability.

Assessing transparency: We considered the disclosures in the financial statements to assess whether these provided sufficient detail of the criteria used to evaluate whether expense items should be recorded as a CFA.

Our findings: We found the assumptions and estimates used to assess the CFAs to be recognised, and to determine the estimated useful lives, to be balanced (2020 finding: balanced).

We found that the Group's disclosures in section 3.1.3 to be proportionate (2020 finding: proportionate). Section 2.1 highlights the CFAs that are at higher risk due to the pre-inflection stage of the contract.

The risk

Provisions and Contingent Liabilities

See section 3.6 for details of the claim and litigation provisions totalling £15.8 million as at 31 December 2021 (2020: £41.7 million) and section 6.2 for a discussion on the contingent liabilities identified.

Also refer to the Audit and Risk Committee report on pages 86 – 95.

Subjective estimates

Significant judgment is required to assess whether actual or potential claims, litigation or fines arising from regulatory oversight, or from ongoing disputes, should be recognised as provisions within the financial statements or warrant disclosing as contingent liabilities.

In the normal course of business, potential exposures may arise from the Group's activities in prior years, for example in relation to design authority roles related to property constructions and acting as administrator for pension schemes and arrangements.

Dispute outcome

The amounts involved are potentially significant, and the application of accounting standards to determine the amount, if any, to be provided as a liability, is inherently subjective due to the nature of the claims, litigation, fines and disputes. 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 the litigation liability 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 (note 6.2) disclose the contingent liabilities that the Board has assessed.

Disclosure quality

Where the impact of any 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

We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Personnel interviews: We enquired of the Executives and the Chief General Counsel and inspected Board minutes for actual and potential claims arising in the year based on any external communications with the Group and assessed whether provisions are required for these claims. Our enquiries were 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, the Executive Directors and the Audit and Risk Committee.

Tests of detail: We obtained an understanding and status of existing claims and litigations via enquiries, examining any relevant correspondence and assessing the matters reported to the ARC for discussion and consideration. This included assessing critically managements' assessment regarding the likelihood of the existence of obligations, and the basis used to measure any provisions.

We compared the estimate of the risk and impact of these claims and litigations to third party evidence, where available.

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.

Enquiry of lawyers: On the significant legal cases, we requested and obtained formal confirmations from external counsel and inspected any relevant correspondence with external counsel and the claimant to assess the reasonableness of the estimated liability.

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 the disclosure of the estimation uncertainty and quantification of that uncertainty where appropriate.

Our findings: We found that the assumptions and estimates were mildly cautious (2020 finding: mildly cautious) given the historic nature of many of the open claims.

We found that section 6.2 provides proportionate (2020 finding: proportionate) disclosure of the contingent liabilities in respect of potential litigation or claims.

The risk**Pensions obligations**

The Group reported a net pension surplus of £5.8 million as at 31 December 2021 (2020: deficit liability £252.1 million)

See section 5.2 for details of the Group pension schemes and their obligations as at 31 December 2021.

Also refer to the Audit and Risk Committee report on pages 86 – 95.

Significant estimates are made in estimating the Group's defined benefit pension obligations and small changes in assumptions and estimates used may have a significant effect on the amounts recorded. 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 5.2) 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

We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Methodology choice: We used our internal actuarial specialists to consider and assess critically the methodologies applied.

Assessing the valuer's credentials: We evaluated the competence and independence of the external actuaries who are engaged by the Company to estimate the pension scheme obligations for the purpose of the financial statements.

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 (2020 finding: balanced) and the Group's disclosures in section 5.2 to be proportionate (2020 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

Recoverability of the Parent Company's investment in, and amounts due from, its subsidiaries

Investment carrying value £947.3million (2020: £683.3million) and amounts due from subsidiaries £2,667.6million (2020: £2,946.9million). Refer to section 7.3.1 (accounting policies) and section 7.3.4 (Investments) 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 represent 25.1% and 70.7% (2020: 17.6% and 75.9%) of its total assets respectively. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However due to its materiality in the context of the Parent Company financial statements, this is considered to be the area that had the greatest effect overall on our Parent Company audit.

Our response

We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

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.

Where impairment indicators were identified, 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.

Sensitivity analysis: We performed sensitivity analyses for the key inputs and assumptions and identified those individual investments and amounts due from subsidiaries we considered 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 the Parent Company's investment in, and amounts due from, its subsidiaries, checking that the sensitivity disclosures provided enough detail and proportionate information to inform a reader of the accounts.

Our findings: We found the Parent Company's assessment of the recoverability of the investment in, and amounts due from, subsidiaries to be balanced (2020 finding: balanced). We found the Company's disclosures of the recoverability of investment held by the Parent Company in, and amounts due from, subsidiaries to be proportionate (2020 finding: proportionate)

4 Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £6.0 million (2020: £7.0 million), determined with reference to a benchmark of Group revenue of £3,182.5 million normalised by excluding revenue in relation to business exits of £174.0 million, as disclosed in note 2.8, of which it represents 0.2%. We changed the benchmark from 2020, when we applied Group profit before tax from continuing operations (PBTCO) normalised by excluding certain items which do not represent the normal, continuing operations of the business, and by averaging over three years. In 2020, normalised PBTCO was £157.4 million, and materiality represented 4.4% of the benchmark. We changed the benchmark from PBTCO to revenue due to the ongoing volatility introduced by the pandemic on the normalised profits. We determined that total revenue provided a more stable measure year on year than Group PBTCO.

Materiality for the Parent Company financial statements as a whole was set at £5.5 million (2020: £6.5 million), by reference to component materiality. This is lower than the materiality we would otherwise have determined by reference to total Company assets and represents 0.15% of the Company's total assets (2020: 0.17%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements taken as a whole.

Performance materiality for the Group and the Parent Company was set at 65% (2020: 65%) of materiality for the financial statements as a whole, which equates to £3.9 million (2019: £4.5 million) for the Group and £3.6 million (2019: £4.2 million) for the Parent Company. We applied this percentage in our determination of performance materiality based on the number and level of identified misstatements and control deficiencies during the prior period.

We reported to the Audit and Risk Committee any corrected or uncorrected identified misstatements of at least £0.30 million (2020: £0.35 million) with the exception of classification misstatements for which we reported all identified misstatements of at least £1.0 million (2020: £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 22 key reporting components in the United Kingdom, Switzerland, Germany, and by the Group audit team over 1 key components in the United Kingdom, including the Parent Company (2020: 23 in the United Kingdom, Switzerland, Germany, and by the Group audit team over 2 key components in the United Kingdom, including the Parent Company). 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. These procedures covered approximately 86% of total Group revenue (2020: 86%); 86% of the total profits and losses that made up Group profit before tax (2020: 74%); and 90% of total Group assets (2020: 88%).

The Group audit team, with the assistance of the component auditors where appropriate, performed procedures on the items excluded from normalised Group revenue.

The Group audit team approved the component materiality levels, which ranged from £0.4 million to £5.5 million (2020: £0.4 million to £5.6 million), having regard to the mix of size and risk profile of the Group across the components.

The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting. This is primarily driven by the fact that the finance transformation, as part of the multi-year transformation programme and designed to introduce greater rigour and standardisation of processes and controls, remains in progress. The programme was disrupted in 2020 by the continuing COVID-19 pandemic, with plans approved to complete the programme over the coming years (see Audit and Risk Committee report on pages 86 – 95).

We performed the detailed tests over the key audit matters, as set out in section 3 of our report, rather than seeking to rely on the Group's and Parent Company's controls because our knowledge of the related controls indicated that we would be unlikely to obtain the required evidence in order to be able to support the effective operation of the controls.

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. Due to the continuing COVID-19 and the related travel restrictions, we were unable to perform physical site visit to overseas components for the current year audit. To replace these, senior members of the Group audit team held regular virtual meetings with component auditors throughout the audit and in the United Kingdom, Germany and Switzerland. At these virtual meetings, the findings reported to the Group audit team were discussed in more detail, and any further work required by the Group audit team was then performed by the component auditor. The Group audit team routinely reviewed the audit documentation of all component audits through various stages of their audits.

5 The impact of climate change on our audit

We have considered the potential impacts of climate change on the financial statements as part of planning our audit. This included the business sectors the Group operates in, the assets the Group holds on its balance sheet, the ways in which the Group maintains and develops its client relations and supplier engagement and manages its people.

As part of our audit we have made enquiries of management to understand the extent of the potential impact of climate change risk on the Group's financial statements. We have performed a risk assessment of how the impact of climate change may affect the financial statements and our audit. We held discussions with our own climate change professionals to challenge our risk assessment. Our assessment is that the climate related risks to the Group's business, strategy and financial planning did not have a significant impact on our key audit matters.

We have also read the Board's Task Force on Climate-related Financial Disclosure (TCFD) in the front half of the annual report and considered consistency with the financial statements and our audit knowledge.

6 Going concern basis of preparation

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Parent Company, or to cease their operations, and as they have concluded that the Group and the Parent Company's financial position means that this is realistic for at least 18 months from the date of approval of the financial statements ("the going concern period"). As stated in section 2 of our report, they have also concluded that there are material uncertainties related to going concern.

An explanation of how we evaluated management's assessment of going concern is set out in section 2 of our report.

Our conclusions based on this work:

- We consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- We have nothing material to add or draw attention to in relation to the Directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting, and their identification of the material uncertainties over the Group and Parent Company's ability to continue to use that basis for the going concern period; and
- The related statement under the Listing Rules set out on page 76 is materially consistent with the financial statements and our audit knowledge.

7 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors, the Audit and Risk Committee, internal audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board and Audit and Risk Committee meeting minutes;
- Considering remuneration incentive schemes and performance targets for management and Directors including the short-term incentive plan and long-term incentive plan for management remuneration;
- Using analytical procedures to identify any unusual or unexpected relationships; and
- Using our own forensic specialists to assist us in identifying fraud risks. This included attending the Risk Assessment and Planning Discussion, holding a discussion with the engagement partner and engagement manager, and assisting with designing relevant audit procedures to respond to the identified fraud risks. They also attended meetings with management to discuss key fraud risk areas.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group audit team to full scope component audit teams of relevant fraud risks identified at the Group level and request to full scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at Group level.

As required by auditing standards, and taking into account possible pressures to meet profit targets and market consensus and using our overall knowledge of the control environment, the reintroduction of bonus targets, and the significant restructurings undertaken as a result of Future Capita, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue and profit recognition, in particular:

- The risk that Group and component management may be in a position to make inappropriate accounting entries for long-term contracts; and
- the risk of bias in accounting estimates and judgements such as contract modifications and terminations.

We also identified fraud risks related to inappropriate impairment of goodwill, inappropriate capitalisation and recoverability of contract fulfilment assets and inappropriate classification of items excluded from adjusted profit in response to possible pressures to meet profit targets.

Further detail in respect of revenue and profit recognition, impairment of goodwill, capitalisation and recoverability of contract fulfilment assets, and items excluded from adjusted profit is set out in the key audit matter disclosures in section 3 of this report.

In determining the audit procedures, we took into account the results of our evaluation of some of the Group-wide fraud risk management controls which are set out in the Audit and Risk Committee report within the Corporate Governance section of the Group's annual report.

We also performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management, those posted and

approved by the same user, and those posted to unusual and unrelated accounts.

- Assessing whether the judgement made in accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

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.

As some of the Group's subsidiaries are regulated, our assessment of risks involved gaining an understanding of the control environment including these entities' procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group audit team to full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for full scope component auditors to report to the Group audit team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at Group level.

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, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

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 some of the Group's subsidiaries' license to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, data protection, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities in the Life & Pensions and Employee Benefits sectors. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Further detail in respect of provisions and contingent liabilities is set out in the key audit matter disclosures in section 3 of this report.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

8 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 on, 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

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, other than the material uncertainties related to going concern and viability referred to in section 2 of this report, we have nothing further material to add or draw attention to in relation to:

- The Directors' confirmation within the Viability Statement on page 62 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- The risk management and internal control disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- The Directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the Viability Statement set out on page 62 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Parent Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- The Directors' statement that they consider that the Annual Report and Accounts, and financial statements, taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- The section of the Annual Report and Accounts describing the work of the Audit and Risk Committee, including the significant issues that the Committee considered in relation to the financial statements, and how these issues were addressed; and
- The section of the Annual Report and Accounts that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

9 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.

10 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 81, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's *ability to continue as a going concern*, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, 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.

11 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 Brent (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square,
London, E14 5GL

9 March 2022

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Consolidated income statement

For the year ended 31 December 2021	Notes	2021 £m	2020 £m
Continuing operations:			
Revenue	2.2	3,182.5	3,324.8
Cost of sales		(2,506.7)	(2,640.6)
Gross profit		675.8	684.2
Administrative expenses	2.3, 2.4, 2.8	(762.4)	(716.2)
Operating loss	2.3, 2.4, 2.8	(86.6)	(32.0)
Share of results in associates and investment gains		(0.6)	0.8
Net finance expense	4.3	(46.9)	(49.6)
Gain on business disposal	2.8	419.7	31.4
Profit/(loss) before tax	2.4	285.6	(49.4)
Income tax (charge)/credit	2.6	(61.5)	47.6
Profit/(loss) for the year from continuing operations		224.1	(1.8)
Discontinued operations:			
Profit for the year	2.9	3.1	20.8
Total profit for the year		227.2	19.0
Attributable to:			
Owners of the Company		224.7	14.0
Non-controlling interests	4.7	2.5	5.0
		227.2	19.0
Earnings/(loss) per share	2.7		
Continuing: – basic		13.33 p	(0.41)p
– diluted		13.15 p	(0.41)p
Total operations: – basic		13.52 p	0.85 p
– diluted		13.33 p	0.85 p
Adjusted operating profit	2.4	139.1	51.1
Adjusted profit before tax	2.4	93.5	5.4
Adjusted earnings per share	2.7	1.61 p	2.41 p
Adjusted and diluted earnings per share	2.7	1.59 p	2.41 p

Consolidated statement of comprehensive income

For the year ended 31 December 2021	Notes	2021 £m	2020 £m
Total profit for the year		227.2	19.0
Other comprehensive expense			
Items that will not be reclassified subsequently to the income statement			
Actuarial gain/(loss) on defined benefit pension schemes	5.2	109.4	(32.1)
Tax effect on defined benefit pension schemes	2.6	(18.1)	10.9
Gain/(loss) on fair value of investments		0.1	(0.7)
Items that will or may be reclassified subsequently to the income statement			
Exchange differences on translation of foreign operations		3.0	(9.0)
Exchange differences realised on business disposals		(2.8)	—
Gain/(loss) on cash flow hedges	4.2.4	1.3	(1.6)
Cash flow hedges recycled to the income statement	4.2.4	0.6	(4.5)
Tax effect on cash flow hedges	2.6	2.2	1.1
Other comprehensive income/(expense) for the year net of tax		95.7	(35.9)
Total comprehensive income/(expense) for the year net of tax		322.9	(16.9)
Attributable to:			
Owners of the Company		320.5	(21.9)
Non-controlling interests	4.7	2.4	5.0
		322.9	(16.9)

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated balance sheet

At 31 December 2021

	Notes	2021 £m	2020 £m
Non-current assets			
Property, plant and equipment	3.2	129.0	157.2
Intangible assets	3.3	147.3	265.0
Goodwill	3.4	951.7	1,120.5
Right-of-use assets	3.5	287.9	342.1
Investments in associates and joint ventures		0.7	5.1
Contract fulfilment assets	3.1.3	286.7	294.8
Financial assets	4.5	107.2	117.0
Deferred tax assets	2.6	176.0	242.8
Employee benefits	5.2	13.3	3.1
Trade and other receivables	3.1.1	15.7	22.1
		2,115.5	2,569.7
Current assets			
Financial assets	4.5	17.5	32.1
Disposal group assets held-for-sale	2.8	138.8	114.6
Trade and other receivables	3.1.1	547.1	551.0
Cash	4.5.4	317.6	460.9
Income tax receivable		5.9	2.9
		1,026.9	1,161.5
Total assets		3,142.4	3,731.2
Current liabilities			
Trade and other payables	3.1.2	542.2	635.0
Deferred income		669.8	822.2
Overdrafts	4.5.4	231.9	332.7
Lease liabilities	4.4.4.5	61.6	77.5
Disposal group liabilities held-for-sale	2.8	81.1	53.9
Finance liabilities	4.5	286.3	347.8
Provisions	3.6	126.6	107.0
		1,999.5	2,376.1
Non-current liabilities			
Trade and other payables	3.1.2	15.4	23.6
Deferred income		124.9	153.0
Lease liabilities	4.4.4.5	386.8	426.0
Financial liabilities	4.5	291.9	554.3
Deferred tax liabilities	2.6	5.9	6.7
Provisions	3.6	14.0	17.4
Employee benefits	5.2	7.5	255.2
		846.4	1,436.2
Total liabilities		2,845.9	3,812.3
Net assets/(liabilities)		296.5	(81.1)
Capital and reserves			
Share capital	4.6	34.8	34.5
Share premium	4.6	1,145.5	1,143.3
Employee benefit trust and treasury shares	4.6	(8.0)	(11.2)
Capital redemption reserve		1.8	1.8
Other reserves		(9.0)	(13.4)
Retained deficit		(890.6)	(1,289.5)
Equity/(deficit) attributable to owners of the Company		274.5	(134.5)
Non-controlling interests	4.7	22.0	53.4
Total equity/(deficit)		296.5	(81.1)

The accompanying notes are an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Board of directors on 9 March 2022 and signed on its behalf by:

Jon Lewis
Chief Executive OfficerTim Weller
Chief Financial Officer

Company registered number: 02081330

Consolidated statement of changes in equity

For the year ended 31 December 2021

	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 2020	34.5	1,143.3	(11.2)	1.8	(1,295.8)	0.6	(126.8)	62.8	(64.0)
Profit for the year	—	—	—	—	14.0	—	14.0	5.0	19.0
Other comprehensive expense	—	—	—	—	(21.9)	(14.0)	(35.9)	—	(35.9)
Total comprehensive (expense)/income for the year	—	—	—	—	(7.9)	(14.0)	(21.9)	5.0	(16.9)
Share-based payment net of tax effects (note 2.6; note 5.1)	—	—	—	—	5.2	—	5.2	—	5.2
Dividends paid ¹	—	—	—	—	—	—	—	(14.4)	(14.4)
Movement in put-options held by non-controlling interests	—	—	—	—	9.0	—	9.0	—	9.0
At 1 January 2021	34.5	1,143.3	(11.2)	1.8	(1,289.5)	(13.4)	(134.5)	53.4	(81.1)
Profit for the year	—	—	—	—	224.7	—	224.7	2.5	227.2
Other comprehensive income/(expense)	—	—	—	—	91.4	4.4	95.8	(0.1)	95.7
Total comprehensive (expense)/income for the year	—	—	—	—	316.1	4.4	320.5	2.4	322.9
Share-based payment net of tax effects (note 2.6; note 5.1)	—	—	—	—	1.6	—	1.6	—	1.6
Reclassification	—	—	—	—	(6.4)	—	(6.4)	6.4	—
Elimination of non-controlling interest at disposal (note 2.8.1)	—	—	—	—	—	—	—	(3.4)	(3.4)
Exercise of share options under employee long term incentive plans (note 4.6; note 5.1)	—	—	3.5	—	(3.5)	—	—	—	—
Shares issued (note 4.6)	0.3	—	(0.3)	—	—	—	—	—	—
VAT refund on rights issue issuance costs (note 4.6)	—	2.2	—	—	—	—	2.2	—	2.2
Dividends paid ¹	—	—	—	—	—	—	—	(36.8)	(36.8)
Movement in put-options held by non-controlling interests ²	—	—	—	—	91.1	—	91.1	—	91.1
At 31 December 2021	34.8	1,145.5	(8.0)	1.8	(890.6)	(9.0)	274.5	22.0	296.5

1. Of the dividends to non-controlling interests totalling £36.8m (2020: £14.4m), the majority were from AXELOS Limited (2021: £36.6m, 2020: £14.1m) who paid £10.7m (2020: £14.1m) in cash with the remainder settled by the purchaser when AXELOS Limited was sold (see note 2.8). No dividends were declared, paid or proposed in 2021 or 2020 on the Parent Company's ordinary shares.

2. The option to acquire the non-controlling interest in AXELOS Limited expired without being exercised on 28 February 2021, and the related liability of £96.5m was de-recognised. See note 4.5 for further details.

Share capital – The balance classified as share capital is the nominal proceeds on issue of the Parent Company's equity share capital, comprising 2 1/15p ordinary shares.

Share premium – The amount paid to the Parent Company by shareholders, in cash or other consideration, over and above the nominal value of shares issued to them less issuance costs.

Employee benefit trust and treasury shares – Shares that have been bought back by the Parent Company which are available for retirement or resale; shares held in the employee benefit trust have no voting rights and no entitlement to a dividend.

Capital redemption reserve – The Parent Company can redeem shares by repaying the market value to 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 the foreign currency translation reserve deficit of £8.3m (2020: £8.6m deficit) and the cash flow hedging reserve deficit of £0.7m (2020: £4.8m deficit).

Non-controlling interests (NCI) – This represents the equity in subsidiaries that is not attributable directly or indirectly to the Parent Company.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated cash flow statement

For the year ended 31 December 2021

	Notes	2021 £m	2020 £m
Cash generated from operations	2.10	(121.3)	434.2
Cash generated from discontinued operations		—	18.6
Income tax paid		(17.7)	(8.8)
Net interest paid		(40.1)	(47.7)
Net cash (outflow)/inflow from operating activities		(179.1)	396.3
Cash flows from investing activities			
Purchase of property, plant and equipment	3.2	(25.6)	(40.8)
Purchase of intangible assets	3.3	(32.5)	(46.6)
Proceeds from sale of property, plant and equipment/intangible assets	2.3, 3.2, 3.3	0.1	13.5
Additions to investments in associates		—	(0.6)
Additions to investments held at fair value through profit and loss		(0.1)	(0.3)
Capital repayment from investments at fair value through other comprehensive income		0.3	—
Proceeds from sale of investments held at fair value through profit and loss		—	3.9
Contingent consideration paid		—	(4.9)
Subsidiary partnership payment		(4.7)	(9.4)
Capital element of lease rental receipts		0.5	2.8
Net proceeds on disposal of subsidiary undertakings	2.8	483.1	51.3
Cash disposed of with subsidiary undertakings	2.8	(25.9)	(3.2)
Net cash inflow/(outflow) from investing activities		395.2	(34.3)
Cash flows from financing activities			
Dividends paid to non-controlling interests		(10.8)	(14.4)
Capital element of lease rental payments	2.10.3	(82.6)	(98.0)
Proceeds from issue of share capital (net of issuance costs)		2.2	—
Repayment of private placement loan notes	2.10.3	(232.3)	(242.9)
Proceeds from credit facilities	2.10.3	46.0	—
Proceeds from cross-currency interest rate swaps	2.10.3	19.7	24.5
Debt financing arrangement costs paid	2.10.3	(1.9)	(0.5)
Net cash outflow from financing activities		(259.7)	(331.3)
(Decrease)/increase in cash and cash equivalents		(43.6)	30.7
Cash and cash equivalents at the beginning of the period		141.1	119.3
Effect of exchange rates on cash and cash equivalents		4.0	(8.9)
Cash and cash equivalents at 31 December		101.5	141.1
Cash and cash equivalents comprise:			
Cash	4.5.4	317.6	460.9
Overdrafts	4.5.4	(231.9)	(332.7)
Cash, net of overdrafts, included in disposal group assets and liabilities held-for-sale	2.8	15.8	12.9
Total		101.5	141.1
Adjusted cash generated from operations	2.10	185.4	295.2
Adjusted free cash flows	2.10	78.1	170.3

The accompanying notes are an integral part of these consolidated financial statements.

Section 1: Basis of preparation

This section sets out the Group's accounting policies relating to these consolidated financial statements as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates.

In this section you will also find details of new accounting standards, amendments and interpretations including their effective dates and explanation on the expected impact to the financial position and performance of the Group.

For ease of reference, this symbol has been used to denote any accounting policies included within the notes:

AP Denotes accounting policies

These financial statements consolidate those of Capita plc (the Company or the Parent Company) and all of its subsidiaries (the Group). Capita plc is a public limited company incorporated in England and Wales whose shares are publicly traded. The principal activities of the Group are given in the strategic report on pages 16 to 25.

These consolidated financial statements of Capita plc for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the directors on 9 March 2022.

These consolidated financial statements are presented in British pounds sterling and all values are rounded to the nearest tenth of a million (£m) except where otherwise indicated.

Statement of compliance

These consolidated financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and with UK-adopted International Financial Reporting Standards (IFRSs) and the Disclosure and Transparency Rules of the UK's Financial Conduct Authority.

Basis of consolidation

These consolidated financial statements comprise the financial statements of the Group at 31 December each year. Subsidiaries are consolidated from the date on which control is transferred to the Group until control is transferred out of the Group. Where there is a loss of control of a subsidiary, these consolidated financial statements include the results for that part of the reporting year during which Capita plc had control and the profit or loss on disposal is calculated as the difference between the fair value of the consideration received and the carrying amount of the net assets (including goodwill) disposed of. Losses applicable to the non-controlling interests in subsidiaries are attributed to the non-controlling interests even if that results in the non-controlling interests having a deficit balance.

Investments in associates are accounted for using the equity method. Under the equity method, the investment in the entity is stated as a one line item at cost plus the investor's share of retained post-acquisition profits or losses and other changes in net assets less any impairment.

Going concern

In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2021, the Board is required to consider whether the Group and Parent Company can continue in operational existence for the foreseeable future. The Board has concluded that it is appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts, key uncertainties and sensitivities, as set out below.

Accounting standards require that 'the foreseeable future' for going concern assessment covers a period of at least twelve months from the date of approval of these financial statements, although those standards do not specify how far beyond twelve months a Board should consider. In its going concern assessment, the Board has considered the period from the date of approval of these financial statements to 31 August 2023, which is just less than eighteen months from the date of approval of these financial statements ('the going concern period') and which aligns with the expiry of the revolving credit facility (RCF). The Board has also considered any material committed outflows beyond this period in forming their assessment, including the extension of the RCF which is a key consideration as set out below.

The base case financial forecasts used in the going concern assessment are derived from the 2022-2023 business plans as approved by the Board in February 2022.

The going concern assessment considers the Group's sources and uses of liquidity and covenant compliance throughout the period under review. The value of the Group's existing committed RCF was £385.7m at 31 December 2021 and it expires on 31 August 2022. In June 2021 the Group entered into a second RCF of £300m covering the period from 31 August 2022 to 31 August 2023 with certain lenders party to the existing RCF. The second RCF will replace the existing RCF when the latter expires. The two RCFs incorporate provisions such that they will partially reduce in quantum as a consequence of specified transactions, and subsequent to the year end, the first RCF reduced to £377.5m following the receipt of disposal proceeds. In March 2022, the Group executed with one of its relationship banks a committed backstop bridge facility. The facility provides £70m of additional liquidity and it incorporates provisions such that it will be cancelled or will partially reduce in quantum as a consequence of specified transactions, including completion of the disposal of Trustmarque announced on 28 January 2022. The committed facility has an expiry date of 31 August 2023 with an option, by the lender, for a further one year extension. The facility is subject to covenants, which are the same as the RCF.

Financial position at 31 December 2021

The Group had net debt of £879.8m at 31 December 2021 (2020: £1,077.1m) and adjusted net debt of £502.0m (2020: £616.4m). Adjusted EBITDA was £295.1m for the year ended 31 December 2021 (2020: £228.4m). The Group was in compliance with all debt covenants at 31 December 2021 (see note 8.2). The Group had liquidity of £392.4m at 31 December 2021 as detailed further in the Chief Financial Officer's review in the strategic report.

Board assessment

Base case scenario

Under the base case scenario, completion of the Group's transformation programme has simplified and strengthened the business and facilitates further efficiency savings enabling sustainable growth in revenue, profit and cash flow over the medium term. This enables the generation of positive free cash flows, and when combined with available committed facilities allows the Group to manage scheduled debt repayments. The base case financial forecasts demonstrate liquidity headroom and compliance with all covenant measures throughout the going concern period to 31 August 2023.

Section 1: Basis of preparation continued

As previously announced, the Board's plan is to establish an optimal capital structure to support the execution of the Group's strategy and to dispose of businesses that do not align with that strategy. The disposal programme requires agreement from third parties, and major disposals may be subject to shareholder and lender approval. Such agreements and approvals, and also any refinancing, are outside the direct control of the Company and as such, the inclusion of the effect of any potential future disposals or uncommitted financing in the Group's projections is inappropriate for going concern assessment purposes in accordance with IAS 1 Presentation of Financial Statements.

The base case projections used for going concern assessment purposes reflect business disposals completed up to the date of approval of these financial statements but do not reflect the benefit of any further disposals that are in the pipeline. The liquidity headroom assessment in the base case projections reflects the Group's existing committed financing facilities and debt redemptions and does not reflect any potential future refinancing.

The base case assumes an improved financial position for the Group as a result of the realisation of the benefits from completion of the transformation plan. The key sensitivity to the base case is the execution associated with delivering revenue growth.

Severe but plausible downside

In considering severe but plausible downside scenarios, the Board has taken account of trading downside risks, which assume the Group is not successful in delivering the anticipated levels of revenue growth and sustainable free cash flows. The downside scenario used for the going concern assessment also includes potential adverse financial impacts due to additional inflationary pressure which cannot be passed on to customers, not achieving targeted margins on new or major contracts, unforeseen operational issues leading to contract losses and cash outflows, and unexpected potential financial penalties and losses linked to incidents such as data breaches and/or cyber-attacks.

Absent any mitigating actions, liquidity headroom shown in the Group's financial forecasts under this severe but plausible downside scenario over the going concern period reduces substantially such that there is a risk of insufficient liquidity.

There are mitigations, under the direct control of the Group, that could be implemented to address any immediate shortfalls. These include reductions in variable pay rises, setting aside any bonus payments and limiting discretionary spend. While these are available as possible short-term mitigations and would be actioned if required to ensure sufficient liquidity, the Board is mindful that such restrictions may be detrimental to the longer-term success of the Group. In addition, such actions would not necessarily address potential liquidity requirements beyond the going concern period should all the downside risks materialise. As noted earlier, a key consideration for the Board is the expiry of the RCF on 31 August 2023, immediately following the going concern period.

The principal mitigation to the possibility of insufficient liquidity is the continuation of the Board approved disposal programme which covers businesses that do not align with the Group's longer-term strategy. The Group has a strong track record of executing major disposals. In 2021, the Board targeted to achieve £700m of disposal proceeds by 30 June 2022 and will exceed this target on the completion of the announced disposal of Trustmarque and Speciality Insurance businesses. The disposal programme continues, with further disposal processes launched in early 2022. The Board is confident that the disposal programme will be delivered, thereby introducing substantial net cash proceeds to the Group, albeit with a corresponding removal of consolidated profits and cash flows associated with the disposal businesses.

In addition to the ongoing disposal programme, the Group may seek to mitigate the liquidity risks which might arise in the downside scenario by seeking further sources of financing beyond its existing committed funding facilities. The Board has been successful in obtaining new and extended financing facilities in recent years and an immediate mitigating action includes the extension of the current RCF which currently expires on 31 August 2023.

Material uncertainties

The Board recognises that the disposal programme requires agreement from third parties and that major disposals may be subject to shareholder and, potentially, lender approval. Similarly, any new refinancing, including the extension of the RCF, requires agreement with lenders. Such agreements and approvals are outside the direct control of the Company. Therefore, given that some of the mitigating actions which might be taken to strengthen the Group's liquidity position in the severe but plausible downside scenario are outside the control of the Group, this gives rise to material uncertainties, as defined in accounting standards, relating to events and circumstances which may cast significant doubt about the Group's ability to continue as a going concern and to realise its assets and discharge its liabilities in the normal course of business.

Adoption of going concern basis

Reflecting the Board's confidence in the benefits expected from the completion of the transformation programme and execution of the approved disposal programme coupled with the potential to obtain further financing beyond its existing committed funding facilities, the Group continues to adopt the going concern basis in preparing these financial statements. The Board has concluded that the Group and Parent Company will be able to continue in operation and meet their liabilities as they fall due over the period to 31 August 2023. Consequently, these financial statements do not include any adjustments that would be required if the going concern basis of preparation were to be inappropriate.

Foreign currency translation

The functional and presentation currency of Capita plc and its United Kingdom (UK) subsidiaries is the British pound sterling (£). Transactions in foreign currencies are initially recorded at the functional currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency exchange rate ruling at the balance sheet date. All differences are taken to the consolidated income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated income statement.

Tax charges and credits attributable to exchange differences on those borrowings are also taken directly to equity. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of overseas operations include the euro, Indian rupee, South African rand, 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 exchange rate 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 foreign currency translation difference recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

Section 1: Basis of preparation continued

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 accordance with generally accepted accounting principles requires the directors to make judgements and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported income and expense during the presented periods. Although these judgements and assumptions are based on the directors' best knowledge of the amount, events or actions, actual results may differ.

The potential impact of Covid-19 on the Group has been considered in the preparation of these consolidated financial statements, including management's evaluation of critical accounting estimates and judgements. The impact on the Group has varied by business.

Covid-19 has introduced unprecedented economic uncertainties and has led to increased judgement particularly in forecasting future financial performance. There have also been direct impacts on revenue and costs arising from: new contracts helping customers respond to the pandemic; costs of setting up colleagues to work remotely; and, utilisation of the Government's Coronavirus Job Retention Scheme. The Board has not reported these items separately, but where there is an impact this is captured in the divisional performance reviews.

The Board has continued with a policy to separately identify items such as restructuring, where the plans were advanced and adapted in response to Covid-19 and these are set out in note 2.4. The Board has also considered the impact on the provisions recorded at 31 December 2021, with no significant adjustments recorded, and the valuation of the defined benefit pension scheme.

As described in note 2.1, given the level of judgement and estimation involved in assessing the future profitability of contracts, it is reasonably possible that outcomes within the next financial year may be different from management's assumptions and could require a material adjustment to the carrying amounts of contract assets and, customer and onerous contract provisions.

In determining the Group's recognition of deferred tax (note 2.6.2), management assess the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax assets are recognised to the extent that taxable temporary differences exist, and it is considered probable that future taxable profits will be available against which the assets can be utilised before their expiry. The availability of future profits must be assessed against forecasts and other supporting evidence. This determination of future forecasts is based on management's judgement. It requires judgement regarding whether future profit forecasts are considered 'more likely than not' as supporting evidence for deferred tax asset recognition. The new corporate structure has simplified the internal reporting and, together with the advancement of the Board approved disposal programme, has provided increased clarity over the composition of future forecasts of taxable profits. Accordingly, management have applied a methodology based on a probability weighted assessment of the available future profits to determine the deferred tax asset to recognise. In prior years, preceding the new simplified corporate structure, a shorter forecast timeframe for unwind of assets, with no probability weighting, was considered more appropriate. The modification in methodology has been reflected as a change in estimation in accordance with IAS 8, with the adjustment (£84.2m) to the carrying value of the deferred tax asset recorded as a current year charge in 2021.

The impact of climate change has been considered in the preparation of these financial statements across a number of areas, including our evaluation of the critical accounting estimates and judgements which are detailed below, consistent with the risks and opportunities set out in the strategic report on pages 50 to 52. None of these risks had a material effect on the critical accounting estimates or on the consolidated financial statements of the Group. The Group will continue developing its assessment of the impact that climate change may have on the assets and liabilities recognised and presented in its financial statements.

The key sources of uncertainty that have a significant risk of causing material adjustments 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
 - Customer and onerous contract provisions
- Impairment of goodwill (note 3.4)
- Measurement of defined benefit obligations (note 5.2)

The key areas where significant accounting judgements have been made are summarised below and set out in more detail in the related note:

- Capitalisation of contract fulfilment assets (note 3.1)
- Measurement of goodwill (note 3.4)
- 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 and estimates where they occur within the note:



Denotes significant accounting judgements, estimates and assumptions

Section 1: Basis of preparation continued

New standards and interpretations adopted

The accounting policies adopted are consistent with those of the previous financial year. In addition, the Group has adopted the new amendments to standards detailed below but they do not have a material effect on the Group's consolidated financial statements.

New amendments or interpretation	Effective date
Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	1 January 2021

The Group has initially adopted Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) from 1 January 2021. The Group applied the Phase 2 amendments retrospectively. However, in accordance with the exceptions permitted in the Phase 2 amendments, the Group has elected not to restate comparatives for the prior periods to reflect the application of these amendments. Since the Group had no transactions for which the benchmark rate had been replaced with an alternative benchmark rate as at 31 December 2020, there is no impact on opening equity balances as a result of retrospective application.

Specific policies applicable from 1 January 2021 for interest rate benchmark reform

The Phase 2 amendments provide practical relief from certain requirements in IFRS Standards. These reliefs relate to modifications of financial instruments and lease contracts or hedging relationships triggered by a replacement of a benchmark interest rate in a contract with a new alternative benchmark rate.

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changed as a result of interest rate benchmark reform, then the Group updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – ie the basis immediately before the change.

When changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Group first updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Group applied the policies on accounting for modifications to the additional changes.

The amendments also provide an exception to use a revised discount rate that reflects the change in interest rate when remeasuring a lease liability because of a lease modification that is required by interest rate benchmark reform.

Finally, the Phase 2 amendments provide a series of temporary exceptions from certain hedge accounting requirements when a change required by interest rate benchmark reform occurs to a hedged item and/or hedging instrument that permits the hedging relationship to be continued without interruption. The Group applied the relief by amending the designation of a hedging relationship to reflect changes that were required by the reform without discontinuing the hedging relationship.

The details of the accounting policies are disclosed in note 4.5. Also see Section 4 for related disclosures about risks, financial assets and financial liabilities indexed to LIBOR and hedge accounting.

New standards and interpretations not yet adopted

The International Accounting Standards Board (IASB) has issued the following standards, amendments and interpretations with an effective date after the date of these consolidated financial statements. These are effective for annual reporting periods beginning on or after the date indicated:

International Accounting Standards (IAS/IFRS)	Effective date
Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022
Annual Improvements to IFRS Standards 2018–2020	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	1 January 2023
IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts	1 January 2023
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	1 January 2023
Definition of Accounting Estimates (Amendments to IAS 8)	1 January 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	1 January 2023

Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply for annual reporting periods beginning on or after 1 January 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognised as an opening balance adjustment to retained earnings or other components of equity, as appropriate. The comparatives are not restated.

The Group is in the advanced stages of the assessment of the amended standard and based on its current assessment, it is expected to result in an increase of c.£16m to the Group's onerous contract provisions and c.£3m impairment of contract related assets.

All other standards, amendments and interpretations that have been issued by the IASB but not yet effective were not applicable or not material to the Group.

Section 2: Results for the year

This section contains notes related to the financial performance of the Group. These include:

- 2.1 Contract accounting
- 2.2 Revenue including segmental revenue
- 2.3 Operating profit
- 2.4 Adjusted operating profit and adjusted profit before tax
- 2.5 Segmental information
- 2.6 Taxation
- 2.7 Earnings/(loss) per share
- 2.8 Business exits and assets held-for-sale
- 2.9 Discontinued operations
- 2.10 Cash flow information



Denotes accounting policies



Denotes significant accounting judgements, estimates and assumptions

Key highlights

Reported revenue

£3,182.5m

(2020: £3,324.8m)

Reported free cash flow

£(237.1)m

(2020: £303.8m)

Reported profit before tax

£285.6m

(2020: loss £(49.4)m)

Reported earnings per share (EPS) – continuing operations

13.33p

(2020: (0.41)p)

Adjusted revenue¹

£3,008.5m

(2020: £2,995.5m)

Adjusted free cash flow¹

Aim: Achieve sustainable, long-term free cash flow growth

£78.1m

(2020: £170.3m)

Adjusted profit before tax¹

Aim: achieve long-term growth in profit

£93.5m

(2020: profit £5.4m)

Adjusted earnings per share (EPS)¹

Aim: achieve long-term growth in EPS

1.61p

(2020: 2.41p)

¹ Definitions of the alternative performance measures and related KPIs can be found in section 8.2.

Section 2: Results for the year continued

In 2021 the Group's adjusted revenue¹ marginally increased year on year. Adjusted profit before tax¹ significantly improved year on year from the delivery of cost savings. The higher level of profit was more than offset by a cash outflow from movements in working capital and a reduction in capital expenditure, resulting in adjusted free cash inflow¹ of £78.1m (2020: £170.3m inflow).

The Group had additional cash inflow of £315.2m (2020: £133.5m inflow), primarily arising on the disposal of the ESS and AXELOS businesses in the year, offset by outflows arising from VAT repayments under the Government's VAT deferral scheme of £104.1m (2020: inflow £118.8m), restructuring of £68.6m (2020: £64.1m) and pension deficit payments of £155.5m (2020: £29.5m). This resulted in headline net debt decreasing to £879.8m (2020: £1,077.1m).

Revenue

Adjusted revenue¹ increased by 0.4% year-on-year. For additional information, which does not form part of these consolidated financial statements, the Chief Financial Officer's review in the strategic report includes a bridge of drivers of the movement.

The adjusted revenue increased as a result of the following:

- Contract losses halving year-on-year reflecting sustained focus on retention and service delivery;
- Ongoing contract scope and volume reduction reflecting pandemic related work in 2020 and projects in Capita Experience which did not repeat in 2021;
- Transactional revenue growth mainly driven by Capita Public Service and to a lesser extent Capita Portfolio;
- the benefit of a number of notable contract wins including the commencement of the Royal Navy training contract and the Job Entry Targeted Support (JETS) contract which commenced in February combined with the annualised impact of the Defence Fire and Rescue Project (DFRP) contract in Capita Public Service and smaller wins within Capita Experience; and
- In 2021, one-off benefits similar to 2020, of £34.2m, related to the release of deferred income and compensation arising on earlier than planned contract terminations and modifications.

The difference of £174.0m between adjusted revenue of £3,008.5m and reported revenue of £3,182.5m is related to business exits in the year (refer to note 2.8).

Profit before tax

Adjusted profit before tax¹ increased by 1,631.5% year-on-year. For additional information, which does not form part of these consolidated financial statements, the Chief Financial Officer's review in the strategic report includes a bridge of drivers of the movement.

The adjusted profit before tax¹ increased as a result of the profit impact of the following:

- to ensure a like-with-like starting point, the 2020 one-offs, which included contract asset impairments and contract provisions, are adjusted for;
- the margin effect of contract losses, scope and volume, transactional changes and contract wins were a net £26.9m negative, with new wins not yet offsetting the impact of contract losses and scope and volume reductions;
- unplanned contractual one-offs in 2021, including the release of deferred income and write-off of contract assets arising from contract terminations, settlements and modifications, and provisions recognised on onerous contracts. These resulted in net gains of £7.5m in Public Service and £4.7m in Experience which have not been excluded from adjusted results as they are considered to be in the normal course of business.
- the transformation programme continued to deliver substantial savings in 2021 with a £123.3m year-on-year benefit;
- other cost movements primarily from general inflation; and
- the year-on-year impact of the reinstatement of the employee bonus scheme this year with £31.2m expensed in 2021 including £17.3m accrued at 31 December 2021 compared with the release of the 2019's £16.5m accrual in the first half of 2020, was partially off-set by a reduction in holiday pay accrual.

Adjusted profit before tax¹ excludes a number of specific items so users of these consolidated financial statements can more clearly understand the financial performance of the Group. Reported profit before tax was £285.6m (2020: loss £49.4m). A reconciliation of the adjusted profit before tax¹ to reported loss before tax is detailed in note 2.4.

Reported operating loss for the year was £86.6m (2020: loss £32.0m). Details of items charged/credited in arriving at the operating loss can be found in note 2.3.

Taxation

The income tax charge of £64.8m on adjusted profit before tax¹ of £93.5m (2020: credit of £25.3m on adjusted profit before tax of £5.4m) differs from the notional tax charge at the UK corporation tax rate of 19%, mainly due to the impact of the anticipated tax rate change on deferred tax assets, and adjustments in the carrying value of recognised deferred tax assets.

Earnings per share (EPS)

The movement in reported basic earnings per share and adjusted basic earnings per share¹ for continuing operations was as a result of the performance explained above.

Dividend

The Board is not recommending the payment of a final dividend (2020: £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 KPIs can be found in section 8.2.

Section 2: Results for the year continued

Adjusted free cash flow¹

Adjusted free cash flow¹ was lower in 2021 due to the improvement in adjusted operating profit¹ being offset by working capital outflows.

Adjusted operating profit to adjusted free cash flow ¹	2021 £m	2020 £m
Adjusted operating profit¹	139.1	51.1
Add: depreciation/amortisation and impairment property, plant and equipment and intangible assets	156.0	177.3
Adjusted EBITDA	295.1	228.4
Working capital	(123.5)	34.3
Other	13.8	32.5
Adjusted cash generated from operations¹	185.4	295.2
Net capital expenditure	(51.3)	(68.3)
Interest / tax paid	(56.0)	(56.6)
Adjusted free cash flow¹	78.1	170.3

Adjusted cash generated from operations¹, which decreased to £185.4m (2020: £295.2m), benefited from the improvement in adjusted profit before tax¹ explained above, offset by a material working capital outflow compared with an inflow in 2020.

The working capital outflow of £123.5m (2020: inflow £34.3m) was due to:

- A large reduction in trade and other receivables. In 2020, the cash flow benefited from shorter public sector payment cycles as part of the Covid-19 response and advanced payments from a small number of major clients at 31 December 2020. As expected, 2021 has been impacted by the unwind of these advanced receipts together with the natural expansion in working capital as the Group transitions to growth. The reductions also highlight the increased volumes in transactional business when compared with 2020 driving a higher level of trade debtors;
- A increased deferred income outflow of £92.8m, largely from unwinding of deferred transformation revenue on a contract with a telecom customer, and also on full and partial contract terminations in both Capita Public Service and Capita Experience. This is offset by continued transformation spend on DFRP increasing deferred income for this contract; and
- A contract fulfilment asset outflow of £40.3m, mostly from an increase in additions on Capita Public Service contracts, the most significant being on the TfL Road User & Emissions Charging contract, offset by contract asset impairments and derecognitions in Capita Experience.

Net capital expenditure reduced year-on-year following the 2020 completion of a number of transformation-related projects.

¹ Definitions of the alternative performance measures and related KPIs can be found in section 8.2.

Section 2: Results for the year continued

2.1 Contract accounting

At 31 December 2021, the Group had the following results and balance sheet items related to long-term contracts:

	Notes	2021 £m	2020 £m
Long-term contractual adjusted revenue	2.2	2,156.9	2,178.6
Non-current and current deferred income		794.7	975.2
Non-current contract fulfilment assets	3.1.3	286.7	294.8
Non-current and current onerous contract provision		45.8	16.5

Background

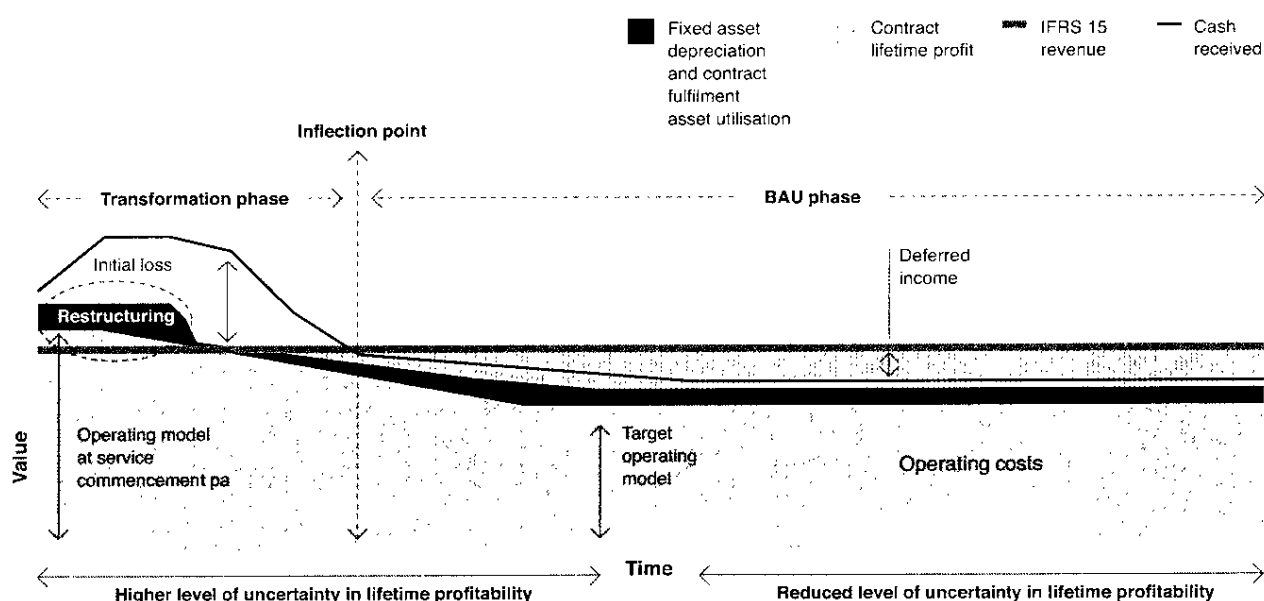
The Group operates diverse businesses. The majority of the Group's revenue is from contracts greater than two years in duration (long-term contractual), being 72% of Group adjusted revenue in 2021 (2020: 73%).

These long-term contracts can be complex in nature given the breadth of solutions the Group offers and the transformational activities involved. Typically, Capita takes a customer's process and transforms it into a more efficient and effective solution which is then operated for the customer. The outcome is a high quality solution that addresses a customer's needs and is delivered consistently over the life of the contract.

The Group recognises revenue on long-term contracts as the value is delivered to the customer, which is generally evenly over the contract term, regardless of any restructuring and transformation activity. 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 (BAU) phase). The inflection point is when the contract becomes profitable.

Contract fulfilment assets are recognised for those costs qualifying for capitalisation. The utilisation of these assets is recognised over the contract term. The timing of cash receipts from customers typically matches when the costs are incurred to transform, restructure and run the service. This results in income being deferred and released 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:



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: (i) the recoverability of contract fulfilment assets; and (ii) the completeness of the customer and onerous contract provisions. These judgements are dependent on assessing the contract's future profitability and give rise to a key source of estimation uncertainty. It is possible that outcomes within the next financial year may be different from management's assumptions and could require a material adjustment to the carrying amounts of contract assets and onerous contract provisions.

It should be noted that while management must make judgements in relation to applying the revenue recognition policy and recognition of related balance sheet items (trade receivables; deferred income; and 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 stages are considered to have a higher level of uncertainty because of:

- the ability to accurately estimate the costs to deliver the transformed process;
- the dependency on the customer to agree to the specifics of the transformation: for example, where they are involved in certifying that the new process or the new technical solution designed by Capita meets their specific requirements; and
- the assumptions made to forecast expected savings in the target operating model.

Those contracts which are post-inflection and in BAU stage tend to have a much lower level of uncertainty in estimating 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. For half and full year reporting, the Audit and Risk Committee specifically reviews the material judgements and estimates, and the overall approach in respect of the Group's major contracts, including comparison against previous forecasts. Major contracts include those that are material in size or risk to the Group's results. 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 £2.0 billion (2020: £1.5 billion) or 68% (2020: 47%) of Group adjusted revenue. Non-current contract fulfilment assets at 31 December 2021 were £286.7m, of which £184.1m (2020: £152.7m) relates 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 were, in aggregate, £6.6m at 31 December 2021 (2020: £44.5m). 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 £89.5m at 31 December 2021 (2020: £232.3m) and is forecast to be recognised as performance obligations continue to be delivered over the life of the respective contracts. Onerous contract provisions associated with these contracts were £45.8m at 31 December 2021 (2020: £15.7m).

Following these reviews, and reviews of smaller contracts across the business, as outlined in note 3.1.3, contract fulfilment asset impairment of £7.3m (2020: £17.5m) were identified and recognised within adjusted cost of sales, of which £nil (2020: £2.0m) relate to contract fulfilment assets added during the period, and net onerous contract provisions of £32.0m (2020: £10.4m) were identified out of which £3.3m was recognised within adjusted cost of sales.

Given the quantum of the relevant contract assets and liabilities, and the nature of the estimates noted above, management has concluded that it is reasonably possible, that outcomes within the next financial year may be different from management's current assumptions and could require a material adjustment to the carrying amounts of contract assets and onerous contract provisions. However, as noted above, £184.1m of non-current contract fulfilment assets relates to major contracts with on-going transformational activities and £6.6m of non-current contract fulfilment assets and £45.8m of onerous contract provisions relate to the highest and medium rated risk category. Due to the level of uncertainty, combination of variables and timing across numerous contracts, it is not practical to provide a quantitative analysis of the aggregated judgements that are applied, and management do not believe that disclosing a potential range of outcomes on a consolidated basis would provide meaningful information to a user of the financial statements. Due to commercial sensitivities, the Group does not specifically disclose the amounts involved in any individual contract.

Certain of the major transformation contracts have key milestones during the next twelve months and inability to meet these key milestones could lead to reduced profitability and a risk of impairment of the associated contract assets. These contracts include DFRP and Royal Navy training.

Additional information, which does not form part of these consolidated financial statements, on the results and performance of the underlying divisions including the outlook on certain contracts is set out in the divisional performance review.

2.2 Revenue including segmental revenue

AP Accounting policies

Revenue

The Group generates revenue largely in the UK and Europe. The Group operates a diverse range of businesses and accordingly applies a variety of methods for revenue recognition, based on the principles set out in IFRS 15.

The revenue and profits recognised in any period are based on the delivery of performance obligations and an assessment of when control is transferred to the customer.

Revenue is recognised either when the performance obligation in the contract has been performed ('point-in-time' recognition) or 'overtime' as control of the performance obligation is transferred to the customer.

For all contracts, the Group determines if the arrangement with a customer creates enforceable rights and obligations. This assessment results in certain Master Service Agreements (MSA) or Frameworks not meeting the definition of a contract under IFRS 15 and as such the individual call-off agreements, linked to the MSA, are treated as individual contracts.

Section 2: Results for the year continued

2.2 Revenue including segmental revenue continued

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.

For contracts with multiple components to be delivered such as transformation, transitions and the delivery of outsourced services, management applies judgement to consider whether those promised goods and services are:

- (i) distinct – to be accounted for as separate performance obligations;
- (ii) not distinct – to be combined with other promised goods or services until a bundle is identified that is distinct; or,
- (iii) part of a series of distinct goods and services that are substantially the same and have the same pattern of transfer to the customer.

At a contract's inception the total transaction price is estimated, being the amount to which the Group expects to be entitled and has rights to under the contract. This includes an assessment of any variable consideration where the Group's performance may result in additional revenues based on the achievement of agreed KPIs. Such amounts are only included based on the expected value, or the most likely outcome method, and only to the extent that it is highly probable that no revenue reversal will occur.

The transaction price does not include estimates of consideration resulting from change orders for additional goods and services unless these are already agreed.

Once the total transaction price is determined, the Group allocates this to the identified performance obligations in proportion to their relative standalone selling prices and recognises revenue when (or while) those performance obligations are satisfied.

The Group infrequently sells standard products with observable standalone prices due to the specialised services required by customers, consequently the Group applies judgement to determine an appropriate standalone selling price. More frequently, the Group sells customers bespoke solutions, and in these cases the Group typically uses the expected cost-plus margin or a contractually stated price approach to estimate the standalone selling price of each performance obligation.

The Group may offer price step downs during the life of a contract, but with no change to the underlying scope of services to be delivered. In general, any such variable consideration, price step down or discount is included in the total transaction price to be allocated across all performance obligations unless it relates to only one performance obligation in a contract.

For each performance obligation to be recognised overtime, 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 estimations of: user numbers; service activity levels; 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 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).

In respect of contracts for which the Group has decided there is a series of distinct goods and services that are substantially the same and have the same pattern of transfer where revenue is recognised over time, the modification will always be treated under either (a) or (b); (d) may arise when a contract has a part-termination and a modification of the remaining performance obligations.

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 because management needs to determine if a modification has been approved and if it either creates new, or changes existing, enforceable rights and obligations of the parties. Depending upon the outcome of such negotiations, the timing and amount of revenue recognised may be different in the relevant accounting periods. Modification and amendments to contracts are undertaken through an agreed formal process. For example, if a change in scope has been approved but the corresponding change in price is still being negotiated, management uses judgement to estimate the change in total transaction price. Importantly, any variable consideration is only recognised to the extent that it is highly probable that no revenue reversal will occur.

Principal versus agent

The Group has arrangements with some of its customers whereby it needs to determine if it acts as a principal or an agent because more than one party is involved in providing the goods and services to the customer. The Group is a principal if it controls a promised good or service before transferring that good or service to the customer. The Group is an agent if its role is to arrange for another entity to provide the goods or services. Factors considered in making this assessment are most notably: the discretion the Group has in establishing the price for the specified good or service; whether the Group has inventory risk; and whether or not the Group is primarily responsible for fulfilling the promise to deliver the service or good.

Section 2: Results for the year continued

2.2 Revenue including segmental revenue continued

This assessment of control requires judgement particularly in relation to certain service contracts. An example is the provision of certain recruitment and learning services where the Group may be assessed to be agent or principal dependent upon the facts and circumstances of the arrangement and the nature of the services being delivered.

Where the Group is acting as a principal, revenue is recorded on a gross basis. Where the Group is acting as an agent, revenue is recorded on a net basis, recognising only the commission or fee earned as revenue.

Licences

Software licences delivered by the Group can either be right to access (active) or right to use (passive) licences, which determines the timing of revenue recognition. The assessment of whether a licence is active or passive involves judgement.

The key determinant of an active licence is whether or not the Group is required to undertake continuing activities that significantly affect the licensed intellectual property (or the customer has a reasonable expectation that it will do so) and the customer is, therefore, exposed to positive (or negative) impacts resulting from those changes. Where the Group is responsible for any maintenance, continuing support, updates and upgrades, and accordingly the sale of the initial software is not distinct. All other licences which have significant standalone functionality are treated as passive licences.

When software upgrades are sold as part of the software licence agreement (ie software upgrades are promised to the customer), the Group applies judgement to assess whether the software upgrades are distinct from the licence (ie a separate performance obligation). If the upgrades are considered fundamental to the ongoing use of the software by the customer, the upgrades are not considered distinct and not accounted for as a separate performance obligation.

For each contract that includes a separate licence performance obligation, the Group considers all the facts and circumstances in determining whether the licence revenue is recognised overtime (active) or at a point-in-time (passive) from the go-live date of the licence.

Deferred and accrued income

The Group's customer contracts include a diverse range of payment schedules dependent upon the nature and type of goods and/or services being provided. This can include performance-based payments or progress payments as well as regular monthly or quarterly payments for ongoing service delivery. Payments for transactional goods and services may be at delivery date, in arrears or part payment in advance. The long-term service contracts tend to have higher cash flows early in the contract to cover transformational activities.

Where payments received are greater than the revenue recognised up to the reporting date, the Group recognises a deferred income contract liability for this difference. Where payments received less than the revenue recognised up to the reporting date, the Group recognises an accrued contract income asset for this difference.

At each reporting date, the Group assesses whether there is any indication that accrued contract income assets may be impaired by considering whether or not any revenue reversal could occur. Where an indicator of impairment exists, the Group makes a formal estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Contract types

The Group disaggregates revenue from contracts with customers by contract type, because management believe this best depicts how the nature, amount, timing, and uncertainty of the Group's revenue and cash flows are affected by economic factors. Categories are: long-term contractual – greater than two years; short-term contractual – less than two years; and transactional. The years being measured from the service commencement date.

Long-term contractual – greater than two years

The Group provides a range of services in the majority of its reportable segments under contracts with a duration of more than two years. The nature of contracts or performance obligations within this revenue type includes:

- (i) long-term outsourced service arrangements in the public and private sectors; and
- (ii) active software licence arrangements.

The majority of long-term contractual agreements form part of a series of distinct goods and services because they are substantially the same service; and have the same pattern of transfer, since the series constitutes services provided in distinct time increments (eg daily, monthly, quarterly or annually), and therefore treats the series as one performance obligation.

Short-term contractual – less than two years

The nature of contracts or performance obligations within this revenue type includes:

- (i) short-term outsourced service arrangements in the public and private sectors; and
- (ii) software maintenance contracts.

The Group has assessed that maintenance and support (ie on-call support, remote support) for software licences is a performance obligation that can be considered capable of being distinct and separately identifiable in a contract if the customer has a passive licence. These recurring services are substantially the same because the nature of the promise is for the Group to 'stand ready' to perform maintenance and support when required by the customer. Each day of 'standing ready' is distinct from each subsequent day and is transferred in the same pattern to the customer.

Transactional (point-in-time) contracts

The Group delivers a range of goods or services in all reportable segments that are transactional services for which revenue is recognised at the point-in-time when control of the goods or services has transferred to the customer. This may be at the point of physical delivery of goods or services and acceptance by the customer or when the customer obtains control of an asset or service in a contract with customer-specified acceptance criteria.

The nature of contracts or performance obligations within this revenue type includes:

- (i) provision of 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 the 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. Capita plc is a reconciling item and not an operating segment. A description of the service provision for each segment can be found in the strategic report on pages 16 to 25.

The tables below present revenue for the Group's business segments. The new organisational structure, announced in March 2021, became operational in the second half of the year and the disclosures below represent the new structure as reported to the Chief Operating Decision Maker. Under the new structure, the Group comprises of two core trading divisions - Capita Public Service and Capita Experience - and a third division - Capita Portfolio - which comprises of non-core businesses that the Group intends to exit in due course. Comparative information has been re-presented accordingly.

Adjusted revenue, excluding results from businesses exited in both years (adjusting items), was £3,008.5m (2020: £2,995.5m), an increase of 0.4% (2020: decline 9.7%).

Year ended 31 December 2021	Notes	Capita Public Service £m	Capita Experience £m	Capita Portfolio £m	Capita plc £m	Total adjusted £m	Adjusting Items £m	Total reported £m
Continuing operations								
Long-term contractual		1,223.9	894.3	38.7	—	2,156.9	146.3	2,303.2
Short-term contractual		122.2	236.7	143.5	—	502.4	27.6	530.0
Transactional (point-in-time)		64.3	53.7	231.2	—	349.2	0.1	349.3
Total segment revenue		1,410.4	1,184.7	413.4	—	3,008.5	174.0	3,182.5
Trading revenue		1,449.3	1,219.6	557.4	—	3,226.3	—	3,226.3
Inter-segment revenue		(38.9)	(34.9)	(144.0)	—	(217.8)	—	(217.8)
Total adjusted segment revenue		1,410.4	1,184.7	413.4	—	3,008.5	—	3,008.5
Business exits – trading	2.8	—	—	174.0	—	—	174.0	174.0
Total segment revenue		1,410.4	1,184.7	587.4	—	3,008.5	174.0	3,182.5

Year ended 31 December 2020								
Continuing operations								
Long-term contractual		1,084.4	1,019.9	74.3	—	2,178.6	264.7	2,443.3
Short-term contractual		29.9	239.2	155.3	—	424.4	65.1	489.5
Transactional (point-in-time)		158.7	48.6	185.2	—	392.5	(0.5)	392.0
Total segment revenue		1,273.0	1,307.7	414.8	—	2,995.5	329.3	3,324.8
Trading revenue		1,306.4	1,361.2	697.4	—	3,365.0	—	3,365.0
Inter-segment revenue		(33.4)	(53.5)	(282.6)	—	(369.5)	—	(369.5)
Total adjusted segment revenue		1,273.0	1,307.7	414.8	—	2,995.5	—	2,995.5
Business exits – trading	2.8	—	—	329.3	—	—	329.3	329.3
Total segment revenue		1,273.0	1,307.7	744.1	—	2,995.5	329.3	3,324.8

Geographical location

The table below presents revenue by geographical location.

	2021			2020		
	United Kingdom £m	Other £m	Total £m	United Kingdom £m	Other £m	Total £m
Revenue	2,882.4	300.1	3,182.5	3,011.0	313.8	3,324.8

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 wholly or partially unsatisfied.

Order book 31 December 2021	Capita Public Service £m	Capita Experience £m	Capita Portfolio £m	Capita plc £m	Total £m
Long-term contractual	3,112.7	2,249.3	478.7	—	5,840.7
Short-term contractual	173.6	22.5	78.6	—	274.7
Total	3,286.3	2,271.8	557.3	—	6,115.4

Order book 31 December 2020	Capita Public Service £m	Capita Experience £m	Capita Portfolio £m	Capita plc £m	Total £m
Long-term contractual	2,665.3	2,399.4	589.7	—	5,654.4
Short-term contractual	71.3	29.3	95.7	—	196.3
Total	2,736.6	2,428.7	685.4	—	5,850.7

The table below shows the expected timing of revenue to be recognised on long-term contractual orders at 31 December 2021:

Time bands of expected revenue recognition from long-term contractual orders	Capita Public Service £m	Capita Experience £m	Capita Portfolio £m	Capita plc £m	Total £m
< 1 year	711.6	799.2	145.4	—	1,656.2
1–5 years	1,610.6	1,150.4	199.7	—	2,960.7
> 5 years	790.5	299.7	133.6	—	1,223.8
Total	3,112.7	2,249.3	478.7	—	5,840.7

Prior year comparative information is not presented for the expected timing of revenue recognition because it is a forward looking disclosure and therefore management does not believe that such disclosure provides meaningful information to a user of the financial statements.

The order book represents the consideration that the Group will be entitled to receive from customers when the Group satisfies its remaining performance obligations under the contracts. However, the total revenue that will be earned by the Group will also include non-contracted volumetric revenue, new wins, scope changes and anticipated contract extensions. These elements have been excluded from the above tables because they are not contracted. Additionally, revenue from contract extensions is excluded from the order book unless they are pre-priced extensions whereby the Group has a legally binding obligation to deliver the performance obligations during the extension period. The total revenue related to pre-priced extensions that has been included in the tables above amounted to £668.0m (2020: £800.7m). The amounts presented do not include orders for which neither party has performed, and each party has the unilateral right to terminate a wholly unperformed contract without compensating the other party.

Of the £5.8 billion (2020: £5.7 billion) revenue to be earned on long-term contracts, £4.3 billion (2020: £3.8 billion) relates to major contracts. This amount excludes revenue that will be derived from frameworks (transactional 'point-in-time' contracts), non-contracted volumetric revenue, non-contracted scope changes and future unforeseen volume changes from these major contracts, which together are anticipated to contribute an additional £2.3 billion (2020: £2.1 billion) of revenue to the Group over the life of these contracts.

The Group performs various services for a number of UK Government ministerial departments and considers these individual ministerial departments to be separate customers due to the limited economic integration between each ministerial department. 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 £941.1m (2020: £998.7m).

Movements in the deferred income balances were driven by transactions entered into by the Group within the normal course of business in the year, other than the accelerated revenue recognised of £23.1m on early termination of contracts in Capita Experience and agreed reduction in scope on a contract in Capita Public Service (2020: £17.5m in Capita Experience).

Section 2: Results for the year continued

2.3 Operating profit

2.3.1 Items charged/(credited) to reported operating profit

	Notes	2021 £m	2020 £m
Depreciation of property, plant and equipment	3.2	48.6	50.9
Depreciation of right-of-use assets	3.5	68.2	88.2
Impairment of property, plant and equipment	3.2	1.9	10.3
Impairment of right-of-use assets	3.5	13.3	22.2
Amortisation of intangible assets	3.3	57.7	74.6
Impairment of intangible assets	3.3	58.7	2.6
Impairment of goodwill	3.4	16.1	—
Impairment of disposal group assets held-for-sale	2.8	44.1	11.7
(Gain)/loss on sale of property, plant and equipment and intangibles	2.10.1	0.7	17.1
Foreign exchange differences		(0.2)	(1.0)
Restructuring costs	2.4	148.3	109.0
Contract fulfilment asset utilisation, impairment and derecognition	3.1.3	107.8	105.0
Contract termination gains		(4.7)	—
The net of: accelerated deferred income unwind, and contract fulfilment asset utilisation		(7.5)	(15.4)
Onerous contract provisions		32.0	10.4

Contract fulfilment asset utilisation, impairment and derecognition: the Group continually monitors and reviews its major contracts to identify any indicators of impairment of contract fulfilment assets. During the year, management made provisions against costs capitalised as contract fulfilment assets totalling £7.3m (2020: £17.5m) 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 Capita Experience for customer convenience have led to associated exit fees earned by Capita of £4.7m (2020: £nil) being recorded as income in-year.

The net of: accelerated deferred income unwind and contract fulfilment asset utilisation: in 2021 the Group recognised a gain of £7.5m (2020: gain £15.4m) related to the net of accelerated deferred income unwinds and contract fulfilment asset utilisation. In 2021, this primarily related to a contract in Capita Experience where a contract was terminated earlier than planned and the agreed reduction in scope of a contract in Capita Public Service. In 2020 the gains primarily related to partial termination of a contract in Capita Experience, and hand backs of various services in contracts in Capita Public Service.

Onerous contract provisions: in 2021 the Group recognised a net loss of £32.0m (2020: £10.4m loss) related to onerous contract provisions. £28.7m of which were excluded from adjusted results and relate to two streams of related services in Capita Experience (refer to note 2.4 for further details).

2.3.2 Fees payable to auditors

The amounts included in the table below relate to fees payable to KPMG LLP and its associates:

	2021 £m	2020 £m
Audit and audit-related services		
The audit of the Parent Company and Group's consolidated financial statements	5.1	4.3
The audit of the financial statements of subsidiaries of the Group	1.9	1.9
Total audit and audit-related services	7.0	6.2
Non-audit services		
Other assurance services	1.5	1.4
Total non-audit services	1.5	1.4
Total audit and non-audit services	8.5	7.6

The non-audit fees in respect of 2021 related to the review of interim results, and services as reporting accountant for the disposal AXELOS Limited. In respect of 2020, the non-audit fees related to the review of interim results, services as reporting accountant for the disposal of the Education Software Solutions (ESS) business, and a refinancing which had to be aborted due to the impact of Covid-19 on debt markets.

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 internally. In the Board's judgement, these need to be disclosed separately by virtue of their nature, size and/or incidence, for users of the consolidated financial statements to obtain an understanding of the financial information and the underlying in-year performance of the Group. Accordingly, these items are also excluded from the discussion of divisional performance in the strategic report. This policy is kept under review by the Board and the Audit and Risk Committee and is discussed in the committee's report on pages 86 to 95.

The items below are excluded from the adjusted results:

The items below are excluded from the adjusted results:		Operating profit/(loss)		Profit/(loss) before tax	
	Notes	2021 £m	2020 £m	2021 £m	2020 £m
Reported		(86.6)	(32.0)	285.6	(49.4)
Amortisation and impairment of acquired intangibles	3.3	12.0	26.4	12.0	26.4
<i>Impairment of goodwill</i>	3.4	11.5	—	11.5	—
Litigation and claims		(9.3)	0.7	(9.3)	0.7
Net finance costs	4.3	—	—	1.4	1.5
Business exit	2.8	20.1	(60.5)	(399.1)	(90.3)
Business exit - on-hold disposal costs		—	7.5	—	7.5
Contract-related provisions and impairments	3.6	43.1	—	43.1	—
<i>Significant restructuring</i>		148.3	109.0	148.3	109.0
Adjusted		139.1	51.1	93.5	5.4

1. Adjusted operating profit increased by 172.2% (2020: decreased 56.4%) and adjusted profit before tax increased by 1,631.5% (2020: decreased 67.0%). Adjusted operating profit of £139.1m (2020: profit £51.1m) was generated on adjusted revenue of £3,008.5m (2020: £2,995.5m) resulting in an adjusted operating margin of 4.6% (2020: 1.7%).

2. The tax charge on adjusted profit before tax is £64.8m (2020: £25.3m credit) resulting in adjusted profit after tax of £28.7m (2020: £30.7m profit).

3. The adjusted operating profit and adjusted profit before tax for 2020 have been restated for the impact of business exits during 2021. This has resulted in adjusted operating profit decreasing from £111.0m to £51.1m and adjusted profit before tax decreasing from £65.2m to £5.4m.

Amortisation and impairment of acquired intangible assets: the Group recognised acquired intangible amortisation of £12.0m (2020: £24.8m) and impairment of £nil (2020: £1.6m).

Impairment of goodwill: goodwill is subject to annual impairment testing and any impairment charges are reported separately.

Litigation and claims: the Group received an insurance settlement of £5.0m in respect of an historical legal claim that was settled in the period. The legal claim, which was fully provided at 31 December 2020, was excluded from adjusted results when provided due to its historical nature and size, and accordingly the insurance receipt has also been excluded from adjusted results. Further, the Group has recognised a gain of £3.2m from net movements in historical provisions that were excluded from adjusted results when provided.

Net finance costs: net finance costs excluded from adjusted profits includes 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. Individual businesses within the Portfolio Division will be treated as held-for-sale (and therefore a business exit) when the disposal is highly probable and expected to complete within twelve months of the balance sheet date.

Business exits - on-hold disposal cost: the costs incurred in respect of business exit activities where the anticipated disposal was primarily put on hold due to the impact of Covid-19 pandemic had on the underlying businesses, are excluded from the Group's adjusted results but disclosed separately from other business exits given their materiality. These costs include professional fees in respect of legal and financial due diligence, and separation planning costs.

Contract-related provisions and impairments: the new corporate structure has simplified internal reporting, which has highlighted those businesses that represent a drag on the Group cash resources. This includes the Life & Pensions business that provides outsourced administration services for the associated closed pension books which we maintain on behalf of a small number of clients.

The Group has highlighted in prior reporting the structural challenges associated with the closed book Life & Pensions contracts. These provided for upfront cash inflows to support initial transformation activities with a much lower level of cash inflows once the transformation phase was completed. Under the Group's long-term contract accounting policy (see note 2.1), the cash flow profile of these contracts has resulted in deferral of profit into future years which is not backed by net cash flows (because the relevant cash receipts arose in the early years of contract execution). Additionally, some of the contracts contain evergreen clauses allowing the customers to extend the contracts indefinitely until the run-off of the underlying pension books is complete.

The Life & Pensions business has remained in structural decline as some customers, with legacy IT systems, have switched to suppliers who can provide a single digital platform for all their books. The Group has sought to drive efficiencies to mitigate this fall off in volumes, while supporting customers who have selected new outsource providers or taken the activities back in-house.

The closed books and contractual dynamics have led to onerous conditions to service these contracts. The Board has been required to assess the likely length of the remaining contracts, given the pattern and experience of contract terminations while also recognising the evergreen clauses. Accordingly, management has in prior years provided for the onerous contract conditions based on the best estimate of the remaining contract terms. The contingent liability note has highlighted that should the contracts end earlier or extend for longer this may result in a material reduction or increase in the provision recorded.

Section 2: Results for the year continued

2.4 Adjusted operating profit and adjusted profit before tax continued

During 2021, the Group has continued to support a major customer on the transfer of services to another supplier. This is taking significantly longer than initially expected. Management has reassessed the lifetime estimate to include not only the onerous contract terms but also the period and likely costs to support the final handover of services. This assessment has extended across all contracts that contain evergreen clauses, including those where there are ongoing discussions regarding either termination or transfer of services. This reassessment, reflecting by the developments in the latter half of 2021, provides cover for contracts to extend out to 2026. This has resulted in an increase to the contract provision and impairment of contract assets totalling £43.1m which has been reported as an adjusting item. In prior years the financial impacts of such contract judgements have not been shown as adjusting items they were considered to be normal course of business, not material in the context of the Group results and not associated with the transformation plan. However, due to the quantum of the charge arising from the 2021 reassessment, the Board consider it appropriate to separately disclose this as an adjusted item to highlight the impact on the results in the period.

Significant restructuring: in January 2018, the Group announced a multi-year transformation plan. In 2021 a charge of £148.3m (2020: £109.0m) 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 £74m (2020: £65m):** 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 the Group's operations, reduce spans and layers, increasing the use of off-shoring and automation, adopting lean methodologies and working smarter. As the Group continues to rationalise its property estate, costs associated with onerous property commitments and dilapidation liabilities, and impairment of property right-of-use assets and fixtures and fittings, are captured and presented as part of the transformation adjustments.
- **Professional fees £8m (2020: £3m):** including in 2021 fees paid to consultants in relation to the development and delivery of the corporate reorganisation.
- **Transformation of central Group functions £66m (2020: £15m):** investment in programmes to improve the Group's central functions, including: finance; sales; human resources; and information technology. All costs associated with these programmes are recorded separately, and exclude any costs capitalised as part of the investment and the ongoing depreciation and amortisation of such assets.

The transformation programme included planned improvements to the Group's financial reporting systems. New financial systems were due to go live in the second half of 2019, and while progress was made, a decision was taken to defer the go-live as more work was required on the core processes and procedures before the system could be effectively implemented. Several interim activities were progressed during both 2020 and 2021 and the technical asset including the IT infrastructure, software and codebase were preserved.

The new system was deemed necessary to provide effective functionality across the then six reporting divisions, supported by the central functions and covering a multifaceted legal entity structure. In addition, the decision to invest in a new financial reporting systems was predicated on the fact that the Group's existing ERP platform would not be supported by the relevant supplier beyond 2025.

During 2021, the Group simplified its divisional and management organisation structure with ongoing programmes to streamline the legal entity structure of the Group. As a result, the Board concluded in late 2021 that continued investment in a new system was not critical to support the finance transformation. This coincided with confirmation from the supplier that the Group's existing ERP platform will be supported until at least 2030.

These developments allowed management to reconsider the technical imperative to move onto a new ERP platform and to assess the extent to which the Group would be better served continuing to use its existing platform. It has become clear that it is feasible to use the existing platform and, in doing so, avoid the disruption, additional cost and risk of a transition to a new platform. The simplified operating model makes possible a continuation of the systems already available with more limited investment to achieve the required functionalities that will deliver the prime objectives of standardisation, automation and improved quality of information.

Therefore, the Board approved a revised approach at the end of 2021 to focus on optimising the current finance reporting systems and not migrating to an entirely new finance system. As such, an impairment of £53.5m was recognised at 31 December 2021 representing the book value of the elements of the new finance system which are no longer expected to be utilised.

- **Cost of accelerating savings to mitigate the financial impact of Covid-19 £nil (2020: £26m):** these are incremental to those planned to be incurred as part of the transformation plan and include accelerated property estate rationalisation and severance costs.

The cumulative significant restructuring expense recognised since the commencement of the group-wide transformation in 2018 is £526.7m. 2021 is the final year of major investments in the transformation plan where the costs are excluded from adjusted results. From 1 January 2022, any residual restructuring will be recorded within adjusted results.

Section 2: Results for the year continued

2.5 Segmental information

The Group's operations are managed separately according to the nature of the services provided, with each segment representing a strategic business division offering a different package of client outcomes across the markets the Group serves. Capita plc is a reconciling item and not an operating segment. A description of the services provided by each segment can be found in the strategic report on pages 16 to 25.

The tables below present profit for the Group's business segments. The new organisational structure, announced in March 2021, became operational in the second half of the year and the below disclosure represents the new structure as reported to the Chief Operating Decision Maker. Comparative information has been re-presented accordingly. For segmental reporting, the costs of the central functions have been allocated to the segments using appropriate drivers such as adjusted revenue, adjusted profit or headcount.

Information on segmental revenue can be found in note 2.2.

Year ended 31 December 2021	Notes	Capita Public Service £m	Capita Experience £m	Capita Portfolio £m	Capita plc £m	Total adjusted £m	Adjusting items £m	Total reported £m
Adjusted operating profit	2.4	98.3	69.1	23.8	(52.1)	139.1	—	139.1
Restructuring	2.4	(5.1)	(12.0)	(3.2)	(128.0)	—	(148.3)	(148.3)
Business exits – trading	2.8	—	—	50.8	—	—	50.8	50.8
Total trading result		93.2	57.1	71.4	(180.1)	139.1	(97.5)	41.6
Non-trading items:								
Business exits – non-trading	2.8					—	(70.9)	(70.9)
Other adjusting items	2.4					—	(57.3)	(57.3)
Operating profit/(loss)						139.1	(225.7)	(86.6)

Year ended 31 December 2020	Notes	Capita Public Service £m	Capita Experience £m	Capita Portfolio £m	Capita plc £m	Total adjusted £m	Adjusting items £m	Total reported £m
Adjusted operating profit	2.4	12.9	80.9	14.2	(56.9)	51.1	—	51.1
Restructuring	2.4	(8.6)	(11.6)	(4.4)	(84.4)	—	(109.0)	(109.0)
Business exits – trading	2.8	—	—	111.0	—	—	111.0	111.0
Total trading result		4.3	69.3	120.8	(141.3)	51.1	2.0	53.1
Non-trading items:								
Business exits – non-trading	2.8					—	(50.5)	(50.5)
Other adjusting items	2.4					—	(34.6)	(34.6)
Operating profit/(loss)						51.1	(83.1)	(32.0)

Geographical location

The table below presents the carrying amount of non-current assets (excluding deferred tax, financial assets and employee benefits) by the geographical location of those assets.

	2021			2020		
	United Kingdom £m	Other £m	Total £m	United Kingdom £m	Other £m	Total £m
Non-current assets	1,791.3	27.7	1,819.0	2,168.4	38.4	2,206.8

Section 2: Results for the year continued

2.6 Taxation

AP Accounting policies

Tax on the profit or loss for the year comprises current tax and deferred tax. Tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in the consolidated statement of changes in equity or the consolidated statement of comprehensive income.

Current tax is the expected tax payable or receivable on the taxable profit 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 basis 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;
- 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/loss nor taxable profit/loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, 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

The income tax charge of £61.5m on reported profit before tax of £285.6m (2020: income tax credit of £47.6m on loss of £49.4m) is reconciled to the standard UK rate of 19% below. The most significant reconciling items are due to changes in anticipated tax rate on deferred tax assets, movement in unrecognised deferred tax assets, non-taxable profit on disposal and non-deductible goodwill impairment. The tax rate change and the movement in unrecognised deferred tax also applies to the adjusted tax charge on adjusted profit before tax¹, also shown below.

The major components of income tax charge/(credit) are set out below:

Consolidated income statement	2021			2020		
	Total reported £m	Included in adjusted profit £m	Not included in adjusted profit £m	Total reported £m	Included in adjusted profit £m	Not included in adjusted profit £m
Current income tax						
Current income tax charge	27.2	27.8	(0.6)	14.1	14.6	(0.5)
Adjustment in respect of prior years	3.8	3.8	—	0.2	0.2	—
Deferred tax						
On origination and reversal of temporary differences	76.1	78.8	(2.7)	(24.5)	(16.0)	(8.5)
Effect of changes in tax rate on deferred tax balances	(39.0)	(39.0)	—	(17.5)	(19.7)	2.2
Adjustment in respect of prior years	(6.6)	(6.6)	—	(19.9)	(4.4)	(15.5)
Total	61.5	64.8	(3.3)	(47.6)	(25.3)	(22.3)

Section 2: Results for the year continued

2.6 Taxation continued

Consolidated statement of comprehensive income and consolidated statement of changes in equity	2021 £m	2020 £m
Current income tax movement on cash flow hedges	(2.0)	(1.1)
Deferred tax movement on cash flow hedges	(0.2)	—
Deferred tax movement in relation to actuarial changes on defined benefit pension schemes	32.2	(5.9)
Current income tax movement on defined benefit pension scheme contributions	(11.5)	—
Effect of rate change on deferred tax on defined benefit pension schemes	(2.6)	(5.0)
Deferred tax movement in relation to share-based payments	—	1.2
Current income tax deduction on the exercise of share options	(0.4)	—
	15.5	(10.8)

The reconciliation between the total tax charge/(credit) and the accounting profit multiplied by the UK corporation tax rate is as follows:

	Total tax		Current tax	
	2021 £m	2020 £m	2021 £m	2020 £m
Profit/(loss) before tax from continuing operations	285.6	(49.4)	285.6	(49.4)
Notional charge/(credit) at UK corporation tax rate of 19%	54.3	(9.4)	54.3	(9.4)
Adjustments in respect of current income tax of prior years	a 3.8	0.2	3.8	0.2
Adjustments in respect of deferred tax of prior years	b (6.6)	(19.9)	—	—
Non-deductible expense/(non-taxable income) – adjusted	c 3.7	3.5	3.7	3.5
Non-deductible expenses – business exit	d* 1.5	5.6	1.5	5.6
Non-deductible expense/(non-taxable income) – specific items	e* (1.1)	2.0	(1.1)	2.0
Profit on disposal	f* (51.7)	(6.4)	(51.7)	(6.4)
Non-deductible goodwill impairment	g* 11.4	0.6	11.4	0.6
Difference in rate recognition of temporary differences	note 2.6.2 (39.0)	(17.5)	—	—
Tax provided on unremitted earnings	h 1.1	(7.6)	3.2	1.9
Attributable to different tax rates in overseas jurisdictions	i (0.1)	(0.7)	(0.1)	(0.1)
Movement in deferred tax unrecognised	note 2.6.2 84.2	2.0	—	2.0
Fixed asset timing differences	—	—	(2.0)	12.4
Current tax impact on other timing differences	—	—	0.2	7.1
Carry forward/(utilisation) of losses in current period	j —	—	7.8	(5.1)
At the effective total tax rate of 21.5% (2020: 96.4%) and the effective current tax rate of 10.9% (2020: (28.9%))	k 61.5	(47.6)	31.0	14.3
Tax (credit)/charge reported in the income statement	61.5	(47.6)	31.0	14.3

* The £(39.9)m (2020: £1.8m) of reconciling items relate to reported tax charge only, with no impact on the adjusted tax charge. Further details are given (*) below.

a The £3.8m prior year charge adjustment includes: (i) a £1.7m release of uncertain tax positions due to expiry of statute of limitation or conclusion of enquiries; (ii) a £8.6m charge with corresponding deferred tax prior year credits; and, (iii) a £1.1m credit to adjust for finalisation of submitted tax returns.

b Adjustments in respect of deferred tax of prior years of £6.6m reflects credits which have a corresponding prior year current income tax impact.

c Relates mainly to different jurisdictional tax treatment of a cross border connected party debt write off.

d* Business exit, relates to non-deductible closure costs associated with the businesses detailed in note 2.8.

e* Specific items, relates to the non-taxable release of a legal claim provision detailed in note 2.4.

f* Relates to the application of the UK tax exemption on substantial shareholdings in relevant disposals in note 2.8.

g* Relates to the non-deductible intangible asset impairments included in note 3.4.

h Movement in the deferred tax liability recognised on the unremitted earnings of those subsidiaries affected by withholding taxes, resulting from additional earnings in those subsidiaries during 2021.

i Relates to the difference between tax payable at higher rates in India and South Africa, and tax payable at lower rates in other trading jurisdictions (Poland, Isle of Man and UAE).

j Relates to the (utilisation)/carry forward of tax losses, and the reactivation of deferred interest, in the current period.

k The 2021 current tax charge of £31.0m (2020: £14.3m results in an effective current tax rate of 10.9%, which is different from the UK statutory rate of tax of 19%, predominantly due to tax impact of non-taxable profits on disposals, non-deductible goodwill impairment and losses carried forward. The impact of differing overseas tax rates is minimal and covered in footnote i.

1. Definitions of the alternative performance measures and related KPIs can be found in section 8.2

Section 2: Results for the year continued

2.6 Taxation continued

2.6.2 Deferred tax

A change to the main UK corporation tax rate was substantively enacted on 24 May 2021. The rate applicable from 1 April 2023 increases from 19% to 25%. The net UK deferred tax asset at 31 December 2021 has been calculated based on this rate, resulting in a £39.0m tax credit to the income statement in 2021. This is made up of a £75.7m credit on brought forward deferred tax assets (2020: approximation of £75m in note 2.6.6), and a £36.7m charge on the current year unwind, or derecognition, of assets. The total net deferred tax charge in the period is a result of the above, offset by movements in unrecognised deferred tax (explained further below).

Deferred tax relates to the following:

	At 1 January £m	Income statement £m	Credited/(charged) to		At 31 December £m
			OCI and changes in equity £m	Other movements ² £m	
Deferred tax assets					
Fixed assets which qualify for tax relief	72.8	0.6	—	3.9	77.3
Deferred income	4.5	(4.2)	—	(0.4)	(0.1)
Provisions and other timing differences	11.7	3.0	0.2	(0.2)	14.7
Pension schemes	51.6	(2.2)	(29.6)	—	19.8
Share-based payments	1.6	2.2	—	—	3.8
Tax losses ¹	111.2	(36.1)	—	(11.8)	63.3
	253.4	(36.7)	(29.4)	(8.5)	178.8
Jurisdictional netting	(10.6)				(2.8)
Net deferred tax assets	242.8	(36.7)	(29.4)	(8.5)	176.0
Deferred tax liabilities					
Acquired intangibles	(2.2)	1.2	—	0.3	(0.7)
Contract fulfilment assets	(9.4)	2.8	—	2.2	(4.4)
Unremitted earnings	(5.7)	2.1	—	—	(3.6)
	(17.3)	6.1	—	2.5	(8.7)
Jurisdictional netting	10.6				2.8
Net deferred tax liabilities	(6.7)	6.1	—	2.5	(5.9)
Net deferred tax	236.1	(30.6)	(29.4)	(6.0)	170.1

1. Mainly trading losses available to shelter future profits and deferred interest

2. Other movements includes transfers to disposal group assets/liabilities held-for-sale and business disposals

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 of deferred tax assets for 2021 has been based on the forecast accounting profits in the 2022-2024 business plans (BP) approved by the Board. This is the same plan used to derive forecast cash flows for the goodwill impairment test, per note 3.4. A long-term growth rate of 1.7%, as used for impairment test purposes, has been applied to years beyond 2024. The profits associated with businesses that are held for sale at the balance sheet date have been disregarded. A reducing probability factor has also been applied to future profits for the potential decrease in reliability of forecasts extrapolated for later years, such that profits beyond seven years of the balance sheet date have not been considered probable for the purpose of assessing deferred tax asset recognition.

Historic tax losses make up the majority of the deferred tax assets. These losses mainly arose due to the adoption of IFRS 15, Covid-19 related downward pressures on the profits, and tax-deductible restructuring costs in previous years. Based on the above adjusted forecasts, management decided that some of the deferred tax assets are not recognisable due to uncertainty in their recoverability. The impact of this decision is an adjustment to recognised deferred tax assets of £84.2m.

Deferred tax asset recognition is dependent on the accuracy of the BP profit forecasts. A sensitivity analysis has been applied to the forecasts to consider a severe but plausible downside scenario. Under the sensitivity scenario, there would be a further potential reduction in recognised deferred tax assets of up to c£50m.

Further disposals, planned as part of the simplification agenda, could also have an impact on the recognised deferred tax asset in future periods.

The Group has unrecognised tax losses of £542.9m (2020: £208.6m) and other temporary differences of £114.5m (2020: £55.4m) that are available for offset against future taxable profits of the companies in which the losses or other temporary differences arose, but have not been recognised because their recoverability is uncertain. These are made up as follows:

- (i) UK assets: £597.7m (2020: £184.2m) with no time expiry. The losses are subject to enacted UK tax loss relief legislation which could result in restricted utilisation in the future. £50.7m (2020: £77.2m) of the losses were incurred by companies acquired by the Group and are not a result of the Group's trading performance.
- (ii) Overseas assets: £59.7m (2020: £79.9m), some of which are subject to specific loss restriction rules but have no time expiry. Losses incurred by acquired companies reduced to nil (2020: £6.7m) due to planned business disposals.

Section 2: Results for the year continued

2.6 Taxation continued

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 £42.8m (2020: £62.6m). A deferred tax liability of £3.6m (2020: £5.7m) has been recognised on the unremitted earnings of those subsidiaries affected by such potential taxes since the Group is able to control the timing of reversal and it is anticipating dividends to be distributed. The earnings remitted during the year resulted in a reduction of the closing deferred tax liability.

2.6.3 Uncertain tax positions

The Group files income tax returns in several jurisdictions and some of these returns are open to, or subject to, tax authority audits or examinations. Tax returns contain matters that could be subject to differing interpretations of applicable tax laws and regulations; and, the resolution of tax positions, through negotiations with relevant tax authorities or through litigation, can take several years. Tax uncertainties are assessed throughout the year and specifically at the year-end, with any associated provisions recognised considering the specific circumstances of each risk, including the merits of technical aspects, previous experience with tax authorities, recent tax law and, if relevant, external specialist advice. The Group applies judgement in quantifying uncertainties over income tax treatments in accordance with these criteria.

Income tax receivable of £5.9m at 31 December 2021 is net of a £4.1m (2020: £5.8m) liability in relation to uncertain tax positions. During 2021 the Group released £1.7m (2020: £15.1m) of uncertain tax positions relating to tax risks which are no longer considered likely to arise, due to the expiry of the statute of limitations and conclusion of enquiries. The release is disclosed as a current income tax prior year adjustment. Expiry of statute of limitations, or conclusion of tax audits could result in a further release of the provision in the next financial year. While it is difficult to predict the ultimate outcome in some cases, and there are a range of different outcomes, the Group does not currently anticipate that there will be any material impact on the Group's financial position or results of operations in the next financial year.

2.6.4 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, recently reassessed in 2021, and has been awarded the Fair Tax Mark for its tax disclosures from 2018 to 2020. 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 the Policies & Principles area of the Capita website (<https://www.capita.com/our-company/about-capita/policies-and-principles>).

Capita contributed £163.4m (2020: £181.1m) in taxes from its UK operations in the year. This consisted of a net repayment of £0.5m (2020: net payment of £2.6m) of UK corporation tax; £18.1m (2020: £19.3m) incurred in irrecoverable VAT; £125.5m (2020: £128.0m) in employer NIC, and £19.3m (2020: £31.2m) in other levies including business rates, import duties, the apprenticeship levy and environmental taxes. Additionally, the Group's UK VAT contribution was £318.7m (2020: £336.2m). A further £104.1m VAT was remitted in 2021 as part of the UK Government's Covid-19 VAT deferral measures. The Group also collected £287.8m (2020: £288.0m) of Capita UK employee PAYE and NIC. Capita entities in overseas jurisdictions paid £15.0m (2020: £4.9m) corporation tax, which mainly covers corporate income tax on local profits and withholding tax on dividend repatriations.

Section 2: Results for the year continued

2.7 Earnings/(loss) per share

AP Accounting policies

Basic earnings/(loss) per share are calculated by dividing net profit for the period attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings/(loss) per share are calculated by dividing the net 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.

		2021		2020	
		Continuing operations p	Total operations p	Continuing operations p	Total operations p
Basic earnings/(loss) per share	– adjusted	1.61	1.61	2.41	2.41
	– reported	13.33	13.52	(0.41)	0.85
Diluted earnings/(loss) per share	– adjusted	1.59	1.59	2.41	2.37
	– reported	13.15	13.33	(0.41)	0.85

The following tables show the earnings and share data used in the basic and diluted earnings/(loss) per share calculations:

		2021		2020	
		Continuing operations £m	Total operations £m	Continuing operations £m	Total operations £m
Adjusted profit before tax for the period	2.4	93.5	93.5	5.4	5.4
Income tax credit/(charge)	2.6.1	(64.8)	(64.8)	25.3	25.3
Adjusted profit for the period		28.7	28.7	30.7	30.7
Less: Non-controlling interest		(1.9)	(1.9)	9.2	9.2
Adjusted profit attributable to shareholders		26.8	26.8	39.9	39.9
Reported profit/(loss) before tax for the period		285.6	288.7	(49.4)	(28.6)
Income tax credit/(charge)	2.6	(61.5)	(61.5)	47.6	47.6
Reported profit/(loss) for the period		224.1	227.2	(1.8)	19.0
Less: Non-controlling interest		(2.5)	(2.5)	(5.0)	(5.0)
Total profit/(loss) attributable to shareholders		221.6	224.7	(6.8)	14.0

	2021 m	2020 m
Weighted average number of ordinary shares (excluding trust and treasury shares) for basic earnings per share	1,661.9	1,656.1
Dilutive potential ordinary shares:		
Employee share options	23.9	27.4
Weighted average number of ordinary shares (excluding trust and treasury shares) adjusted for the effect of dilution	1,685.8	1,683.5

At 31 December 2021 nil (2020: 27,447,210) options were excluded from the diluted weighted average number of ordinary shares used in the reported continuing operations earnings per share 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 earnings per share figures are calculated based on earnings attributable to ordinary equity holders of the Parent Company, and therefore exclude non-controlling interest. The earnings per share is calculated on an adjusted and total reported basis. The earnings per share for business exits and specific items 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 on which these consolidated financial statements were authorized for issue.

Section 2: Results for the year continued

2.8 Business exits and assets held-for-sale

AP Accounting policies

Business exits

Business exits are businesses that have been 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 comparative financial information to be restated where the relative size of a disposal or business closure is significant, which is normally understood to mean a reported segment.

However, the trading result of these business exits, non-trading expenses, and any gain/loss on disposal, have been excluded from adjusted results. To enable a like-for-like comparison of adjusted results, the 2020 comparatives have been re-presented to exclude the business exits that occurred during 2021.

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. Consequently, individual businesses within the Portfolio Division will only be treated as held-for-sale where the disposal is highly probable and expected to complete within twelve months of the balance sheet date.

2021 business exits

Business exits during the year ended 31 December 2021 comprised:

- the ESS business whose disposal was completed on 1 February 2021;
- the Life Insurance and Pensions Servicing business in Ireland whose disposal was completed on 1 March 2021;
- the AXELOS joint venture with the UK Government whose disposal was completed on 29 July 2021;
- the AMT Sybex software, Secure Solutions and Services (SSS) and Speciality Insurance businesses which were in the process of being sold and which met the held-for-sale criteria. Accordingly, these businesses were treated as disposal groups held-for-sale at this date. The disposal of both the AMT Sybex software and SSS businesses completed subsequently in 2022 (refer to note 6.3 for further details);
- a software business in Capita Portfolio that the Group has decided to exit; and
- the exit costs relating to further planned disposals, including professional fees and separation planning costs.

Further disposals are planned as part of the simplification agenda. Since these disposals did not meet the definition of business exits or assets held-for-sale at 31 December 2021, their trading results were included within adjusted results. This includes the Trustmarque business whose disposal was announced on 28 January 2022 and is subject to certain consents (refer to note 6.3 for further details).

Income statement impact	2021			2020		
	Trading £m	Non-trading £m	Total £m	Trading £m	Non-trading £m	Total £m
Revenue	174.0	—	174.0	329.3	—	329.3
Cost of sales	(92.7)	—	(92.7)	(163.5)	—	(163.5)
Gross profit	81.3	—	81.3	165.8	—	165.8
Administrative expenses	(30.5)	(70.9)	(101.4)	(54.8)	(50.5)	(105.3)
Operating profit/(loss)	50.8	(70.9)	(20.1)	111.0	(50.5)	60.5
Net finance costs	(0.4)	(0.1)	(0.5)	(0.1)	(1.5)	(1.6)
Gain on business disposal	—	419.7	419.7	—	31.4	31.4
Profit/(loss) before tax	50.4	348.7	399.1	110.9	(20.6)	90.3
Taxation	(9.5)	(25.4)	(34.9)	(21.0)	17.7	(3.3)
Profit/(loss) after tax	40.9	323.3	364.2	89.9	(2.9)	87.0

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 payroll costs of £79.3m (2020: £139.6m) and IT costs of £24.9m (2020: £48.6m).

Included within non-trading administrative expenses is £4.9m (2020: £7.5m) of amortisation of acquired intangibles which, in accordance with the Group's policy, were excluded from the Group's adjusted results in both the current and prior periods and have been reclassified to Business exits because they relate to businesses disposed of or being exited. Other non-trading administrative expenses include: asset impairments of £53.1m (2020: £10.1m); disposal project costs of £8.9m (2020: £31.9m); and other costs of £4.1m (2020: £3.3m), which are offset by provision releases of £nil (2020: £2.3m).

Section 2: Results for the year continued

2.8 Business exits and assets held for sale continued

2.8.1 Disposals

During 2021 the Group disposed of three businesses: ESS; Life Insurance and Pensions Servicing in Ireland; and the AXELOS joint venture with the UK Government.

During 2020 the Group disposed of three businesses: Eclipse Legal Services; Capita Workplace Technology; and Employee Benefits.

The assets and liabilities disposed of and the related gain on disposal are as follows.

	2021 £m	2020 £m
Property, plant and equipment	0.2	0.6
Intangible assets	19.9	3.2
Goodwill	65.7	12.1
Contract fulfilment assets	0.1	—
Trade and other receivables	2.6	2.3
Prepayments	0.1	—
Cash and cash equivalents	8.2	3.2
Disposal group assets held-for-sale	120.2	4.3
Income and deferred tax	(4.3)	(0.3)
Trade and other payables	(28.8)	(6.5)
Accruals	(5.1)	—
Deferred income	(2.9)	(0.4)
Deferred consideration payable	(22.8)	—
Loans payable ²	(26.0)	—
Disposal group liabilities held-for-sale	(57.5)	(1.2)
Net identifiable assets/(liabilities) disposed of	69.6	17.3
Non-controlling interests	(3.4)	—
	66.2	17.3
Cash consideration received	508.6	58.1
Less: costs of disposal	(25.5)	(9.4)
Net proceeds	483.1	48.7
Realisation of cumulative currency translation difference	2.8	—
Gain on business disposals	419.7	31.4
Net cash inflow		
Net proceeds	483.1	48.7
less: (cash)/overdrafts disposed of ¹	(25.9)	(3.2)
Total net cash inflow	457.2	45.5

¹ (Cash)/overdrafts disposed of comprise (cash)/overdrafts in the balance sheet of £(8.2)m (2020: £(3.2)m), and (cash)/overdrafts within disposal group assets and liabilities held-for-sale of £(17.7)m (2020: £nil).

² The loan payable represents an interest bearing loan payable by AXELOS Limited to HM Government in connection with a dividend payable by this company. The loan is subject to interest at 6% and was settled on completion of the disposal on 29 July 2021.

Disposal costs of £21.2m, relating to businesses disposed of in the year, were recognised in prior years and are excluded from the above gain on business disposals.

Section 2: Results for the year continued

2.8 Business exits and assets held for sale continued

2.8.2 Disposal group assets and liabilities held-for-sale

	2021 £m	2020 £m
Property, plant and equipment	0.4	0.1
Intangible assets	14.4	44.4
Goodwill	44.2	45.3
Right-of-use assets	—	4.5
Contract fulfilment assets	32.6	3.1
Trade and other receivables	10.7	2.9
Accrued income	5.1	0.6
Prepayments	5.2	0.7
Cash and cash equivalents	15.8	12.9
Income tax receivable and deferred tax assets	10.4	0.1
Disposal group assets held-for-sale	138.8	114.6
Trade and other payables	1.6	1.5
Other taxes and social security	1.6	0.1
Accruals	3.4	3.5
Deferred income	69.8	40.3
Lease liabilities	—	4.6
Income tax payable and deferred tax liabilities	2.3	3.5
Provisions	2.4	0.4
Disposal group liabilities held-for-sale	81.1	53.9

Business exit cash flows

Businesses exited and being exited generated net operating cash inflows of £50.9m (2020: cash inflows of £123.2m).

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.

In 2021 the income of £3.1m related to a reduction in provisions following reassessments of the likely future costs to be incurred by the Group.

In 2020 the credit of £20.8m related to additional payments received in connection with the sale of the Asset Services businesses arising from the return of redress payments made to the Financial Conduct Authority (FCA) regarding the Connaught Income Series 1 Fund. Cash flows generated from discontinuing operations in 2020 of £18.6m related to the above return of redress payments made to the FCA less previously accrued amounts paid in connection with the sale of the Asset Services business.

The earnings per share impact from discontinued operations is 0.19p (2020: 1.26p) on basic earnings per share and 0.18p (2020: 1.24p) 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 and include cash and overdrafts within disposal group assets and liabilities held-for-sale. Cash at bank earns interest at fixed and floating rates based on prevailing bank deposit rates.

2.10.1 Additional cash flow information

Adjusted cash flow from operating activities decreased year-on-year due to movements in working capital, in particular a large reduction in trade and other receivables. 2020 benefited from shorter public sector payment cycles as part of the Covid-19 response and advanced payments from a small number of major clients at the year end. 2021 has been impacted by the unwind of these advanced receipts together with the natural expansion in working capital as the Group transitions to growth. In addition, there was an increased deferred income outflow largely from the unwinding of deferred transformation revenue on a contract with a telecom customer, and also on full and partial contract terminations. Reported cash flow from operating activities were impacted by the repayment of VAT deferred under the Government scheme and pension deficit contributions.

		2021		2020	
	Note	Adjusted £m	Reported £m	Adjusted ¹ £m	Reported £m
Cash flows from operating activities:					
Operating profit/(loss)	2.4	139.1	(86.6)	51.1	(32.0)
Adjustments for non-cash items:					
Depreciation	3.2, 3.5	116.3	117.1	137.0	139.1
Amortisation of intangible assets	3.3	36.8	57.7	36.8	74.6
Share-based payment expense	5.1	1.2	1.2	6.4	6.4
Employee benefits	5.2	8.9	8.9	13.1	13.1
Loss on sale of property, plant and equipment / intangible assets	2.3	0.7	0.7	2.4	17.1
Impairment of disposal group assets		—	44.1	—	11.7
Impairment of non-current assets		2.9	90.0	3.5	32.2
Other adjustments:					
Movement in provisions		11.4	21.9	30.1	44.0
Pension deficit contribution		—	(155.5)	—	(29.5)
Other contributions into pension schemes		(8.4)	(8.4)	(19.5)	(19.5)
Movements in working capital:					
Trade and other receivables		(7.1)	(1.2)	148.4	172.7
Non-recourse trade receivables financing		—	(9.7)	—	13.6
Trade and other payables		16.7	44.2	(56.1)	(58.4)
VAT deferral		—	(104.1)	—	118.8
Deferred income		(92.8)	(116.9)	(26.1)	(46.8)
Contract fulfilment assets (non-current)		(40.3)	(24.7)	(31.9)	(22.9)
Cash generated from operations		185.4	(121.3)	295.2	434.2
Adjustments for free cash flows:					
Income tax paid		(15.5)	(17.7)	(8.8)	(8.8)
Net interest paid		(40.5)	(40.1)	(47.8)	(47.7)
Net cash flows from operating activities		129.4	(179.1)	238.6	377.7
Purchase of property, plant and equipment	3.2	(18.9)	(25.6)	(36.1)	(40.8)
Purchase of intangible assets	3.3	(32.5)	(32.5)	(42.7)	(46.6)
Proceeds from sale of property, plant and equipment / intangible assets		0.1	0.1	10.5	13.5
Free cash flow		78.1	(237.1)	170.3	303.8

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	
	2021 £m	2020 £m	2021 £m	2020 £m
Reported	(237.1)	303.8	(121.3)	434.2
Pension deficit contributions	155.5	29.5	155.5	29.5
Significant restructuring	68.6	64.1	68.6	64.1
Litigation and claims	18.5	—	18.5	—
Business exits	(41.2)	(102.2)	(49.7)	(106.2)
Business exits - on hold disposal costs	—	7.5	—	7.5
Non-recourse trade receivables financing	9.7	(13.6)	9.7	(13.6)
VAT deferral	104.1	(118.8)	104.1	(118.8)
Other	—	—	—	(1.5)
Adjusted	78.1	170.3	185.4	295.2

A reconciliation of net cash flow to movement in net debt is included in note 2.10.3.

Pension deficit contributions: in 2012, the Group established the Capita Scotland (Pension) Limited Partnership (the 'Partnership') with the Scheme. Under this arrangement, intellectual property rights (IPR) in specific Group software were 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 Scheme's interest in the Partnership entitles it to an annual distribution of £8.0m for 15 years from inception. However, at 31 December 2020, the Scheme's interest in the Partnership ceased and in return the Scheme received a special contribution of £50.1m in February 2021 (for 31 December 2020: distributions of £8.0m were received).

In June 2021, the Group agreed a deficit recovery plan with the Trustee of the Capita Pension and Life Assurance Scheme (the 'Scheme') following completion of the full actuarial valuation as at 31 March 2020. The payments under the agreed recovery plan total £124m to be paid between July 2021 and December 2023. In addition to this, the Group agreed to make additional, non-statutory, contributions of £15m each year in 2024, 2025 and 2026 to meet a secondary funding target.

As part of the 2017 funding agreement, additional monthly contributions of £4.16m were triggered from July 2020 until the 31 March 2020 valuation was finalised in June 2021. The Trustee Board and the Group agreed that these contributions would be paid into an escrow account (instead of the scheme), with the escrow account being released to the scheme later. The amounts held in escrow at 31 December 2021 (£5.0m) are included in the pension deficit contributions figures above and are recognised within current other receivables in the consolidated balance sheet.

During 2021, in addition to the £5.0m held in escrow, the Group paid £145.7m (this includes the following main items: (i) £59m paid in accordance with the June 2021 agreement, (ii) the special contribution received from ceasing interest in the Partnership (£50.1m as above) and (iii) contributions (£35.7m) agreed in November 2018 following completion of the full actuarial valuation as at 31 March 2017) to the Scheme (2020: £36.8m including the distributions received from the Partnership (£8m as above)).

In addition, £4.8m in deficit contributions were paid to other schemes that Capita participates in during 2021 (2020: £0.5m).

These payments have been excluded from adjusted cash flows because the Group treats them like debt.

Significant restructuring: in April 2018, the Group announced a multi-year transformation plan. In the period to 31 December 2021, a cash outflow of £68.6m (2020: £64.1m) was incurred in relation to the cost of the transformation plan and restructuring costs relating to Capita's previously announced cost reduction plan. The difference between the 2021 income statement charge of £148.3m and the cash flow of £68.6m is principally the impairment of the new financial reporting system (£53.5m) and impairment of right of use assets arising on rationalisation of the Group's property portfolio (£13.3m).

The cumulative significant restructuring cash outflows since the commencement of the group-wide transformation in 2018 is £385.4m. 2021 is the final year of major investments in the transformation plan where the costs are excluded from adjusted results. From 1 January 2022, any residual restructuring will be recorded within adjusted results.

Litigation and claims: the Group settled a legal claim, that had been fully provided for in a prior year and received an insurance settlement in respect of the same claim. The claim was excluded from adjusted results when provided due to its historical nature and size, and accordingly the insurance receipt has also been excluded from adjusted results. In addition, the Group paid the cash element of an agreed liability relating to past services received under supplier software licence agreements which had been fully provided for in the prior year. This was excluded from adjusted results because it related to services received in prior periods and is not reflective of current trading.

Business exits: the cash flows of businesses exited, or in the process of being exited, and the proceeds from disposals, are disclosed outside the adjusted results. The 2020 results have been restated for those businesses exited, or in the process of being exited during 2021 to enable comparability of the adjusted results.

Business exits - on hold disposal costs: these are costs incurred in respect of business exit activities where the anticipated disposal was put on hold due to the impact that the Covid-19 pandemic had on the underlying businesses. They are excluded from the Group's adjusted results but disclosed separately given their materiality.

Non-recourse trade receivables financing: a Group non-recourse trade receivables financing facility was put in place to mitigate the risk of customer receipts slippage resulting from the impact of the Covid-19 pandemic. The amounts excluded from adjusted cash flows do not include the Group's German business trade receivables financing facility as this was entered into in the normal course of business.

VAT deferral: utilisation of the Government's VAT deferral scheme. Refer to note 2.6.4 for further details.

Other: includes the cash flows related to other items excluded from adjusted profit.

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 debt

Year ended 31 December 2021	Note	Net debt at 1 January £m	Cash flow movements £m	Non-cash movement ² £m	Net debt at 31 December £m
Cash, cash equivalents and overdrafts	4.5.4	141.1	(43.6)	4.0	101.5
Other loan notes	4.5	(2.3)	1.0	—	(1.3)
Credit facilities	—	—	(46.0)	—	(46.0)
Private placement loan notes ¹	4.5	(765.1)	234.2	18.0	(512.9)
Cross-currency interest rate swaps ¹	4.5	57.5	(19.7)	(9.8)	28.0
Interest rate swaps ¹	4.5	0.5	—	(0.5)	—
Lease liabilities	4.4	(508.1)	82.6	(22.9)	(448.4)
Total net liabilities from financing activities		(1,217.5)	252.1	(15.2)	(980.6)
Deferred consideration	4.5	(0.7)	—	—	(0.7)
Net debt	4.1.1	(1,077.1)	208.5	(11.2)	(879.8)

1. The sum of these items equates to the fair value of the Group's private placement loan note's debt of £484.9m (2020: £707.1m). Cash flow movement in private placement loan notes includes both repayment of private placement loan notes of £232.3m (2020: £242.9m) and finance arrangement costs of £1.9m (2020: £0.5m).

2. Non-cash movement relates to: the effect of changes in foreign exchange on cash; fair value changes on the swaps; amortisation of loan notes issue costs; amortisation of the discount on the euro debt; and additions and terminations and foreign exchange rate effects on the Group's leases.

Year ended 31 December 2020	Note	Net debt at 1 January £m	Cash flow movements £m	Non-cash movement ² £m	Net debt at 31 December £m
Cash, cash equivalents and overdrafts	4.5.4	119.3	27.2	(5.4)	141.1
Other loan notes	4.5	(0.5)	—	(1.8)	(2.3)
Private placement loan notes	4.5	(990.5)	243.4	(18.0)	(765.1)
Cross-currency interest rate swaps	4.5	77.3	(24.5)	4.7	57.5
Interest rate swaps	4.5	1.0	—	(0.5)	0.5
Lease liabilities	4.4	(562.6)	98.0	(43.5)	(508.1)
Total net liabilities from financing activities		(1,475.3)	316.9	(59.1)	(1,217.5)
Deferred consideration	4.5	(0.7)	—	—	(0.7)
Net debt	4.1.1	(1,356.7)	344.1	(64.5)	(1,077.1)

Section 3: Operating assets and liabilities

This section shows the operating assets and liabilities used to generate the Group's trading performance. Liabilities relating to the Group's financing activities are contained in Section 4. Current tax and deferred tax assets and liabilities are shown in note 2.6. Deferred income is shown in note 2.1.

In this section you will find disclosures about:

- 3.1 Working capital
 - 3.1.1 Trade and other receivables
 - 3.1.2 Trade and other payables
 - 3.1.3 Contract fulfilment assets
- 3.2 Property, plant and equipment
- 3.3 Intangible assets
- 3.4 Goodwill
- 3.5 Right-of-use assets
- 3.6 Provisions



Denotes accounting policies



Denotes significant accounting judgements, estimates and assumptions

Key highlights

	Note	2021 £m	2020 £m	Year on year movement £m
Working capital	3.1	(502.8)	(765.9)	263.1
Trade and other receivables	3.1.1	562.8	573.1	(10.3)
Trade and other payables	3.1.2	(557.6)	(658.6)	101.0
Deferred income	2.1	(794.7)	(975.2)	180.5
Contract fulfilment assets	3.1.3	286.7	294.8	(8.1)
Property, plant and equipment	3.2	129.0	157.2	(28.2)
Intangible assets	3.3	147.3	265.0	(117.7)
Goodwill	3.4	951.7	1,120.5	(168.8)
Right-of-use assets	3.5	287.9	342.1	(54.2)
Provisions	3.6	(140.6)	(124.4)	(16.2)

The decrease in trade and other receivables is primarily driven by a reduction in trade receivables (£18.5m) and prepayments (£12.0m). The reduction in trade receivable partially reflects the classification of businesses as held-for-sale at year end. This was offset by an increase in current contract fulfilment assets (£14.7m) as a result of timing differences.

During 2020 a non-recourse receivables facility was put in place to mitigate the risk of customer receipts slippage resulting from the impact of the Covid-19 pandemic. The outstanding invoices sold under this facility at 31 December 2021 was £3.9m (2020: £13.6m).

The decrease in trade and other payables was primarily as a result of the repayment of VAT under the Governments VAT deferral scheme (£104.1m) and a reduction in the level of accruals (£21.4m). This was offset by increases in both trade payables (£22.6m) and other payables (£7.3m).

The decrease in deferred income was as a result of the normal reduction in deferred income balances as well as one-off releases on contract terminations and modifications, partially offset by increases from advanced receipts and higher activity levels on contracts such as DFRP, where cash has been received in 2021 in respect of transformation activity.

Contract fulfilment assets increased as a result of additions of £132.2m predominantly in Capita Public Service (£107.4m) on contracts including DFRP, TfL - Road User & Emissions Charging and the Royal Navy training contract. This was offset by a utilisation of £83.9m mainly within Capita Public Service (£49.7m) and Capita Experience (£19.5m), as well as an impairment of £7.3m across a number of contracts.

Property, plant and equipment decreased primarily as additions of £25.6m were offset by depreciation of £48.1m.

Intangible assets decreased primarily due to the impairment of a new finance reporting system as detailed in note 2.4 (£53.5m), amortisation of £36.8m and the impact of £14.4m of assets transferred to assets held for sale in respect of businesses being exited, which were offset by £32.5m of additions relating primarily to investment in capitalised software.

Goodwill decreased primarily as a result of the disposal of AXELOS in the year (£65.7m), transfers to assets held for sale (£88.3m) in respect of Secure Solutions and Services, the Specialist Insurance business and AMT Sybex, and impairment of the Travel cash generating unit in the Capita Portfolio division (£11.5m).

The increase in provisions of £16.2m during the year was predominantly due to new provisions totalling £116.2m with the largest increases being restructuring provisions (£24.6m), legal provisions (£7.1m), additional customer contract provisions (£62.5m) and business exit provisions (£8.3m). This was offset by releases and utilisations totalling £97.6m.

Section 3: Operating assets and liabilities continued

3.1 Working capital

3.1.1 Trade and other receivables

AP Accounting policies

Trade receivables: Trade receivables are initially recognised at cost (being the same as fair value) and subsequently at amortised cost less any provision for impairment, to ensure the amounts recognised represent their recoverable amount.

Impairment: For trade receivables, the Group applies the simplified approach permitted by IFRS 9, resulting in trade receivables recognised and carried at original invoice amount less an allowance for any uncollectible amounts based on expected credit losses. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The Group monitors the level of trade receivables on a monthly basis, continually assessing the risk of default by any counterparty. Each customer has an external credit score which determines the level of credit provided.

Derecognition: A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised (ie removed from the Group's consolidated balance sheet) when (i) the rights to receive the cash flows from the asset have expired; or, (ii) the Group has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risk and rewards of the asset; or, (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Trade receivables that are sold without recourse are derecognised at the point of sale when the risks and rewards of the receivables have been fully transferred.

Accrued income: Accrued income in relation to contract assets is recognised when payments received from customers are less than the revenue recognised by the reporting date.

	Current		Non-current	
	2021 £m	2020 £m	2021 £m	2020 £m
Trade receivables	232.0	250.5	—	—
Other receivables ¹	43.4	40.9	4.0	5.7
Current contract fulfilment assets ²	23.7	9.0	—	—
Accrued income	169.5	164.6	2.7	2.9
Prepayments	78.5	86.0	9.0	13.5
	547.1	551.0	15.7	22.1

1. Other receivables includes £1.6m (2020: £4.1m) of accrued interest on cross-currency interest rate swaps.

2. Refer to note 3.1.3 for non-current contract fulfilment assets.

Trade receivables are non-interest bearing and 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 in the normal course of business during the year.

Movements in the loss allowance made against receivables were as follows:

	2021 £m	2020 £m
At 1 January	11.3	4.9
Utilised	(6.7)	(4.7)
Provided in the year	15.2	11.7
Business disposal	—	(0.6)
Transfer to disposal group assets held-for-sale	(0.4)	—
At 31 December	19.4	11.3

Section 3: Operating assets and liabilities continued

3.1 Working capital continued

There are no customers who represent more than 10% of the total balance of trade receivables.

	2021 £m	2020 £m
Ageing of trade receivables		
Not due	203.3	225.2
Overdue by less than three months	29.8	29.2
Overdue between three and six months	6.6	3.9
Overdue between six and twelve months	11.4	3.5
Overdue more than twelve months	0.3	—
Allowance for doubtful debts	(19.4)	(11.3)
	232.0	250.5

Non-recourse trade receivables facilities

The value of the outstanding invoices sold under non-recourse trade receivable facilities was £3.9m at 31 December 2021 (2020: £13.6m). The costs of selling such invoices £0.6m (2020: £0.3m) was included in administrative expenses in the consolidated income statement.

3.1.2 Trade and other payables

	Current		Non-current	
	2021 £m	2020 £m	2021 £m	2020 £m
Trade payables	153.7	131.1	—	—
Other payables	26.7	22.8	11.3	7.9
Other taxes and social security	122.9	221.5	—	10.9
Accruals	238.9	259.6	4.1	4.8
	542.2	635.0	15.4	23.6

Trade payables are non-interest bearing and are settled on terms agreed with the suppliers.

Section 3: Operating assets and liabilities continued

3.1 Working capital continued

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 within the scope of the Group's accounting policy for property, plant and equipment), software licence costs (generally within the scope of the Group's accounting policy for intangible assets), recruitment costs and training.

Contract fulfilment costs are divided into: (i) costs that give rise to an asset; and (ii) costs that are expensed as incurred.

When determining the appropriate accounting treatment for such costs, the Group firstly considers any other applicable standards. If those other standards preclude capitalisation of a particular cost, then an asset is not recognised under IFRS 15.

If other standards are not applicable to contract fulfilment costs, the Group applies the following criteria which, if met, result in capitalisation of costs that: (i) directly relate to a contract or to a specifically identifiable anticipated contract; (ii) generate or enhance resources that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and (iii) are expected to be recovered.

The Group has determined that, where the relevant specific criteria are met, the costs for (i) process mapping and design; (ii) system development; and (iii) project management; are likely to qualify to be capitalised as contract fulfilment assets.

The incremental costs of obtaining a contract with a customer are recognised as a contract fulfilment asset if the Group expects to recover them. The Group incurs costs such as bid costs, legal fees to draft a contract and sales commissions when it enters into a new contract.

The Group has determined that the following costs may be capitalised as contract fulfilment assets: (i) legal fees to draft a contract after the Group has been selected as preferred supplier; and (ii) sales commissions directly related to winning a specific contract.

Costs incurred prior to selection as preferred supplier are not capitalised but expensed as incurred.

Utilisation: The utilisation charge is included within cost of sales. The Group utilises contract fulfilment assets over the expected contract period on a systematic basis that mirrors the pattern in which the Group transfers control of the service to the customer.

Derecognition: A 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 with the remaining amount of consideration that the Group expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, the Group uses the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price are removed for the impairment test.

J Significant accounting judgements, 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.

Movements in non-current contract fulfilment assets were as follows¹:

	2021 £m	2020 £m
At 1 January	294.8	275.8
Additions	132.2	127.4
Transfer to assets held-for-sale	(32.7)	(3.9)
Impairment	(7.3)	(17.5)
Derecognition	(16.6)	(9.5)
Utilised during the year	(83.9)	(78.0)
Exchange movement	0.2	0.5
At 31 December	286.7	294.8

1. Refer to note 3.1.1 for current contract fulfilment assets

Impairment: In 2021, the Group recognised an impairment of £7.3m (2020: £17.5m) in adjusted cost of sales, of which, £nil (2020: £2.0m) relates to contract fulfilment assets added during the year.

Derecognition: In 2021, £16.6m (2020: £9.5m) was derecognised primarily in relation to a contract in Capita Public Service due to agreed reduction in scope of the contract and also contracts in Capita Experience where the scope of our services changed due to termination of contracts and the Group had no further use for the assets. In 2020, the derecognition related to a contract in Capita Experience where the scope of our services changed due to the partial termination of the contract and the Group had no further use for the assets.

Section 3: Operating assets and liabilities continued

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 disclosed as an administrative expense in the consolidated income statement, and is calculated on a straight-line basis over the estimated useful life of the asset, as follows:

- Freehold buildings and long leasehold property – up to 50 years.
- Leasehold improvements – period of the lease.
- Plant and machinery – 3 to 10 years.

Impairment: The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are disclosed as administrative expenses in the consolidated income statement.

Derecognition: An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset (retired). Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying value of the asset, is included in the consolidated income statement when the asset is derecognised.

	2021			2020		
	Leasehold improvements, land and buildings £m	Plant and machinery £m	Total £m	Leasehold improvements, land and buildings £m	Plant and machinery £m	Total £m
Cost						
At 1 January	103.3	193.2	296.5	118.1	206.6	324.7
Additions	8.1	17.5	25.6	21.0	19.8	40.8
Disposal of business	—	(0.8)	(0.8)	(0.7)	(0.1)	(0.8)
Disposals – included in adjusted profit	(1.6)	(10.3)	(11.9)	(5.3)	(14.8)	(20.1)
Disposals – excluded from adjusted profit	(0.8)	(0.1)	(0.9)	(19.9)	(14.4)	(34.3)
Transfer to assets held-for-sale	(0.1)	(0.6)	(0.7)	(1.0)	(11.8)	(12.8)
Reclassifications	—	(1.9)	(1.9)	(1.1)	7.8	6.7
Asset retirements	(8.9)	(25.8)	(34.7)	(6.8)	(1.4)	(8.2)
Exchange movement	(0.4)	(2.1)	(2.5)	(1.0)	1.5	0.5
At 31 December	99.6	169.1	268.7	103.3	193.2	296.5
Depreciation and impairment						
At 1 January	41.6	97.7	139.3	47.3	83.1	130.4
Depreciation charged in the year - included in adjusted profit	9.4	38.7	48.1	9.0	39.8	48.8
Depreciation charged in the year - included in business exits	—	0.5	0.5	—	2.1	2.1
Disposal of business	—	(0.6)	(0.6)	(0.2)	(0.1)	(0.3)
Disposals – included in adjusted profit	(1.3)	(10.1)	(11.4)	(4.6)	(12.3)	(16.9)
Disposals – excluded from adjusted profit	(0.8)	(0.1)	(0.9)	(3.9)	(14.3)	(18.2)
Impairment – included in adjusted profit	—	0.8	0.8	1.2	2.2	3.4
Impairment – excluded from adjusted profit	0.6	0.5	1.1	—	6.9	6.9
Transfer to assets held-for-sale	(0.1)	(0.2)	(0.3)	(0.7)	(8.8)	(9.5)
Reclassifications	—	(0.4)	(0.4)	—	—	—
Asset retirements	(8.9)	(25.8)	(34.7)	(6.8)	(1.4)	(8.2)
Exchange movement	—	(1.8)	(1.8)	0.3	0.5	0.8
At 31 December	40.5	99.2	139.7	41.6	97.7	139.3
Net book value						
At 1 January	61.7	95.5	157.2	70.8	123.5	194.3
At 31 December	59.1	69.9	129.0	61.7	95.5	157.2

At 31 December 2021, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £3.6m (2020: £5.3m), relating to building improvements on leased property.

During the year, the Group exited a number of properties and their related leasehold improvement assets were disposed of for no consideration. Since these exits were part of the Group wide transformation, the related charge was excluded from adjusted profit.

Section 3: Operating assets and liabilities continued

3.3 Intangible assets

AP Accounting policies

Intangible assets acquired separately are capitalised at cost and those identified in a business acquisition are capitalised at fair value at the date of acquisition. In the case of capitalised software development costs, research expenditure is written off to the consolidated income statement in the period in which it is incurred. Development expenditure is similarly written off until the Group is satisfied as to the technical, commercial and financial viability of individual projects. Where this condition is satisfied, the development expenditure is capitalised and amortised over the period during which the Group is expected to benefit.

Following initial recognition, the carrying amount of an intangible asset is its cost less 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 2021 or 2020.

Amortisation: Amortisation is charged on assets with finite lives and is disclosed as an administrative expense in the consolidated 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 reflects the expected pattern of consumption of future economic benefits and generally amortised on a straight-line basis, the amortisation periods used are as follows:

- Intangible assets acquired in business combinations – 1.5 to 20 years.
- Intangible assets purchased or internally capitalised – 3 to 20 years.

Impairment: Intangible assets with finite lives are only tested for impairment, either individually or at the cash-generating unit level, 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 value of the asset, is included in the consolidated income statement when the asset is derecognised.

The measurement of intangible assets other than goodwill in a business combination: on the acquisition of a business, the identifiable intangible assets may include licences, customer lists and brands. The fair value of these assets is determined by discounting estimated future net cash flows generated by the asset because in most cases no active market for the assets exists and therefore no observable value exists. The use of different assumptions for the expectations of future cash flows and the discount rate would change the valuation of the intangible assets.

J Significant accounting judgements, estimates and assumptions

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. Given the level of judgement and estimation involved in assessing future cash flows, it is reasonably possible that outcomes within the next financial year may be different from management's assumptions and require a material adjustment to the carrying value of 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.

Section 3: Operating assets and liabilities continued

3.3 Intangible assets continued

	2021			2020		
	Intangible assets acquired in business combinations £m	Capitalised/purchased software £m	Total £m	Intangible assets acquired in business combinations £m	Capitalised/purchased software £m	Total £m
Cost						
At 1 January	174.3	314.2	488.5	371.0	363.0	734.0
Business disposal	(61.3)	(7.6)	(68.9)	—	(3.5)	(3.5)
Additions	—	32.5	32.5	—	46.6	46.6
Disposals – included in adjusted profit	—	(3.5)	(3.5)	—	(31.6)	(31.6)
Disposals – excluded from adjusted profit	—	(2.9)	(2.9)	—	(2.0)	(2.0)
Transfer to assets held-for-sale	(6.8)	(16.4)	(23.2)	—	(46.0)	(46.0)
Reclassifications	—	1.9	1.9	—	—	—
Asset retirement	(50.3)	(94.8)	(145.1)	(202.9)	(13.9)	(216.8)
Exchange movement	(0.5)	(0.7)	(1.2)	6.2	1.6	7.8
At 31 December	55.4	222.7	278.1	174.3	314.2	488.5
Amortisation and impairment						
At 1 January	135.4	88.1	223.5	296.9	82.9	379.8
Amortisation charged in the year - included in adjusted profit	—	36.8	36.8	—	36.7	36.7
Amortisation charged in the year - excluded from adjusted profit	12.0	—	12.0	24.8	—	24.8
Amortisation charged in the year - included in business exits	4.9	4.0	8.9	7.5	5.6	13.1
Impairment – included in adjusted profit	—	2.1	2.1	—	0.1	0.1
Impairment – excluded from adjusted profit	—	54.1	54.1	1.6	0.9	2.5
Impairment – included in business exits	—	2.5	2.5	—	—	—
Business disposal	(46.5)	(2.4)	(48.9)	—	(0.3)	(0.3)
Disposals – included in adjusted profit	—	(3.2)	(3.2)	—	(21.9)	(21.9)
Disposals – excluded from adjusted profit	—	(2.9)	(2.9)	—	(0.4)	(0.4)
Transfer to assets held-for-sale	(5.7)	(3.1)	(8.8)	—	(1.6)	(1.6)
Reclassifications	—	0.4	0.4	—	—	—
Asset retirement	(50.3)	(94.8)	(145.1)	(202.9)	(13.9)	(216.8)
Exchange movement	(0.2)	(0.4)	(0.6)	7.5	—	7.5
At 31 December	49.6	81.2	130.8	135.4	88.1	223.5
Net book value						
At 1 January	38.9	226.1	265.0	74.1	280.1	354.2
At 31 December	5.8	141.5	147.3	38.9	226.1	265.0

Intangible assets acquired in business combinations include brands (net book value 2021: £nil, 2020: £2.6m), Intellectual Property software and licences (net book value 2021: £nil, 2020: £20.9m), contracts and committed sales (net book value 2021: £3.3m, 2020: £7.7m) and clients lists and relationships (net book value 2021: £2.5m, 2020: £7.7m). Intangible assets capitalised or purchased include capitalised software development (net book value 2021: £120.7m, 2020: £184.0m) and purchased software (net book value 2021: £20.8m, 2020: £42.1m).

'Impairment - excluded from adjusted profit' includes £53.5m in respect of areas of a new financial reporting system invested in as part of the finance transformation that are no longer expected to be used. Refer to the Chief Financial Officer's review in the strategic report for details.

Section 3: Operating assets and liabilities continued

3.4 Goodwill

AP Accounting policies

Following initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill arising on acquisitions prior to 31 December 1997 remains set off directly against reserves and does not get recycled through the consolidated income statement.

At the acquisition date, any goodwill acquired is allocated to the cash-generating units (CGU) which are expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the CGU to which the goodwill relates. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured on the basis of the relative values of the operation disposed of and the portion of the CGU retained.

Acquisitions and disposals of non-controlling interests that do not result in a change of control are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. Any difference between the price paid or received and the amount by which non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the Parent company.

Prior to the adoption of IAS 27 (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 because 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 recoverable amount of the CGUs to which the intangible assets are allocated utilising an estimation of future cash flows and choosing a suitable discount rate. Uncertainties around the on-going impact of Covid-19 and associated economic recovery have been considered and given the level of judgement and estimation involved in assessing future cash flows, it is reasonably possible that outcomes within the next financial year may be different from management's assumptions and require a material adjustment to the carrying value of goodwill.

	2021 £m	2020 £m
Cost		
At 1 January	1,918.5	2,016.1
Business disposal	(65.7)	(52.4)
Transfer to disposal group assets held-for-sale	(177.3)	(45.3)
Exchange movement	1.3	0.1
At 31 December	1,676.8	1,918.5
Accumulated impairment		
At 1 January	798.0	838.3
Business disposal	—	(40.3)
Transfer to disposal group assets held-for-sale	(89.0)	—
Impairment – excluded from adjusted profit	11.5	—
Impairment – included in business exits	4.6	—
At 31 December	725.1	798.0
Net book value		
At 1 January	1,120.5	1,177.8
At 31 December	951.7	1,120.5

Section 3: Operating assets and liabilities continued

3.4 Goodwill continued

Cash-generating units

As announced in March 2021, the Group has put in place a new organisational structure effective from August 2021 comprising two core divisions, *Capita Public Service* and *Capita Experience*, and a third division holding our non-core assets, *Capita Portfolio*.

Following this reorganisation, the Group has reviewed the historical assessment of CGUs and the allocation of goodwill. Reflecting the way management now exercises oversight and monitors the Group's performance, the Board concluded that the lowest level at which goodwill is monitored is at the divisional level for *Capita Public Service* and *Capita Experience*, and at a sub-divisional level for *Capita Portfolio*, and goodwill has been reallocated to these new CGUs or group of CGUs. Where possible, goodwill was reallocated to the new CGUs by transferring the goodwill balance created on acquisition of the business to the CGU in which the business now primarily resides under the new organisational structure. In some cases it was not possible to clearly determine a single CGU in which the acquired business now primarily resides, and in these instances the goodwill was apportioned to the new CGUs using an allocation method that best reflected the goodwill associated with the reorganised units. As at 31 December 2021 the Group has nine CGUs or groups of CGUs for the purpose of impairment testing of goodwill. The opening goodwill balance as at 1 January 2021 has been reallocated for comparable purposes.

Carrying amount of goodwill allocated to groups of CGUs:

CGU	Capita Portfolio									Total £m
	Capita Public Service £m	Capita Experience £m	People £m	Software £m	Property £m	Business Solutions £m	Technology £m	Travel £m	Other ¹ £m	
At 1 January	284.6	218.9	106.5	94.7	82.6	32.6	102.8	80.2	117.6	1,120.5
Business disposals	—	—	—	—	—	—	—	—	(65.7)	(65.7)
Transfer to assets held-for-sale	—	—	—	(51.4)	—	—	—	—	(36.9)	(88.3)
Impairment	—	—	—	—	—	—	—	(11.5)	—	(11.5)
Impairment – business exits	—	—	—	(4.6)	—	—	—	—	—	(4.6)
Exchange movement	—	1.3	—	—	—	—	—	—	—	1.3
At 31 December	284.6	220.2	106.5	38.7	82.6	32.6	102.8	68.7	15.0	951.7

1. Other group of CGUs includes other businesses that have been disposed of or transferred to held for sale during the year and the Fera CGU.

Business exits

As set out in note 2.8, three businesses were fully disposed of during the year. Goodwill relating to two of these businesses had been reclassified to disposal group assets held-for-sale at 31 December 2020. Goodwill relating to the third disposal is included within the Other group of CGUs as at 1 January 2021, and derecognised as part of business disposals.

Three additional businesses within Capita Portfolio (within the Software CGU and Other group of CGUs) that the Group has or intends to dispose of in 2022 met the criteria to be treated as held-for-sale at 31 December 2021, with goodwill relating to these businesses reclassified to disposal group assets held-for-sale.

One business within the Software CGU met the criteria to be treated as a business exit at 31 December 2021. 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 its value in use. As described in the strategic report, 2021 marked the culmination of the Group's multi-year transformation programme. The recoverable amount of each group of CGUs has therefore been calculated using value in use (being the present value of future cash flows for each CGU) with the exception of the Technology CGU (representing the Trustmarque business) where, as set out in note 6.3, the fair value less cost to sell was readily determinable and has instead been used. The fair value of the Technology CGU is based on the disposal proceeds expected to be received on completion of the Trustmarque disposal, and is categorised as Level 3 in the fair value hierarchy of IFRS 13.

In undertaking the annual impairment review, the directors considered both internal and external sources of information, and any observable indications that may suggest that the carrying value of goodwill may be impaired. This included a comparison with the Group's share price and market capitalisation.

As at 31 December 2021, the estimated recoverable amount of each CGU exceeded its respective carrying value, except for the Travel CGU where a goodwill impairment of £11.5m was recognised. Following the organisational restructure in 2021 this is the first year that the Group's Travel business is a stand-alone CGU for impairment testing purposes. In 2020 it formed part of the Specialist Services group of CGUs. The goodwill impairment was primarily driven by the continuing impact of Covid-19 on the travel industry, which is reflected in the recovery assumptions applied to the CGU's near-term business plans, as well as the increase in comparable companies' discount rates.

The key inputs to the calculations are described below, including changes in market conditions.

Forecast cash flows

The cash flow projections prepared for the impairment test are derived from the 2022-2024 business plans (BP) approved by the Board.

Covid-19 and the associated recovery continued to introduce unprecedented economic uncertainties and has led to increased judgement particularly in forecasting future financial performance.

Other than for movements in deferred income and contract fulfilment assets, cash flows are adjusted to exclude working capital movements since the corresponding balances are not included in the CGU carrying amount.

The Board has considered an appropriate methodology to apply when allocating central function costs, which is a key sensitivity. The methodology applied for the 2021 impairment test was aligned to that applied in reporting segmental performance (refer to note 2.5). The remaining costs of the Capita plc segment are allocated based on 2022 EBITDA representing the first year of business post transformation.

The long-term growth rate is based on economic growth forecasts by recognised bodies and this been applied to forecast cash flows for years four and five (2025 and 2026) and for the terminal period. The 2021 long-term growth rate is 1.7% (2020: 1.6%).

Section 3: Operating assets and liabilities continued

3.4 Goodwill continued

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.

The table below represents the pre-tax discount rates used on the cash flows for 2021. The 2020 rates have not been reported due to the CGU restructure in the second half of 2021.

	Capita Public Service	Capita Experience	Capita Portfolio						Other
			People	Software	Property	Business Solutions	Technology	Travel	
2021	13.0%	11.6%	12.4%	12.8%	13.2%	13.3%	13.2%	15.7%	11.9%

Sensitivity analysis

The impairment testing as described is reliant on the accuracy of management's forecasts and the assumptions that underlie them; and on the selection of the discount and growth rates to be applied. To gauge the sensitivity of the result to a change in any one, or combination of the assumptions that underlie the model, a number of scenarios were developed to identify the range of reasonably possible alternatives and measure which CGUs are the most susceptible to an impairment should the assumptions used be varied.

The table below shows the additional impairment required (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, by the severe but plausible downsides applied to the base-case projections for assessing going concern and viability, without mitigations, for 2022 to 2024, and the long-term growth rate (1.7%) applied to projected cash flows for 2025, 2026, and the terminal period. We have also considered the impact of all of the scenarios together, which is also a reasonable possible alternative.

	1% increase in discount rate £m	Long-term growth rate decrease by 1% £m	Severe but plausible downside £m	Combination sensitivity £m
Capita Public Service	—	—	—	—
Capita Experience	—	—	(37.5)	(88.9)
Capita Portfolio - People	—	—	(22.0)	(34.1)
Capita Portfolio - Software	—	—	—	—
Capita Portfolio - Property	—	—	(6.4)	(16.0)
Capita Portfolio - Business Solutions	—	—	—	—
Capita Portfolio - Travel	(4.9)	(3.1)	(12.4)	(18.6)
Capita Portfolio - Other	—	—	—	—
Total	(4.9)	(3.1)	(78.3)	(157.6)

Under the combination sensitivity scenario, an increase in impairment for Travel and impairments in relation to Experience, People and Property CGUs have been highlighted. Whereas under the base case impairment test the recoverable amount exceeded the carrying amount of assets (including goodwill) relating to these CGUs by £174.9m for Experience, £10.6m for People and £10.2m for Property.

Management continue to monitor closely the performance of all CGUs and consider the impact of any changes to the key assumptions. Given trading is still being affected by the continued recovery from Covid-19, there is a greater range of potential future outcomes. A number of these downsides would give rise to an impairment.

Section 3: Operating assets and liabilities continued

3.5 Right-of-use assets

AP Accounting policies

At the inception of the lease, the Group recognises a right-of-use asset at cost, which comprises the present value of minimum future lease payments determined at the inception of the lease. Right-of-use assets are depreciated using the straight-line method over the shorter of estimated life or the lease term. 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 corresponding lease liability. Right-of-use assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be fully recoverable.

Right-of-use assets exclude leases with low values and terms of twelve months or less. These leases are expensed to the consolidated income statement as incurred.

Net Book Value	Property £m	Motor vehicles £m	Equipment £m	Total £m
At 1 January 2020	446.0	4.3	30.6	480.9
Addition of new leases	11.3	17.9	0.1	29.3
Depreciation charged during the year	(69.2)	(5.1)	(13.9)	(88.2)
Impairment - excluded from adjusted profit	(20.1)	—	(2.1)	(22.2)
Transfer to disposal group assets held-for-sale	(4.5)	—	—	(4.5)
Transfer to financial lease receivables	(68.0)	—	—	(68.0)
Exchange movement	0.5	(0.1)	(0.4)	—
Other movements	14.0	(0.1)	0.9	14.8
At 31 December 2020	310.0	16.9	15.2	342.1
Addition of new leases	18.2	4.2	—	22.4
Depreciation charged during the year	(55.1)	(6.5)	(6.6)	(68.2)
Impairment - excluded from adjusted profit	(13.0)	—	(0.3)	(13.3)
Disposal	(2.2)	—	(1.0)	(3.2)
Exchange movement	(1.7)	0.4	—	(1.3)
Other movements	9.4	0.4	(0.4)	9.4
At 31 December 2021	265.6	15.4	6.9	287.9

Other movements include amendments to existing leases 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 consolidated income statement. The value of the provision is determined based on assumptions and estimates in relation to the amount, timing and likelihood of actual cash flows, which are dependent on future events.

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. On an ongoing basis, management monitor provisions and their accurate estimation when compared to final outcomes.

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	Claim and litigation provision £m	Property provision £m	Customer contract provision £m	Other provisions £m	Total £m
At 1 January	13.5	15.3	41.7	8.7	38.1	7.1	124.4
Reclassifications	0.2	—	—	0.8	0.1	(1.1)	—
Provisions in the year	24.6	8.3	7.1	4.0	62.5	9.7	116.2
Releases in the year	(1.6)	(5.4)	(6.2)	(3.4)	(9.1)	(1.8)	(27.5)
Utilisation	(11.1)	(16.7)	(29.4)	(0.4)	(6.9)	(5.6)	(70.1)
Transfer to disposal group liabilities held-for-sale	—	—	—	—	—	(2.4)	(2.4)
At 31 December	25.6	1.5	13.2	9.7	84.7	5.9	140.6

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 headcount where communication to affected employees has crystallised a valid expectation that roles are at risk and it is likely to unwind over a period of one to two years. Additionally, it relates to unavoidable running costs of leasehold properties, such as insurance and security, and dilapidation provision, where properties are exited as a result of the transformation plan. These provisions are likely to unwind over periods of up 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 one to four years.

Claims and litigation provision: the Group is exposed to claims and litigation proceedings arising in the ordinary course of business. These matters are reassessed regularly and where obligations are probable and estimable, provisions are made representing the Group's best estimate of the expenditure to be incurred. Due to the nature of the remaining claims, the Group cannot give an estimate of the period over which this provision will unwind.

Property provision: the provision relates to unavoidable running costs, such as insurance and security, of leasehold property where the space is vacant or currently not planned to be used for ongoing operations, and for dilapidation costs, as part of the ordinary course of business and not the Group wide transformation plan (where such costs are included in the restructuring provision). The expectation is that this expenditure will be incurred over the remaining periods of the leases which vary up to two years.

Customer contract provision: the provision includes onerous contract provisions in respect of customer contracts where the unavoidable costs of meeting the obligations under the contracts exceeds the economic benefits expected to be received under them, claims/obligations associated with missed milestones in contractual obligations, and other potential exposures related to contracts with customers. These provisions are forecast to unwind over periods up to six years.

The customer contract provision includes £54.5m in respect of contracts in Capita Experience. The new corporate structure has simplified internal reporting, which has highlighted those businesses that represent a drag on the Group cash resources. This includes the Life & Pensions business that provides outsourced administration services for the associated closed pension books which we main on behalf of clients.

Section 3: Operating assets and liabilities continued

3.6 Provisions continued

The Group has highlighted in prior reporting the structural challenges associated with the closed book Life & Pensions contracts. These provided for upfront cash inflows to support initial transformation activities with a much lower level of cash inflow once the transformation phase was completed. Under the Group's long-term contract accounting policy (see note 2.1), the cash flow profile of these contracts has resulted in deferral of profit into future years which is not backed by net cash flows (because the relevant cash receipts arose in the early years of contract execution). Additionally, some of the contracts contain evergreen clauses allowing the customers to extend the contracts indefinitely until the run-off of the underlying pension books is complete.

The Life & Pensions business has remained in structural decline as some customers, with legacy IT systems, have switched to suppliers who can provide a single digital platform for all their books. The Group has sought to drive efficiencies to mitigate this fall off in volumes, while supporting customers who have selected new outsource providers or taken the activities back in-house.

The closed books and contractual dynamics have led to onerous conditions to service these contracts. The Board has been required to assess the likely length of the remaining contracts, given the pattern and experience of contract terminations while also recognising the evergreen clauses. Accordingly, management has in prior years provided for the onerous contract conditions based on the best estimate of the remaining contract terms. The contingent liability note has highlighted that should the contracts end earlier or extend for longer this may result in a material reduction or increase in the provision recorded.

During 2021, the Group has continued to support a major customer on the transfer of services to another supplier. This is taking significantly longer than initially expected. Management has reassessed the lifetime estimate to include not only the onerous contract terms but also the period and likely costs to support the final handover of services. This assessment has extended across all contracts that contain evergreen clauses, including those where there are ongoing discussions regarding either termination or transfer of services.

This reassessment, reflecting the developments in the latter half of 2021, provides cover for contracts to extend out to 2026. This has resulted in an increase to the contract provision of £39.5m which has been reported as an adjusting item. In prior years the financial impacts of such contract judgements have not been shown as adjusting items as they were considered to be normal course of business, not material in the context of the Group results and not associated with the transformation plan. However, due to the quantum of the charge arising from the 2021 reassessment, the Board consider it appropriate to separately disclose this as an adjusted item to highlight the impact on the results in the period.

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 which are immaterial on an individual basis. This includes provision for regulatory audits, employee related matters and related professional fees which are not included within the restructuring provision. These are likely to unwind over periods of up to five years.

Section 4: Capital structure and finance 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:

- 4.1 Net debt, capital and capital management
- 4.2 Financial risk
- 4.3 Net finance costs
- 4.4 Leases
- 4.5 Financial instruments and the fair value hierarchy
- 4.6 Issued share capital
- 4.7 Group composition and non-controlling interests



Denotes accounting policies



Denotes significant accounting judgements, estimates and assumptions

Key highlights

Headline gearing²: headline net debt to adjusted EBITDA¹ (post IFRS 16)

Aim: Maintain the ratio of headline net debt to adjusted EBITDA¹ (post IFRS 16) in the range of 1.7x and 2.7x over the long term

2.7x

(2020: 3.1x)

Available liquidity

£392.4m

(2020: £708.6m)

1. Details of all alternative performance measures and related KPIs can be found in section 8.2.

2. Headline gearing differs to covenant gearing. Headline gearing is based on net debt of £879.8m (2020: £1,077.1m), which includes the Group's restricted cash of £54.8m (2020: £34.5m). Refer to section 8.2 for further details.

Capital strategy

The Group's capital strategy is to build a strong and flexible balance sheet, supporting the strategy and the investment needed to grow the business and reducing pension liabilities.

The Board has not formally updated its view of the appropriate leverage ratio over the medium term. The target is between 1.7 and 2.7 times headline net debt to adjusted EBITDA (post IFRS 16) (refer to note 8.2). This is equivalent to the previously stated range of between 1.0 and 2.0 times pre-IFRS 16. At 31 December 2021, the Group's headline gearing ratio was 2.7 times (2020: 3.1 times) post IFRS 16.

Liquidity

Available liquidity at 31 December 2021 was £392.4m (31 December 2020: £708.6m). During 2021 net debt (excluding leases and restricted cash) reduced by £117.3m from £603.5m to £486.2m. Liquidity remains a key area of focus. The Group's committed bank facilities provide liquidity for the cash fluctuations of the business cycle and an allowance for contingencies. In June 2021, we signed a £300m forward start revolving credit facility (RCF) with our lending banks for the twelve months to August 2023. The new facility will start upon the expiry of the current RCF in August 2022. We are reducing the size of the RCF over time as our liquidity requirement diminishes and we continue the execution of the disposal programme. The RCF was £40m drawn at 31 December 2021 out of a total committed value of £385.7m. Following the disposal receipts in early January, the drawing was repaid and the commitment reduced to £377.5m.

A sustainability component has been included in the new facility that can adjust the margin by up to five basis points conditional upon achieving agreed ESG KPIs. One of these KPIs has been achieved and as a result a slight reduction in the facility margin is anticipated in August 2022.

In March 2022 the Group executed with one of its relationship banks a committed backstop bridge facility. The facility provides £70m of additional liquidity and it incorporates provisions such that it will be cancelled or will partially reduce in quantum as a consequence of specified transactions, including on completion of the announced disposal of Trustmarque. The committed facility has an expiry date of 31 August 2023 with an option for a further one year extension at the option of the lender. The facility is subject to covenants, which are the same as the RCF.

Finally, at 31 December 2020, £150m in similar committed bank backstop bridge facilities were in place. These were cancelled on 1 February 2021 on receipt of disposal proceeds.

Net finance costs

Net finance costs have decreased by £2.7m to £46.9m (2020: £49.6m). The reduction is primarily due to less interest on debt as a result of the debt maturities offset in part by an increase in the coupon payable under certain loan notes (£2.7m). There was also a reduction in the net interest on leases (£4.4m) and a £1.1m decrease in a provision for hedge ineffectiveness.

Section 4: Capital structure and financing costs continued

4.1 Net debt, capital and capital management

4.1.1 Net debt and capital

The components of the Group's net debt and undrawn available liquidity are summarised below.

	Notes	2021 £m	2020 £m	Year on year movement
Cash and cash equivalents	4.5.4	(333.4)	(473.8)	140.4
Overdraft	4.5.4	231.9	332.7	(100.8)
Lease liabilities	4.4.1	448.4	508.1	(59.7)
Private placement loan notes ¹	4.5.2	512.9	765.1	(252.2)
Credit facilities ²		46.0	—	46.0
Other loan notes	4.5.2	1.3	2.3	(1.0)
Currency and interest rate swaps	4.5.2	(28.0)	(58.0)	30.0
Deferred consideration	4.5.2	0.7	0.7	—
Net debt		879.8	1,077.1	(197.3)
Undrawn available financing facilities	4.5.2b	345.7	602.0	(256.3)
Capital		1,225.5	1,679.1	(453.6)

1. Private placement loan notes include US dollar and British pound sterling private placement loan notes, euro fixed rate bearer notes and a Schuldschein loan.

2. Credit facilities includes £40.0m drawing on the RCF.

A reconciliation of net debt shown above to cash flow can be found in note 2.10.3.

The overdrafts are part of a cash pooling arrangement, and the underlying balances can be fully offset by cash balances in the same arrangement.

Private placement loan notes decreased following the repayment at maturity of £179.9m on 19 and 26 July and £49.8m on 27 October. The associated currency and interest rate swaps also expired on these dates, such that the combined net cash outflow was £209.9m. The fair value of the remaining currency and interest rate swaps changed over the year with the passage of time to maturity and changes in market rates. Finally, a further £2.6m was prepaid in August 2021 arising from the replacement of the EUR fixed rate note due November 2022 with an equivalent note to facilitate the Group's disposal programme.

There are two separate sets of covenant tests underlying the Group's financial instruments. A key difference is the treatment of IFRS 16. The bank facilities and euro instruments fully exclude the impact of IFRS 16 whereas the US private placement loan notes test includes the income statement impact of IFRS 16 but not the balance sheet impact.

Under the test for the bank and euro instruments, at 31 December 2021, adjusted net debt to adjusted EBITDA ratio was 2.0x (2020: 2.5x) compared to a maximum permitted value of 3.5x and annualised interest cover was 9.6x (2020: 7.8x) compared to a minimum permitted level of 4.0x.

Under the test for the US private placement loan notes, at 31 December 2021, adjusted net debt to adjusted EBITDA ratio was 1.5x (2020: 1.8x) compared to a maximum permitted value of 3.0x and annualised interest cover was 9.9x (2020: 8.5x) compared to a minimum permitted level of 4.0x.

In calculating adjusted EBITDA for covenant purposes consideration is given to consistency of treatment of adjusted items with the prior measurement dates, including the exclusion of restructuring.

4.1.2 Capital Management

Focus on capital management forms an important component of Board meetings, including review of forecast headline gearing and key covenant tests, and the mix of funding sources, thereby ensuring sustainability and flexibility. Shareholder returns will be reviewed over time in accordance with the Group's generation of sustainable free cash flow.

The Group's capital management process ensures that it meets the financial covenants of its borrowing arrangements. There have been no breaches in the financial covenants of any loans or borrowings during the reporting 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. With the exception of one isolated breach at Pay 360 Limited, each complied with all externally imposed financial services regulatory capital requirements applicable to them. The regulatory capital breach at Pay 360 Limited was addressed as soon as it was identified in February 2021 and did not result in a fine.

The committed RCF provides the liquidity needed to cover the cash fluctuations of the business cycle, allowing a buffer for contingencies.

The Group has in place a non-recourse invoice discounting facility and the value of invoices sold under the arrangement at 31 December 2021 was £3.9m (2020: £13.6m). In addition, the Group's German business uses an invoice discounting arrangement relating to a specific customer contract, and the value of invoices sold under that arrangement at 31 December 2021 was £12.5m (2020: £8.5m).

The Group aims to pay its suppliers on time in accordance with agreed terms.

Section 4: Capital structure and financing costs continued

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 53 to 61 of the strategic report. The Group's principal financial instruments comprise cash, bank loans, private placement loan notes, lease assets and liabilities, and derivatives. The purpose of these is to fund and provide liquidity for the Group's operations and to manage its financial risks. The Group has various other financial instruments including trade receivables and trade payables arising from its operations.

Derivatives comprise interest rate swaps, cross-currency interest rate swaps, and forward foreign currency contracts executed with its relationship banks, all of which have investment grade credit ratings. The derivatives' purpose is to manage interest rate and currency risks arising from the Group's operations and its sources of finance. It is the Group's policy that no speculative trading in financial instruments is undertaken.

The main risks arising from the Group's financial instruments are liquidity risk, foreign currency risk, interest rate risk, and credit risk. The Board periodically reviews and agrees policies for managing these risks, which are summarised below.

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, projected cash flows from operations and an allowance for contingencies. The Group maintains a balance between continuity of funding and flexibility through the use or availability of multiple sources of funding. Maturing private placement loan notes will continue to place the Group's liquidity under pressure during 2022. The Group plans to address this through its ongoing programme of disposal of additional non-core businesses and refinancing.

Committed bank facilities provide liquidity for the cash fluctuations. The Group does not rely on sources of funding that are not contractually committed. The bank facilities and private placement loan notes all include provisions that would require repayment in the event of a change of control, which are typical of these arrangements.

The current RCF expires on 31 August 2022 and a Forward Start RCF is in place which will cover the year to 31 August 2023. The RCF was £40.0m drawn at 31 December 2021 (31 December 2020: undrawn).

In March 2022 the Group executed with one of its relationship banks a committed backstop bridge facility. The facility provides £70m of additional liquidity and it incorporates provisions such that it will be cancelled or will partially reduce in quantum as a consequence of specified transactions, including on the completion of the announced disposal of Trustmarque. The committed facility has an expiry date of 31 August 2023 with an option, by the lender, for a further one year extension. The facility is subject to covenants, which are the same as the RCF.

Finally, at 31 December 2020, £150m in similar committed bank backstop bridge facilities were in place. These were cancelled on 1 February 2021 on receipt of disposal proceeds.

The financial instruments providing core funding (private placement loan notes) include US private placement loan notes, euro fixed rate bearer notes, and a euro Schuldschein loan. To mitigate the risk of needing to refinance in challenging conditions, these have been arranged with a spread of maturities to November 2027.

The tables below summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments. All balances are stated based on the prevailing foreign exchange rates and the contractual interest rates at the end of the reporting period. In accordance with IFRS 7, payments but not receipts are stated for cross-currency interest rate swaps.

At 31 December 2021	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	231.9	—	—	—	—	—	231.9
Credit facilities	46.0	—	—	—	—	—	46.0
Private placement loan notes	226.9	69.8	—	84.6	32.9	94.6	508.8
Interest on loan notes	15.3	9.2	7.6	6.0	4.5	2.6	45.2
Lease liabilities	82.8	73.0	61.8	46.6	38.1	322.2	624.5
Deferred consideration	—	—	—	—	—	0.7	0.7
Put options of non-controlling interests	8.6	—	—	—	—	—	8.6
Cross-currency interest rate swaps	0.6	0.7	0.4	0.4	0.4	—	2.5
Cash flow hedges	0.6	0.6	0.1	—	—	—	1.3
Other financial instruments	1.3	4.3	—	—	—	—	5.6
	614.0	157.6	69.9	137.6	75.9	420.1	1,475.1

Section 4: Capital structure and financing costs continued

4.2 Financial risk continued

At 31 December 2020	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	332.7	—	—	—	—	—	332.7
Private placement loan notes	231.4	238.8	69.4	—	84.2	130.5	754.3
Interest on loan notes	24.9	14.1	8.9	7.3	5.7	6.5	67.4
Lease liabilities	102.3	78.0	69.1	55.8	44.2	350.4	699.8
Deferred consideration	—	—	—	—	—	0.7	0.7
Public sector subsidiary partnership payment	9.4	9.4	9.4	—	—	—	28.2
Put options of non-controlling interests	99.7	—	—	—	—	—	99.7
Cross-currency interest rate swaps	0.8	0.6	0.6	0.3	0.3	0.3	2.9
Other financial instruments	1.1	0.8	0.7	0.1	—	—	2.7
	802.3	341.7	158.1	63.5	134.4	488.4	1,988.4

4.2.2 Foreign currency risk

The Group is not generally exposed to significant foreign currency transaction risk with two exceptions. Firstly, services are provided by the Group's operations in India and incurred in Indian Rupee (INR). The Group seeks to mitigate the short term effect of this exposure by entering into forward foreign exchange contracts (Non-deliverable Forward Contracts (NDFs)) to fix the British pounds sterling (GBP) cost of highly probable transactions over a rolling 24 month period.

At 31 December 2021, the Group held forward foreign exchange contracts against forecast internal monthly INR costs expected in the years up to and including December 2024. These forecast costs have been determined on the basis of the underlying cash flows associated with the delivery of services under executed customer contracts.

Secondly, the Group holds foreign exchange forwards against committed costs relating to the purchase of cloud software services in US dollars (USD) in the years up to and including August 2024.

To maximise hedge effectiveness, forward foreign exchange contracts are executed with terms matching the underlying cash flows.

The following table demonstrates the sensitivity of the Group's profit before tax and equity to a 5% strengthening/(weakening) in INR 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
2021	—	(3.3)	—	(5.3)
2020	—	(4.4)	—	(5.3)

4.2.3 Interest rate risk

The Group manages its interest rate exposure, which arises from the Group's private placement loan notes, through cash, deposits and RCF drawings at variable interest rates, and through interest rate and cross-currency interest rate swaps. The swaps are designated fair value hedges against the fair value changes of the private placement loan notes.

A fundamental reform of interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates. The Group's financial instruments include exposure to the IBORs that are being replaced or reformed as part of these market-wide initiatives. The Group's main IBOR exposure at 31 December 2020 related to sterling LIBOR. The alternative reference rate for sterling LIBOR is the Sterling Overnight Index Average (SONIA) rate. In 2021 the Group executed amendments to its financial instruments referenced to sterling LIBOR to incorporate SONIA. There has been no change in the Group's risk management strategy as a result of the transition to SONIA.

Non-derivative financial liabilities

The Group's non-derivative financial liability exposure to IBOR at 31 December 2020 comprised the committed RCF and a £6m uncommitted loan facility. In 2021 the Group amended these from a sterling LIBOR reference to SONIA.

Derivatives

The Group holds interest rate and cross currency swaps for risk management purposes that are designated in fair value hedging relationships and each swap includes a floating leg. In 2021 the Group executed amendments to these swaps to replace the sterling LIBOR reference with SONIA for interest resets taking place after 31 December 2021.

Hedge accounting

The Group's hedged items and hedging instruments as at the reporting date reference SONIA. In 2021, the Group replaced its sterling LIBOR interest rate derivatives used in fair value hedging relationships with economically equivalent interest rate derivatives referencing SONIA. As a result, there is no longer uncertainty about when and how the replacement will occur with respect to the relevant hedged items and hedging instruments and the Group no longer applies the amendments to IFRS 9 issued in September 2019 (Phase 1) to those hedging relationships.

Section 4: Capital structure and financing costs continued

4.2 Financial risk continued

The net level of floating rate interest exposure is managed, to arrive at an acceptable overall interest rate risk profile. The interest rate profile of the Group's interest-bearing financial instruments was as follows:

At 31 December 2021	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	123.8	27.6	—	30.0	18.8	74.5	274.7
Floating rate							
Cash in hand	(333.4)	—	—	—	—	—	(333.4)
Overdraft	231.9	—	—	—	—	—	231.9
Private placement loan notes	102.6	41.8	—	57.0	14.3	22.5	238.2
Cross-currency interest rate swaps	(9.3)	(4.0)	—	(11.0)	1.0	(4.7)	(28.0)

At 31 December 2020	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	35.2	181.1	27.3	—	29.4	95.9	368.9
Floating rate							
Cash in hand	(473.8)	—	—	—	—	—	(473.8)
Overdraft	332.7	—	—	—	—	—	332.7
Private placement loan notes	197.5	58.4	43.5	—	59.2	37.6	396.2
Interest rate swaps	(0.5)	—	—	—	—	—	(0.5)
Cross-currency interest rate swaps	(24.1)	(10.1)	(4.9)	—	(13.2)	(5.2)	(57.5)

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 £1.1m (2020: £1.6m) increase or decrease to profit before tax, and no impact on the Group's equity.

4.2.4 Hedges

Fair value hedges

The Group's fixed rate USD and GBP private placement loan notes are hedged through a combination of 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 and their corresponding swaps have the same critical terms including nominal values and maturity dates.

The total loss in the year on the fair value hedges of £30.0m (2020: £20.3m) 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 resulted in a £0.1m credit (2020: £1.0 debit) to the consolidated income statement – shown in net finance costs, note 4.3.

The impact of the hedged item and the related financial derivatives on the consolidated balance sheet at 31 December 2021 is as follows:

	Notional amount £m	Carrying amount £m	Line item in the balance sheet	Change in FV used for measuring ineffectiveness £m
Interest rate swaps – assets	—	—	Financial assets	(0.5)
Cross-currency interest rate swaps – assets	136.3	30.2	Financial assets	(30.0)
Cross-currency interest rate swaps – liabilities	29.8	(2.2)	Financial liabilities	0.5
		28.0		(30.0)

	Carrying amount £m	Accumulated FV adjustment £m	Line item in the balance sheet	Change in FV used for measuring ineffectiveness £m
Private placement loan notes	512.9	28.0	Financial Liabilities	30.0

Section 4: Capital structure and financing costs continued

4.2 Financial risk continued

Cash flow hedges

The Group holds a series of non-deliverable forward foreign exchange contracts, that are designated as hedges of the highly probable transactions in INR of the Group's Indian operations. The terms of the NDFs match the terms of these commitments.

Secondly, the Group holds foreign exchange forward contracts against committed costs relating to the purchase of cloud software services in US dollars in years up to and including August 2024.

The fair value of cash flow hedging instruments held at 31 December 2021 is shown in note 4.5.2.

The cash flow hedges have been assessed to be highly effective. The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of the hedging instruments. The following table provides an analysis of components of equity resulting from cash flow hedge accounting:

	2021 £m	2020 £m
At 1 January	(4.8)	0.2
Change in fair value recognised in the consolidated statement of other comprehensive income	1.3	(1.6)
Reclassified to the consolidated income statement	0.6	(4.5)
Change in tax	2.2	1.1
At 31 December	(0.7)	(4.8)

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 that they can fulfil their obligations. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to credit loss remains low.

The carrying values of the Group's financial assets and contract assets represent its maximum credit exposure.

The mark-to-market movement on derivatives includes the extent to which the fair value of these instruments has been affected by the perceived change in the creditworthiness of the counterparties to those instruments and that of the Group itself (own credit risk). The Group is comfortable that the risk attached to those counterparties is not significant and believes that the swaps continue to act as an effective hedge against the movements in the fair value of the Group's private placement loan notes.

4.3 Net finance costs

The table below shows the composition of net finance costs, including those excluded from adjusted profit.

	Notes	2021 £m	2020 £m
Interest income			
Interest on cash		(0.4)	(1.6)
Interest on finance lease assets		(4.3)	(1.2)
Total interest income		(4.7)	(2.8)
Interest expense			
Private placement loan notes ¹		17.9	20.6
Cash flow hedges recycled to the income statement	4.2.4	0.6	(4.5)
Bank loans and overdrafts		5.9	4.9
Interest on finance lease liabilities		23.8	25.1
Net interest cost on defined benefit pension schemes	5.2	1.5	3.2
Total interest expense		49.7	49.3
Net finance expense included in adjusted profit		45.0	46.5
Included within business exits			
Bank loans and overdrafts		0.4	0.1
Discount unwind on public sector subsidiary partnership payment	4.5.2	0.4	1.1
Other financial income		(0.3)	—
Fair value hedge ineffectiveness ²		—	0.4
Other items excluded from adjusted profits			
Non-designated foreign exchange forward contracts – mark-to-market		1.5	0.9
Fair value hedge ineffectiveness ²	4.2.4	(0.1)	0.6
Net finance expenses excluded from adjusted profit		1.9	3.1
Total net finance expense		46.9	49.6

1. Private placement loan notes comprise US private placement loan notes, euro fixed rate bearer notes and a Schuldschein loan.

2. Fair value hedge ineffectiveness arises from changes in currency basis, and the movement in a provision for counterparty risk associated with the swaps.

Section 4: Capital structure and financing costs continued

4.4 Leases

AP Accounting policies

The Group leases various assets, comprising land and buildings, equipment and motor vehicles.

The determination whether an arrangement is, or contains, a lease is based on whether the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The following sets out the Group's lease accounting policy for all leases with the exception of leases with low value and term of twelve months or less which are expensed to the consolidated income statement.

The Group as a lessee – Right-of-use assets and lease liabilities

The accounting policy for right-of-use assets is included in note 3.5.

The Group recognises lease liabilities where a lease contract exists and right-of-use assets representing the right to use the underlying leased assets.

At the commencement of a lease, the Group recognises the lease liability measured at the present value of the lease payments to be made over the lease term.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of the lease liability is increased to reflect the accretion of interest and reduced for the lease payments made. The incremental borrowing rate is the rate of interest that the Group would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Incremental borrowing rates are determined monthly and depend on the term, country, currency and commencement date of the lease. The incremental borrowing rate is determined based on a series of inputs including: the risk-free rate based on swap market data; a country-specific risk adjustment; a credit risk adjustment; and an entity-specific adjustment where the entity risk profile is different to that of the Group.

The lease liability is subsequently remeasured (with a corresponding adjustment to the related right-of-use asset) when there is a change in future lease payments due to a renegotiation or market rent review, a change of an index or rate or a reassessment of the lease term.

Lease payments are apportioned between a finance charge and a reduction of the lease liability based on the constant interest rate applied to the remaining balance of the liability. Interest expense is included within net finance costs in the consolidated income statement.

Lease payments comprise fixed payments, including in-substance fixed payments such as service charges and variable lease payments that depend on an index or a rate, initially measured using the minimum index or rate at inception date. The payments also include any lease incentives and any penalty payments for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease term determined comprises the non-cancellable period of the lease contract. Periods covered by an option to extend the lease are included if the Group has reasonable certainty that the option will be exercised, and periods covered by an option to terminate are included if it is reasonably certain that this will not be exercised.

The Group has elected to apply the practical expedient in IFRS 16 paragraph 15 not to separate non-lease components such as service charges from lease rental charges.

The Group as a lessor

When the Group acts as a lessor, it determines at lease commencement whether the lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers to the lessee all of the risks and rewards of ownership in relation to the underlying asset. If this is the case, then the lease is a finance lease. If not, then it is an operating lease.

The Group acts as an intermediate lessor of property assets and equipment. When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses whether the sub-lease is a finance or operating lease in the context of the right-of-use asset arising from the head lease.

In instances where the Group is the intermediate lessor and the sub-lease is classified as a finance lease, the Group recognises a net investment in sub-leases for amounts recoverable from the sub-lessees while derecognising the respective portion of the right-of-use asset. The lease liability is retained on the balance sheet. The net investment in sub-leases is classified as current or non-current finance assets in the consolidated balance sheet according to whether or not the amounts will be recovered within twelve months of the balance sheet date. Finance income recognised in respect of net investment in sub-leases is presented within net finance costs in the consolidated income statement and the capital element of lease rental received is presented within investing activities in the consolidated cash flow statement.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term. The Group accounts for finance leases as finance lease receivables, using an incremental borrowing rate where the interest rate implicit in sub-lease is not easily determinable.

Sale and leaseback

A sale and leaseback transaction is one where the Group sells an asset and immediately reacquires the use of the asset by entering into a lease with the buyer. For sale and leasebacks, any gain or loss from the sale is recognised in proportion to the gain or loss that relates to the rights transferred to the buyer. If the consideration for the sale is not equal to the fair value of the asset, any resulting difference is treated as either a prepayment of the lease payments or additional financing.

Section 4: Capital structure and financing costs continued

4.4 Leases continued

4.4.1 The Group as a lessee

Amounts recognised on the balance sheet	Note	2021 £m	2020 £m	Type of financial instrument
Lease liabilities		448.4	503.5	Financial liabilities
Lease liabilities included within disposal group liabilities held-for-sale	2.8	—	4.6	
Total		448.4	508.1	

The lease liability includes £18.8m (2020: £10.7m) 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 £23.1m (2020: £37.2m) (undiscounted) have not been included in the lease liability because the Group is reasonably certain that the leases will not be extended. The total cash outflow for leases was £106.2m (2020: £123.1m) consisting of interest paid of £23.6m (2020: £25.1m) and capital element of £82.6m (2020: £98.0m).

Right-of-use assets are discussed in note 3.5, the 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	2021 £m	2020 £m	Type of financial instrument
Lease receivables	82.1	82.6	Financial assets

The maturity analysis of lease receivables, including the undiscounted lease payments to be received, is as follows:

	2021 £m	2020 £m
Within 1 year	10.8	4.6
Between 1-2 years	9.6	10.6
Between 2-3 years	9.6	9.7
Between 3-4 years	8.2	9.7
Between 4-5 years	7.7	8.2
More than 5 years	73.0	80.7
Total undiscounted lease payments receivable	118.9	123.5
Unearned finance income	(36.8)	(40.9)
Net investment in lease receivables	82.1	82.6

The expenses related to short-term leases, leases of low-value assets and income from sub-leases are immaterial and therefore there is no separate disclosure.

During 2020, the Group sublet a leased property. The sub-lease includes an option for the lessee to terminate the lease earlier than the Group's lease with its landlord. Management assessed it was reasonably certain that the break clause will not be exercised and, accordingly, determined that the sub-lease is a finance lease. This resulted in the recognition of a finance lease receivable (£69.9m), included in the balance above. This judgement was based on a number of factors as prescribed within IFRS 16 'Leases' such as incentive to lessee, importance of the location to the lessee's operations, shorter non-cancellable period of lease and the lessee's planned modifications to, and customisation of, the property.

Section 4: Capital structure and financing costs continued

4.5 Financial instruments and the fair value hierarchy

AP Accounting policies

Financial instruments – classification of financial instruments

The Group classifies its financial instruments in the following measurement categories:

- those to be measured subsequently at fair value, either through other comprehensive income (FVOCI) or through profit or loss (FVPL); and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

Financial instruments – initial recognition

At initial recognition, the Group measures a financial instrument at its fair value plus, in the case of a financial instrument not at FVPL, transaction costs that are directly attributable to the acquisition of the financial instrument. Transaction costs of financial instruments carried at FVPL are expensed in the consolidated income statement.

Financial instruments with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Purchases and sales of financial instruments are recognised on their trade date (ie the date the Group commits to purchase or sell the instrument). Financial instruments are derecognised when the rights to receive/pay cash flows from the financial instrument have expired or have been transferred such that the Group has transferred substantially all risks and rewards of ownership.

Debt instruments

Debt instruments are initially recognised at fair value less directly attributable transaction costs and are subsequently remeasured depending on the Group's business model for managing the liability and the cash flow characteristics of the liability. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** instruments that are held for collection/payment of contractual cash flows are measured at amortised cost where those cash flows represent solely payments of principal and interest. Interest income/expense from these financial instruments is included in net finance costs using the effective interest rate method.
- **FVOCI:** instruments that are held for collection/payment of contractual cash flows and for selling the financial instrument are measured at FVOCI where the instrument's cash flows represent solely payments of principal and interest. Movements in the carrying amount are taken through consolidated Other Comprehensive Income (OCI), except for the recognition of impairment gains or losses, interest income and foreign exchange gains/losses, which are recognised in the consolidated income statement. When the financial instrument is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified to the consolidated income statement and recognised in other gains/(losses).
- **FVPL:** instruments that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain/loss on a debt instrument that is measured at FVPL is recognised in the consolidated income statement and presented within net finance costs.

The Group reclassifies debt instruments when, and only when, its business model for managing those instruments changes.

Equity instruments

Investments in equity instruments are initially recognised at fair value and are subsequently remeasured at fair value with the movement recognised through the consolidated income statement, except where an election has been made for the movement to be recognised through OCI. An election can be made on initial recognition of equity instruments that are neither held-for-trading or instruments acquired as part of a business combination. Once an election has been made all movements in fair value, with the exception of dividends, are presented through OCI and there is no subsequent reclassification of fair value gains/losses to the consolidated income statement following the derecognition of the investment. Dividends from such investments continue to be recognised in the consolidated income statement as other income when the Group's right to receive payments is established.

Impairment

The Group assesses, on a forward looking basis, the expected credit losses associated with its financial instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Derivatives

Derivative financial instruments are initially recognised at fair value and are subsequently remeasured at fair value at the end of each reporting period with the movement recognised through the consolidated income statement, except where derivatives qualify for cash flow hedge accounting. The effective proportion of cash flow hedges is recognised in OCI and presented in the hedging reserve within equity. The cumulative gain/loss is subsequently reclassified to the consolidated income statement in the same period that the relevant hedged transaction is realised.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs incurred in connection with the borrowing of funds.

Section 4: Capital structure and financing costs continued

4.5 Financial instruments and the fair value hierarchy continued

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 that 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 were calculated by discounting the expected future cash flows at prevailing interest rates. The valuation models incorporate various inputs including foreign exchange spot and forward rates and interest rate curves. In the case of floating rate borrowings the nominal value approximates to fair value because interest is set at floating rates where payments are reset to market values at intervals of less than one year.
- Level-3: techniques using inputs that have a significant effect on the recorded fair value which 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 2021, there were no transfers between fair value levels.

4.5.2 Financial instruments and their fair value hierarchy classification

The following table analyses, by classification and category, the carrying value of the Group's financial instruments and identifies the level of the fair value hierarchy for the instruments carried at fair value:

At 31 December 2021	Note	Fair value hierarchy	FVPL £m	FVOCI £m	Derivatives used for hedging £m	Amortised cost £m	Total £m	Current £m	Non- current £m
Financial assets									
Lease receivables	4.4.2	n/a	—	—	—	82.1	82.1	6.6	75.5
Cash flow hedges	4.2.4	Level-2	—	—	0.9	—	0.9	0.7	0.2
Non-designated foreign exchange forwards and swaps		Level-2	1.8	—	—	—	1.8	0.8	1.0
Cross-currency interest rate swaps	a	Level-2	—	—	30.2	—	30.2	9.4	20.8
Investments		Level-3	8.9	—	—	—	8.9	—	8.9
Other investments		Level-3	—	0.8	—	—	0.8	—	0.8
			10.7	0.8	31.1	82.1	124.7	17.5	107.2
Other financial assets									
Cash	4.5.4	n/a	—	—	—	317.6	317.6	317.6	—
Cash included within disposal group assets held-for-sale	2.8	n/a	—	—	—	15.8	15.8	15.8	—
Total financial assets			10.7	0.8	31.1	415.5	458.1	350.9	107.2
Financial liabilities									
Private placement loan notes	a	n/a	—	—	—	512.9	512.9	226.3	286.6
Other loan notes		n/a	—	—	—	1.3	1.3	0.3	1.0
Credit facilities	b	n/a	—	—	—	46.0	46.0	46.0	—
Cash flow hedges	4.2.4	Level-2	—	—	1.8	—	1.8	0.8	1.0
Non-designated foreign exchange forwards and swaps		Level-2	4.7	—	—	—	4.7	4.3	0.4
Cross-currency interest rate swaps	a	Level-2	—	—	2.2	—	2.2	—	2.2
Deferred consideration		n/a	—	—	—	0.7	0.7	—	0.7
Put options of non-controlling interests	d	Level-3	—	8.6	—	—	8.6	8.6	—
			4.7	8.6	4.0	560.9	578.2	286.3	291.9
Other financial liabilities									
Overdrafts	4.5.4	n/a	—	—	—	231.9	231.9	231.9	—
Lease liabilities	4.4.1	n/a	—	—	—	448.4	448.4	61.6	386.8
Total financial liabilities			4.7	8.6	4.0	1,241.2	1,258.5	579.8	678.7

Financial assets measured at amortised cost consist of cash, insurance assets recoverable, lease receivables and other investments. The carrying values of these financial assets are a reasonable approximation of their fair value due to the short-term nature of the instruments. Included in other investments are £0.8m (2020: £1.0m) of strategic investments in unlisted equity securities which are not held-for-trading and the Group elected to recognise at FVOCI. During the year no dividends were received from, and no disposals were made of, strategic investments.

Section 4: Capital structure and financing costs continued

4.5 Financial instruments and the fair value hierarchy continued

Financial liabilities measured at amortised cost consist of overdrafts, lease liabilities and loan notes. With the exception of the series of private placement loan notes which have not been swapped to floating interest, 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 an underlying carrying value of £320.7m (2020: £368.8m) and a fair value of £278.2m (2020: £309.8m). Lease liabilities are measured at amortised cost using the effective interest rate method.

The Group's key financial liabilities are set out below:

a. Private placement loan notes

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.

b. Bank Facilities

Details of the Group's bank facilities are provided in the Liquidity section above. At 31 December 2021, the total value of committed facilities was £385.7m, of which £40.0m was drawn at 31 December 2021 (2020: total facilities of £602.0m, fully undrawn).

c. Public sector subsidiary partnership payment

The public sector subsidiary partnership payment liability represented the annual deferred payments to be made by AXELOS Limited. This liability was derecognised when AXELOS Limited was sold on 26 July 2021.

d. Put options of non-controlling interests

The liability at 31 December 2021 represents the present value of the cost to acquire the non-controlling interest in Fera Science Limited (see note 4.7). The option held by the non-controlling shareholder of Fera Science Limited has been exercisable since April 2021. A sensitivity analysis assuming a 10% increase/decrease in the earnings potential of the business results in a £0.9m increase/decrease in the valuation.

The option to acquire the non-controlling interest in AXELOS Limited expired without being exercised on 28 February 2021, and the related liability was de-recognised. Upon inception of the option agreements, management determined that changes in the carrying amount would be recognised within equity. This has been applied consistently for all options entered into.

At 31 December 2020	Note	Fair value hierarchy	FVPL £m	FVOCI £m	Derivatives used for hedging £m	Amortised cost £m	Total £m	Current £m	Non-current £m
Financial assets									
Lease receivables	4.4.2	n/a	—	—	—	82.6	82.6	3.8	78.8
Cash flow hedges	4.2.4	Level-2	—	—	0.1	—	0.1	—	0.1
Non-designated foreign exchange forwards and swaps		Level-2	2.9	—	—	—	2.9	1.3	1.6
Interest rate swaps	a	Level-2	—	—	0.5	—	0.5	0.5	—
Cross-currency interest rate swaps	a	Level-2	—	—	60.2	—	60.2	26.5	33.7
Investments		Level-3	1.8	—	—	—	1.8	—	1.8
Other investments		Level-3	—	1.0	—	—	1.0	—	1.0
			4.7	1.0	60.8	82.6	149.1	32.1	117.0
Other financial assets									
Cash	4.5.4	n/a	—	—	—	460.9	460.9	460.9	—
Cash included within disposal group assets held-for-sale	2.8	n/a	—	—	—	12.9	12.9	12.9	—
Total financial assets			4.7	1.0	60.8	556.4	622.9	505.9	117.0
Financial liabilities									
Private placement loan note	a	n/a	—	—	—	765.1	765.1	233.9	531.2
Other loan notes		n/a	—	—	—	2.3	2.3	2.3	—
Cash flow hedges	4.2.4	Level-2	—	—	2.8	—	2.8	0.6	2.2
Non-designated foreign exchange forwards and swaps		Level-2	1.7	—	—	—	1.7	1.4	0.3
Cross-currency interest rate swaps	a	Level-2	—	—	2.7	—	2.7	1.2	1.5
Public sector subsidiary partnership payment	c	n/a	—	—	—	27.1	27.1	8.7	18.4
Deferred consideration		n/a	—	—	—	0.7	0.7	—	0.7
Put options of non-controlling interests	d	Level-3	—	99.7	—	—	99.7	99.7	—
			1.7	99.7	5.5	795.2	902.1	347.8	554.3
Other financial liabilities									
Overdrafts	4.5.4	n/a	—	—	—	332.7	332.7	332.7	—
Lease liabilities	4.4.1	n/a	—	—	—	503.5	503.5	77.5	426.0
Lease liabilities included within disposal group liabilities held-for-sale	2.8	n/a	—	—	—	4.6	4.6	4.6	—
Total financial liabilities			1.7	99.7	5.5	1,636.0	1,742.9	762.6	980.3

Section 4: Capital structure and financing costs continued

4.5 Financial instruments and the fair value hierarchy continued

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 2020	5.0	35.4	108.7	3.9
Gain on final settlement recognised in the income statement	(0.1)	—	—	1.6
Payments made	(4.9)	(9.4)	—	—
Change in put-options recognised in other comprehensive income	—	—	(9.0)	—
Additions	—	—	—	2.6
Disposals	—	—	—	(3.9)
Impairments	—	—	—	(0.7)
Gain in fair value recognised in other comprehensive income	—	—	—	(0.7)
Discount unwind recognised in the income statement	—	1.1	—	—
At 31 December 2020	—	27.1	99.7	2.8
Gain on final settlement recognised in the income statement	—	—	—	—
Payments made	—	(4.7)	—	—
Change in put-options recognised in other comprehensive income ¹	—	—	(91.1)	—
Additions	—	—	—	0.3
Reclassification from other investment categories	—	—	—	4.3
Gain in fair value recognised in income statement	—	—	—	2.2
Gain in fair value recognised in other comprehensive income	—	—	—	0.1
Discount unwind recognised in the income statement	—	0.4	—	—
Business disposal	—	(22.8)	—	—
At 31 December 2021	—	—	8.6	9.7

1. The option to acquire the non-controlling interest in AXELOS Limited expired without being exercised on 28 February 2021, and the related liability was de-recognised.

4.5.3 Borrowings

Details of the Group's current RCF and backstop bridge facilities are shown in the above liquidity section (see note 4.5.2b).

Borrowing costs of £1.9m were capitalised in the year (2020: £0.5m). At 31 December 2021, the Group's private placement loan note series had a GBP equivalent underlying carrying value of £484.8m (2020: £707.1m) (see note 4.5.2a) analysed as follows:

Maturity	Denomination	Interest rate %	Nominal value Ccy/m
22 January 2022	GBP	3.260	18.6
27 October 2023	GBP	2.520	27.5
22 January 2025	GBP	3.540	7.4
22 April 2025	GBP	3.670	22.3
27 October 2026	GBP	2.770	18.6
22 January 2027	GBP	3.580	23.8
Total GBP denominated	GBP		118.2
22 January 2022	USD	3.330	29.7
22 April 2022	USD	3.430	48.3
22 January 2023	USD	3.450	39.4
27 October 2023	USD	3.370	17.8
22 January 2025	USD	3.650	74.3
27 October 2026	USD	3.590	19.3
22 January 2027	USD	3.800	27.5
Total USD denominated¹	USD		256.3
10 November 2022	EUR	2.875	163.0
10 November 2022	EUR	3.625	16.0
10 November 2027	EUR	2.875	60.0
Total euro denominated²	EUR		239.0

1. USD denominated loan notes have a GBP equivalent underlying carrying value of £165.4m. The Group has entered into cross-currency interest rate swaps for the USD issues to achieve a floating rate of interest based on six-month GBP LIBOR. Further disclosure on the Group's use of hedges is included in note 4.2.

2. Euro denominated loan notes have a GBP equivalent underlying carrying value of £203.2m.

Section 4: Capital structure and financing costs continued

4.5 Financial instruments and the fair value hierarchy continued

4.5.4 Cash, cash equivalents and overdrafts

The Group has a notional cash pool under which the bank may net cash balances with overdrafts held by other Group companies in the arrangements. The overdraft balances shown below are fully offset by credit balances in the same arrangement. The Group's gross cash position is shown in the table below:

	2021 £m	2020 £m
Cash and cash equivalents	317.6	460.9
Overdrafts	(231.9)	(332.7)
Cash, net of overdrafts, included in disposal group assets and liabilities held for sale	15.8	12.9
Cash, cash equivalents and overdrafts	101.5	141.1

Cash includes £nil (2020: £9.4m) held in a 32-day notice deposit account.

Section 4: Capital structure and financing costs continued

4.6 Issued share capital

	2021 No m	2020 No m	2021 £m	2020 £m
Allotted, called up and fully paid				
Ordinary shares of 2 1/15p each				
At 1 January	1,671.1	1,671.1	34.5	34.5
Issue of share capital	13.0	—	0.3	—
At 31 December	1,684.1	1,671.1	34.8	34.5
Share premium			2021 £m	2020 £m
Ordinary shares of 2 1/15p each				
At 1 January			1,143.3	1,143.3
VAT refund on rights issue issuance costs			2.2	—
At 31 December			1,145.5	1,143.3

In 2018 the Group offered a rights issue to existing shareholders, raising £700.7m less issuance costs of £38.0m, which was capitalised to share capital and share premium. The issuance costs included VAT that was, at the time, treated as irrecoverable. In 2021 it was agreed with HMRC that £2.2m of this VAT was recoverable and was refunded to the Group.

	2021 No m	2020 No m	2021 £m	2020 £m
Treasury shares				
Ordinary shares of 2 1/15p				
At 1 January	2.3	2.6	(0.1)	(0.1)
Issued on exercise of share options	(2.3)	(0.3)	0.1	—
At 31 December	—	2.3	—	(0.1)

During the year, the Group made no purchases of shares into Treasury and allotted 2,299,955 (2020: 276,614) shares with an aggregate nominal value of £47,532 (2020: £5,717). The total consideration received in respect of these shares was £nil (2020: £nil).

	2021 No m	2020 No m	2021 £m	2020 £m
Employee benefit trust shares				
Ordinary shares of 2 1/15p				
At 1 January	12.6	12.6	(11.1)	(11.1)
Shares purchased	13.0	—	(0.3)	—
Issued on exercise of share options	(7.5)	—	3.4	—
At 31 December	18.1	12.6	(8.0)	(11.1)

The Group will use shares held in the Employee Benefit Trust (EBT) and treasury shares to satisfy future requirements for shares under the Group's share option and long-term incentive plans. On 19 April 2021, 13m ordinary 2 1/15p shares (2020: nil) were allotted to the EBT for an aggregate nominal value of £268,667 (2020: £nil) to satisfy exercises under the Group's share plans. The total consideration received in respect of these shares was £268,667 (2020: £nil). During the year, 7,560,173 (2020: nil) shares with a value of £3.4m (2020: £nil) were transferred out of the EBT to satisfy exercises under the Group's share option and long term incentive plans. The total consideration received in respect of these shares was £nil (2020: £nil).

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 208 and 213 to 217. This list includes Entrust Support Services Limited which has a 49% non-controlling interest, and Fera Science Limited which has a 25% non-controlling interest.

The Group holds a majority of the voting rights in all of its subsidiaries and the directors have determined that, other than the entity commented on below, in each case the Group exercises de facto control.

On 23 September 2014, the Secretary of State for the Department for Energy and Climate Change granted Smart DCC Limited (DCC), a wholly-owned subsidiary of the Group, a licence to establish and manage the smart metering communications infrastructure, governed by the Smart Energy Code. Each year the Group 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. Consequently, the Group has not consolidated DCC within its Group financial statements. 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 benefit expense

AP Denotes accounting policies

J Denotes significant accounting judgements, estimates and assumptions

Key highlights

Additional funding into
the defined benefit schemes¹ Net defined benefit pension asset

£155.5m **£5.8m**

(2020: £29.5m)

(2020: deficit £252.1m)

Employee benefit expense

£1,767.1m

(2020: £1,794.8m)

The net defined benefit pension position moved from a net liability position at the start of the year to a small net asset position by 31 December 2021. As part of the deficit funding plan £155.5m of additional funding¹ was paid into the defined benefit schemes.

Net defined benefit pension asset / (deficit)	2021 £m	2020 £m	Movement £m
Defined benefit obligation	(1,789.2)	(1,882.3)	93.1
Fair value of plan assets	1,797.3	1,630.2	167.1
Net defined pension asset/(liability) before effect of asset ceiling limit	8.1	(252.1)	260.2
Effect of asset ceiling limit	(2.3)	—	(2.3)
Net defined pension asset/(liability) after effect of asset ceiling limit	5.8	(252.1)	257.9

1. Including £5.0m held in escrow as at 31 December 2021, to be released to the scheme in 2022 (refer to note 2.10.2).

The main reason for the decrease in liabilities over the year was due to the material increase in the yields available on good quality, long term corporate bonds (which are used to derive the discount rate to value the liabilities), offset to some degree by the increase in inflation expectations (which impacts the pension benefits provided by the schemes). The schemes are highly sensitive to the change in discount rates (with a 0.1% pa change resulting in a c. £35.4m impact) and in inflation expectations (with a 0.1% pa change resulting in a c. £18.7m impact). Additional employer contributions and higher than expected asset returns increased the schemes' assets.

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 IAS 19, 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 2021 the net asset of the CPLAS scheme was higher on a funding basis (ie the funding assumption principles adopted for the full actuarial valuation at 31 March 2020) than on an accounting basis.

Section 5: Employee benefits continued

5.1 Share-based payment plans

The Group operates a number of executive and employee equity-settled share schemes.

AP Accounting policies

The fair value of the equity instrument granted 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 ie the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the consolidated income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over the fair value being treated as an expense in the income statement.

The expense recognised for share-based payments (before tax) in respect of employee services received during the year to 31 December 2021 was £1.2m (2020: £6.4m), 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 96 to 119).

The value of deferred shares is determined by the pay-out under the annual bonus scheme: half of the annual bonus is paid in cash and the remainder is deferred into shares under the deferred annual bonus plan or the Capita executive plan. Directors have the option to defer up to 100% of their annual bonus into deferred shares or net bonus into a restricted share award. The deferred/restricted shares are held for a period of three years from the date of award, during which they are not forfeitable, except in the case of dismissal for gross misconduct.

The weighted average share price of options at the date of exercise in 2021 was £0.33 (2020: £0.64). The weighted average share price during the year was £0.43 (2020: £0.57).

The total cash value of the deferred shares awarded during the year was £nil (2020: £nil).

Long-term incentive plans (LTIPs)

The 2017 LTIP was approved and adopted at the AGM on 13 June 2017. From 2021, no new awards will be granted under the LTIP although 2019 and 2020 awards are yet to vest.

For the 2018 award, one-third of the award was subject to retention over a three-year vesting period at which point this portion of the award will vest in full. The remainder of the award was subject to performance conditions, namely: annualised cost savings, free cash flow and EBIT margin, customer satisfaction and employee engagement, all measured over a three-year period. Threshold vesting (25%) for each measure was dependent upon: annualised cost savings reaching £160m; free cash flow reaching £180m; EBIT margin exceeding 9%; 6 point positive swing in NPS for both customer satisfaction and employee engagement. Target vesting (50%) for each measure was dependent upon: annualised cost savings reaching £175m; free cash flow reaching £200m; EBIT margin of 10%; 8 point positive swing in net promoter score (NPS) for both customer satisfaction and employee engagement. Maximum vesting (100%) for each measure was dependent upon: annualised cost savings reaching £205m; free cash flow reaching £240m; EBIT margin of 12%; 12 point positive swing in net promoter score (NPS) for both customer satisfaction and employee engagement. Awards were also subject to an underpin based on an assessment of underlying financial and operational performance.

For the 2019 award, 75% of the award was equally weighted between free cash flow, EBIT margin and organic revenue growth, with the remaining 25% split equally between customer satisfaction and employee engagement, measured over a three-year period. Threshold vesting (25%) for each measure is dependent upon: free cash flow reaching £190m; EBIT margin exceeding 9%; organic revenue growth to £3,900m; 6 point positive swing in NPS for both customer satisfaction and employee engagement. Target vesting (50%) for each measure is dependent upon: free cash flow reaching £210m; EBIT margin exceeding 10%; organic revenue growth to £3,950m; 8 point positive swing in NPS for both customer satisfaction and employee engagement. Maximum vesting (100%) for each measure is dependent upon: free cash flow reaching £250m; EBIT margin of 12%; organic revenue growth to £4,050m; 12 point positive swing in net promoter score (NPS) for both customer satisfaction and employee engagement. Awards are also subject to an underpin based on an assessment of underlying financial and operational performance.

The 2020 award is split into three equal tranches that vest on the first, second and third anniversary of the grant date. The first tranche in 2020 was subject to a retention element which will vest in full on each annual vesting date, with the remaining 50% subject to a performance condition of headline net debt. Threshold vesting (25%) is dependent on headline net debt falling to £872m, target vesting (50%) is dependent on net debt falling to £822m and maximum vesting (100%) is dependent on net debt being below £772m. Tranches 2 and 3 are subject to the retention element only apart from the CEO's award which is subject to relative TSR and responsible business scorecard measures.

Section 5: Employee benefits continued

5.1 Share-based payment plans continued

Details of the LTIP awards made to executive directors over the same period are set out in the directors' remuneration report, on page 113.

All of the above awards are subject to a performance underpin – assessment of the underlying financial and operational performance of Capita over the performance period.

Capita Executive Plan 2021

The Capita Executive Plan was approved by shareholders at the 2021 AGM. Under this plan, restricted share awards (RSAs) are granted to executives.

With the exception of the executive directors, RSAs granted in 2021 are split into three equal tranches that may vest on the first, second and third anniversary of the grant date. The awards are not subject to a performance underpin.

Details of the Capita Executive Plan RSAs made to executive directors and the associated underpins are set out in the directors' remuneration report, on page 113.

	2021 £m	2020 £m
Outstanding at 1 January	48.5	38.0
Awarded during the year	15.8	16.2
Exercised	(9.8)	(0.3)
Forfeited	(8.1)	(5.4)
Outstanding at 31 December	46.4	48.5
Exercisable at 31 December	—	—

The weighted average remaining contractual life of the above shares outstanding at 31 December 2021 was 1.0 years (2020: 0.8 years).

All schemes

The fair value of the options granted/awarded during the year was £0.41 per share (2020: £0.33 per share). None of the existing option schemes have exercise prices.

The fair value for current share scheme issues is effectively the market price of a Capita share at the date of grant. Accordingly, no assumptions have been disclosed.

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

5.2 Pensions

AP Accounting policies

Defined contribution pension schemes

The Group maintains a number of defined contribution pension schemes and for these schemes the Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense in the consolidated income statement 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/loss recognised in the consolidated income statement during the period in which the settlement or curtailment occurs.

Remeasurements of the net defined benefit asset/liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income and will not be reclassified to the consolidated income statement. The Group generally determines the net interest expense/income on the net defined benefit asset/liability for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the then net defined benefit asset/liability, taking into account any changes in the net defined benefit asset/liability during the year as a result of contributions and benefit payments. However, due consideration is made to events which require the net interest expense/income on the net defined benefit asset/liability to be remeasured over the course of the year.

Current and past service costs are charged to operating profit while the net interest cost is included within net finance costs.

In respect of one of the defined benefit pension schemes in which the Group participates, the Group accounts for its legal and constructive obligation only over the fixed period of its participation in that scheme.

The net asset/(liability) in the consolidated balance sheet with respect to the defined benefit pension schemes comprises the total for each scheme, or group of schemes, of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. The policy to determine fair value of plan assets is detailed 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

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 current employees, price inflation and the discount rate used to calculate the net present value of the future pension payments. The Group uses estimates for all of these factors in determining the pension costs and liabilities incorporated in the consolidated financial statements. The assumptions reflect historical experience and judgement regarding future expectations.

The Group continued to set RPI inflation in accordance with the market break-even expectations less an inflation risk premium. The inflation risk premium has remained at 0.25% pa. For CPI, the Group reduced the assumed difference between the RPI and CPI by 0.1% pa to an average of 0.65% pa. The estimated impact of the change in the methodology is approximately a £5m increase in the defined benefit obligation in respect of the CPLAS scheme.

The impact of Covid-19 on the effects of future life expectancy continues to be uncertain. The pandemic is likely to have an impact on the setting of appropriate life expectancy assumptions and models for future improvements will need to consider whether the experience in 2020 is a one-off, and if the pandemic will influence future mortality in other ways. For example, the pressure on health services may mean that progress against other causes of death such as cancer is slower than previously expected, meaning an assumption of a lower rate of mortality improvements might be appropriate. Alternatively, the surviving population may be in better health than those dying from Covid-19, meaning that it might be expected that the remaining members live slightly longer. It is still too early to draw conclusions as to what impact Covid-19 might have on future life expectancy and while a new model for future life expectancy has been adopted, with the principles underlying the setting of the assumptions remaining unchanged, no allowance has been made for actual mortality experience experienced in 2020.

Pension expense included in the consolidated income statement

	2021 £m	2020 £m
Defined contribution scheme	107.8	109.0
Defined benefit schemes		
Current service cost	6.3	6.2
Administration costs	3.5	3.7
Past service cost	(0.2)	0.1
Effect of settlements	(0.7)	3.1
Interest cost	1.5	3.2
Total defined benefit schemes	10.4	16.3
Total charged to profit before tax in the consolidated income statement	118.2	125.3

At 31 December 2021, retirement obligations were disclosed in relation to 10 (2020: 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 (with around 270 members continuing to accrue benefits – out of a total membership of around 16,650 members). Details of the CPLAS and other schemes net surplus/ (deficit) position are given at the bottom of the table below which shows the movements from the opening to the closing balance of the net defined benefit asset/(liability). Events have occurred in the CPLAS that has led to its income statement being remeasured during the year.

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 accordance with their Statement of Investment Principles, which is regularly reviewed. During 2021, the Trustee Board delegated investment strategy decisions to a fiduciary manager, however, the Trustee Board maintained overall oversight of the investment strategy.

A full actuarial valuation of the scheme is carried out every three years by an independent actuary for the Trustee Board, with the last full actuarial valuation carried out at 31 March 2020. 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 2020 actuarial valuation showed a funding deficit of £182.2m (31 March 2017: £185.0m). This equates to a funding level of 89.0% (31 March 2017: 86%).

Section 5: Employee benefits continued

5.2 Pensions continued

As a result of the funding valuation, the Group and the Trustee Board agreed the following plan to eliminate the deficit, effective from 1 July 2021:

	2021	2022 ²	2023
Deficit contribution ¹	£59.0m	£30.0m	£30.0m

1. The agreed contributions make allowance for additional contributions, totalling c£113.6m, paid by the Group between 1 April 2020 and 30 June 2021 to meet its obligations under the previous agreement dated 23 November 2018, to unwind CPLAS's interest in the Partnership (see below), and in respect of a section 75 debt.

2. In addition, in 2022, the £5.0m held in escrow at 31 December 2021 will be released to CPLAS.

In addition to the above, the Group has agreed to make additional, non-statutory, contributions of £15m each year in 2024, 2025 and 2026 to meet a secondary funding target. The aim of which is to target, by 2026, the position of having sufficient assets to invest in a portfolio of low risk assets that will generate income to pay members' benefits as they fall due.

The next full actuarial valuation is due to be carried out with an effective date of 31 March 2023 and as part of that valuation the contribution requirements will be reviewed, and if necessary, amended. For the purpose of these accounts, an independent qualified actuary projected the results of the 31 March 2020 actuarial valuation to 31 December 2021 taking account of the relevant accounting requirements.

Approximate funding updates are produced at each scheme anniversary when a full actuarial valuation is not being undertaken. The most recent of these, at 31 March 2021, showed a funding level of 97%.

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 entitled it to an annual distribution of £8.0m for 15 years from inception.

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 as at 31 December 2020 (shown as the start year position in these accounts) does not reflect the CPLAS's interest in the Partnership. Accordingly, any 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.

At 31 December 2020, the CPLAS's interest in the Partnership ceased and in return the CPLAS received a special contribution of £50.1m in February 2021.

The Group expects to contribute around £40m to the CPLAS during 2022.

Other defined benefit schemes

The total employer contributions to the 'Other' schemes during 2022 are estimated to be £2m.

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. On 2 February 2022 the scheme confirmed that, in accordance with their funding strategy statement, a cessation valuation as at 16 January 2020 had been carried out and an exit credit payment of £192,587 is due from the scheme to the Group. The Group previously expected that an exit deficit amount would be payable by the Group to the scheme, and for which the Group was carrying a sufficient level of provision in the consolidated financial statements. The difference between the Group's previous expectation (a payment to the scheme of up to £0.6m) and the actual amount receivable by the Group has been treated as a settlement item – a gain of £0.75m. After payment is made, which is expected to be during 2022, no further amounts will be due to the Group and the scheme's assessed liability to the Group will be settled.

Allocated section of a Local Government Pension Scheme

For the allocated section of a Local Government Pension Scheme, under which benefits continued to accrue until the last contributing member ceased to be an active member on 25 July 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. An exit debt was triggered on 25 July 2020 (when the last contributing member ceased to be an active member), and this was calculated by the Scheme Actuary to be £4.3m. This amount and all outstanding expenses were paid by the Group during the year which settled the Group's liability to the allocated section of a Local Government Pension Scheme.

Other UK schemes

- Three segregated sections in an industry-wide scheme where benefits continued to accrue for only one of these sections over the financial year. 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 2020) resulted in the Group requiring to pay deficit contributions of initially £0.4m pa (which increase each year by 5.5% pa) until 2028. If the Group were to cease to be a participating employer in this scheme there would be an exit debt payable. At 30 September 2020, this was estimated at £11.1m.

Overseas defined benefit schemes

The Group is responsible for an Irish defined benefit scheme which is classed as a cross-border scheme where the beneficiaries of the scheme have their liabilities, and the trustees hold assets, denominated in euro. The scheme is governed under UK regulations and subject to further requirements applying to cross-border schemes. There are two segregated sections in the scheme. The latest full actuarial valuation (at 31 March 2021) showed a funding surplus for both the main section and the other section, and consequently, no deficit contributions are required for either section. There are no members left accruing benefits.

The Group is also responsible for two Swiss schemes that provide defined contribution benefits but with certain guarantees (and are therefore reported as defined benefit schemes under IAS 19). They are administered and governed through collective foundations which are separate legal entities. Benefits are continuing to accrue in these schemes.

Section 5: Employee benefits continued

5.2 Pensions continued

Additional defined benefit schemes

There are a further 48 (2020: 47) defined benefit pension arrangements in which various Capita businesses participated during 2021. Of these arrangements, 41 (2020: 41) 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 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 £12.5m of employer contributions were paid to these 48 schemes during 2021.

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 in the Group's consolidated balance sheet.

Risks associated with the Group's pension schemes

The defined benefit pension schemes expose the Group to various risks, with the key risks set out below:

Investment risk: the schemes invest in a wide range of assets with a view to provide long-term investment returns at particular levels. There is a risk that investment returns are lower than expected which, in isolation, could result in a worsening of the funding position of the schemes.

Interest rate risk: the IAS 19 discount rate is derived based on the yields available on good quality corporate bonds of suitable duration. If these yields decrease then, in isolation, this would increase the value placed on the IAS 19 obligation and result in a worsening of the funding position of the schemes.

Inflation risk: the liabilities of the schemes are linked to future levels of inflation. If future inflation is higher than expected then this would result in the cost of providing the benefits increasing and thereby worsening the funding position of the schemes.

Longevity risk: if members live longer than expected, then pensions will be paid for a longer time which will increase the value placed on the liabilities and therefore worsen the funding position of the schemes.

To manage these risks, the Group and the trustees carry out regular assessments of them. 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 2021 of £67.8m (2020: £73.6m).
- The CPLAS Trustee Board has entered into a Liability Driven Investment programme. The level of risk that is managed by this programme is set by various market-related and funding trigger points.

Together, these actions have led to the Trustee Board hedging (interest rate and inflation) a high proportion of the CPLAS's liabilities. As at 31 December 2021 around 80% of CPLAS's liabilities measured on the Trustee Board's long-term funding basis was hedged. The target is to hedge 100% of the funded liabilities (ie the level of liabilities covered by the assets) on this basis, and as such the level of hedging is expected to be increased to around 90% in 2022 (reflecting the current funding level on this long-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 2021, the yields available on long dated corporate bonds have increased broadly in line with long dated gilt yields. This means that the hedge has broadly had the same impact on the funding position of the scheme and the accounting disclosures.

To illustrate how sensitive the value of the defined benefit obligations are to different market conditions, the table below shows what resulting defined benefit obligation would be (before any effect of the asset ceiling limit) if the assumptions were changed as shown (assuming all other assumptions remain constant):

Change in assumptions compared with 31 December 2021 actuarial assumptions	Group Total £m
Base defined benefit obligation	1,789.2
0.1% pa decrease in discount rate	1,824.6
0.1% pa increase in salary increases	1,789.8
0.1% pa increase in inflation (and related assumption, eg salary and pension increases)	1,807.9
1 year increase in life expectancy	1,860.1

Section 5: Employee benefits continued

5.2 Pensions continued

Assets and liabilities

Under IAS 19, plan assets must be valued at their fair value on 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 because their values are not directly observable. The assumptions used in valuing unquoted investments are affected by current market conditions which could result in changes in fair value after the measurement date.

For the main asset categories:

- Equities listed on recognised stock exchanges are valued at closing bid prices.
- Bonds are measured using a combination of broker quotes and pricing models making assumptions for credit and market risks and market yield curves.
- Properties are valued on the basis of an open market value or are valued using models based on discounted cash flow techniques.
- Assets in investment funds are valued at fair value which is typically the net asset value provided by the investment manager.
- Certain unlisted investments are valued using a model based valuation such as discounted cash flow.
- The value of bulk annuity contracts has been assessed by discounting the projected cash flows payable under the contracts (projected by an actuary, consistent with the terms of the contract) and is equal to the corresponding liability calculated by reference to the IAS 19 assumptions.

The assets and liabilities of all of the defined benefit pension schemes (excluding additional voluntary contributions) at 31 December are:

	2021			2020		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Scheme assets at fair value:						
Equities:						
– UK	1.0	3.1	4.1	1.1	23.2	24.3
– Overseas	7.0	76.5	83.5	4.6	189.8	194.4
– Private	0.5	—	0.5	—	—	—
	8.5	79.6	88.1	5.7	213.0	218.7
Debt securities:						
– UK Government	789.1	0.2	789.3	760.3	0.2	760.5
– UK Corporate	1.1	7.6	8.7	1.2	7.5	8.7
– Overseas Government	2.6	53.4	56.0	2.4	52.9	55.3
– Overseas Corporate	1.2	67.8	69.0	68.8	135.4	204.2
– Emerging Markets	1.4	—	1.4	0.6	31.5	32.1
– Private Debt	—	129.5	129.5	—	71.3	71.3
– Secured Loans	0.1	—	0.1	—	—	—
	795.5	258.5	1,054.0	833.3	298.8	1,132.1
Property	2.8	97.5	100.3	4.2	89.6	93.8
Infrastructure	1.5	—	1.5	0.9	—	0.9
Credit Funds	3.2	160.1	163.3	5.3	—	5.3
Hedge Funds	—	54.1	54.1	16.5	131.0	147.5
Absolute Return Funds	0.8	—	0.8	0.7	—	0.7
Diversified growth funds	—	79.5	79.5	3.9	—	3.9
Insurance Contracts	—	86.8	86.8	—	91.9	91.9
Cash	148.1	11.2	159.3	(70.8)	5.0	(65.8)
Other	1.2	8.4	9.6	—	1.2	1.2
	157.6	497.6	655.2	(39.3)	318.7	279.4
Total	961.6	835.7	1,797.3	799.7	830.5	1,630.2
Present value of scheme liabilities (before effect of asset ceiling limit)			(1,789.2)			(1,882.3)
Net surplus/(liability) (before effect of asset ceiling limit)			8.1			(252.1)
Effect of asset ceiling limit			(2.3)			—
Present value of scheme liabilities (after effect of asset ceiling limit)			(1,791.5)			(1,882.3)
Net surplus/(liability) (after effect of asset ceiling limit)			5.8			(252.1)

* Some investments are in funds which are in themselves not traded in active markets

Section 5: Employee benefits continued

5.2 Pensions continued

The Trustee of CPLAS invests in Liability Driven Investments (LDIs) as part of a risk hedging strategy. The aim of the strategy is to match the value of the assets to the movement in liabilities arising from changes in market expectations of future inflation rates and future gilt yields. In order to achieve this, LDIs invest in a variety of instruments including gilts, synthetic gilts (combination of repurchase agreement, reverse repurchase agreements and total return swaps) and cash. In the table above, the LDI as at 31 December 2021 (approximately £785m) has been mapped as 98.4% Quoted UK government bonds, 1.5% Quoted Cash and 0.1% Quoted Other. In prior years, the Trustee used the product to gain exposure to the equity markets, through the use of a synthetic equity overlay (combination of equity options and total return swaps); however, the Trustee closed out their positions in Q4 2021 and gained exposure to equity markets in a more conventional way via a unitised portfolio. In the above mapping, Cash historically included CPLAS's cash obligations under the equity total return swap (which resulted in a large negative number) with the corresponding benefit included as Equities.

These amounts do not include any directly owned financial instruments issued by the Group.

Within the Private Debt allocation, approximately £66m relates to lagged valuations as at 30 September 2021. Allowance has been made for distributions only over the period to 31 December 2021.

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 IFRIC 14 would increase the deficits shown at this balance sheet date for one scheme only, which is reflected in the balance sheet position. For CPLAS and the other schemes, IFRIC 14 would not limit the surplus or increase the deficits shown at the balance sheet date.

Reconciliation of retirement benefits

Explanation of constituents of the consolidated income statement.

The cost of providing the pension scheme during the year is broken down as follows, with due consideration being made for events which require the income statement to be re-measured over the course of the year:

- Service cost is the cost to the Group of future benefits earned by contributing members over the current financial period.
- Past service cost represents the change in the present value of scheme liabilities in the current period in relation to prior years' service.
- Administration costs are those entailed by the pension schemes over the current period.
- Interest expense/(income) is made up of the interest on pension liabilities and assets over the current period generally based on the discount rate adopted at the start of the period. An allowance for interest on the asset ceiling is recognised where applicable £nil as at 31 December 2021 (£nil as at 31 December 2020).

Section 5: Employee benefits continued

5.2 Pensions continued

All schemes are partly or wholly funded, and the following table shows the components of the movements from the opening to the closing balances for the net defined benefit obligation:

	Defined benefit obligation		Fair value of plan assets		Group total Net defined obligation	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
At 1 January	(1,882.3)	(1,697.0)	1,630.2	1,444.5	(252.1)	(252.5)
Included in the consolidated income statement:						
Current service cost	(6.3)	(6.2)	—	—	(6.3)	(6.2)
Administration costs	(3.5)	(3.7)	—	—	(3.5)	(3.7)
Past service cost	0.2	(0.1)	—	—	0.2	(0.1)
Effect of settlements	5.5	15.3	(4.8)	(18.4)	0.7	(3.1)
Interest expense/(income)	(27.5)	(30.1)	26.0	26.9	(1.5)	(3.2)
Sub-total in consolidated income statement	(31.6)	(24.8)	21.2	8.5	(10.4)	(16.3)
Included in other comprehensive income:						
Actuarial loss/(gain) arising from:						
– demographic assumptions	(10.7)	12.9	—	—	(10.7)	12.9
– financial assumptions	129.2	(256.3)	—	—	129.2	(256.3)
– experience adjustments	(41.6)	40.3	—	—	(41.6)	40.3
– changes in asset ceiling/minimum liability	(2.3)	—	—	—	(2.3)	—
Return on plan assets excluding interest	—	—	34.8	171.0	34.8	171.0
Sub-total in other comprehensive income	74.6	(203.1)	34.8	171.0	109.4	(32.1)
Employer contributions ¹	—	—	158.9	49.0	158.9	49.0
Contributions by employees	(1.6)	(1.4)	1.6	1.4	—	—
Benefits paid	48.8	45.6	(48.8)	(45.6)	—	—
Exchange movement - recognised in other comprehensive income	0.6	(1.6)	(0.6)	1.4	—	(0.2)
At 31 December	(1,791.5)	(1,882.3)	1,797.3	1,630.2	5.8	(252.1)
Schemes in a net surplus						
CPLAS	(1,725.3)	—	1,732.5	—	7.2	—
Other schemes	(23.8)	(25.3)	29.9	28.4	6.1	3.1
	(1,749.1)	(25.3)	1,762.4	28.4	13.3	3.1
Schemes in a net deficit						
CPLAS	—	(1,810.6)	—	1,568.8	—	(241.8)
Other schemes	(42.4)	(46.4)	34.9	33.0	(7.5)	(13.4)
	(42.4)	(1,857.0)	34.9	1,601.8	(7.5)	(255.2)
At 31 December	(1,791.5)	(1,882.3)	1,797.3	1,630.2	5.8	(252.1)

1. 2021 employer contributions excludes £5.0m held in escrow at 31 December 2021 which will be released to the scheme in 2022

Of the total pension cost of £10.4m (2020: £16.3m), £5.4m (2020: £9.4m) was included in cost of sales, £3.5m (2020: £3.7m) was included in administrative expenses, and £1.5m in finance costs (2020: £3.2m).

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)
	2021	2021	2020	2020
Active members	5	21.4	5	22.4
Deferred members	63	22.8	64	24.2
Pensioners	32	13.0	31	13.7
Total percentage / average duration	100	19.6	100	20.9

Section 5: Employee benefits continued

5.2 Pensions continued

Financial and demographic assumptions

	All schemes	
	2021 %	2020 %
Main assumptions¹:		
Rate of price inflation – RPI	3.30	2.90
Rate of price inflation – CPI	2.65	2.15
Rate of salary increase	3.30	2.90
Rate of increase of pensions in payment ² :		
– RPI inflation capped at 5% per annum	3.20	2.85
– RPI inflation capped at 2.5% per annum	2.20	2.10
– CPI inflation capped at 5% per annum	2.65	2.20
Discount rate	1.90	1.30
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 1.25% per annum and for the Swiss schemes it is 0.35% per annum in 2021.

2. There are other levels of pension increase which apply to particular periods of membership.

The average future life expectancy from age 65 (in years) for mortality tables used to determine scheme liabilities for the various different schemes at 31 December 2021 and 31 December 2020 are as follows:

	Member currently aged 65 (current life expectancy)				Member currently aged 45 (life expectancy at 65)			
	Male		Female		Male		Female	
	2021	2020	2021	2020	2021	2020	2021	2020
Capita Scheme ¹	22.5	22.5	24.4	24.3	22.4	22.4	25.3	25.3
Other Schemes ²	21.6 to 22.6	21.5 to 22.8	23.5 to 24.4	23.3 to 24.9	22.4 to 24.9	22.4 to 24.6	25.1 to 26.4	24.5 to 26.6

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 or the allocated section of a Local Government Pension Scheme.

5.3 Employee benefit expense

AP Accounting policies

Government grants

Government grants are not recognised until there is a reasonable assurance that they Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in the consolidated income statement on a systematic basis over the periods in which the Group recognises, as expenses, the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in the consolidated income statement in the period in which they become receivable.

	Notes	2021 £m	2020 £m
Wages and salaries		1,493.3	1,511.7
Social security costs		155.9	154.6
Pension costs ¹	5.2	116.7	122.1
Share-based payments	5.1	1.2	6.4
		1,767.1	1,794.8

1. Pension costs include contributions from employees amounting to £47.6m (2020: £47.9m).

During 2021 and 2020, the Group furloughed employees unable to work as a result of the Covid-19 pandemic, and applied to the Coronavirus Job Retention Scheme (CJRS) operated by the UK Government. Amounts received under CJRS are treated as a government grant and deducted from the relevant cost in the consolidated income statement. During the year, the Group claimed £4.9m (2020: £21.3m) under CJRS. These amounts are included within the relevant cost headings in the table above.

The aggregate amount of directors' remuneration (salary, bonus and benefits) is shown on page 109 of the directors' remuneration report.

- The aggregate amount of gains made by directors on exercise of share options was £— (2020: £49,569) (refer to note 6.1).
- The remuneration of the highest paid director was £1,237,918 (2020: £1,112,325).
- Payments have been made to a defined contribution pension scheme on behalf of four directors (2020: four directors). For the highest paid director, pension contributions of £36,250 (2020: £36,250) were made.

The average number of employees during the year was made up as follows:	2021 Number	2020 Number
Sales	766	1,661
Administration	3,259	3,962
Operations	49,305	52,702
	53,330	58,325

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:

- 6.1 Related-party transactions
- 6.2 Contingent liabilities
- 6.3 Post balance sheet events

AP Denotes accounting policies

6.1 Related-party transactions

Compensation of key management personnel

	2021 £m	2020 £m
Short-term employment benefits	12.7	6.9
Pension	—	—
Share-based payments	0.3	3.5
	13.0	10.4

Gains on share options exercised in the year by Capita plc executive directors were £nil (2020: £49,569) and by key management personnel £1,132,231 (2020: £38,050), totalling £1,132,231 (2020: £87,619).

During the year, the Group rendered administrative services to Smart DCC Limited (DCC), a wholly-owned subsidiary which is not consolidated (refer to note 4.7). The Group received £90.1m (2020: £113.1m) of revenue for these services. The services are procured by DCC on an arm's length basis under the DCC licence. The services are subject to review by Ofgem to ensure that all costs are economically and efficiently incurred by DCC.

Capita Pension and Life Assurance Scheme is a related party of the Group. Transactions with the Scheme are disclosed in note 5.2

6.2 Contingent liabilities

Contingent liabilities represent potential future cash outflows which are either not probable or cannot be measured reliably.

The Group has provided, through the normal course of its business, performance bonds and bank guarantees of £28.7m (2020: £55.8m).

The Group is in discussions with a number of its closed book Life & Pensions 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.

The Group's entities are parties to legal actions and claims which arise in the normal course of business. The Group needs to apply judgement in determining the merit of litigation against it and the chances of a claim successfully being made. It needs to determine the likelihood of an outflow of economic benefits occurring and whether there is a need to disclose a contingent liability or whether a provision might be required due to the probability assessment.

At any time there are a number of claims or notifications that need to be assessed across the Group. The disparate nature of the Group's entities heightens the risk that not all potential claims are known at any point in time.

6.3 Post balance sheet events

The following events occurred after 31 December 2021, and before the approval of these consolidated financial statements, but have not resulted in adjustment to the 2021 financial results:

Disposal of AMT Sybex

The disposal of the AMT Sybex software business to Jonas Computing (UK) Limited completed on 1 January 2022.

Cash proceeds of £23.0m were received on completion, which included the settlement of intercompany balances owed by AMT Sybex to the Group of £12.8m. Following an impairment of assets in 2021 based on the expected fair value less cost of disposal of the business, net assets of £17.7m were disposed of on completion. Total costs of disposal are estimated to be £3.4m, of which £1.7m were recognised at 31 December 2021.

Potential additional consideration of up to £17m is payable to Capita over 24 months, subject to certain conditions.

Disposal of Secure Solutions and Services (SSS)

The disposal of the SSS business to NEC Software Solutions UK completed on 3 January 2022.

Cash proceeds of £72.0m were received on completion, which included the settlement of intercompany balances owed by SSS to the Group of £41.8m. Net liabilities of £0.3m were disposed of, and total disposal costs are estimated to be £4.2m (of which £2.9m were recognised at 31 December 2021). Consequently, we expect to record a total gain on disposal of approximately £26.3m.

Disposal of Trustmarque

The disposal of the Trustmarque business to One Equity Partners was announced on 28 January 2022 for £111m on a cash free, debt free basis, and the Group expects to receive net proceeds of c.£115m at completion. Additional consideration of c.£3m is payable to Capita contingent on certain future events. The sale is subject to certain consents.

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
- 7.2 Company statement of changes in equity
- 7.3 Notes to the Company financial statements

AP Denotes accounting policies

J Denotes significant accounting judgements, estimates and assumptions

7.1 Company balance sheet

	Notes	2021 £m	2020 £m
Non-current assets			
Intangible assets	7.3.2	26.8	89.1
Tangible assets	7.3.3	13.2	14.7
Investments	7.3.4	947.3	683.3
Financial assets	7.3.5	22.0	35.4
Deferred tax assets	7.3.6	12.7	10.0
Trade and other receivables	7.3.7	0.1	1.8
		1,022.1	834.3
Current assets			
Financial assets	7.3.5	10.9	28.3
Amounts owed by subsidiary undertakings		2,619.8	2,946.9
Trade and other receivables	7.3.7	13.1	8.6
Income tax receivable		59.3	64.1
Cash		—	1.6
		2,703.1	3,049.5
Total assets		3,725.2	3,883.8
Current liabilities			
Amounts owed to subsidiary undertakings		2,086.8	2,003.9
Trade and other payables	7.3.8	7.9	13.6
Accruals and deferred income		41.7	11.6
Overdrafts		31.0	131.9
Borrowings	7.3.10	196.2	—
Financial liabilities	7.3.5	5.2	3.4
Provisions	7.3.9	8.2	17.3
		2,377.0	2,181.7
Non-current liabilities			
Trade and other payables	7.3.8	0.3	0.3
Borrowings	7.3.10	51.7	214.8
Financial liabilities	7.3.5	3.6	4.1
		55.6	219.2
Total liabilities		2,432.6	2,400.9
Net assets		1,292.6	1,482.9
Capital and reserves			
Issued share capital	7.3.11	34.8	34.5
Employee benefit trust and treasury shares	7.3.11	(8.0)	(11.2)
Share premium	7.3.11	1,145.5	1,143.3
Capital redemption reserve		1.8	1.8
Merger reserve		44.6	44.6
Cash flow hedging reserve		(0.7)	(4.6)
Retained earnings		74.6	274.5
Total equity		1,292.6	1,482.9

The Company's loss after taxation was £198.0m (2020: £113.9m loss).

The accompanying notes form part of the financial statements.

The accounts were approved by the Board of directors on 9 March 2022 and signed on its behalf by:

Jon Lewis
Chief Executive Officer

Tim Weller
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 2020	34.5	(11.2)	1,143.3	1.8	44.6	—	382.0	1,595.0
Loss for the year	—	—	—	—	—	—	(113.9)	(113.9)
Other comprehensive expense	—	—	—	—	—	(4.6)	—	(4.6)
Total comprehensive expense for the year	—	—	—	—	—	(4.6)	(113.9)	(118.5)
Share-based payment	—	—	—	—	—	—	6.4	6.4
At 1 January 2021	34.5	(11.2)	1,143.3	1.8	44.6	(4.6)	274.5	1,482.9
Loss for the year	—	—	—	—	—	—	(198.0)	(198.0)
Other comprehensive expense	—	—	—	—	—	3.9	—	3.9
Total comprehensive expense for the year	—	—	—	—	—	3.9	(198.0)	(194.1)
Shares issued	0.3	(0.3)	—	—	—	—	—	—
VAT refund on rights issue issuance costs	—	—	2.2	—	—	—	—	2.2
Exercise of share options under employee long term incentive plans	—	3.5	—	—	—	—	(3.5)	—
Share-based payment net of tax effects	—	—	—	—	—	—	1.6	1.6
At 31 December 2021	34.8	(8.0)	1,145.5	1.8	44.6	(0.7)	74.6	1,292.6

1. The directors did not declare a dividend in 2021 or 2020.

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.

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 no entitlement to a dividend.

Share premium – The amount paid to the Company by shareholders, in cash or other consideration, over and above the nominal value of shares issued to them less issuance costs.

Capital redemption reserve – The Company can redeem shares by repaying the market value to 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.

Merger reserve – The merger reserve arose from the adoption of the exemption under section 131 of the Companies Act not to set up a share premium account in respect shares issued for the acquisition of entities. The amounts attributed to the shares issued for these acquisitions that exceeded their nominal value was transferred to the merger reserve.

Cash flow hedging reserves – This reserve records the portion of the gain or loss on a hedging instrument in a cash flow that is determined to be an effective hedge.

Retained earnings – Net (losses)/profits accumulated in the Company after dividends are paid.

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

AP Accounting policies

Basis of preparation

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 (Adopted IFRSs), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The financial statements have been prepared in accordance with Financial Reporting Standard 101 – Reduced Disclosure Framework (FRS 101) as issued by the Financial Reporting Council. The Company has not presented its own 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.

J Significant accounting judgements, estimates and assumptions

(a) Investments in subsidiaries

The Company has investments in subsidiaries which are shown at cost, less provisions for impairment. Investments in subsidiaries are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

The Company determines whether investments in subsidiaries are impaired based on impairment indicators. If an indicator is identified, an impairment test is performed. This involves estimation of the enterprise value of the investee which is determined based on the greater of discounted future cash flows at a suitable discount rate or through the recoverable value of the investments held by the investee company.

(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). The Company has a current employee who continues to accrue benefits in 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 to participating entities, the net defined benefit cost is recognised fully by the principal employer, which is Capita Business Services Limited. 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 Board, with the last full actuarial valuation carried out as at 31 March 2020. The purpose of that valuation is to design a funding plan to ensure that the Capita DB Scheme has sufficient assets available to meet future benefit payments, based on assumptions agreed between the Trustee Board and Capita Business Services Limited. The 31 March 2020 actuarial valuation showed a funding deficit of £182.2m (31 March 2017: £185.0m). This equates to a funding level of 89.0% (31 March 2017: 86%). As a result of the funding valuation, Capita Business Services Limited and the Trustee Board agreed a funding plan to eliminate the deficit - Capita Business Services Limited has agreed to pay additional contributions totalling £124m between July 2021 and December 2023.

In addition to the above, the principal employer has agreed to make additional, non-statutory, contributions of £15m each year in 2024, 2025 and 2026 to meet a secondary funding target.

The next scheme funding assessment is expected to be carried out with an effective date of 31 March 2023.

Note 5.2 of the Group's consolidated financial statements sets out more detail.

Section 7: Company financial statements continued

7.3.1 Accounting policies continued

(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) Amounts owed by/to subsidiary undertakings



Significant accounting judgements, estimates and assumptions

The amounts owed by and to subsidiary undertakings are repayable on demand along with any accrued interest. They are shown at cost plus accrued interest less any provision for impairment. Amounts owed by subsidiary undertakings are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Company determines whether amounts owed by subsidiary undertakings are impaired by considering if there is an indicator of increased credit risk. The key assumption considered is the probability of a subsidiary undertaking going into default at the balance sheet date.

The definition of default used by the Company is that the counter-party is in a net liability position. In this case credit risk at the balance sheet date is captured by the definition of default and the probability of default occurring in the next day (reflecting the contractual period of a demand loan). The policy is to assess the net asset/net liability position of each investment and then to conclude on the probability of default, and quantum of any impairment, by reference to the future discounted cash flows. With the contractual arrangements based on repayment on demand the future credit risk had a very limited impact on the calculation of expected credit losses at the balance sheet date.

The cash shortfalls arising when an amount owed by a subsidiary undertaking is in default are assessed by discounting the expected future cash flows at the original effective interest rate of the instrument. Where it is expected that the principal and all associated interest can be recovered at some point in the future, no material expected credit loss is recognised.

7.3.2 Intangible assets

	Capitalised software development £m	Other intangibles £m	Total £m
Cost			
At 1 January 2021	87.2	29.2	116.4
Additions	0.8	—	0.8
Retirement	(56.2)	(13.5)	(69.7)
At 31 December 2021	31.8	15.7	47.5
Amortisation			
At 1 January 2021	19.3	8.0	27.3
Charge for year	6.7	2.4	9.1
Impairment	41.4	12.6	54.0
Retirement	(56.2)	(13.5)	(69.7)
At 31 December 2021	11.2	9.5	20.7
Net book value:			
At 1 January 2021	67.9	21.2	89.1
At 31 December 2021	20.6	6.2	26.8

Other intangibles relates to software purchased from third parties.

At 31 December 2021, £53.5m was impaired in respect of areas of a new financial reporting system invested in as part of the finance transformation that are no longer expected to be used. Refer to the Chief Financial Officer's review in the Strategic report for details.

Section 7: Company financial statements continued

7.3.3 Tangible assets

	Computer equipment £m	Short-term leasehold improvements £m	Equipment right-of-use asset £m	Total £m
Cost				
At 1 January 2021	20.1	1.7	0.4	22.2
Additions	4.9	—	—	4.9
Intragroup transfer	(0.3)	(0.4)	—	(0.7)
Asset retirements	(2.5)	—	—	(2.5)
At 31 December 2021	22.2	1.3	0.4	23.9
Depreciation				
At 1 January 2021	7.0	0.3	0.2	7.5
Charge for year	4.9	0.2	—	5.1
Impairment	0.5	—	0.2	0.7
Intragroup transfer	(0.1)	—	—	(0.1)
Asset retirements	(2.5)	—	—	(2.5)
At 31 December 2021	9.8	0.5	0.4	10.7
Net book value:				
At 1 January 2021	13.1	1.4	0.2	14.7
At 31 December 2021	12.4	0.8	—	13.2

7.3.4 Investments

	Shares in subsidiary undertakings £m
Net book value	
At 1 January 2021	683.3
Additions ¹	264.8
Impairment ²	(0.8)
At 31 December 2021	947.3

1. During the year ended 31 December 2021, Capita plc invested £215.0m in Capita Holdings Limited and £49.8m in Capita Employee Benefits Holdings Limited.

2. During the year ended 31 December 2021, Capita plc impaired its investment in Capita Financial Services Holdings Limited by £0.8m.

Direct investments	Registered office	Proportion of nominal value of issued shares held by the Company
Capita Pension Solutions Limited (formerly known as Capita Employee Benefits Limited) ²	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita Legal Services Limited ¹	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita Employee Benefits Holdings Limited ¹	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita Financial Services Holdings Limited ¹	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita Group Insurance PCC Limited ³	Dorey Court, Admiral Park, St. Peter Port, Guernsey, GY1 4AT, Guernsey	100%
Capita Gwent Consultancy Limited ^{2,5}	1 More London Place, London, SE1 2AF	100%
Capita Holdings Limited ¹	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita International Limited ²	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita Life & Pensions Regulated Services Limited ²	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita International Retirement Benefit Scheme Trustees Limited ⁴	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita Ireland Limited ²	2nd Floor, Block 5, Irish Life Centre, Abbey Street Lower, Dublin 1, D01P767	100%
Capita Life & Pensions Services Limited ²	65 Gresham Street, London, England, EC2V 7NQ	100%
Capita Shared Services Limited ²	65 Gresham Street, London, England, EC2V 7NQ	100%

1. Investing holding company

2. Outsourcing services company.

3. Insurance captive.

4. Trustee company for the pension schemes.

5. In liquidation.

Section 7: Company financial statements continued

7.3.4 Investments continued

Certain subsidiaries of the Group have opted to take advantage of a statutory exemption from having an audit in respect of their individual statutory accounts. Strict criteria must be met for this exemption to be taken and 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 2021 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.

The Company considered whether there was an indicator of impairment in investments in subsidiaries at 31 December 2021, and due to the Company's market capitalisation being below the carrying value of the Company's net assets, concluded a trigger existed and performed an impairment test.

The impairment test

The cash flow projections used for the impairment test, are derived from the 2022-2024 business plans approved by the Board. The enterprise value is then calculated based on the present value of estimated future cash flows discounted at the current market rate of return.

The long-term growth rate is based on economic growth forecasts by recognised bodies and this has been applied to the forecast cash flows for the terminal period. The 2021 long-term growth rate is 1.7% (2020: 1.6%).

Discount rates

Management estimates discount rates using pre-tax rates that reflected the latest market assumptions for the risk-free rate, the equity risk premium and the cost of debt, which are all based on publicly available external sources. The discount rate used for all investments was 13.0% (2020: 10.9%).

Sensitivity analysis

The impairment testing as described is reliant on the accuracy of management's forecasts and the assumptions that underlie them; and on the selection of the discount and growth rates to be applied. To gauge the sensitivity of the result to a change in any one, or combination of the assumptions that underlie the model, a number of scenarios were developed to identify the range of reasonably possible alternatives and measure which investments are the most susceptible to an impairment should the assumptions used be varied. This sensitivity analysis is only applicable to those investments which have not already been fully impaired.

The table below shows the additional impairment required (with all other variables being equal) by: an increase in discount rate of 1%; or a decrease in the long-term growth rate of 1% (for the terminal period) for each of the investments; or by the severe but plausible downsides applied to the base-case projections for assessing going concern and viability, without mitigations; and from all of the scenarios together. The table below excludes those investments which have been fully impaired previously or are held at nominal value.

	1% increase in discount rate £m	1% decrease in long-term growth rate £m	Severe but plausible downside £m	Combination sensitivity £m
Capita Pension Solutions Limited (formerly known as Capita Employee Benefits Limited)	—	—	—	—
Capita Financial Services Holdings Limited	(0.6)	(0.5)	(1.0)	(1.8)
Capita Group Insurance PCC Limited	—	—	—	—
Capita Holdings Limited	—	—	—	—
Capita International Limited	—	—	—	—
Capita Life & Pensions Regulated Services Limited	—	—	—	—
Capita Employee Benefits Holdings Limited	—	—	—	—

At 31 December 2021, an impairment of £0.8m (2020: £0.5m) has arisen from the impairment test performed. Under the combination sensitivity scenario, additional impairments of £1.8m have been highlighted in relation to Capita Financial Services Holdings Limited.

Management continue to monitor closely the performance of all investments in subsidiaries and consider the impact of any changes to the key assumptions. Given the performance of certain subsidiaries has been affected by the continued recovery from Covid-19, there is a greater range of potential future outcomes. A number of these downsides would give rise to an impairment.

Section 7: Company financial statements continued

7.3.5 Financial instruments

	Financial assets 2021 £m	Financial liabilities 2021 £m	Financial assets 2020 £m	Financial liabilities 2020 £m
Cash flow hedges	0.9	1.8	0.1	2.8
Non-designated foreign exchange forwards and swaps	1.8	4.7	2.9	1.7
Lease liabilities	—	0.1	—	0.3
Interest rate swaps	—	—	0.5	—
Cross-currency interest rate swaps	30.2	2.2	60.2	2.7
	32.9	8.8	63.7	7.5
Analysed as:				
Current	10.9	5.2	28.3	3.4
Non-current	22.0	3.6	35.4	4.1
	32.9	8.8	63.7	7.5

7.3.6 Deferred tax

	2021 £m	2020 £m
Deferred tax included in the balance sheet is as follows:		
Accelerated capital allowances	5.4	4.4
Tax losses	1.0	5.5
Other short term timing differences ¹	6.3	0.1
	12.7	10.0

¹ This includes deferred interest in 2021 however it was shown as part of tax losses in 2020

7.3.7 Trade and other receivables

	Current		Non-current	
	2021 £m	2020 £m	2021 £m	2020 £m
Trade receivables	—	0.1	—	—
Other debtors	2.0	0.4	—	—
Other taxes and social security	1.4	2.0	—	—
Prepayments	9.7	6.1	0.1	1.8
	13.1	8.6	0.1	1.8

7.3.8 Trade and other payables

	Current		Non-current	
	2021 £m	2020 £m	2021 £m	2020 £m
Trade creditors	7.2	12.8	—	—
Other creditors	0.7	0.8	0.3	0.3
	7.9	13.6	0.3	0.3

7.3.9 Provisions

	2021 £m	2020 £m
At 1 January	17.3	15.2
Provisions provided for in the year	8.8	5.9
Provisions released in the year	(5.9)	(3.4)
Utilisation	(12.0)	(0.4)
At 31 December	8.2	17.3

The majority of the provisions relate to the claims and litigations provisions of £4.0m and onerous contract provisions of £2.3m. 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

	2021 £m	2020 £m
Private placement loan notes	201.9	214.8
Credit facilities ¹	46.0	—
	247.9	214.8

1. Credit facilities includes £40.0m drawing on the RCF.

Repayments fall due as follows:

Due within a year	196.2	—
In more than 1 years but not more than 5 years	—	161.2
In more than 5 years	51.7	53.6
Total borrowings	247.9	214.8

The Company issued guaranteed unsecured private placement loan notes as follows:

	Interest rate (%)	Denomination	EUR (m)	Maturity
Fixed rate bearer notes	2.875	EUR	163.0	10 November 2022
Fixed rate bearer notes	2.875	EUR	60.0	10 November 2027
Schuldschein loan	3.625	EUR	16.0	10 November 2022
Total of euro denominated private placement loan notes			239.0	

In June 2021, the company signed a £300m forward start revolving credit facility (RCF) with our lending banks for the twelve months to August 2023. The new facility will start upon the expiry of the current RCF in August 2022. The RCF was £40.0m drawn at 31 December 2021 out of a total committed value of £385.7m. Following the receipt of disposal receipts in early January, the drawing was repaid and the commitment reduced to £377.5m.

In March 2022 the Group executed with one of its relationship banks a committed backstop bridge facility. The facility provides £70m of additional liquidity and it incorporates provisions such that it will be cancelled or will partially reduce in quantum as a consequence of specified transactions, including on the completion of the announced disposal of Trustmarque. The committed facility has an expiry date of 31 August 2023 with an option for a further one year extension at the option of the lender. The facility is subject to covenants, which are the same as the RCF.

Finally, at 31 December 2020, £150m in similar committed bank backstop bridge facilities were in place. These were held at December 2020 were cancelled on 1 February 2021 on receipt of disposal proceeds.

Further detail on these facilities can be found in note 4.2 to the Group's consolidated financial statements.

7.3.11 Share capital

Disclosures about the share capital, share premium, 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 Contingent liabilities

The Company has provided, through the normal course of its business, performance bonds and bank guarantees of £28.7m (2020: £55.8m).

7.3.13 Related-party transactions

In the following, amounts 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 Entrust Support Services Limited for £0.8m (2020: £0.9m). The Company purchased goods/services in the normal course of business for £0.2m (2020: £0.1m). At the balance sheet date, the net amount receivable from Entrust Support Services Limited was £nil (2020: £nil).

In the period to 29 July 2021, the date the Group disposed of AXELOS Limited, the Company sold goods/services in the normal course of business to AXELOS Limited for £0.4m (to 31 December 2020: £0.9m). The Company purchased goods/services in the normal course of business for £0.2m (to 31 December 2020: £0.3m). At the balance sheet date, the net amount receivable from AXELOS Limited was £nil (2020: £nil).

During the year, the Company sold goods/services in the normal course of business to Capita Glamorgan Consultancy Limited for £0.1m (2020: £0.1m). The Company purchased goods/services in the normal course of business for £nil (2020: £nil). At the balance sheet date, the net amount receivable from Capita Glamorgan Consultancy Limited was £nil (2020: £nil).

During the year, the Company sold goods/services in the normal course of business to Fera Science Limited for £0.6m (2020: £0.3m). The Company purchased goods/services in the normal course of business for £0.1m (2020: £nil). At the balance sheet date, the net amount receivable from Fera Science Limited was £nil (2020: £0.1m).

Section 7: Company financial statements continued

7.3.14 Pension costs

The Company operates defined benefit and defined contribution schemes. The pension charge for these schemes for the year was £2.0m (2020: £1.8m).

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 2021 of £1.2m (2020: £6.4m), all of which arises from equity-settled share-based payment transactions. The total Company expense, after recharging subsidiary undertakings, charged to the income statement in respect of share-based payments was £0.6m (2020: £3.5m).

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 indicated, all shareholdings are owned indirectly by the company and represent 100% of the issued share capital of the subsidiary. Dormant companies are marked (D).

Company name	Share class	Company name	Share class
Agito Limited ⁵	£1.00 Ordinary	Capita Dubai Limited ⁵	£1.00 Ordinary
Akinika Debt Recovery Limited ¹¹	£1.00 Ordinary	Capita Employee Benefits (Consulting) Limited ⁵	£1.00 Ordinary
Akinika Limited ⁶	£1.00 Ordinary	Capita Employee Benefits Holdings Limited ^{5 *}	£1.00 Ordinary
Akinika UK Limited (in liquidation) ¹	£1.00 Ordinary	Capita Pension Solutions Limited ^{5 *}	£1.00 Ordinary
AMT Group Limited ³	€1.00 Ordinary	Capita Energie Services GmbH ²⁷	€1.00 Ordinary
AMT-Sybex (Software) Limited ³	€1.00 Ordinary	Capita ESS Holdings Limited ⁵	£1.00 Ordinary
AMT-Sybex Group Limited ³	€0.0012 Ordinary	Capita Financial Services Holdings Limited ^{5 *}	£1.00 Ordinary
AMT-Sybex Limited ³	£1.00 Ordinary	Capita Gas Registration and Ancillary Services Limited ⁵	£1.00 Ordinary
Artificial Labs Ltd ¹³ ●	£0.00 Ordinary A	Capita Glamorgan Consultancy Limited ^{5 ▼}	£0.01 Ordinary A
Barrachd Limited (in liquidation) ¹¹	£1.00 Ordinary	Capita GMPS Trustees Limited (D) ⁵	£1.00 Ordinary
BCS Design Ltd (in liquidation) ¹	£1.00 Ordinary	Capita Grosvenor Limited (D) ⁵	£1.00 Ordinary
Beovax Computer Services Limited (in liquidation) ¹	£1.00 Ordinary	Capita Group Insurance PCC Limited ^{18 *}	£1.00 CG1 £1.00 CIC2 £1.00 Ordinary
Booking Services International Limited ⁵	£1.00 Ordinary	Capita Group Limited (D) ⁵	£1.00 Ordinary
Brentside Communications Limited (D) ⁵	£1.00 Ordinary	Capita Group Secretary Limited (D) ⁵	£1.00 Ordinary
Brightwave Enterprises Limited ⁵	£1.00 Ordinary	Capita Gwent Consultancy Limited (in liquidation) ^{1 *} ▼	£0.01 Preference
Brightwave Holdings Limited ⁵	£1.00 Ordinary	Capita HCH Limited ⁵	£1.00 Ordinary
Brightwave Limited ⁵	£1.00 Ordinary	Capita Health and Wellbeing Limited ⁵	£1.00 Ordinary
BSI Group Limited ⁵	£1.00 Ordinary	Capita Health Holdings Limited ⁵	£1.00 Ordinary
Call Vision Technologies Ltd (in liquidation) ¹	£1.00 Ordinary	Capita Holdings Limited ^{5 *}	£1.00 Ordinary
Capita (02549055) Limited (in liquidation) ¹	£1.00 Ordinary	Capita IB Solutions (Ireland) Limited ³	€1.00 Ordinary
Capita (04472243) Limited (D) ⁵	£1.00 Ordinary	Capita IB Solutions Limited ⁵	£1.00 Ordinary
Capita (6588350) Limited (in liquidation) ¹	£1.00 Ordinary	Capita IB Solutions (HK) Limited ³⁰	HKD1.00 Ordinary A HKD1.00 Ordinary B
Capita (D1) Limited (in liquidation) ¹	£1.00 Ordinary	Capita India Private Limited ²⁹	INR10.00 Ordinary
Capita (Polska) Spółka z ograniczoną odpowiedzialnością ¹⁵	PLZ50.00 Ordinary	Capita Insurance Services Group Limited ⁵	£1.00 Ordinary
Capita (Real Estate & Infrastructure) Limited (D) ⁵	£1.00 Ordinary	Capita Insurance Services Holdings Limited ⁵	£1.00 Ordinary
Capita (South Africa) (Pty) Limited ¹⁰	ZAR1.00 Ordinary	Capita Insurance Services Limited ⁵	£1.00 Ordinary
Capita (USA) Holdings Inc. ⁹	US\$1.00 Ordinary	Capita International Limited ^{5 *}	£1.00 Ordinary
Capita Birmingham Limited ⁵	£1.00 Ordinary	Capita International Retirement Benefit Scheme Trustees Limited (D) ^{5 *}	£1.00 Ordinary
Capita Building Standards Limited (in liquidation) ¹	£1.00 Ordinary	Capita Ireland Limited ^{3 *}	€1.00 Ordinary
Capita Business Services Ltd ⁵	£1.00 Ordinary	Capita IT Services (BSF) Limited ⁵	£1.00 Ordinary
Capita Business Support Services Ireland Limited ³	€1.00 Ordinary	Capita IT Services Holdings Limited ⁵	£1.00 Ordinary
Capita Commercial Insurance Services Limited ⁵	£1.00 Ordinary	Capita IT and Consulting India Private Limited (in liquidation) ²⁴	INR10.00 Ordinary
Capita Corporate Director Limited (D) ⁵	£1.00 Ordinary	Capita IT Services Limited ²⁸	£1.00 Ordinary
Capita CTI (USA) LLC ⁹	US\$1.00 Ordinary	Capita Justice & Secure Services Holdings Limited ⁵	£1.00 Ordinary
Capita Customer Management Limited ⁵	£1.00 Ordinary	Capita Land Limited (D) ⁵	£1.00 Ordinary
Capita Customer Services (Germany) GmbH ²³	€1.00 Ordinary	Capita Learning Limited ⁵	£1.00 Ordinary
Capita Customer Services AG ²⁴	CHF1.00 Ordinary	Capita Legal Services Limited ^{5 *}	£1.00 Ordinary
Capita Customer Solutions (UK) Limited ⁵	£1.00 Ordinary	Capita Life & Pensions Regulated Services Limited ^{5 *}	£1.00 Ordinary
Capita Customer Solutions Limited ³⁸	€1.00 Ordinary	Capita Life & Pensions Services Limited ^{5 *}	£1.00 Ordinary
Capita Cyprus Holdings Limited ³⁶	£1.00 Ordinary	Capita Life and Pensions International Limited ⁵	£1.00 Ordinary

Section 7: Company financial statements continued

7.3.16 Related undertakings continued

Company name	Share class	Company name	Share class
Capita Life and Pensions Services (Isle of Man) Limited ^{1b}	£1.00 Ordinary	Complete Imaging Limited (in liquidation) ¹	£1.00 Ordinary
Capita Managed IT Solutions Limited ²²	£1.00 Ordinary	Computerland UK Limited ⁵	£1.00 Ordinary
Capita Managing Agency Limited ⁵	£1.00 Ordinary	Contact Associates Limited ⁵	£1.00 Ordinary
Capita McLaren Limited ⁴³	£1.00 Ordinary	CPLAS Trustees Limited (D) ⁵	£1.00 Ordinary
Capita Mortgage Administration Limited ⁵	£1.00 Ordinary	CS Clinical Solutions India Private Limited ²⁹	INR10.00 Ordinary
Capita Mortgage Software Solutions Limited ⁵	£1.00 Ordinary	Cymbio Limited ⁵	£1.00 Ordinary
Capita Norman + Dawbarn Limited (D) ²⁵ L	NGN1.00 Ordinary	Daisy Update Communications Limited ²⁶ ▲	£1.00 Ordinary B
Capita Offshore Services Private Limited (in liquidation) ²⁹	INR10.00 Ordinary	Debt Solutions (Holdings) Limited ⁶	£1.00 Ordinary
Capita Property and Infrastructure (Structures) Limited ⁵	£1.00 Ordinary	Dragonfly Technology Solutions Ltd ⁴ L	£0.001 Ordinary
Capita Property and Infrastructure Consultants LLC (in liquidation) ² *	AED1,000.00 Ordinary	DSTBTD LIMITED ³⁴ <	£0.001 Ordinary
Capita Property and Infrastructure Holdings Limited ⁵	£1.00 Ordinary	Duke 2021 Topco Limited ³⁴ >	£1.00 B Preferred £1.00 Ordinary B
Capita Property and Infrastructure International Holdings Limited (D) ⁵	£1.00 Ordinary	E.B. Consultants Limited (D) ⁵	£1.00 Ordinary
Capita Property and Infrastructure International Limited (D) ⁵	£1.00 Ordinary	Electra-Net (UK) Limited ⁵	£1.00 Ordinary
Capita Property and Infrastructure Limited ⁵	£1.00 Ordinary	Electra-Net Group Limited ⁵	£1.00 Ordinary
Capita Resourcing Limited ⁵	£1.00 Ordinary	Electra-Net Holdings Limited ⁵	£1.00 Ordinary
Capita Retail Financial Services Limited ⁵	£1.00 Ordinary	Emercom Ltd (in liquidation) ¹	£1.00 Ordinary
Capita Retain Limited ⁵	£1.00 Ordinary	Entrust Support Services Limited ³³ ▼	£1.00 Ordinary X
Capita Retain (USA) LLC ⁹	N/A	Equita Limited ⁷	£1.00 Ordinary
Capita Scotland (Pension) Limited Partnership ²⁹	N/A	Equitable Holdings Limited (D) ⁵	£1.00 Ordinary
Capita Scotland General Partner (Pension) Limited ²⁶	£1.00 Ordinary	Eureka Assessoria Empresarial Ltda (D) ¹² ◇	BRL1.00 Ordinary
Capita Secure Information Solutions Limited ⁵	£1.00 Ordinary	Euristix (Holdings) Limited (D) ⁵	£1.00 Ordinary
Capita Services (Isle of Man) Limited (in liquidation) ¹⁴	£1.00 Ordinary	Euristix Limited ⁵	£1.00 Ordinary
Capita Shared Services Limited ⁵ *	£1.00 Ordinary	Evolvi Rail Systems Limited ⁵	£1.00 Ordinary
Capita (SSS) Limited ⁵	£1.00 Ordinary	Expotel Hotel Reservations Limited (in liquidation) ¹	£1.00 Ordinary
Capita Software (US) LLC ³	N/A	Fera Science Limited ⁵ ■	£1.00 Ordinary B
Capita Southampton Limited ⁵	£1.00 Ordinary	Fire Service College Limited ⁵	£1.00 Ordinary
Capita Symonds (Asia) Limited (D) ³	£1.00 Ordinary	FirstAssist Services Limited ⁵	£1.00 Ordinary
Capita Symonds India Private Limited (in liquidation) ²⁹	INR10.00 Ordinary	Full Circle Contact Centre Services (Proprietary) Limited ¹⁶	ZAR0.01 Ordinary
Capita Symonds Saudi Arabia Limited (D) ⁴⁰	N/A	G L Hearn Limited ⁵	£1.00 Ordinary
Capita Translation and Interpreting Limited ⁵	£1.00 Ordinary	G L Hearn Management Limited ⁵	£1.00 Ordinary
Capita Travel & Events Holdings Limited ⁵	£1.00 Ordinary	Gissings Trustees Limited (D) ⁵	£1.00 Ordinary
Capita Workforce Management Limited ⁵	£1.00 Ordinary	Grosvenor Career Services Limited (D) ⁵	£1.00 Ordinary
Capita West GmbH ²⁵	€25,000.00 Ordinary	Health Analytics Ltd (in liquidation) ¹	£1.00 Ordinary
CAS Services US Inc ¹⁷	US\$1.00 Ordinary	International Travel Group Limited (in liquidation) ¹	£1.00 Ordinary
CCSD Services Limited (in liquidation) ¹	£1.00 Ordinary	Latemeetings.com Limited (in liquidation) ¹	£1.00 Ordinary
CHKS Limited ⁵	£1.00 Ordinary	Level Financial Technology Limited ³¹ ■	£1.00 Ordinary
Clinical Solutions Acquisition Limited ⁵	£1.00 Ordinary	Liberty Printers (Ar And Rf Reddin) Limited ⁵	£1.00 Ordinary
Clinical Solutions Finance Limited ⁵	£1.00 Ordinary	Market Mortgage Limited ⁵ ←	£0.001 Ordinary
Clinical Solutions Group (International) LLC (D) ¹⁷	N/A	Marrakech (U.K.) Limited ⁵	£1.00 Ordinary
Clinical Solutions Holdings Limited ⁵	£1.00 Ordinary	Marrakech Limited ³	€1.00 Ordinary
Clinical Solutions International Limited ⁵	£1.00 Ordinary	Medicals Direct International Limited (in liquidation) ¹	£1.00 Ordinary
Clinical Solutions IP Limited ⁵	£1.00 Ordinary	Metacharge Limited ⁵	£1.00 Ordinary
CMGL Group Limited (in liquidation) ¹	£1.00 Ordinary	NYS Corporate Ltd. (in liquidation) ¹	£1.00 Ordinary
CMGL Holdings Limited (in liquidation) ¹	£1.00 Ordinary	Octal Business Solutions Limited ⁵	£1.00 Ordinary

Section 7: Company financial statements continued

7.3.16 Related undertakings continued

Company name	Share class	Company name	Share class
Opin Systems Limited (in liquidation) ¹¹	£1.00 Ordinary	Tascor E & D Services Limited ⁵	£1.00 Ordinary
Optilead Inc. (in liquidation) ⁹	US\$0.001 Common Stock	Tascor Services Limited ⁵	£1.00 Ordinary
Optilead Limited (D) ⁵	£1.00 Ordinary	TELAG AG ²⁰	CHF1,000.00 Ordinary
Optima Legal Services Limited ²¹	£1.00 Ordinary	The Fisher Training Group Limited (in liquidation) ¹	£1.00 Ordinary
PageOne Communications Limited ⁵	£1.00 Ordinary	The G2G3 Group Ltd. ²⁸	£1.00 Ordinary
Pardus Holdings Limited ¹⁴ ~	£1.00 Ordinary	Thirty Three Group Limited (D) ⁵	£1.00 Ordinary
Pay360 Limited ⁵	£1.00 Ordinary	Thirty Three LLP ³	N/A
Pervasive Limited ⁵	£1.00 Ordinary	ThirtyThree APAC Limited ⁸	HKD1.00 Ordinary
Pervasive Networks Limited ⁵	£1.00 Ordinary	ThirtyThree USA Inc. ³	US\$1.00 Ordinary
Rathcush Limited (in liquidation) ¹⁹	€1.00 Ordinary	Trustmarque Solutions Limited ⁵	£1.00 Ordinary
RE (Regional Enterprise) Limited ⁵ ▼	£1.00 Ordinary A	Update Infrastructure (UK) Limited ⁵	£1.00 Ordinary
Retain International (Holdings) Limited (D) ⁵	£1.00 Ordinary	Update Infrastructure 2012 Limited (D) ⁵	£1.00 Ordinary
Retain International Limited (D) ⁵	£1.00 Ordinary	Urban Vision Partnership Limited ⁵ ~	£1.00 Ordinary B
Ross & Roberts Limited ⁷	£1.00 Ordinary	Ventura (India) Private Limited ³⁷	INR10.00 Ordinary
Sbj Benefit Consultants Limited (D) ⁵	£1.00 Ordinary	Ventura (UK) India Limited ³	£1.00 Ordinary
Sbj Professional Trustees Limited (D) ⁵	£1.00 Ordinary	Venues Event Management Limited (in liquidation) ¹	£1.00 Ordinary
SDP Regeneration Services 2 Limited ⁵	£1.00 Ordinary	Vilanova Management Limited (in liquidation) ¹⁹	€1.00 Ordinary
Security Watchdog Limited (D) ⁵	£1.00 Ordinary	Voice Marketing Limited ⁵	£1.00 Ordinary
Smart DCC Limited ⁵	£1.00 Ordinary	Wabowden Limited (in liquidation) ¹⁹	€1.00 Ordinary
Stirling Park LLP ⁴¹	N/A	Western Mortgage Services Limited ⁵	£1.00 Ordinary
Symonds Travers Morgan (Malaysia) SDN. BHD (D) ³²	RM1.00 Ordinary	Woolf Limited ⁵	£1.00 Ordinary
Synaptic Software Limited ⁵	£1.00 Ordinary		

Section 7: Company financial statements continued

7.3.16 Related undertakings continued

Footnotes

- * Companies directly held by Capita plc.
- ~ Shareholdings owned indirectly by the company and represent 11.32% of the issued share capital of subsidiary
- > Shareholdings owned indirectly by the company and represent 1.04% of the issued share capital of subsidiary
- < Shareholdings owned indirectly by the company and represent 18.70% of the issued share capital of subsidiary
- Shareholdings owned indirectly by the company and represent 27.72% of the issued share capital of subsidiary
- Shareholdings owned indirectly by the company and represent 20.01% of the issued share capital of subsidiary
- ◆ Shareholdings owned indirectly by the company and represent 49% of the issued share capital of subsidiary
- ▽ Shareholdings owned indirectly by the company and represent 49.9% of the issued share capital of subsidiary
- ▲ Shareholdings owned indirectly by the company and represent 50% of the issued share capital of subsidiary
- Shareholdings owned indirectly by the company and represent 50.1% of the issued share capital of subsidiary
- ▼ Shareholdings owned indirectly by the company and represent 51% of the issued share capital of subsidiary
- ◀ Shareholdings owned indirectly by the company and represent 48.29% of the issued share capital of subsidiary
- Shareholdings owned indirectly by the company and represent 75% of the issued share capital of subsidiary
- ⌈ Shareholdings owned indirectly by the company and represent 97.3% of the issued share capital of subsidiary
- Shareholdings owned indirectly by the company and represent 35.90% of the issued share capital of subsidiary

Registered office address

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. 2nd Floor, Block 5, Irish Life Centre, Abbey Street Lower, Dublin 1, D01 P767
4. 2 Biddulph Cottages Windmill Road, Kemble, Gloucestershire, GL7 6AQ, England
5. 65, Gresham Street, London, EC2V 7NQ, England
6. 33/34 Winckley Square, Preston, Lancashire, PR1 3EL
7. 42/44 Henry Street, Northampton, Northamptonshire, NN1 4BZ, United Kingdom
8. 803, Manning House, 38 Queen's Road Central, Hong Kong
9. 850 New Burton Road, Suite 201, Dover, DE 19904, United States
10. 8th Floor, Union Castle Building, 55 St Georges Mall, Cape Town, 8001, South Africa
11. Atria One, 144 Morrison Street, Edinburgh, EH3 8EX
12. Alameda dos Guaramonis, no 930, 1st Floor, Suite 01, Bairro, Moema, CEP 04078-011, Brazil
13. Bourne House, 475 Goodstone Road, Whyteleafe, Surrey, CR3 0BL, England
14. C/O Pkf Littlejohn 15 Westferry Circus, Canary Wharf, London, E14 4HD, England
15. Centrum Biurowe Lubicz 1, ul. Lubicz 23, Krakow 31-503, Poland
16. Clinch's House, Lord Street, Douglas, IM99 1RZ, Isle of Man
17. Corporation Service Company 2711, Centerville Road, Suite 400, Wilmington, County of Newcastle, DE 19808, United States
18. Dorey Court, Admiral Park, St. Peter Port, Guernsey, GY1 4AT
19. Ernst & Young, Block 1, Harcourt Centre, Harcourt Street, Dublin2, D02 Y A40, Ireland
20. Hardturmstrasse 101, Zürich, 8005, Switzerland
21. Hapworth House, Claypit Lane, Leeds, LS2 8AE, United Kingdom
22. Hillview House, 61 Church Road, Newtownabbey, Co Antrim, BT36 7LQ
23. Rudower Chaussee 4, Berlin, 12489, Germany
24. Konstanzerstrasse 17, Tägerwilen, 8274, Switzerland
25. 10th Floor, UBA House, No 57, Marina Street, Lagos Island, Lagos, Nigeria
26. Lindred House, 20 Lindred Road, Brierfield, Nelson, Lancashire, BB9 5SR
27. Nassauer Ring 39-41, Krefeld, 47803, Germany
28. Pavilion Building, Ellismuir Way, Tannochside Park, Uddingston, Glasgow G71 5PW, United Kingdom
29. Plant 06, Gate No. 2, Godrej and Boyce Complex, LBS Marg, Proejshahnagar, Vikhroli (West), Mumbai, 400 079, India
30. 803 Manning House, 48 Queen's Road Central, Hong Kong
31. Rift Accounting House, 160 Eureka Park Upper Pemberton, Kennington, Ashford, TN25 4AZ, England & Wales
32. Suite 13.03, 13th Floor, Menara Tan & Tan, 207 Jalan Tun Razak, 50409 Kuala Lumpur, Malaysia
33. The Beacon, 176 St Vincent Street, Glasgow, G2 5SG, United Kingdom
34. 22 Grenville Street, St Helier, Jersey, JE4 8PX, Channel Islands
35. The Riverway Centre, Riverway, Stafford, ST16 3TH, United Kingdom
36. Themistokli Dervi 3, Julia House, Nicosia, 1066, Cyprus
37. Upper Ground Level, Level 1, level 2, & level 3, Tower B1, Margapatta City SEZ, Margapatta City, Hadapsar, Pune 411013 India Maharashtra
38. Unit B, West Cork Technology Park, Clonakilty, Cork, Ireland
39. Wsm, Connect House 133-137 Alexandra Road, Wimbledon, London, United Kingdom, SW19 7JY
40. King Abdul Aziz Street, PO Box 70S2, Dammam, Saudi Arabia
41. 24 Blythswood Square, Glasgow, G2 4BG, Scotland

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 2021. This exemption is taken in accordance with Companies Act Section 479A.

Company name	Company registration	Company name	Company registration
Booking Services International Limited	1833039	Clinical Solutions Holdings Limited	5337596
Brightwave Enterprises Limited	7066783	Clinical Solutions International Limited	4394761
Brightwave Holdings Limited	7462788	Clinical Solutions IP Limited	5354046
Brightwave Limited	4092349	Cymbio Limited	6462086
BSI Group Limited	3005596	Debt Solutions (Holdings) Limited	3673307
Capita Birmingham Limited	5660977	Euristix Limited	5420948
Capita Gas Registration and Ancillary Services Limited	5078781	Fire Service College Limited	8102633
Capita HCH Limited	2384029	FirstAssist Services Limited	1404718
Capita Health and Wellbeing Limited	3185776	Liberty Printers (AR and RF Reddin) Limited	2920033
Capita IT Services (BSF) Limited	1855936	Metacharge Limited	3950372
Capita IT Services Limited	SC045439	Octal Business Solutions Limited	5182624
Capita Learning Limited (previously Knowledgepool Limited)	4968329	Pervasive Limited	5679204
Capita Managed IT Solutions Limited	NI032979	Pervasive Networks Limited	3429318
Capita McLaren Limited	SC021024	SDP Regeneration Services 2 Limited	4626963
Capita Property and Infrastructure (Structures) Limited	2082106	Tascor E & D Services Limited	9980217
Capita Southampton Limited	10207906	The G2G3 Group Ltd	SC199414
CHKS Limited	2442956	Thirty Three LLP	OC372712
Clinical Solutions Acquisition Limited	5353896	Woolf Limited	1564535
Clinical Solutions Finance Limited	5337592		

Section 8: Additional information

In this section

- 8.1 Shareholder information
- 8.2 Alternative performance measures

8.1 Shareholder information

In this section we have provided you with some key information to manage your shareholding in Capita plc.

Useful websites

Capita (www.capita.com/investors)

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 Group. Our shareholder portal is a secure online site where you can manage your shareholding quickly and easily. You can manage many aspects, such as viewing your holding, updating contact details, managing dividend payments, requesting to receive shareholder communications by email and registering. To register you will need your investor code, which can be found on your share certificate or dividend confirmation.

e-communications

Help us communicate with you in a greener, more efficient and cost-effective way by switching from postal to email communications, which means that we will notify you by email 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 +44 (0) 798 966 5484 or email: IRTeam@capita.com

If you have any queries about your shareholding or dividend payments please contact the Company's registrar, Link Group:

Link Group
10th Floor
Central Square
29 Wellington Street
Leeds LS1 4DL

Email: enquiries@linkgroup.co.uk

Tel: +44 (0) 371 664 0300 (Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom are charged at the applicable international rate.)

Lines are open 9.00am – 5.30pm, Monday to Friday excluding public holidays in England and Wales.

Company contact details

Registered office

Capita plc
65 Gresham Street
London EC2V 7NQ
Tel: 020 7799 1525
Registered in England and Wales with registration number: 02081330

Investor Relations

IRTeam@capita.com
Director of Investor Relations – Stuart Morgan

Company Secretariat

secretariat@capita.com
Chief General Counsel and Group Company Secretary – Claire Denton

Company advisers

Independent auditor
KPMG LLP

Corporate brokers

Barclays Bank plc
Goldman Sachs International Bank

Bankers

Barclays Bank plc
Citicorp North America, Inc
Deutsche Bank AG Filiale Luxemburg
Goldman Sachs International Bank
ING Bank NV, London Branch
Lloyds Bank plc
National Westminster Bank plc
Sumitomo Mitsui Banking Corporation, London Branch

Corporate communications

Powerscourt

Registrars

Link Group

8.2 Alternative performance measures

The Group presents various alternative performance measures (APMs) as the performance of the Group is reported and measured on this basis internally or reported on externally for covenant purposes. This includes key performance indicators (KPIs) such as adjusted revenue, adjusted profit before tax, adjusted earnings per share, adjusted free cash flow, adjusted return on capital employed, interest cover and gearing ratios.

These APMs should not be viewed as a complete picture of the Group's financial performance which is presented in the reported results. The exclusion of certain items may result in a more favourable view when costs such as significant restructuring, acquired intangible amortisation and impairments of goodwill are excluded. These measures may not be comparable when reviewing similar measures reported by other companies.

APM	Closest equivalent IFRS measure	Definition, Purpose and Reconciliation																																																		
Income statement																																																				
Adjusted revenue	Revenue	<p>Calculated as revenue less any revenue relating to businesses that have been disposed of, or exited during the year or prior year; or, are in the process of being disposed of, or exited.</p> <p>This headline measure of revenue is used internally to analyse the growth in sales in the Group's core business (being: the Group's continuing activities, which exclude business exits) and the directors believe it is a good indication of ongoing performance.</p> <p>The table below shows a reconciliation between reported and adjusted revenue, as well as adjusted revenue growth/(decline):</p> <table><tr><th></th><th>2021</th><th>2020</th></tr><tr><td>Reported revenue per the income statement</td><td>£3,182.5m</td><td>£3,324.8m</td></tr><tr><td>Deduct: business exits (note 2.2.1)</td><td>(£174.0m)</td><td>(£329.3m)</td></tr><tr><td>Adjusted revenue</td><td>£3,008.5m</td><td>£2,995.5m</td></tr><tr><td>Adjusted revenue growth/(decline)</td><td>0.4 %</td><td>(9.7)%</td></tr></table>		2021	2020	Reported revenue per the income statement	£3,182.5m	£3,324.8m	Deduct: business exits (note 2.2.1)	(£174.0m)	(£329.3m)	Adjusted revenue	£3,008.5m	£2,995.5m	Adjusted revenue growth/(decline)	0.4 %	(9.7)%																																			
	2021	2020																																																		
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Adjusted revenue growth/(decline)	0.4 %	(9.7)%																																																		
Adjusted operating profit	Operating profit	<p>Calculated as reported operating profit excluding items determined by the Board to be outside underlying operations. These items are detailed in note 2.4.</p> <p>The directors believe that this measure is useful for investors because it is closely monitored by management to evaluate the Group's operating performance and to make financial, strategic and operating decisions.</p> <p>A reconciliation of reported to adjusted operating profit is provided in note 2.4.</p>																																																		
Adjusted operating profit margin	Operating profit margin	<p>Calculated as the adjusted operating profit divided by adjusted revenue.</p> <p>This measure is an indicator of the Group's operating efficiency.</p> <p>The table below shows the components, and calculation, of adjusted operating profit margin:</p> <table><tr><th></th><th>2021</th><th>2020</th></tr><tr><td>Adjusted revenue</td><td>a £3,008.5m</td><td>£2,995.5m</td></tr><tr><td>Adjusted operating profit (note 2.4)</td><td>b £139.1m</td><td>£51.1m</td></tr><tr><td>Adjusted operating profit margin</td><td>b/a 4.6 %</td><td>1.7 %</td></tr></table>		2021	2020	Adjusted revenue	a £3,008.5m	£2,995.5m	Adjusted operating profit (note 2.4)	b £139.1m	£51.1m	Adjusted operating profit margin	b/a 4.6 %	1.7 %																																						
	2021	2020																																																		
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Adjusted operating profit (note 2.4)	b £139.1m	£51.1m																																																		
Adjusted operating profit margin	b/a 4.6 %	1.7 %																																																		
Adjusted EBITDA	EBITDA	<p>Calculated as adjusted operating profit for the last twelve months before: depreciation, amortisation and impairment of property, plant and equipment and intangible assets; net finance costs; and, the share of results in associates and investment gains (other than those already excluded from adjusted operating profit).</p> <p>The directors believe that adjusted EBITDA is a useful measure for investors because it is closely monitored by management to evaluate Group and divisional operating performance and is the basis of the measure agreed with the lenders for the purpose of measuring compliance with covenants.</p> <p>This measure has been calculated pre and post IFRS 16 to enable investors to understand the impact of the Group's lease portfolio on adjusted EBITDA.</p> <p>The table below shows the calculation of adjusted EBITDA:</p> <table><tr><th></th><th colspan="2">Post IFRS 16</th><th colspan="2">Pre IFRS 16</th></tr><tr><th></th><th>2021</th><th>2020</th><th>2021</th><th>2020</th></tr><tr><td>Adjusted profit before tax</td><td>£93.5m</td><td>£5.4m</td><td>£104.2m</td><td>£17.4m</td></tr><tr><td>Add back: adjusted net finance costs (note 4.3)</td><td>£45.0m</td><td>£46.5m</td><td>£25.5m</td><td>£22.6m</td></tr><tr><td>Add back: adjusted depreciation and impairment of property, plant and equipment</td><td>£48.9m</td><td>£52.3m</td><td>£48.9m</td><td>£52.3m</td></tr><tr><td>Add back: depreciation of right-of-use assets (note 3.5)</td><td>£68.2m</td><td>£88.2m</td><td>£—m</td><td>£—m</td></tr><tr><td>Add back: adjusted amortisation and impairment of intangibles</td><td>£38.9m</td><td>£36.8m</td><td>£38.9m</td><td>£36.8m</td></tr><tr><td>Remove: Share of results in associates and investment gains (income statement)</td><td>£0.6m</td><td>(£0.8m)</td><td>£0.6m</td><td>(£0.8m)</td></tr><tr><td>Adjusted EBITDA</td><td>£295.1m</td><td>£228.4m</td><td>£218.1m</td><td>£128.3m</td></tr><tr><td>Adjusted EBITDA margin</td><td>9.8 %</td><td>7.6 %</td><td>7.2 %</td><td>4.3 %</td></tr></table>		Post IFRS 16		Pre IFRS 16			2021	2020	2021	2020	Adjusted profit before tax	£93.5m	£5.4m	£104.2m	£17.4m	Add back: adjusted net finance costs (note 4.3)	£45.0m	£46.5m	£25.5m	£22.6m	Add back: adjusted depreciation and impairment of property, plant and equipment	£48.9m	£52.3m	£48.9m	£52.3m	Add back: depreciation of right-of-use assets (note 3.5)	£68.2m	£88.2m	£—m	£—m	Add back: adjusted amortisation and impairment of intangibles	£38.9m	£36.8m	£38.9m	£36.8m	Remove: Share of results in associates and investment gains (income statement)	£0.6m	(£0.8m)	£0.6m	(£0.8m)	Adjusted EBITDA	£295.1m	£228.4m	£218.1m	£128.3m	Adjusted EBITDA margin	9.8 %	7.6 %	7.2 %	4.3 %
	Post IFRS 16		Pre IFRS 16																																																	
	2021	2020	2021	2020																																																
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Add back: adjusted depreciation and impairment of property, plant and equipment	£48.9m	£52.3m	£48.9m	£52.3m																																																
Add back: depreciation of right-of-use assets (note 3.5)	£68.2m	£88.2m	£—m	£—m																																																
Add back: adjusted amortisation and impairment of intangibles	£38.9m	£36.8m	£38.9m	£36.8m																																																
Remove: Share of results in associates and investment gains (income statement)	£0.6m	(£0.8m)	£0.6m	(£0.8m)																																																
Adjusted EBITDA	£295.1m	£228.4m	£218.1m	£128.3m																																																
Adjusted EBITDA margin	9.8 %	7.6 %	7.2 %	4.3 %																																																

5.2 Alternative performance measures continued

APM	Closest equivalent IFRS measure	Definition, Purpose and Reconciliation												
Income statement continued														
Adjusted profit before tax	Profit before tax	<p>Calculated as profit or loss before tax excluding the items detailed in note 2.4 which include, but are not limited to: significant restructuring; business exits (trading results, non-trading expenses, and any gain/(loss) on business disposal); acquired intangible amortisation; and, impairment of goodwill and acquired intangibles.</p> <p>The directors believe that this measure is useful for investors because it is closely monitored by management to evaluate the Group's operating performance and to make financial, strategic and operating decisions.</p> <p>A reconciliation of reported to adjusted profit before tax is provided in note 2.4.</p>												
Adjusted profit after tax	Profit after tax	<p>Calculated as the above adjusted profit or loss before tax, less the tax credit or expense on adjusted profit or loss.</p> <p>The table below shows a reconciliation:</p> <table> <tr> <th></th><th>2021</th><th>2020</th></tr> <tr> <td>Adjusted profit before tax (note 2.4)</td><td>£93.5m</td><td>£5.4m</td></tr> <tr> <td>Tax on adjusted profit (note 2.6.1)</td><td>(£64.8m)</td><td>£25.3m</td></tr> <tr> <td>Adjusted profit after tax</td><td>£28.7m</td><td>£30.7m</td></tr> </table>		2021	2020	Adjusted profit before tax (note 2.4)	£93.5m	£5.4m	Tax on adjusted profit (note 2.6.1)	(£64.8m)	£25.3m	Adjusted profit after tax	£28.7m	£30.7m
	2021	2020												
Adjusted profit before tax (note 2.4)	£93.5m	£5.4m												
Tax on adjusted profit (note 2.6.1)	(£64.8m)	£25.3m												
Adjusted profit after tax	£28.7m	£30.7m												
Adjusted tax rate	Tax rate	<p>Calculated as the income tax credit or expense on the adjusted profit or loss before tax divided by the adjusted profit or loss before tax.</p> <p>The effective tax rate for 31 December 2021 is calculated from the current year elements of corporation (£27.8m) and deferred taxes (£78.8m) (2020: £14.6m and £(16.0)m respectively), which exclude one-off items.</p> <p>The directors believe that this tax rate provides an indication of the effective average tax rate across the Group on adjusted profit before tax.</p> <p>For further information refer to note 2.6.</p>												
Adjusted basic earnings per share	Basic earnings per share	<p>Calculated as the adjusted profit/(loss) for the year after tax less non-controlling interests divided by the weighted average number of ordinary shares outstanding during the year.</p> <p>The directors believe that this provides an indication of basic earnings per share of the Group on adjusted profit after tax.</p> <p>For the calculation of adjusted basic earnings per share refer to note 2.7.</p>												
Adjusted diluted earnings per share	Diluted earnings per share	<p>Calculated as the adjusted profit/(loss) for the year after tax less non-controlling interests divided by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would have been issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.</p> <p>The directors believe that this provides an indication of diluted earnings per share of the Group on adjusted profit after tax.</p> <p>For the calculation of adjusted diluted earnings per share refer to note 2.7.</p>												
Cash flows and net debt														
Adjusted cash flows generated from operations	Cash generated from operations	<p>Calculated as the cash flows generated from operations excluding the items detailed in note 2.10.2 which includes, but are not limited to: significant restructuring; business exits (trading results, non-trading expenses); pension deficit contributions; and, non-recourse trade receivables financing.</p> <p>The directors believe that this measure is useful for investors because it is closely monitored by management to evaluate the Group's operating performance and to make financial, strategic and operating decisions.</p> <p>A reconciliation of reported to adjusted cash generated/(used) from operations is provided in note 2.10.2.</p>												
Adjusted free cash flow	Net cash flows from operating activities	<p>Calculated as adjusted cash generated from operations after: capital expenditure; income tax and interest; and, the proceeds from the sale of property, plant and equipment and intangible assets.</p> <p>Free cash flow is a measure used to show how efficient the Group is at generating cash and the directors believe it is useful for investors and management to measure whether the Group has enough cash to fund operations, capital expenditure, debt and pension obligations and dividends.</p> <p>A reconciliation of net cash flows from operating activities to free cash flow is provided in note 2.10.1 and a reconciliation of reported to adjusted free cash flow is provided in note 2.10.2.</p>												

8.2 Alternative performance measures continued

APM	Closest equivalent IFRS measure	Definition, Purpose and Reconciliation																																			
Cash flows and net debt continued																																					
Net debt	Borrowings, cash, derivatives, lease liabilities and deferred consideration	<p>Is calculated as the net of the Group's: cash, cash equivalents and overdrafts; the fair value of the Group's private placement loan notes debt; other loan notes; lease liabilities; and, deferred consideration.</p> <p>The directors believe that net debt enables investors to see the economic effect of debt, related hedges and cash and cash equivalents in total and shows the indebtedness of the Group and its liquidity.</p> <p>The calculation of net debt is provided in notes 2.10.3 and 4.1.1</p>																																			
Headline net debt	No direct equivalent	<p>Is calculated as the sum of the Group's: cash, cash equivalents and overdrafts; the fair value of the Group's private placement loan notes debt; other loan notes; and, deferred consideration.</p> <p>The directors believe that headline net debt allows the investors to see the impact of the Group's lease portfolio on the net debt position.</p> <table><tr><td></td><td>2021</td><td>2020</td></tr><tr><td>Net debt (note 4.1.1)</td><td>£879.8m</td><td>£1,077.1m</td></tr><tr><td>Remove: IFRS16 impact (note 4.4)</td><td>(£448.4m)</td><td>(£508.1m)</td></tr><tr><td>Headline net debt (pre-IFRS 16)</td><td>£431.4m</td><td>£569.0m</td></tr></table>		2021	2020	Net debt (note 4.1.1)	£879.8m	£1,077.1m	Remove: IFRS16 impact (note 4.4)	(£448.4m)	(£508.1m)	Headline net debt (pre-IFRS 16)	£431.4m	£569.0m																							
	2021	2020																																			
Net debt (note 4.1.1)	£879.8m	£1,077.1m																																			
Remove: IFRS16 impact (note 4.4)	(£448.4m)	(£508.1m)																																			
Headline net debt (pre-IFRS 16)	£431.4m	£569.0m																																			
Headline gearing: net debt to adjusted EBITDA ratio	No direct equivalent	<p>This ratio is calculated as net debt divided by adjusted EBITDA including businesses held-for-sale at the balance sheet date.</p> <p>The directors believe that this ratio is useful because it shows how significant net debt is relative to adjusted EBITDA and how many years it would take for the Group to pay back its debt if headline net debt and adjusted EBITDA were held constant.</p> <p>This measure has been calculated including and excluding lease liabilities because the directors believe this provides useful information to enable investors to understand the impact of the Group's lease portfolio on net debt and headline gearing.</p> <p>The table below shows the components, and calculation, of the headline net debt to adjusted EBITDA ratio:</p> <table><tr><td></td><td colspan="2">Post IFRS 16</td><td colspan="2">Pre IFRS 16</td></tr><tr><td></td><td>2021</td><td>2020¹</td><td>2021</td><td>2020¹</td></tr><tr><td>Adjusted EBITDA</td><td>£295.1m</td><td>£293.0m</td><td>£218.1m</td><td>£187.3m</td></tr><tr><td>EBITDA in respect of businesses held-for-sale</td><td>£32.2m</td><td>£53.0m</td><td>£32.2m</td><td>£52.8m</td></tr><tr><td>Adjusted EBITDA (including businesses held-for-sale)</td><td>£327.3m</td><td>£346.0m</td><td>£250.3m</td><td>£240.1m</td></tr><tr><td>Headline net debt</td><td>£879.8m</td><td>£1,077.1m</td><td>£431.4m</td><td>£569.0m</td></tr><tr><td>Headline net debt to adjusted EBITDA ratio</td><td>2.7x</td><td>3.1x</td><td>1.7x</td><td>2.4x</td></tr></table>		Post IFRS 16		Pre IFRS 16			2021	2020 ¹	2021	2020 ¹	Adjusted EBITDA	£295.1m	£293.0m	£218.1m	£187.3m	EBITDA in respect of businesses held-for-sale	£32.2m	£53.0m	£32.2m	£52.8m	Adjusted EBITDA (including businesses held-for-sale)	£327.3m	£346.0m	£250.3m	£240.1m	Headline net debt	£879.8m	£1,077.1m	£431.4m	£569.0m	Headline net debt to adjusted EBITDA ratio	2.7x	3.1x	1.7x	2.4x
	Post IFRS 16		Pre IFRS 16																																		
	2021	2020 ¹	2021	2020 ¹																																	
Adjusted EBITDA	£295.1m	£293.0m	£218.1m	£187.3m																																	
EBITDA in respect of businesses held-for-sale	£32.2m	£53.0m	£32.2m	£52.8m																																	
Adjusted EBITDA (including businesses held-for-sale)	£327.3m	£346.0m	£250.3m	£240.1m																																	
Headline net debt	£879.8m	£1,077.1m	£431.4m	£569.0m																																	
Headline net debt to adjusted EBITDA ratio	2.7x	3.1x	1.7x	2.4x																																	

1. To ensure consistent presentation of the ratios between periods, the 2020 comparatives have not been restated.

8.2 Alternative performance measures continued

The below measures are submitted to the Group's lenders and the directors believe these measures provide a useful insight to investors. The 31 December 2020 comparatives have not been restated because they are not required to be restated for covenant purposes.

		2021	2020	Source
Covenants				
Adjusted operating profit ¹		£139.1m	£111.0m	Line information in note 2.4
Add: business exit – trading		£50.8m	£51.0m	Line information in note 2.8
Add: share of earnings in associates		£0.6m	(£0.8m)	
Deduct: non-controlling interest		(£2.4m)	(£12.6m)	Adjusted EBIT attributable to NCI
Add back: share-based payment charge		£1.2m	£6.4m	Line information in note 2.10.1
Add back: non-current service pension charge		£2.6m	£6.9m	Line information in note 5.2
Add back: amortisation of purchased intangibles		£40.8m	£42.3m	Line information in note 3.3
Adjusted EBITA	a1	£232.7m	£204.2m	
Less: IFRS 16 impact		(£8.9m)	(£17.5m)	
Adjusted EBITA (excluding IFRS 16)	a2	£223.8m	£186.7m	
Adjusted EBITA		£232.7m	£204.2m	Line item above
Deduct: business exit – trading sold		(£22.9m)	£2.5m	Trading (profit)/loss for businesses sold
Add back: adjusted depreciation and impairment of property, plant & equipment and right of use assets		£117.1m	£140.9m	See notes 2.10.1, 3.2, 3.5
Covenant calculation – adjusted EBITDA	b1	£326.9m	£347.6m	
Less: IFRS 16 impact		(£77.1m)	(£105.7m)	
Covenant calculation – adjusted EBITDA (excluding IFRS 16)	b2	£249.8m	£241.9m	
Adjusted interest charge		(£45.0m)	(£46.6m)	Line information in note 4.3
Interest cost attributable to pensions		£1.5m	£3.2m	Line information in note 4.3
Cash flow hedges recycled to the income statement		£0.6m	(£4.5m)	Line information in note 4.3
Borrowing costs	c1	(£42.9m)	(£47.9m)	
Less: IFRS 16 impact		£19.5m	£23.9m	
Borrowing costs (excluding IFRS 16)	c2	(£23.4m)	(£24.0m)	
5.1 Interest cover (US PP covenant)	a1/c2	9.9x	8.5x	Adjusted EBITA/Borrowing costs with adjusted EBITDA including the impact of IFRS 16 and the borrowing costs excluding the impact of IFRS 16. Minimum permitted value of 4.0
5.2 Interest cover (other financing agreements)	a2/c2	9.6x	7.8x	Adjusted EBITA/Borrowing costs with both variables excluding IFRS 16. Minimum permitted value of 4.0
Net debt		£879.8m	£1,077.1m	Line information in note 2.10.3
Lease liabilities included within disposal group liabilities held for sale		£—m	(£4.6m)	Line information in note 4.4.1
Cash, net of overdrafts, included in disposal group assets and liabilities held for sale		£15.8m	£12.9m	Line information in note 4.5.4
Restricted cash ²		£54.8m	£34.5m	Cash that may not be applied against net debt for covenant calculation purposes
Less: IFRS 16 impact		(£448.4m)	(£503.5m)	
Covenant calculation - adjusted net debt (excluding IFRS 16)	d1	£502.0m	£616.4m	
6.1 Adjusted net debt to post IFRS 16 adjusted EBITDA ratio (US PP covenant)	d1/b1	1.5x	1.8x	Adjusted net debt/adjusted EBITDA with adjusted net debt excluding the impact of IFRS 16 and adjusted EBITDA including the impact of IFRS 16. Maximum permitted value of 3.0
6.2 Adjusted net debt to adjusted EBITDA ratio [KPI] (other financing agreements)	d1/b2	2.0x	2.5x	Adjusted net debt/adjusted EBITDA with both variables excluding IFRS 16. Maximum permitted value of 3.5

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.

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