Capita plc
Annual Report 2022







Capita

Our purpose

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

Read more about our business model on pages 6 and 7.

CEO's review

Read more from our CEO on pages 10 to 25.

Our people

Read more about our people on pages 33 to 36.

Strategic report

Corporate governance

Financial statements

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

Cautionary statement

The directors present the Annual Report for the year ended 31 December 2022, which includes the strategic report, corporate governance, and audited accounts for this year. Pages 1 to 122 of this Annual Report comprise a report of the directors which has been drawn up and presented in accordance with English company law, and the liabilities of the directors in connection with that report shall be subject to the limitations and restrictions provided by such law. Where the directors' report refers to other reports or material, such as a website address, this has been done to direct the reader to other sources of Capita plc information which may be of interest. Such additional materials do not form part of this report.

Our performance

In 2022, we delivered a turnaround in financial performance with accelerated adjusted revenue growth, a step change in profitability and positive free cash flow. Capita is now a business focused on two core divisions with strong positions in attractive and growing markets, underpinned by a strengthened balance sheet. Our priority continues to be on improving performance for all our stakeholders.

Financial highlights and KPIs

Reported revenue
£3,014.6m
(2021: £3,182.5m)

Reported profit before tax
£61.4m
(2021: £285.6m)

Reported free cash flow[3]
£24.5m
(2021: £(264.3)m)

Adjusted revenue[1]
£2,845.8m
(2021: £2,777.8m)

Adjusted profit/(loss) before tax[1]
£73.8m
(2021: £(122.8)m)

Free cash flow before the impact of business exits[3]
£29.0m
(2021: £(218.6)m)

Reported earnings per share (continuing ops)
4.47p
(2021: 13.33p)

Adjusted earnings/loss per share[2]
6.20p
(2021: (7.74)p)

Read more in the Chief Financial Officer's review on pages 26 to 32.

1. Capita reports results on an adjusted basis to aid understanding of business performance. Refer to alternative performance measures (APMs) on pages 229 to 231.
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

Points swing in employee net promoter score
+15pts
(2021: -22pts)

Points swing in customer net promoter score
+6pts
(2021: -3pts)

Suppliers paid within 60 days[4]
99%
(2021: 98%)

Total shareholder return (TSR)
(33.5)%
(2021: (6.9)%)

Employee engagement index
65%
(2021: 56%)

Diversity: gender M/F
51/49%
(2021: 51/49%)

Reduction in carbon footprint[6] (location-based)
57%
(2021: 52%)

CO_2 emissions (location-based) Scope 1,2 and 3[7]
39.0m
gross tonnes
(2021: 43.6m gross tonnes)

Voluntary employee turnover
30%
(2021: 30%)

Diversity: ethnicity[5]
37/24%
(2021: 56/19%)

Reduction in carbon footprint[6] (market-based)
71%
(2021: 61%)

4. Data includes invoices paid through Capita UK companies.
5. White/Black, Asian and minority ethnic. 39% of people chose not to respond or not to specify.
6. Reduction in carbon footprint based on emissions per headcount from 2019 baseline. See pages 42 and 43 for more information.
7. Scope 3 for business travel only. See pages 42 and 43 for more information.

About us

Capita is a leading provider of business process services, driven by data, technology and people.

Everything we do is underpinned 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, digitally enabled solutions to transform and simplify the connections between governments and citizens, businesses and customers.

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

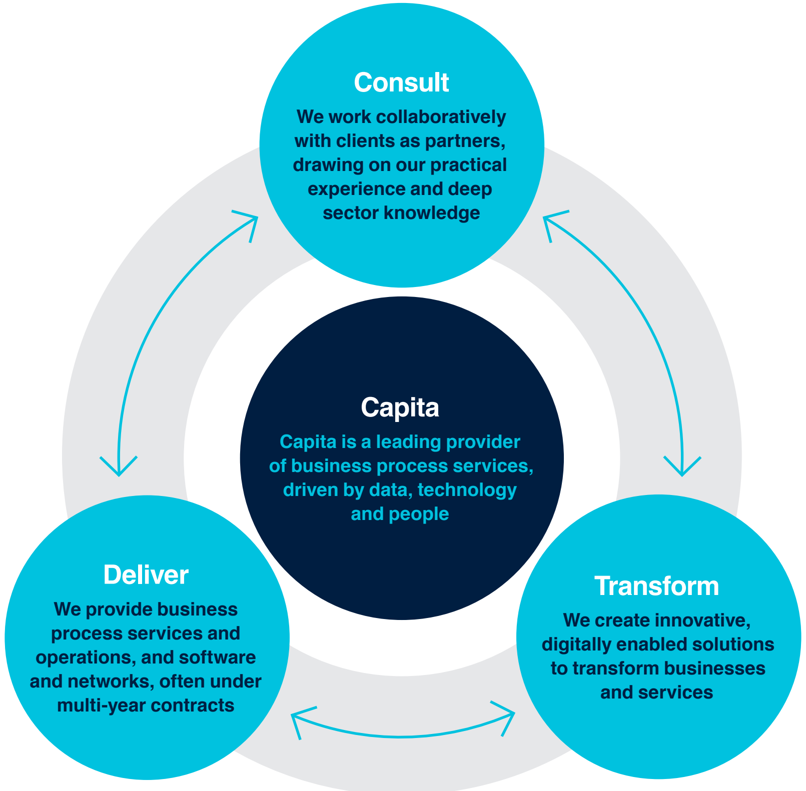
We operate across two core divisions – Public Service and Experience – in the UK, Europe, India and South Africa; a third division, Portfolio, comprises our remaining non-core businesses being prepared for disposal.

The Turing Scheme, which provides global opportunities in education and training for students, will see a record 38,000 students participate over the 2022–23 academic year.

We have secured a five-year agreement with ScottishPower to deliver customer support services.

We deliver training to the Royal Navy to provide motivated and experienced personnel to deal with challenges in the future.

What we do as a business



Capita's structure in 2022

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

Capita Public Service

The number one[2] strategic supplier of business process services (BPS) and technology services to the UK Government.

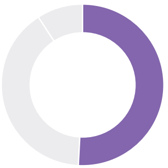
Main verticals: Education & Learning; Local Public Services; Health & Welfare; Defence, Fire & Security; and Justice, Central Government & Transport

See page 16 for further information.

Adjusted revenue[1] contribution

51%

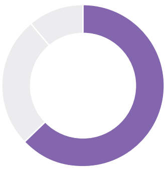
(2021: 51%)



Adjusted divisional operating profit[1] contribution

63%

(2021: 91%)



Capita Experience

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

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

See page 20 for further information.

Adjusted revenue[1] contribution

40%

(2021: 41%)

Adjusted divisional operating profit[1] contribution

26%

(2021: 9%)

Capita Portfolio

Remaining portfolio of valuable but non-core businesses, targeting sale by half year 2023, depending on market conditions.

Pillars: People; Software; Business Solutions; Travel; and Fera

Sold during 2022: Technology, Property

See page 24 for further information.

Adjusted revenue[1] contribution

9%

(2021: 8%)

Adjusted divisional operating profit[1] contribution

11%

(2021: 0%)

Divisional financial performance: (see also pages 19, 23 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 229 to 231.

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

1. Refer to APMs on pages 229 to 231.
2. TechMarketView.
3. NelsonHall.

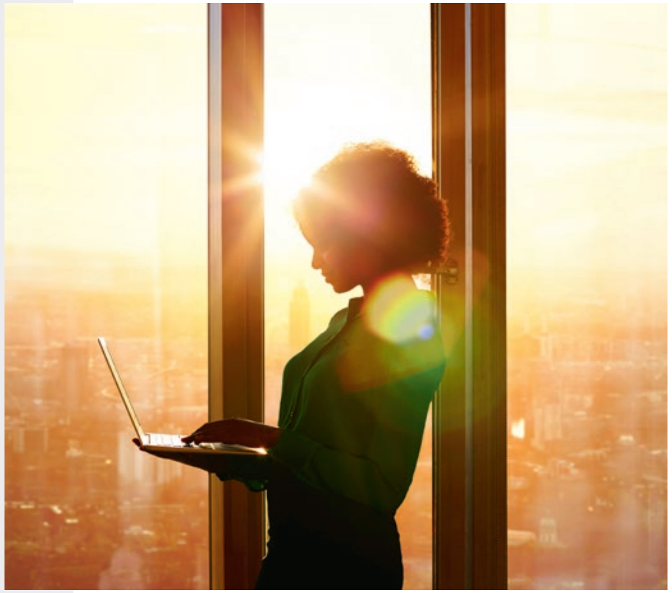
Our purpose

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

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

Capita 'creates better outcomes' for all its stakeholders:

Our people by providing an environment in which they can thrive and develop	Number of people in 2022 **50,000**
Clients and customers by delivering solutions, transforming businesses and services, and by delighting them	Customer net promoter score (cNPS) in 2022 **+35pts**
Suppliers and partners by treating them fairly and encouraging them to deliver	Supplier payment compliance in 2022 **99%**
Investors by delivering improving free cash flow and returns	Share price movement in 2022 **(12.2)p**
Society by acting as a responsible business for the communities we serve	Reduction in carbon footprint in 2022 **4.6m** gross tonnes



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

- Open
- Collaborative
- Ingenious
- Effective

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

Our strategy

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

Simplify

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

Strengthen

- Winning more of the right work
- A stronger balance sheet through improving cash generation and disposal proceeds
- Addressed the pension deficit
- Investment in technology and people

Succeed

- Purpose-led, responsible business
- Innovative and creative
- Accelerating revenue growth
- Delivered positive free cash flow[1] in 2022

1. Free cash flow = reported free cash flow excluding the impact of disposals.

Measured through our KPIs:

Financial

Adjusted revenue[2]

£2,845.8m

(2021: £2,777.8m)

Free cash flow before the impact of business exits[2]

£29.0m

(2021: £(218.6)m)

Adjusted earnings/(loss) per share[2]

6.20p

(2021: (7.74)p)

Net financial debt (pre-IFRS 16): adjusted EBITDA[2]

0.5x

(2021: 3.7x)

Non-financial

Employee NPS points swing

+15pts

(2021: -22pts)

Customer NPS points swing

+6pts

(2021: -3pts)

Suppliers paid within 60 days

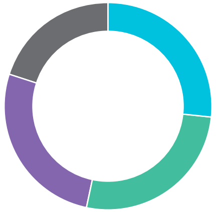
99%

(2021: 98%)

2. Refer to APMs on pages 229 to 231.

Aligning with our performance-based remuneration:

Annual bonus for the executive directors determined by:



- Free cash flow
- Revenue
- Profit before tax
- Strategic/personal objectives

Read more in the directors' remuneration report on pages 99 to 122.

How we create value

At Capita, we provide business process services, driven by data, technology and people.

Our markets

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

Public Service

BPS spending growing at c.5% per annum
Government spending in the UK with private organisations is around £176bn and spending on BPS is growing at around 5% per annum. As Capita has won and delivered more digital transformation and IT contracts across the public sector, the UK Government now regards us as a digital service provider alongside delivering traditional outsourcing scopes of work.

(Source: TechMarketView)

Experience

Outsourced market growth of c.5% per annum
The global customer experience market is valued at around £277bn and the outsourced element is expected to grow at around 5% per annum. 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.

(Source: Everest)

Our expertise and resource

Market expertise

We have deep understanding of our clients and their markets; we are organised in market verticals that reflect our client expertise.

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 50,000 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 such as call centres and customer support, principally in Europe, India and South Africa.

What we do as a business

Capita is a leading provider of business process services, driven by data, technology and people.

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

We provide consulting, transformation and professional delivery services, drawing on our practical experience; and 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 deep sector knowledge.

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 partners.
- Proactively identify opportunities to improve our clients' 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 digitally enabled 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 2022, approximately 76% (2021: 77%) of Group adjusted revenue[1] was underpinned by long-term contracts, with around 15% (2021: 15%) from short-term contracts. Our order book at 31 December 2022 was £5.8bn.

Transactional services

Approximately 9% (2021: 8%) of adjusted revenue[1] comes from our transactional businesses where we sell products and professional services to our clients across a wide range of functions. In 2022, this represented £244.8m of adjusted revenue[1].

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 2022, our operating profit margin improved from a negative 2.8% to positive 3.6% through efficiencies from the business structure we implemented in 2021, reducing the cost of poor quality 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 2022, we delivered positive free cash flow before the impact of business exits[1] of £29.0m compared with negative free cash flow before the impact of business exits[1] of £218.6m in the prior year, reflecting the non-repeat of one-off cash payments made in 2021, including pensions and VAT, and cessation of our significant restructuring programme.

1. Refer to APMs on pages 229 to 231.

Better outcomes for stakeholders

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

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

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

Investors by delivering improving free cash flow and returns.

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

Making good progress, driven by our purpose

"We delivered on our commitment of improving financial performance and moved towards the completion of the disposal processes in our Portfolio division."

David Lowden, Chairman

In 2022, Capita made further progress as a simplified and more focused organisation, built around two core divisions with strong positions in attractive and growing markets, and driven by its purpose.

The macroeconomic backdrop for all businesses including Capita, and our employees, remained challenging – despite the waning threat of the Covid pandemic – amid political uncertainty and inflationary pressures.

Despite the difficult external environment, we delivered on our commitment of improving financial performance and moved towards the completion of the disposal processes in our Portfolio division.

Aligned to our purpose, the welfare and wellbeing of our tens of thousands of people remained a top priority.

It was very important, especially amid the cost-of-living crisis, to continue to support and care for our employees, particularly the lowest paid.

I would like to thank all our colleagues for their hard work, professionalism and commitment over the last year.

With our structural transformation done, the senior leadership team and the business are now very focused on the needs of our clients and customers.

At the same time, we recognise that our investors have yet to see the financial benefits of the company's improved performance.

The patience and ongoing support of our shareholders is very much appreciated and, looking forward, we remain committed to improving long-term value creation for them and all our stakeholders.

Strategy and performance

While 2021 marked the completion of Capita's transformation, 2022 saw us embedding the new corporate structure, stabilising the business, and building on the platform for growth.

We are now fully oriented towards our clients and their own organisational and commercial requirements, rather than approaching business from our previous, product-focused perspective.

We are committed to providing a consistently high quality of service delivery in order to delight our clients and customers – and, through this, will create more opportunities, and accelerate and increase growth.

This has been reflected in our contract renewal rate which has remained very high, and our continuingly positive customer net promoter scores.

In 2022, we increased our adjusted revenue – with growth higher than it has been for seven years – and produced adjusted profit and positive free cash flow.

The progress and growth have been most visible in our Public Service division, with Experience still somewhat behind in its evolution.

> **"Focused investment on digital is the way forward and, backed by clear strategic plans, will be the main driver of growth for us."**

But that division has stabilised its revenues, and we are confident of seeing growth come through successfully.

In 2022, we started to concentrate even more on our digital transformation capabilities; processes, standardisation and automation are all being improved.

Focused investment on digital is the way forward and, backed by clear strategic plans, will be the main driver of growth for us.

We have now also sold a significant proportion of our non-core Portfolio businesses, which has helped strengthen the balance sheet and materially reduce our debt, and enabled us to address other responsibilities such as additional contributions to the pension fund.

The Board and governance

It was my privilege to step up to become Chairman of Capita in 2022.

On behalf of the Board, I would like to thank my predecessor Sir Ian Powell for his outstanding leadership over the previous six years.

He successfully steered the organisation through challenging times, overseeing the structural transformation and the return to adjusted revenue growth.

Matthew Lester, non-executive director, also left the Board in 2022 and I would like to thank him for his five years of service.

As Chair of the Audit and Risk Committee, he enhanced our focus on financial controls and helped identify and manage the material risk factors that Capita continues to face.

Another non-executive director, John Cresswell, has recently announced his intention to step down from the Board at the end of March 2023; and I would also like to thank him for his professionalism, commitment and valuable contribution during his seven-year tenure.

In June, we welcomed Brian McArthur-Muscroft, a highly experienced chief financial officer and board director, as a non-executive director.

Brian has taken over Matthew's role as head of the Audit and Risk Committee, and will continue to focus on the increased discipline that has been brought to bear across the organisation.

On the Board, we are committed to making sure we have the necessary skills, expertise and diversity to help support the delivery of Capita's strategy.

Our first ever employee directors, Lyndsay Browne and Joseph Murphy, stepped down in June at the end of their three-year tenures.

I would like to thank them both for the significant contribution they made to the Board, providing fresh insight and a vital new perspective.

We were delighted to welcome Janine Goodchild, a clinical trainer in our healthcare team, as our new employee director.

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

Culture and sustainability

At Capita, we remain committed to our purpose of creating better outcomes for all stakeholders – our people, clients and customers, suppliers and partners, investors, and society.

As part of that, for the past three years, we have been proud to support thousands of our lowest paid people as an accredited payer of the real living wage – and have recently invested to continue that important commitment.

We have also embedded our virtual first hybrid working model, introduced an employee leadership council, and continued to work on increasing diversity and inclusivity across the organisation, and addressing our pay gaps.

But to be able to delight stakeholders, including clients and customers, also requires an engaged workforce, who like and want to continue working for the organisation.

So, while we are pleased to have seen a rise in both our employee net promoter score and engagement index, we must continue to focus on the welfare and needs of our colleagues.

As a responsible business, we continued to make progress on delivering on our environmental, social and governance (ESG) objectives – and driving towards our target to be fully net zero on carbon emissions by 2035.

To enhance how we serve and respect our stakeholders, including society and the environment, we have also introduced an ESG committee to the Board.

Looking forward

We live and work in uncertain times, which will continue to present challenges, but which will also provide opportunities – and we need to consider how we respond to those as a business.

We are committed to continuing to improve performance on behalf of all our stakeholders.

We have to drive, not just towards increased revenue growth, but to profitable growth with improved, cash-backed margins. Increased digitalisation and greater transformation capabilities should enable that to happen.

There is still more to be done at Capita and challenges remain. But I am confident of further progress towards long-term revenue growth – and of securing a sustainable future as a profitable business, delivering positive free cash flow.

David Lowden
Chairman

An important year of stabilisation and acceleration

"Our strategy is delivering and we achieved a turnaround in our financial performance in 2022."

Jon Lewis, Chief Executive Officer

Summary

Following the completion in 2021 of the Group's transformation, 2022 was an important year of stabilisation for Capita and we are pleased to report that the Group delivered an acceleration in adjusted revenue growth, an improvement from last year's adjusted loss before tax to a profit of £74m following cessation of restructuring spend, and positive free cash flow in line with expectations.

At the start of 2022, we set out our six corporate priorities: to live our purpose; invest in our colleagues; grow the business; deliver for our clients; deliver sustainable free cash flow; and reduce net debt. We made progress against each of these priorities which has provided a firm foundation for the success of the business moving forwards. Our strategy is delivering and we achieved a turnaround in our financial performance in 2022.

The Group's organisational structure now prioritises client needs alongside operational delivery, and we were pleased to have seen a six-point increase in customer net promoter score (cNPS) over the year to +35 points.

We are also creating a more compelling working environment for our colleagues, with an increase of 15 points in our employee net promoter score (eNPS). But there is still more to do in this area, and we have a comprehensive plan to deliver further progress in 2023.

We are on a path to sustainable free cash flow generation, having delivered positive free cash flow in 2022 and having continued to strengthen the balance sheet following the completion of further disposals of non-core businesses, achieving gross disposal proceeds of c.£485m, which has substantially reduced our net debt.

Market conditions and dynamics have changed significantly over the past year, for both businesses and consumers. But we believe Capita remains a resilient business, notwithstanding the challenging macroeconomic environment, as we use our know-how, digital tools and process expertise to deliver cost-effective solutions to clients and customers.

I would like to thank our colleagues throughout the organisation for their continued hard work, commitment and professionalism.

The foundation that Capita now has in place, following our transformation and stabilisation phases, will allow us to accelerate our growth further in 2023 and beyond.

Living our purpose

Creating better outcomes for all key stakeholders is Capita's purpose and is our licence to operate. It underpins everything we do as a business.

We align ourselves to the five principles of a purpose-driven business within the Blueprint for Better Business. These include being honest and fair with clients and suppliers, being a good citizen, being a responsible and responsive employer, being a guardian for future generations, and having a purpose which delivers long-term sustainable performance.

Globally, we have introduced purpose-related remuneration metrics and objectives, to embed further our purpose-driven behaviours across

> "We are committed to helping our employees navigate the cost-of-living crisis."

the Group; these are set by the new ESG Committee of the Board and approved by the Remuneration Committee prior to final Board approval.

Diversity was a key focus during 2022 and, as a Group, we have set multi-year targets for gender and ethnic equality, diversity and inclusion in senior leadership. The Group is ahead of these targets with 42% female senior leadership (globally) and 14% ethnic diversity in UK senior leadership, including 3% Black representation at the end of 2022.

In addition, our Board and Executive Committee are both currently 44% female and 22% ethnically diverse, well above the diversity levels of most UK boards and executive teams.

Employee engagement and investing in our colleagues was a corporate priority in 2022. We paid specific attention to better communication, investment in training, and development of the career path framework. We have a compelling employee value proposition and we saw a +15 point improvement in eNPS in 2022.

We are committed to remaining a virtual-first organisation. Our hybrid working model allows a large proportion of our colleagues to work remotely all or part of the time. This has helped improve employee recruitment, while unlocking career opportunities for the economically inactive and supporting the UK Government's Levelling Up agenda. In 2022, 85% of employees gave our hybrid working model as a reason to stay with Capita, and we have seen a positive effect on both productivity and absenteeism.

However, similar to our competitors in the outsourcing market, colleague attrition remains a key challenge for the Group. We are working to identify the drivers of attrition and take meaningful action to reduce it to a sustainable level. This year we introduced the career path framework to both help employees' development and shape their future progress, creating long and fulfilling careers at Capita. The rollout of the career path framework across the Group will be completed in 2023.

Attrition rates have improved in a number of areas such as within our Technology and Software Solutions (TSS) function and Public Service, but there are still some parts of Experience where they remain high. Addressing and reducing attrition across the Group represents a significant future cost-saving opportunity.

We are committed to helping our employees navigate the cost-of-living crisis, particularly our lower-earning colleagues. We have confirmed our commitment and retained our status as a real living wage accredited employer in the UK; and, through our 2023 annual salary review process, pay rises will be heavily weighted towards the lower earners in the organisation, with the highest earners being asked to forgo a basic pay increase.

Capita has launched the business's first employee leadership council. This comprises 11 individuals, drawn from different parts of the company, who have been identified as potential future leaders within the organisation

cNPS remains high

+35pts

(2021: +29pts)

For colleagues based outside the UK, we have a similar and fair approach, paying colleagues in line with our global pay principles. In order to support our colleagues further, we have also launched a number of financial wellbeing initiatives including direct financial support, such as salary advances, and the Level app which provides support for financial budgeting.

During 2022, we continued to develop and embed our health, safety and wellbeing policies and standards for all our colleagues within the divisions and business units. We are driving assurance programmes around our 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 our employees. In 2022 our annual employee wellbeing index improved by 4%, we also introduced SafetyNet, providing guidance and support to teams dealing with complex issues related to wellbeing, safeguarding or vulnerability.

Elsewhere within the Group, we launched Project Compass to provide ex-offenders with meaningful employment upon leaving prison. We also joined forces with a social impact firm to assist military veterans with finding jobs to help fill the UK's digital skills gaps on their return to civilian life. We were pleased to retain our status as a gold award employer under the Armed Forces Covenant.

Outside the UK, we made a donation at the start of the Ukraine war to the Red Cross, while our colleagues in Poland have supported refugees with donations and hosted refugee families. In South Africa we funded a learners programme to help underprivileged groups to tackle digital exclusion.

More widely, across our contract bids, we have seen our clients placing a greater emphasis on ESG in their tender appraisal processes. This is an area where we typically score well, reflecting our success in transforming Capita into a truly purpose-driven, responsible business.

We previously outlined our plans to take our carbon footprint to net zero by 2035, ahead of the UK Government's target of 2050. Our three-phased approach aims to see us reach Scope 1 net zero by 2025 and Scope 2 and 3 net zero by 2030. During the year, the Science Based Targets initiative verified the Group's 2035 net zero target as compliant with the highest standards of target-setting methodology and Capita was awarded a climate change A list award by the Carbon Disclosure Project (CDP).

We reduced our Scope 1 and 2 emissions by 45% compared with our 2019 base line. We are pleased to be certified as ESG low risk by Sustainalytics, a leading independent ESG and corporate governance research, ratings and analytics firm. Our newly created ESG Committee provides additional strategic oversight, accountability and guidance to ensure we maintain our high standards.

Our performance on supplier metrics has been maintained; for example, 99% of all suppliers were paid within UK Government guidelines of 60 days, a one percentage point increase from 2021. We were also slightly ahead of our 33% target spend with SME suppliers.

Markets and clients

We are a leading provider of business process services (BPS), driven by data, technology and people. Both our Public Service and Experience divisions have strong positions in their markets – as the UK Government's largest IT outsourcing supplier[2] and as the UK's leading customer services provider[3].

Both markets are growing at around 5%[2,3] per annum. Some sub-sectors within the markets are growing at much higher rates, as both the public and private sectors invest in digital transformation to drive efficiency, amid economic uncertainty and fiscal strain, and deliver better citizen and customer service. Our overall value proposition remains strong in the current macroeconomic climate where we can drive efficiency and productivity for the benefit of customers and citizens.

Our deep sector process knowledge and market vertical divisional structure, combined with the breadth and depth of the Group's client base, provide stability and resilience. The divisions, led by our dedicated client partners, are also generating a better-quality pipeline, enabling us to accelerate revenue growth.

We are taking a proactive approach to mitigating the pressures of rising inflation and, in 2022, we believe this resulted in no material profit impact from inflation on the Group. To provide future protection, we have focused efforts on ensuring we have robust contractual protection in place against inflation. Where protection does not currently exist, we have seen success from commercial dialogue with clients to ensure we are being fairly remunerated in changing market conditions. We also have embedded cost-reduction programmes across the Group to help offset inflationary pressures.

Digital transformation

There is a major market opportunity across both core divisions to be more cost effective and win more business, as we improve our digital capabilities.

Both core divisions are highly ranked by TechMarketView and Information Services Group for their client delivery. We remain on a journey in which we are transitioning from providing traditional business process outsourcing (BPO) to BPS, where services and process delivery are digitally enabled.

In 2022, the UK Government published its roadmap for digital and data, outlining its intention to spend up to an additional £8bn by 2025 on digital, data and technology transformation. As our mix of work shifts from traditional BPO to digital BPS, we see incremental margin opportunity from processes

2. TechMarketView.
3. NelsonHall.

becoming standardised and repeatable, with greater contract stickiness. Previous investments are starting to yield benefits, with the UK Government, for the first time, regarding us as a digital service provider alongside delivering complex outsourcing scopes of work.

To support our digital offerings, we continue to embed our TSS capability. With 4,200 employees, TSS brings a single resource pool to deliver secure, resilient and predictable digital solutions for Capita's businesses and clients. We view this as the digital heart of Capita.

We have aligned TSS partners with divisional Service Delivery Managers to ensure greater insight into our clients' requirements, while ensuring we have a pan-Capita digital roadmap with broader capabilities across the Group. Our TSS capabilities contributed to client satisfaction improvements across Capita Public Service and Experience in 2022. The new shared-service structure has also seen a strong improvement in TSS employee engagement in 2022, with attrition rates halving.

Operationally, the creation of a shared service technology delivery function facilitated a significant step-up in new daily software releases, delivering 33% more releases compared with 2021, and helped reduce the cost of service-credits across the contract portfolio.

Our strengthened balance sheet underpins our ability to increase investment in digital solutions. This year we invested in a new pensions platform in our Financial Services vertical to facilitate wider user self service. Within Public Service, our digital technology stack will be an area of continued investment in 2023 and beyond, positioning us for improved opportunities going forwards.

To underpin the Group's increase in digital BPS; in 2023 we will be investing in a number of areas, including consolidation of our networks, improving our automation tools, and growing our cloud and hosting capabilities, data analytics and software engineering. This will enable us to meet the demands of clients, help deliver user-centric solutions and accelerate benefit delivery.

The Group continues to strengthen digital capability within our client offerings, as we invest in our technology stack and capabilities. We have partnered with world-leading technology providers such as Amazon Web Services (AWS), Salesforce and Microsoft to support the build of standardised scalable platforms, improving our ability to deploy automation, AI and analytics, and, in turn, delivering better customer service outcomes.

Growing our business

In 2022, the Group won contracts with a total contract value (TCV) of £2,853m (2021: £3,420m) the reduction reflecting the scale and lumpy nature of timing of contract award phasing in Public Service, partially offset by a strong performance in Experience.

Experience had a particularly strong year, with a 71% increase in TCV sold, reflecting very high levels of contract retention and growth with existing clients. The book to bill ratio for the division was 1.2x, the highest it has been for a number of years. New contract wins included broad customer experience support provision for ScottishPower for five years, which uses AI conversational technology and data analytics to deliver better outcomes and efficiencies.

Renewed contracts included a five-year renewal with the BBC (providing TV licensing collection, management and administration), a seven-year contract extension with freenet AG (providing customer services support for the German telecommunications and digital services company), and multiple contracts within the financial services industry, reflecting our strength in that area. The renewal rate in the division remains extremely high at 99% of all renewals bid for.

In August 2022, Capita joined forces with a social impact firm to help military veterans fill the UK's chronic digital skills gap

Public Service saw a 50% reduction in TCV sold, compared with the prior year, following the £925m win of the Royal Navy training contract in 2021. Our client renewal rate remains very high at 91% across renewals bid for. There was

> "Developing a more agile workforce has enabled us to increase our ability to meet resource demands."

success in the year in each vertical, including renewals with NHS England, Barnet Council and with the Department for Work and Pensions. We also secured growth with existing clients, including TfL Road User Charging and the Royal Navy on the Submarine Training Centre. The book to bill for the division for the year was 0.8x.

Wider market conditions across 2022, including changes within the UK Government, resulted in a number of significant contract tender processes seeing timeline slippage, particularly in areas of new business. Across the year, more than £3bn of TCV opportunities saw their closing date move from 2022 to 2023. Our 2023 unweighted pipeline is £7.5bn, with 70% of this reflecting new clients and new business. The weighted pipeline for 2023 is £2.2bn, split broadly 50:50 between Experience and Public Service.

The remaining businesses within Portfolio contributed £264m of TCV, which was a slight increase from that signed in 2021 on a like-for-like basis. The book to bill for the division remains above 1.0x.

At 31 December 2022, the Group's order book stood at £5,805m, reducing £310m from 31 December 2021 with £2,110m order book additions, indexation and scope changes, £2,132m revenue recognised and £288m from business disposals and contract terminations.

Delivery for our clients and cost efficiency

Consistently delivering for our clients is the cornerstone of our success. Effective, efficient client delivery and getting it right first time, reduces excess cost and allows us to grow revenue.

Our cNPS improved in 2022 by six points, with the overall score now at +35 points. We saw improvements in all divisions, reflecting our efforts to deliver for our clients and their customers throughout the business. In a few cases where KPI performance was not met consistently we actively engaged in remediation actions. This has helped improve our overall external stakeholder reputational scores, where we saw the highest annual score the Group has achieved since tracking began three years ago.

To allow more consistent delivery across both core divisions, we have established a flexible and agile workforce, which can be scaled up and down. We have created a single delivery organisation in each division, with common technology stacks and processes with a high level of agility. We are applying the same digital technology to our clients and ourselves to drive cost reduction and consistency of service delivery.

We had a strong and predictable operational performance in 2022, hitting customer KPIs consistently across the year. There were a number of notable achievements across the contract portfolio, including:

- Maintaining our 100% success delivery record for both time and cost on the Royal Navy training contract. The strength of this partnership has allowed us to bid for additional scopes of work such as the Submarine Training Centre.
- A smooth start to our work on the new ScottishPower contract in June, transferring 400 people to Capita from the previous service provider with no impact on operational performance.
- Flexible scaling of service delivery teams in our Experience division around client peak demand periods for retail sales across the year.

The challenging market conditions, and higher levels of employee attrition in some areas, increased cost pressure for the Group over the year, but developing a more agile workforce has enabled us to increase our ability to meet resource demands, and we have seen an improvement in our eNPS.

We are experiencing one of the tightest labour markets of all time, but managed to recruit a significant number of people in 2022 to meet market demand. We now have the appropriate resources to grow and maximise revenue opportunities.

More broadly, we see margin opportunity in improving commercial terms on our existing contracts and from solutions that have a higher digital underpin and are more scalable.

Our property portfolio and usage are a continued area of focus for management as we maintain our virtual first working model. In 2022, we permanently closed 19 properties and consolidated an additional 19, resulting in a 23% reduction in our total square footage over the past two years, reducing our annual lease payments by £22m.

Financial results – revenue and profit

Adjusted revenue[1] growth accelerated in 2022 to 2.4% across the whole year with 4% growth in the second half as we delivered adjusted revenue[1] of £2,845.8m (2021: £2,777.8m). New contract wins included the Northern Ireland teachers IT device refresh contract and the Turing Scheme, as well as the annualised benefit of the Royal Navy training contract and price increases/indexation. The impact of these new awards was partially offset by prior-year losses, and reductions in contract scope and volume, mainly in the Financial Services vertical in Experience. Portfolio performed well, as businesses recovered from the Covid-19 related activity restraints of 2021.

Reported revenue declined by 5% to £3,014.6m as the core business growth was more than offset by the disposal of non-core businesses.

Adjusted profit before tax[1] increased to £73.8m (2021 loss: £122.8m). The improvement in profit reflected the cessation of major restructuring spend in 2021 (£147.5m), the non-repetition of

1. Refer to APMs on pages 229 to 231.

Capita's Fire Service College has launched its new Aviation Firefighter Programme – with London Oxford Airport confirmed as its first customer – in a significant investment in the college's civil aviation training offering

the closed book Life & Pensions provisions booked in 2021 (£43.1m) and the benefit from revenue growth and cost efficiencies over the year. This was partially offset by the Group's commitment to repay £4.9m of furlough income received in 2021.

Reported profit before tax decreased, principally reflecting the reduction in disposal gains, following the ESS and Axelos sales completed in 2021 (2021 gain: £285.6m). In 2022, we made a disposal gain of £166.9m, primarily from the sale of Pay360. We recognised a £169.0m (2021: £11.5m) non-cash goodwill impairment in respect of businesses within the Portfolio division.

Financial results – free cash flow and net debt

We delivered positive free cash flow before the impact of business exits[1] of £29.0m (2021 outflow: £218.6m) and free cash flow was positive at £24.5m (2021 outflow: £264.3m). The swing to positive free cash flow generation reflected a reduction in pension deficit payments from £155.5m to £38.6m and deferred VAT repayments from £104.1m to £14.9m, together with an underlying improvement in operating cash flow conversion.

Net debt reduced further to £482.4m in 2022 (2021: £879.8m), as we continued to strengthen the balance sheet. Pre-IFRS 16 net financial debt reduced to £84.9m (2021: £431.4m). The reduction was achieved through our successful disposals programme, with c.£485m of gross proceeds received in 2022 from the sales of Pay360, the Technology and Property pillars, and Capita Translation and Interpreting, as well as those announced in 2021.

Our disposals programme has enabled us to meet £440m of debt maturities in 2021 and 2022. We continue to reduce other financial obligations, including in respect of our pension deficit through additional contributions, and our property footprint which yielded a further reduction in lease liabilities of £40m.

While market conditions have been challenging in some areas, we continued to see good interest in the businesses remaining to be sold within Portfolio. Operationally, we have maintained our strong delivery for clients in this area. The division now has £249.8m revenue and £26.9m of profit, before the allocation of Group overheads in 2022.

The closed book Life & Pensions business unit, which sits in Experience, continues to negatively affect the Group's cash performance, as the costs of servicing a small number of legacy contracts significantly outweigh client cash receipts. The cash outflow from this business unit is forecast to remain broadly unchanged. However, we continue to deliver operationally well for these clients and, while we support those that remain core to our Financial Services vertical, these contracts are an area of continued focus from management, as we look to reduce the adverse cash flow impact on the Group.

Outlook

While the current economic and broader political environments create some uncertainty, we believe that the transformation of Capita that we completed in 2021, and the financial turnaround of the business we delivered in 2022, places the business in a strong position to deliver successfully, moving forwards.

We expect that our market positioning, transformed business model and focus on opportunities in the digitally enabled BPS space will enable us to continue to accelerate revenue growth into 2023 and to deliver profit growth and positive free cash flow over the medium term.

Jon Lewis
Chief Executive Officer

1. Refer to APMs on pages 229 to 231.

Capita Public Service

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

"Public Service is well positioned, benefiting from its breadth of coverage, domain understanding and scale."

Alistair Murray
CEO, Capita Public Service

Adjusted revenue[1]

£1,445.3m

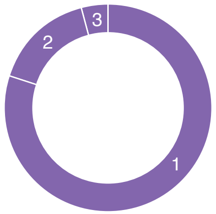
(2021: £1,410.4m) 2.5%

Adjusted operating profit[1]

£91.5m

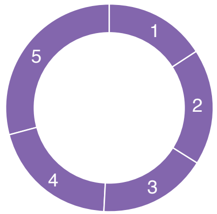
(2021: £93.2m) (1.8)%

Adjusted revenue by type (%)



1 80% Long-term contractual
2 16% Short-term contractual
3 4% Transactional

Revenue by market (%)



1 16% Education & Learning
2 18% Local Public Services
3 17% Health & Welfare
4 20% Defence, Fire & Security
5 29% Justice, Central Government & Transport

Financial performance

Divisional financial summary	2022	2021	Change %
Adjusted revenue[1] (£m)	**1,445.3**	1,410.4	2.5
Adjusted operating profit[1] (£m)	**91.5**	93.2	(1.8)
Adjusted operating margin[1] (%)	**6.3**	6.6	
Adjusted EBITDA[1] (£m)	**130.0**	138.7	(6.3)
Cash generated from operations before business exits[1] (£m)	**95.4**	66.5	43.5
Order book (£m)	**2,985.0**	3,286.3	(9.2)

Business units

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

Employees

- 11,700

Client distribution

- UK

Major contract wins and renewals

- A three-year extension to our Primary Care Support England contract, worth £94m
- £85m additional growth and scope, including the Submarine Training Centre on the Royal Navy training contract
- An extension to the current 10-year Barnet contract, worth up to £57m over three years
- Appointment as an HMRC automation partner, which over four years could be worth up to £20m

Competitors

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

1. Refer to APMs on pages 229 to 231.
2. TechMarketView.

Capita 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.

Our markets and growth drivers

Government spending in the UK with private sector organisations is c.£176bn[2]. Our current core addressable market is c.£13.9bn[2] growing at c.5%[2] per annum. Digital BPS is a fast-growing area, while BPO is currently shrinking, reflecting the Government's focus on digitally-enabled transformation.

While broader market dynamics and macroeconomics are expected to continue to be challenging during 2023, Public Service is well positioned, benefiting from its breadth of coverage, domain understanding and scale, together with sales and delivery capabilities in each vertical, offering efficient solutions and cost savings during times of fiscal strain.

In 2022, the UK Government published the Roadmap for Digital and Data outlining its intention to spend up to an additional £8bn by 2025 to accelerate digital, data and technology transformation in order to better respond to future macroeconomic challenges.

In 2022, we reinforced our position as an important strategic supplier to the UK Government

Our placement on digital frameworks and the shift in the BPS market to become more digital and data-enabled provides an opportunity as the Government seeks more cost-efficient and effective services, while improving overall citizen experience.

Across the variety of services that Public Service provides, we compete with a number of other providers within this fragmented market including but not limited to Fujitsu, Atos, Sopra Steria, CGI, TCS, Cognizant, Accenture, DXC Technology, BJSS, Cap Gemini, Kainos, Serco and Maximus.

Our strategy

Our strategy is to create better outcomes, using our consult-transform-deliver approach.

Public Service is executing on a digital strategy transformation programme, materially investing in our digital capabilities to create a preferred technology stack and IT ecosystem, alongside our traditional BPO business. This investment will underpin our ambition to transform the way we work, in line with the UK Government's evolving demand for digital solutions.

We look to leverage our vast experience of delivering and integrating end-to-end processes by deploying our digital capability in partnership with our UK Government clients to help them increase their operational efficiency and improve the outcomes for UK citizens.

In 2022, we reinforced our position as an important strategic supplier to the UK Government, reflecting continuous improvements in our delivery and strengthened balance sheet. As Capita has won and delivered more digital transformation and IT contracts across the public sector, the Government now regards us as a digital service provider alongside delivering traditional, complex outsourcing scopes of work.

Our strength is in understanding our clients' needs and problems with our deep sector knowledge and client partners in our chosen verticals working with relevant Government departments. We have invested in our coverage on Government frameworks, through which companies are able to bid for Government contracts, and we are now included on frameworks representing market access of up to £9.5bn.

We are working with the Government to understand how it expects the transition to digital delivery to be completed, with opportunities in our Health & Welfare, and Defence, Fire & Security, and Justice, Central Government & Transport verticals.

We saw success in this journey across a variety of contracts in 2022. In May, we were appointed as HMRC's new automation and innovation partner to develop, deploy and support robotic software and other automation tools in order to simplify processes and drive operational efficiency.

2. TechMarketView.

Our operational delivery remained consistently strong across the contract portfolio

Utilising our internally developed GrantIS platform, we successfully accelerated funding applications with the Department for Education for the 38,000 applications on the Turing Scheme and the product remains in use on a contract with the Department for International Trade. We believe there are a number of further applications for GrantIS within the grant management and wider distribution market.

During the year, we set up a client advisory board to improve our understanding of Government bid processes and requirements to help us become an even more effective service provider. In the long term, we expect this to improve win rates, our origination of bids, and our cNPS, as we see further alignment in our offerings.

Growth

Across the year, we intensified our customer focus through client partnering, with a professionalised sales force, to deliver high growth alongside strong operational outcomes.

Public Service won contracts with £1,218m (2021: £2,422m) TCV. The total TCV won decreased from the prior year reflecting the somewhat lumpy nature of the Government large contract sales pipeline and, in particular, the benefit in 2021 from the £925m Royal Navy training contract award. We saw certain material bid timelines pushed into 2023, particularly in the second half of the year, following a number of changes within the UK Government. As a result, the division's weighted pipeline has increased by £419m to £1,652m, and the 2022 book to bill ratio was 0.8x.

At 31 December 2022, the total unweighted pipeline was £7,858m, a decrease of £291m from December 2021, reflecting the TCV won in the year and the number of additions to the pipeline across the year.

We continue to see strong performance on contract renewals with a 91% win rate across renewals bid for, with extensions with NHS England, Barnet Council, the Department for Work and Pensions, and the Northern Ireland Education Authority. On all opportunities bid for, we saw a success rate of 67%.

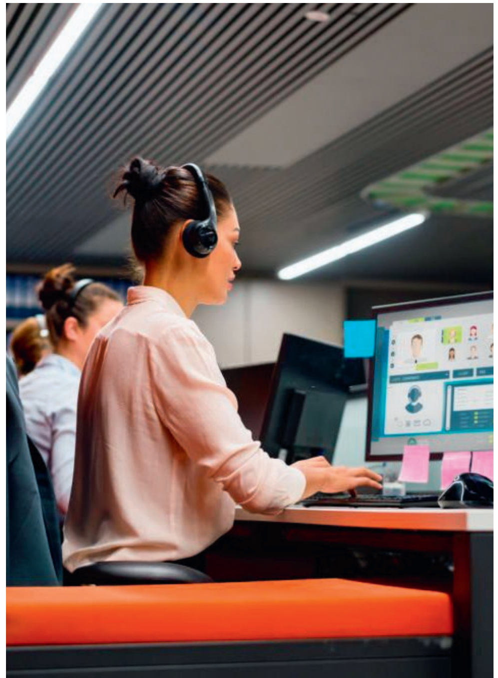
The order book at 31 December was £2,985m, a decrease of £301m since 31 December 2021, as revenue recognised was not offset by order book additions in the year.

Cost and operational excellence

Across the year, we focused on further embedding the operating model introduced in 2021 to ensure it met our clients' needs across a broad range of services with improved cross-sell opportunities. There have been natural efficiencies from the division's matrix operating model and we are now looking at the digital tools and investments to reduce future costs, as we enhance the scalability of solutions.

The division's standalone cNPS improved by nine points from 2021 to an overall score of +33, including many of our key clients, reflecting the commitment to client delivery and consistent outcomes achieved during the year.

In 2022 our operational delivery remained consistently strong across the contract portfolio, with strong performance against all contract KPIs; for example, we delivered on all the key milestones on the Royal Navy training contract and have now started running the Royal Navy's maritime composition training system. In addition, we launched the Aviation Fire Programme at the Fire Service College, while the Job Entry Targeted Support contract delivered in 18 months more than 1.5x the target number of job starts. Within our Smart DCC subsidiary there are now 10 million first generation meters connected to the DCC secure nationwide network.



In April 2022, Capita secured a two-year contract extension with Northern Ireland's Education Authority to continue to deliver the managed IT service for all of Northern Ireland's 1,100 schools

In 2022, we delivered on all the key milestones of our Royal Navy training contracts, and have now started running the Navy's maritime composition training system

This consistent performance has reduced the financial burden on the division, with the major contracts now delivering improving profit and cash flow, alongside growth opportunities such as the Submarine Training Centre and with our TfL Road User Charging contract.

We have now commenced investment to underpin efficient operations in future years, automating common operational activities, with financial payback expected from 2023. We are increasingly using shared service centres to provide resourcing flexibility and to ensure we service our contracts consistently.

Financial performance

Adjusted revenue[1] increased by 2.5% to £1,445.3m, reflecting the annualisation of the Royal Navy training contract and additional growth opportunities within the contract and wins such as the Northern Ireland teachers IT refresh contract. Revenue also benefited from additional volumes in the Justice, Central Government & Transport vertical and the running of the first full test cycle of primary school curriculum assessments in England for the Standards and Testing Agency (STA), following cancellation of the previous year's test cycle due to Covid restrictions. There were contract handbacks in the year within our Local Public Services vertical, as well as the cessation of our contract with The Pensions Regulator.

Adjusted operating profit[1] decreased by 1.8% to £91.5m, reflecting the mix of work and reduced margin on the British Army Recruiting Partnering Project (RPP) contract as it moved into the next phase of service delivery. This was offset by the non-recurrence of significant restructuring spend in 2021 (£5m) and margin from contract wins and increases in volumes. The division also benefited from the mutual conclusion of the Electronic Monitoring Service transformation programme in 2021, which resulted in £9m of costs being incurred in the prior year.

Cash generated from operations before business exits[1] increased by 43.5% to £95.4m, reflecting the working capital benefit from contracts moving into the operational phase, offset by utilisation of customer contract provisions in 2022. The 2021 cash flow was impacted by the repayment of deferred VAT from 2020.

Outlook

In 2023, we expect accelerated revenue growth, particularly in our Education & Learning, and Defence, Fire & Security verticals, as volumes on existing contracts and transactional revenue increase.

Improvements in the division's operating margin are expected to be achieved, as we continue to win work at appropriate rates of return and efficiencies are realised from our simplified organisation and technology investment.

1. Refer to APMs on pages 229 to 231.

Capita Experience

Capita Experience is one of western Europe's leading customer experience businesses. It is the market leader in the UK[4] and ranks fifth in Germany[4] and Europe[4].

"Our service-delivery options across different geographies offer our clients flexibility and provide a growth opportunity going forward."

Corinne Ripoche
CEO, Capita Experience

Adjusted revenue[1]

£1,150.7m

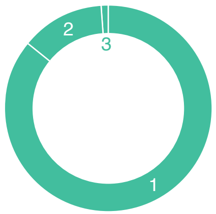
(2021: £1,140.9m) 0.9%

Adjusted operating profit[1]

£38.5m

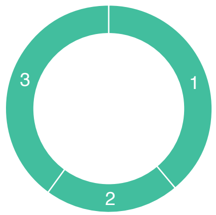
(2021: £8.9m) 332.6%

Adjusted revenue by type (%)



1 86% Long-term contractual
2 13% Short-term contractual
3 1% Transactional

Revenue by market (%)



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

Financial performance

Divisional financial summary	2022	2021	Change %
Adjusted revenue[1] (£m)	1,150.7	1,140.9	0.9
Adjusted operating profit[1] (£m)	38.5	8.9	332.6
Adjusted operating margin[1] (%)	3.3	0.8	
Adjusted EBITDA[1] (£m)	113.4	93.2	21.7
Cash generated from/(used by) operations before business exits[1] (£m)	30.7	(4.8)	n/a
Order book (£m)	2,526.7	2,271.8	11.2

Business units (new split from 2023)

- Telecoms, Media & Technology
- Financial Services
- Energy & Utilities
- Retail

Employees

- 31,000

Client distribution

- UK, Ireland, Germany and Switzerland

Delivery centres

- UK, South Africa, India and Poland

Major contract wins and renewals

- A five-year contract extension worth £456m to administer the TV licence fee on behalf of the BBC
- Extensions worth up to £40m across our Plusnet and Samsung contracts
- A new logo win with ScottishPower worth up to £63m over five years

Competitors

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

1. Refer to APMs on pages 229 to 231.
4. NelsonHall.

Experience is now structured around four core industries: Financial Services; Technology Media & Telco (TMT); and, following the separation of our Multi-industry vertical, Energy & Utilities and Retail.

Our markets and growth drivers

The global customer experience market is worth £277bn[5] a year and the outsourced element is expected to grow at c.5% per annum. Around 28%[5] of the market is currently outsourced.

We are the largest provider of customer experience services in the UK and Ireland, with a market share of around 12%[4]. Our competitors within the customer experience segment are mostly global and include peers such as Teleperformance, Webhelp, Concentrix and Majorel.

The market continues to trend towards self-service and automation, with clients looking to utilise omni-channel offerings, with increased multilingual capabilities and capacity, and agents working remotely both on and offshore.

The changing economic landscape poses an opportunity for Experience, particularly within our Financial Services and Energy & Utilities industry verticals, as institutions in these sectors have a key role to play in helping vulnerable customers through periods of uncertainty, and empathetic human intervention is required for those who need it most.

Renewal rates continue to remain high for the division, with 99% of bids successful

Capita Experience digital ecosystem

Our strategy

The long-term strategy of the core business is to be a leading customer experience service provider delivering better outcomes for our clients through a consultative approach underpinned by data and technology.

Experience has an extensive blue-chip customer list and we have increasingly seen our customer base diversify, with wins this year in the FinTech sector.

In 2022 we introduced a single divisional operating model, with more consistent leadership and improved rigour across the service delivery process. Using our matrix operating model, we are able to meet resourcing needs with an agile and flexible workforce available to serve across various contracts as demand requires, such as for peak sale periods. Our operating model helps us stay competitive within the market and allows us to manage resources around client demands with an end-to-end delivery model.

4. NelsonHall.
5. Everest.

We are a trusted partner and adviser for clients, with omni-channel delivery options allowing for both self-service and human-contact options based on the nature of the experience required. The division has an advanced toolkit of services including speech analysis and real-time feedback to ensure customers get the best outcomes seamlessly.

Our service-delivery options across different geographies offer our clients flexibility and provide a growth opportunity going forward. In 2022, alongside expanding our operations in India and Durban, South Africa, we expanded into additional cities in Poland to support delivery of our services in 35 different languages with 24/7 support. These sites will be important strategic hubs for our future growth and further expansion of our multilingual capabilities.

Growth

At 31 December 2022, the total unweighted pipeline was £4,082m, a decrease of £1,388m from 31 December 2021. The division won TCV of £1,371m, an increase of 71% from 2021. Significant wins in the year included renewals with the BBC (providing TV licensing collection, management and administration) and with freenet AG (providing customer services support for the German telecommunications and digital services company) within our international business in TMT. There were multiple wins within the Financial Services vertical, reflecting our strength in this area.

The weighted pipeline at 31 December 2022 stood at £1,114m (2021: £1,566m) reflecting the TCV won during the year. The divisional book to bill was 1.2x, an improvement from 0.7x in 2021, an important milestone on the division's business-improvement journey.

Renewal rates continue to remain high for the division, with 99% of bids successful as we continue to deliver operationally for clients. Renewals are important in order to maintain a consistent revenue base, but we are also focused on revenue growth from new scopes of work and growth on account where our historical win rates have not been as strong. Our win rate in the division was 52% across all opportunities. Our 2023 pipeline is diverse, with a mixture of new scopes of work and growth on account.

Challenged end-markets meant that we saw a number of significant deal timelines slip into 2023; these included a number of new clients in the TMT vertical and renewals within our Energy & Utilities and Retail industry verticals.

The order book at year end was £2,527m, an increase of £255m since 31 December 2021, reflecting the contract wins in the year which more than offset revenue recognised in the year.

Cost and operational excellence

Throughout 2022, our matrix structure delivered operational excellence while delighting clients, as evidenced by our consistent KPI performance and +10 point improvement in cNPS, to an overall score of +19.

As with many competitors in our markets, employee attrition remained high, and we adapted our business model across the year, while taking action to address the higher level of attrition. We moved to using a demand-led resource model, allowing us to resource all full-time employee requirements on our contracts. Attrition will remain a key area of focus in 2023, as well as being an area of further cost-reduction opportunity, as we reduce attrition levels and improve employee retention.

We delivered well for our clients during the year; for example, after winning the ScottishPower contract in June, we transferred 400 people from the previous service provider to Capita Experience with no impact on functionality or service delivered to customers. Working with another client in the energy sector, we more than doubled the existing team to improve customer service, responding to the additional volume requirements during the ongoing energy crisis, reducing response times by 30% and improving quality scores by 10%.

Capita has secured a five-year agreement to deliver frontline customer support services for ScottishPower customers across the UK

Capita has secured a five-year contract extension to continue to administer the TV licence fee in the UK

In addition, we worked with Marks & Spencer deploying conversational AI, outperforming the previous incumbent with a 10% increase in customers able to self serve. We also worked with an existing customer on a consulting basis to categorise all incoming calls across their entire estate and use data analytics to improve and add value to the overall customer experience. This type of consulting engagement is an important growth area for the division, as we boost our BPO and BPS services, while improving the end-customer journey.

We have seen further volume attrition within our closed book Life & Pensions business unit, in line with our expectations. The business unit is forecast to be loss-making with a consistent cash outflow in future years, with a provision held reflecting this. We continue to deliver operationally well for these clients but remain focused on resolving the structural challenge in this area to reduce ongoing cash losses.

Elsewhere in the regulated services business, Pensions Administration continues to perform well and activity levels improved further in 2022. Within the Financial Services vertical, we invested in our mortgage business to create a customer-focused IT platform and ecosystem, allowing an end-to-end service to clients, which supports our growth ambitions in this area.

Financial performance

Adjusted revenue[1] increased by 0.9% to £1,150.7m, reflecting price increases and wins in the year including ScottishPower and international wins in Germany and Switzerland which offset the final-year impact of prior-year losses. The division saw lower volumes with continued attrition within the closed book Life & Pensions contracts.

Adjusted operating profit[1] increased by 332.6% to £38.5m. The result in 2021 was impacted by the recognition of provisions and impairments in our closed book Life & Pensions business (£43m) and completion of the Group's significant restructuring where the division incurred £12m of expense in 2021.

As revenue growth becomes more established, operating leverage is expected to drive further margin improvement

Cash generated from operations before business exits[1] increased by £35.5m to £30.7m, with an improvement in working capital benefiting the division's operating cash conversion. The division's cash performance in 2021 was impacted by the repayment of deferred VAT from 2020 together with restructuring spend and recognition of contract-related provisions.

Outlook

While improvements were made during 2022, Experience continues to lag behind Public Service in its business-improvement journey.

In 2023, we expect revenue to be broadly in line with 2022, reflecting continued reductions from contract losses and volume attrition within the closed book Life & Pensions, offset by growth from new wins and growth on account delivered across our market verticals. As we have simplified our go-to-market offering and become more efficient and effective, we expect to deliver mid single-digit growth over the medium term.

As revenue growth becomes more established, operating leverage is expected to drive further margin improvement.

1. Refer to APMs on pages 229 to 231.

Portfolio

Portfolio comprises the remaining non-core businesses which the Group is looking to exit.

Adjusted revenue[1]

£249.8m

(2021: £226.5m) 10.3%

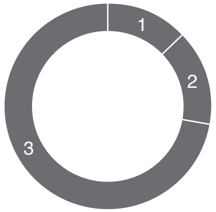
Adjusted operating profit[1]

£16.2m

(2021: £(0.1)m) n/a%

> **"We have made significant progress with the Portfolio disposal programme, helping us simplify and focus the Group for future growth."**
>
> **Chantal Free**
> CEO, Capita Portfolio

Adjusted revenue by type (%)



1 **13%** Long-term contractual
2 **15%** Short-term contractual
3 **72%** Transactional

Financial performance

Divisional financial summary	**2022**	2021	Change %
Adjusted revenue[1] (£m)	**249.8**	226.5	10.3
Adjusted operating profit[1] (£m)	**16.2**	(0.1)	n/a
Adjusted operating margin[1] (%)	**6.5**	–	
Adjusted EBITDA[1] (£m)	**35.6**	24.3	46.5
Cash generated from operations before business exits[1] (£m)	**17.1**	21.2	(19.3)
Order book (£m)	**293.5**	557.3[2]	(47.3)

Business units

- People
- Property (sold during 2022)
- Technology (sold during 2022)
- Software
- Business Solutions
- Travel
- Fera

Employees

- 3,000

Client distribution

- UK

Major contract wins and renewals

- A renewal with an energy company within the People pillar worth £5m
- There were a number of new clients and renewals within the Retain business with total TCV won over £7m

1. Refer to APMs on pages 229 to 231.

2. Includes businesses subsequently disposed of in 2022

Since the division was formed in 2021 we have made significant progress with the Portfolio disposal programme, helping us simplify and focus the Group for future growth. This year the division raised more than £330m gross proceeds from completed disposals.

Our markets and growth drivers

Portfolio is made up of a range of businesses which service public and private sector clients across multiple, generally mature, markets and sectors.

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

Our strategy

The division is organised into pillars comprising businesses of similar characteristics: People, Software, Business Solutions, Travel, and the Fera joint venture with the UK Government, to allow for efficient management and to facilitate smooth transaction processes.

During 2022, we successfully completed the disposal of the Technology and Property pillars, as well as Capita Translation and Interpreting within the Business Solutions pillar, together with those announced in 2021, achieving gross proceeds of c.£330m from these disposals.

Cost and operational excellence

The pillars within Portfolio continue to deliver a strong operational service for clients and the division has seen its fourth consecutive improvement in its annual cNPS score.

During the year, our travel business, Agiito, won a number of awards, including being recognised in the Top 50 Business Travel Agencies. Within our Fera business, we opened an expert insect bioconversion research and development facility to support the needs of global clients across the industry.

We are working to ensure ongoing cost efficiency in the division ahead of the completion of the disposal programme, through successful vacancy management and redeployment of employees across the wider Group.

Financial performance

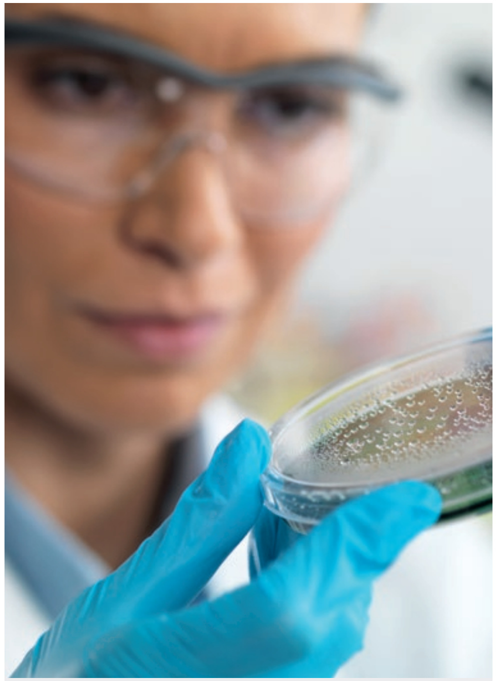
Adjusted revenue[1] increased 10.3% to £249.8m as pillars within Portfolio continued to recover from subdued trading during the Covid-19 pandemic, particularly within our Agiito and Enforcement businesses.

Adjusted operating profit[1] increased from break even to £16.2m, reflecting revenue growth and the benefit from the non-repeat of £2.3m significant restructuring costs incurred in 2021. This more than offset the cost of operational investment in some pillars.

Cash generated from operations before business exits[1] decreased by 19.3% to £17.1m driven by working capital requirements as the division recovers from Covid-19, which more than offset the improvement in EBITDA.

Outlook

We are targeting for the majority of the remaining businesses within Portfolio to be disposed of during the first half of 2023, depending on general market conditions.



Fera Science launched a £1m laboratory for insect bioconversion in York

1. Refer to APMs on pages 229 to 231.

A turnaround in financial performance

"Accelerated revenue growth, a step change in profitability and positive free cash flow."

Tim Weller, Chief Financial Officer

Overview

Improved adjusted revenue[1] growth was in line with our expectations, with an acceleration across the year from 1% in the first half to 4% in the second half. This was driven by strong growth in the Public Service and Portfolio divisions and stabilisation of revenues in the Experience division.

Public Service revenue growth was underpinned by new wins such as the Northern Ireland teachers IT refresh contract and annualisation of the Royal Navy training contract offset by revenue reductions in some Local Public Service contracts. Experience revenue was impacted by significant prior year contract losses, offset by new wins, including those in International and with ScottishPower.

Growth in our transactional business was mainly driven by Portfolio, including the Travel and Enforcement businesses, which continued their recovery following Covid-related constraints.

From 1 January 2022, the Board has limited the items excluded from the adjusted results to business exits, amortisation and impairment of acquired intangibles, impairment of goodwill and certain fair value adjustments which impact net finance income/expense. This presentation

Summary of financial performance

	Financial highlights					
	Reported results – continuing operations			Adjusted[1] results – continuing operations		
	31 December 2022	31 December 2021	Reported YOY change	31 December 2022	31 December 2021	Adjusted YOY change
Revenue	**£3,014.6m**	£3,182.5m	(5.3)%	**£2,845.8m**	£2,777.8m	2.4%
Operating profit/(loss)	**£(79.6)m**	£(86.6)m	8%	**£102.9m**	£(77.7)m	n/a
EBITDA	**£235.7m**	£222.3m	6%	**£238.8m**	£143.0m	67%
Profit/(loss) before tax	**£61.4m**	£285.6m	(79)%	**£73.8m**	£(122.8)m	n/a
Earnings/(loss) per share	**4.47p**	13.33p	(67)%	**6.20p**	(7.74)p	n/a
Cash generated from/(used by) operations*	**£117.8m**	£(148.5)m	n/a	**£116.5m**	£(109.7)m	n/a
Free cash flow*	**£24.5m**	£(264.3)m	n/a	**£29.0m**	£(218.6)m	n/a
Net debt	**£(482.4)m**	£(879.8)m	£397.4m	**£(482.4)m**	£(879.8)m	£397.4m
Net financial debt (pre-IFRS 16)	**£(84.9)m**	£(431.4)m	£346.5m	**£(84.9)m**	£(431.4)m	£346.5m

* Cash generated from operations adjusted results and free cash flow adjusted results are free cash flow before business exits and cash generated from operations before business exits respectively (refer to note 2.10)

1. Refer to APMs on pages 229 to 231.

provides a more representative measure of the underlying performance of the business following completion of the Group-wide transformation. The comparatives have been re-presented on the same basis, with significant restructuring (£147.5m), contract-related provisions and impairments (£43.1m) and certain litigation and claims (credit £2.3m) now included within adjusted results for the year ended 31 December 2021.

The increase in adjusted profit before tax[1] reflects the above change in presentation, and therefore benefits from the reduction in restructuring costs and contract-related provisions and impairments, as well as the benefit of revenue growth. In 2021, the Group received £4.9m of funding under the coronavirus job retention scheme made available by the Government to help ease the employment impact of Covid-19. In May 2022, we announced the Group's intention to repay the 2021 furlough-related income at the end of the Group's publicly stated disposal programme and no later than the end of June 2023. An accrual has been recognised for this repayment in the year ended 31 December 2022.

The decrease in reported profit before tax arose as the increase in adjusted profit before tax[1] was more than offset by an increase in impairments of goodwill, a reduction in operating profit from business exits and a lower gain on the sale of businesses.

From 1 January 2022, the Board considers free cash flow and cash generated from operations before business exits each to be alternative performance measures that provide a more representative measure of the sustainable cash flow of the Group following completion of the Group-wide transformation.

Cash generated from operations before business exits[1] increased by £226.2m to £116.5m benefiting from the improvement in adjusted profit[1] explained above, a reduction in repayments in respect of the Government's VAT deferral scheme and a £43.6m reduction in pension deficit contributions as the Group reverts to the agreed deficit contributions set as part of the 2020 triennial funding agreement with the pension scheme trustees.

Free cash flow before business exits[1] for the year ended 31 December 2022 was an inflow of £29.0m (2021: £218.6m outflow). The improvement primarily reflected the above increase in cash generated from operations before business exits[1], and a reduction in net interest paid in respect of leases and private placement loan notes.

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 the year we completed the disposal of eight businesses, realising total proceeds net of disposal costs of £463.4m (including settlement of intercompany balances on completion) with net cash proceeds of £387.9m reflecting the cash held in the disposed entities on completion.

These disposals form part of the Board-approved disposal programme. The sale processes have been launched for the remaining pillars in the Portfolio division. The Group expects to use the proceeds from this disposal programme to repay debt, to make accelerated deficit reduction contributions to the Group's defined benefit pension scheme and to invest in driving growth in the remaining core businesses. During the year, we repaid £226.7m of private placement loan notes and made pension deficit contributions of £38.6m (£30.0m regular contributions and £8.6m acceleration of agreed contributions triggered by disposals).

Liquidity as at 31 December 2022 was £405.2m, made up of £288.4m of the undrawn element of our committed revolving credit facility (RCF) and £116.8m of unrestricted cash and cash equivalents net of overdrafts. In July 2022, we extended the RCF to 31 August 2024.

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 2021 comparatives have been re-presented to exclude 2022 business exits. As at 31 December 2022, the following businesses met this threshold and were classified as business exits and therefore excluded from adjusted results in both 2022 and 2021: ESS, AXELOS, Life Insurance and Pensions Servicing business in Ireland, AMT Sybex, Secure Solutions and Services, the Speciality Insurance business, Trustmarque, Real Estate and Infrastructure Consultancy, Optima Legal Services, Pay360 and Capita Translation and Interpreting.

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

1. Refer to APMs on pages 229 to 231.

Adjusted revenue

Adjusted revenue[1] growth of 2.4% was in line with expectations. The adjusted revenue[1] was impacted by the following:

- **Public Service (2.5% growth):** growth from contract wins, including a contract to supply laptops to teachers in Northern Ireland as well as the annualised benefit of the Royal Navy training contract, increased growth in existing contracts in Central Government, and completion of a full test cycle on STA, offsetting handbacks in Local Government;
- **Experience (0.9% growth):** stabilisation in revenue, with the impact of significant prior year contract losses offset by positive revenue contributions in particular from new client wins in International and with ScottishPower; and
- **Portfolio (10.3% growth):** growth in transactional revenue mainly from Travel and Enforcement following the turnaround in these Covid-19 impacted businesses.

Order book

The Group's consolidated order book was £5,805.2m at 31 December 2022 (2021: £6,115.4m). Additions from contract wins, scope changes and indexation in 2022 (£2,110.2m), including the BBC and freenet AG extensions within Experience, and Personal Independence Payments and TfL Road User Charging within Public Service, were offset by the reduction from revenue recognised in the year (£2,132.3m), contract terminations (£8.1m) and business disposals (£280.0m).

Adjusted profit before tax

Adjusted profit before tax[1] increased in 2022. The adjusted profit before tax[1] was driven by the following:

- **Public Service:** benefits from the wins in 2022, the annualised benefit of the Royal Navy training contract and the non-recurrence of Electronic Monitoring programme costs in 2021; offset by a reduction on the British Army recruitment contract (RPP) resulting from transition to the next phase of service delivery;
- **Experience:** flow through of prior year losses including 3UK, William Hill and in the closed book Life & Pensions business. 2021 was impacted by provisions and impairments in the closed book Life & Pensions business and completion of significant restructuring;
- **Portfolio:** benefits from post Covid-19 recovery in transactional businesses and the non-repeat of 2021 restructuring costs; offset by operational investment in certain businesses; and
- **Capita plc:** benefits from the end of the transformation programme (2021 included £128.0m of significant restructuring) and efficiencies realised; offset by the effect of the announced intention to repay the 2021 furlough-related income.

Cash generated from operations and free cash flow

Adjusted EBITDA[1] increased by 67% reflecting the improvement in adjusted profit[1] explained above and the significant reduction in depreciation, amortisation and impairment of property, plant and equipment and intangible assets, largely driven by the Group's property rationalisation programme.

Cash generated from operations before business exits[1] benefited from the improvement in adjusted EBITDA[1], a lower working capital outflow compared with 2021, materially lower deferred VAT repayments and pension deficit contributions; offset by a reduction in non-cash and other adjustments.

The lower working capital outflow arises from contracts moving into the operational phase and increased utilisation of non-recourse trade receivables financing in 2022.

The reduction in non-cash and other adjustments reflects utilisation of customer contract provisions in 2022 compared with provision recognition in 2021, and the utilisation of the remaining restructuring provision.

Free cash flow before business exits[1] for the year ended 31 December 2022 was an inflow of £29.0m (2021: outflow £218.6m). The improvement reflected the above increase in cash generated from operations before business exits[1], a reduction in capital expenditure, and net interest paid in respect of leases and the Group's private placement loan notes.

Adjusted operating cash conversion[1] increased to 68% (2021: 48%).

Adjusted revenue[1] bridge by division

	Public Service £m	Experience £m	Portfolio £m	Total £m
Year ended 31 December 2021	1,410.4	1,140.9	226.5	2,777.8
Net growth	34.9	9.8	23.3	68.0
Year ended 31 December 2022	**1,445.3**	**1,150.7**	**249.8**	**2,845.8**

Adjusted profit before tax[1] bridge by division

	Public Service £m	Experience £m	Portfolio £m	Capita plc £m	Total £m
Year ended 31 December 2021	93.2	8.9	(0.1)	(224.8)	(122.8)
Net growth/(reduction)	(1.7)	29.6	16.3	152.4	196.6
Year ended 31 December 2022	**91.5**	**38.5**	**16.2**	**(72.4)**	**73.8**

1. Refer to APMs on pages 229 to 231.

Reported results

Adjusted to reported profit

As noted above, to aid understanding of our underlying performance, adjusted operating profit[1] and adjusted profit before tax[1] exclude a number of specific items, including the amortisation and impairment of acquired intangibles and goodwill, and the impact of business exits.

Impairment of goodwill

In preparing the half-yearly condensed consolidated financial statements at 30 June 2022, and these consolidated financial statements at 31 December 2022, the Group undertook detailed impairment reviews.

At 30 June 2022 a goodwill impairment of £92.5m was recognised in respect of the People and Property CGUs, and at 31 December 2022 a further goodwill impairment of £76.5m was recognised in respect of the People, Travel and Business Solutions CGUs, in the Group's Portfolio division. The impairments reflected the difference between the expected net proceeds at disposal and the cash flows the Group had previously projected it would generate if it held these businesses into perpetuity. The difference has arisen due to the potential for acquirers factoring in additional investment and costs required to run the businesses on a standalone basis, coupled with general macroeconomic conditions.

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.

In addition, business exits include 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 2022.

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 2021 comparatives have been re-presented to exclude the 2022 business exits.

Adjusted operating profit to free cash flow before business exits[1]

	2022 £m	2021 £m
Adjusted operating profit/(loss)[1]	**102.9**	(77.7)
Add: depreciation/amortisation and impairment of property, plant and equipment and intangible assets	**135.9**	220.7
Adjusted EBITDA[1]	**238.8**	143.0
Working capital	**(32.7)**	(113.6)
Non-cash and other adjustments	**(44.7)**	38.6
Operating cash flow before business exits[1]	**161.4**	68.0
Deferred VAT repayment	**(14.9)**	(104.1)
Pension deficit contributions	**(30.0)**	(73.6)
Cash generated from/(used by) operations before business exits[1]	**116.5**	(109.7)
Net capital expenditure	**(43.6)**	(51.2)
Interest/tax paid	**(43.9)**	(57.7)
Free cash flow before business exits[1]	**29.0**	(218.6)

Reported to adjusted[1] profit bridge

	Operating profit/(loss)		Profit/(loss) before tax	
	2022 £m	2021 £m	2022 £m	2021 £m
Reported	**(79.6)**	(86.6)	**61.4**	285.6
Amortisation and impairment of acquired intangibles	**5.1**	7.7	**5.1**	7.7
Impairment of goodwill	**169.0**	11.5	**169.0**	11.5
Net finance costs	**—**	—	**(3.4)**	1.4
Business exits	**8.4**	(10.3)	**(158.3)**	(429.0)
Adjusted	**102.9**	(77.7)	**73.8**	(122.8)

1. Refer to APMs on pages 229 to 231.

At 31 December 2022 business exits primarily comprised:

Business	Disposal completed on
AMT Sybex	1 January 2022
Secure Solutions and Services	3 January 2022
Trustmarque	31 March 2022
Speciality Insurance	29 April 2022
Real Estate and Infrastructure Consultancy	22 September 2022
Optima Legal Services	30 November 2022
Pay360	1 December 2022
Capita Translation and Interpreting	29 December 2022

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 2022 and, accordingly their trading results are included within adjusted results.

Further detail of the specific items charged in arriving at reported operating profit and profit before tax for 2022 is provided in note 2.4 of the consolidated financial statements.

Taxation

The reported income tax credit for the year of £14.6m (2021: charge £61.5m) and the adjusted income tax credit for the year of £31.8m (2021: charge of £4.0m) reflect the recognition of additional deferred tax assets of £36.7m (net of a £16.7m change in the deferred tax asset estimate due to the reduction in future taxable profits on disposal of taxable entities, reflected in the tax arising on business exits). 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.

Free cash flow to free cash flow before business exits

Free cash flow was lower than free cash flow before business exits[1] principally reflecting pension deficit contributions triggered by the disposal of Trustmarque and AXELOS, offset by free cash flows generated by business exits.

Movements in net debt

Net debt at 31 December 2022 was £482.4m (2021: £879.8m). The substantial reduction in net debt reflects the benefit of the Group's positive free cash flow generation, the proceeds from disposals, coupled with the impact of the ongoing programme of leased property estate exits.

Free cash flow to free cash flow before business exits[1]

	2022 £m	2021 £m
Free cash flow	**24.5**	(264.3)
Business exits	**(4.1)**	(36.2)
Pension deficit contributions triggered by disposals	**8.6**	81.9
Free cash flow before business exits[1]	**29.0**	(218.6)

Net debt

	2022 £m	2021 £m
Opening net debt	**(879.8)**	(1,077.1)
Cash movement in net debt	438.2	232.1
Non-cash movements	(40.8)	(34.8)
Closing net debt	**(482.4)**	(879.8)
Remove closing IFRS 16 impact	397.5	448.4
Net financial debt (pre-IFRS 16)	**(84.9)**	(431.4)
Cash and cash equivalents net of overdrafts	177.2	101.5
Financial debt net of swaps	(262.1)	(532.9)
Net financial debt/adjusted EBITDA[1] (both pre-IFRS 16)	**0.5x**	3.7x
Net debt (post-IFRS 16)/adjusted EBITDA[1]	**2.0x**	4.1x

1. Refer to APMs on pages 229 to 231.

Net financial debt (pre-IFRS 16) reduced by £346.5m to £84.9m at 31 December 2022, resulting in a net financial debt to adjusted EBITDA[1] (both pre-IFRS 16) ratio of 0.5x. Over the medium term, following the completion of our Portfolio divestment programme, we will be targeting a net financial debt to adjusted EBITDA[1] (both pre-IFRS 16) ratio for Capita of ≤1.0x.

The Group was compliant with all debt covenants at 31 December 2022.

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, revolving credit facility (RCF), leases and overdrafts.

In July 2022, the Group signed an extension of the £300m forward start RCF with its lending banks for a further twelve months to August 2024. The new facility commenced on 31 August 2022 upon the expiry of the previous RCF and provides the Group with committed liquidity for the cash fluctuations of the business cycle and an allowance for contingencies, and incorporates provisions such that it will partially reduce in quantum as a consequence of specified transactions. The RCF was not drawn upon at 31 December 2022 and had a total committed value of £288.4m.

In addition, the Group has in place a non-recourse invoice discounting facility, utilisation of which has become economically more favourable than drawing under the RCF as prevailing interest rates have increased. As such, the Group has increased its use of the facility across the year with the value of invoices sold under the facility at 31 December 2022 of £44.4m (2021: £16.4m).

At 31 December 2022, the Group had £177.2m of cash and cash equivalents net of overdrafts, and £285.5m of private placement loan notes and fixed-rate bearer notes. These debt instruments mature over the period to 2027, with repayment of £66.3m of maturities in 2023 which are expected to be funded through the Group's existing facilities, cash and cash equivalents and from the proceeds of the Group's ongoing 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.

Going concern

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

The Group and Parent Company continue to adopt the going concern basis in preparing these consolidated financial statements as set out in section 1 to the consolidated financial statements.

1. Refer to APMs on pages 229 to 231.

Liquidity

	2022 £m	2021 £m
Revolving credit facility (RCF)	**288.4**	385.7
Less: drawing on committed facilities	—	(40.0)
Undrawn committed facilities	**288.4**	345.7
Net cash, cash equivalents net of overdrafts	177.2	101.5
Less: restricted cash*	(60.4)	(54.8)
Liquidity	**405.2**	392.4

* Restricted cash includes cash required to be held under FCA regulations and cash held in foreign bank accounts.

Viability assessment

The Board's assessment of viability over the Group's three-year business planning time horizon is summarised in the viability statement on page 64.

Pensions

Contributions during the year to the Capita Pension and Life Assurance Scheme (the Scheme) have been in line with the contribution schedule agreed with the Trustee of the Scheme following the 31 March 2020 triennial valuation. This includes the acceleration of deficit reduction contributions (£8.6m) triggered due to the disposal of Capita entities during the year.

The net defined benefit pension position for accounting purposes moved from a small net asset at the start of the year (£5.8m) to a larger net asset by 31 December 2022 (£39.6m). The main reasons for this movement were the £38.6m of deficit funding contributions paid into the Scheme (plus a net £0.2m deficit funding contribution in respect of other schemes). Both the value attributed to the pension liabilities and the value of the assets fell materially over the year predominantly due to the material increase in the yields available on both long-dated Government and corporate bonds. Due to the investment strategy adopted by the Trustee of the Scheme the impact of these changes has been broadly hedged so that the value of the assets has moved to a similar degree to the value of the liabilities. Despite the economic events in Q3 2022 that led the Bank of England to purchase Government bonds, the Scheme's Fiduciary Manager confirmed that the Scheme had sufficient liquid assets to meet collateral calls to maintain its hedged positions throughout the year, as well as confirming that there is sufficient buffer against future adverse movements.

The net defined benefit pension position for accounting purposes moved from a small net asset at the start of the year (£5.8m) to a larger net asset by 31 December 2022 (£39.6m)

The valuation of the Scheme liabilities (and assumptions used) for funding purposes (the actuarial valuation) are specific to the circumstances of the Scheme. It differs from the valuation and assumptions used for accounting purposes, which are set out in IAS 19 and shown in these financial statements. The main difference is in assumption principles being used based in the different regulatory requirements of the valuations. Management estimates that at 31 December 2022 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 2022) was approximately £40.0m (2021: net asset £40.0m) on a technical provisions basis. The Trustee of the Scheme has also agreed a secondary more prudent funding target to enable it to reduce the reliance the Scheme has on the covenant of the Group. On this basis, at 31 December 2022, the funding level was around 96% (or a net liability of £50m). The deficit of £50m is expected to be met by a mixture of the remaining deficit contributions and asset outperformance.

The next triennial valuation of the Scheme is due as at 31 March 2023, where the Trustee of the Scheme and the Company will review the contributions being paid to the Scheme. The 2023 triennial valuation is expected to be completed in 2024.

Consolidated balance sheet

At 31 December 2022 the consolidated net assets were £352.7m (2021: net assets £296.5m).

The movement is predominantly driven by the gain on the sale of businesses offset by the goodwill impairment recognised during the year, and the increase in the net pension asset referred to above.

Parent company balance sheet

The company's market capitalisation was significantly less than the net assets of the parent company at 31 December 2022 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 2022 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 2022 in respect of the parent company's investments in subsidiaries and amounts owed by subsidiary undertakings. A £7.0m impairment was identified in respect of the parent company's investments in subsidiaries, and an impairment of £30.1m was recognised in respect of amounts owed by subsidiaries.

Creating a compelling people experience

While 2022 presented many challenges for so many businesses and their people, including a cost-of-living crisis and a very tight labour market, we remained focused at Capita on delivering an increasingly positive and consistent employee experience, which delivered improved engagement metrics.

Workforce

50,000

people employed in 11 different countries

In 2022, despite all the challenges, our focus remained on making Capita a place that people want to join and where they want to stay – a workplace that delivers on our four employee value proposition (EVP) themes: be yourself; make an impact; expand your horizons; and shape our future. We were, therefore, particularly pleased to see improvements in our employee net promoter score (eNPS), our engagement index, and our wellbeing and inclusion indices. While we know we are still on a journey to create a compelling and fully consistent experience for every employee globally, we believe we are making significant progress towards this goal.

2022 saw the promotion of a new Chief People Officer, Scott Hill, demonstrating the success of our continuing focus on internal mobility and succession planning. We also increased the remit of our People function, moving both the internal and external communications and responsible business specialisms into the function.

Our commitment to consistency in 2022 underpinned many of our headline activities, including the launch of our career path framework, our focus on equitable opportunities through diversity and inclusion, the expansion of our central employee relations hub and the significant increase in the use of digital training modules. We also continued our support of flexible, hybrid or remote working wherever possible, and saw an extremely positive response from employees.

However, we must acknowledge that, like many of our peers, attrition and attraction remains a key challenge, as does the macroeconomic climate and the subsequent impact on our employees – particularly those who are lowest paid. We are continuing to work to support our people however we can, including through our commitment to the real living wage, and via ongoing financial wellbeing support across the business.

We expect attrition to remain a key focus area throughout 2023, and we will continue to adapt and evolve our practices as required to ensure we continue to meet the needs of our clients and other stakeholders.

While we know we are still on a journey to create a compelling and fully consistent experience for every employee globally, we believe we are making significant progress

Building an engaged workforce

In order to live our purpose and delight our customers, we know that we need a highly engaged workforce. Therefore in 2022 we introduced a pulse survey, on top of our annual employee survey, to better understand how our employees are feeling, and ensure we are listening to, and acting on their feedback. We were pleased to see that in our annual people survey, completed in October by more than 30,000 employees globally, 82% of respondents said their manager had both shared and acted on survey results. We will work to continue increasing this score in 2023.

In overall engagement, we saw positive movement in 2022: our eNPS increased by 15 points, while our employee engagement index increased by 9%.

In addition, 2022 was the fourth year in which employees were able to rate their line manager's performance against our managers' commitments. These commitments set out the additional behaviours we expect from all our leaders and managers and affirm our commitment to be a values-driven organisation. For the past year, across all 10 commitments, more than 92% of respondents agreed that their manager demonstrated our values and behaviours. The feedback is fed into annual development discussions and can inform managers' objectives.

Our commitment to flexible, remote working

In a market where many companies are now expecting all employees to return to the office post-Covid, we took a clear stance at Capita to offer flexible and remote work wherever client and business needs allow as part of a virtual-first working approach.

We believe offering this flexibility will help us attract and retain high-quality and increasingly diverse talent. For the first time, we asked about working arrangements in our annual people survey, and the data showed us that those who work in a hybrid model, or from home, are on average 11% more engaged than those who work solely from an office or the field. 85% of these individuals also say it is a key motivator for them to remain working at Capita.

However, we do acknowledge that fully remote working does not suit everyone, and we encourage colleagues to book a desk in a local office when needed, or to get together for team events. We will continue to evaluate the impact of this approach in 2023.

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

Performance and development

During 2022, our focus was on the development of our career path framework (CPF). This is a Capita-wide tool designed to enable our colleagues to plan and develop their career. It provides a map of the whole organisation enabling colleagues to view the role they are in, behavioural, leadership and technical competencies for each job across the organisation and identify what they need to do to progress and move to another role in the organisation. This framework forms the foundation of many of our development and people processes.

Aligned to our CPF, we provide a global academy approach to learning that gives individuals access to self-directed development that enables growth in them and for the business.

Capita Academy

For the Academy, 2022 was a year of engaging with colleagues and highlighting our resources across Capita. We continued to build a solid resource bank within the Academy through the introduction of the Capita e-library, which provides colleagues with a suite of accessible learning to support their ongoing development. We introduced a self-assessment tool 'My Compass' for colleagues to assess their current knowledge and skills level against their aspirational level with suggested learning to support in-role development. Our focus continued to be on management development through our newly launched managers passport programme and on growth through our Sales Academy.

We continued to see positive levels of engagement with our learning resources over the past year, eg:

c.569,000

digital learning modules completed – an increase of more than 492,000 on 2021

c.356,000

mandatory training modules completed

c.10,360

managers passport digital modules completed – an increase of more than 3,060 on 2021

606

colleagues attended live development workshops delivered by the Capita Academy

c.44,000

of applicable colleagues completed our newly introduced Code of Conduct training (since its launch in April 2022)

c.45,500

resources have been accessed as part of Capita's e-library, including e-books, audio learning and virtual classrooms

We continued to support wellbeing initiatives offering a suite of digital modules, which in addition to specialist speakers, provided practical tools and techniques for personal wellbeing. We amended and enhanced the communication on our Speak up whistleblower policy, providing colleagues with a safe and secure mechanism to report anonymously any activity that does not meet the values that we strive to achieve at Capita every day. We also introduced our Code of Conduct digital learning, which has been completed by 97% of applicable employees.

In 2022, our global learning teams collaborated to remove duplication and continuously improve our learning offering. This has been recognised in Capita India where our Learning & Development team won two awards, the L&D Excellence Award & The Innovation in Learning Award at Future of L&D Summit and Awards 2022.

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

Professional development

We offer 64 different professional development programmes across England funded by our apprenticeship levy. We have more than 600 learners on the apprenticeship programmes and 186 learners who successfully completed their professional development programme this year. At the same time, the development of our managers remains a significant priority, and last year we aligned our Accelerate, Advance and Ascent programmes to our managers passport to upskill our line managers. We currently have 173 managers on one of these development pathways.

Investment in apprenticeships at all levels continued, and is providing ongoing opportunities to build the skills required for our future business success and for serving our clients successfully in support of growth. As an extension of our apprenticeship offering and in alignment with our social value and responsible business activity, we pledged to gift more than £1.4m in 2022–23 to help charities and SMEs invest in skills development.

Supporting future leaders

In 2022, we enhanced our approach to internal mobility through succession and progression. Succession planning is an integral process helping us to identify potential in individuals and develop future talent to support organisational effectiveness and success. We conducted a comprehensive succession process for our Executive Committee and top 100 leadership roles, challenging ourselves on the diversity and inclusion of our talent pipelines. 42% of this population who were identified as high potential and suitable for succession are female.

To improve diversity at senior levels, we also continue to support high-potential women and individuals from underrepresented groups through cross-company mentoring opportunities. In 2022, 80 colleagues were enrolled in these programmes. We are delighted to win the Moving Ahead Mentor of the year for 2022 and Moving Ahead Most Dedicated Programme Partner of the year awards.

Talent acquisition and turnover

Despite an extremely tight global talent market, Capita continued in 2022 to attract large volumes of applicants, with more than 27,000 new starters in the year. International headcount also increased, notably in South Africa where it grew by 139% to more than 4,900.

Given the challenging external economic backdrop, our focus in 2022 was on employee retention initiatives, ensuring the best talent was nurtured and developed. Our strengthened 'Capita first' policy saw more than 3,200 roles filled internally, 11% of total recruitment. Voluntary turnover remained high and continues to be a challenge due to external market conditions. In 2023 we will continue to build on our internal mobility strategy, and focus on retention activities.

Over the course of 2022 the resourcing function implemented a new target operating model and held a series of levelling-up roadshows to embed our candidate-focused approach. We also continued to work on the refresh of our employer brand, developing new campaign material and capitalising on our EVP to attract and retain talent.

HR operations

In 2022, we continued to focus on simplifying and centralising key human resource functions, delivered through improved technology and processes. To do this we launched a dedicated onboarding team to deliver excellence in our new joiner experience; evolved our reward hub to improve consistency in the application of global compensation and benefits; and introduced a global mobility team to support complex international movement when required. We also centralised the majority of our employee relations activity, delivering improved efficiency, consistency and reporting which will allow us to be more proactive in employee relations management going forward.

Our People Hub, which provides direct support to all employees, continued to deliver excellent results, with 99% of calls being answered within 10 seconds. Our internal chatbot, Herbot, can now manage high volume multi-functional transactional queries from employees, on demand and across time zones. Across our People Hub channels, we successfully managed more than 500,000 enquiries, incidents, and data transactions throughout the year. As a reflection of our progress, we were awarded best Shared Services Team of the year 2022 by UBS forum.

Reward

Our fair pay agenda continues to underpin all our remuneration decisions. That means ensuring that we are recognising the contributions of all our colleagues, junior and senior, supporting and paying all colleagues fairly for the work they do. You can read more in our annual fair pay report, published alongside our Annual Report. We also published our UK pay gap figures and a narrative explaining them. We continued to support our lowest paid employees by being a real living wage employer.

Responsible business at a glance

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

Our people – see pages 33 to 36 for more information. Also read our fair pay report and UK pay gap reporting online.

We want to make Capita a place that people want to join and where they want to stay – a workplace that delivers on our four employee value proposition themes: be yourself; make an impact; expand your horizons; and shape our future. We launched our inaugural Capita employee leadership council in 2022 with 11 colleagues from across the Group. We recognise the contributions of all colleagues, junior and senior, supporting and paying them fairly for the work they do. We are a real living wage employer.

Key metrics	2022	2021
eNPS (points)	**-9**	-24
Voluntary turnover (%)	**30**	30
Employee engagement index (%)	**65**	56
People survey response rate (%)	**72**	68

Our customers and clients – see pages 44 and 47 for more information. Also read our supplier charter and human rights policy online.

Our reputation depends on delighting our customers and clients. We are committed to working with our supply-base to ensure that together we can achieve wider social, economic and environmental benefits.

Key metrics	2022	2021
cNPS (points)	**+35**	+29
Supplier payment within 60 days (%)	**99**	98

The environment – see pages 42 to 44 and the TCFD section for more information. Also read our achieving net zero report online.

Our three-phased approach aims to reach operational net zero by 2025; operational and business travel net zero by 2030; and full net zero by 2035.

Key metrics	2022	2021
Reduction in carbon footprint (gross tonnes)	**4.6m**	11.6m

Our investors – see page 48 for more information

Input and feedback from our investors forms an important element of our decision making.

Key metrics	2022	2021
TSR (%)	**(33.5)**	(6.9)
Share price movement (pence)	**(12.2)**	(2.7)

Creating *better* for all our stakeholders

The commitment to being a purpose-led, values-driven and responsible organisation is now part of Capita's DNA.

The commitment to being a purpose-led, values-driven and responsible organisation is now part of Capita's DNA. This means a constant, Group-wide focus on how we can deliver better for all our stakeholders – employees, shareholders, clients, end-users and communities.

In 2022, we further demonstrated this commitment through the creation of a new ESG (environmental, social and governance) Committee of the Board, focusing on responsible business issues, and providing additional strategic oversight, accountability and guidance.

Our responsible business strategy, which was originally developed in 2019, has ensured that we remained focused on supporting the United Nations' Sustainable Development Goals (UNSDGs) as well as addressing the issues where we can have the biggest impact – through our own operations, and the products and services we provide to our clients.

In 2022, our activities focused significantly on: building a more inclusive organisation and supporting our colleagues' wellbeing; tackling economic inequality and increasing digital inclusion; reducing our environmental impact and operating responsibly. Among the significant range of activities delivered, we are most proud of our continuing commitment to be a real living wage accredited employer in the UK, our science-based climate targets (we intend to be net zero by 2035), the significant progress towards our diversity goals, the launch of our Capita Leadership Council, our continued commitment to having an employee director on the Board, and our socially responsible resourcing programmes, including one that provides paid internships to ex-offenders.

However, we also now need to respond to a rapidly changing external environment that includes an increasing understanding of the impact of climate change, a difficult economic situation and a cost-of-living crisis for our employees.

We are, therefore, in the process of refreshing our responsible business strategy to ensure it focuses on the areas of greatest concern and effect.

We will publish our updated strategy and responsible business report later in 2023 (www.capita.com/responsible-business). We know that to 'create better' we must constantly adapt, evolve and respond, and, through our current and future activities, we are committed to this ongoing challenge.

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

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

Addressing our global challenges

People

Building a more inclusive organisation

At Capita, we are committed to creating an environment where diversity is valued, respected and included in everything we do, and where we benefit from all colleagues sharing their different perspectives and bringing their whole selves to work. In this way, each person can do their part to create better outcomes. We are committed to this goal not just because it helps us deliver better for our clients and end-users, but because we believe it's the right thing to do.

During 2022, we continued to build on our previous work to create a more inclusive workplace for all our people. This included:

- Growing and supporting our eight global employee network groups. We currently have more than 15,000 network members.
- Continuing in our commitment to be a real living wage employer in the UK.
- Expanding the use of personal pronouns on Workday, Outlook and Teams to ensure our colleagues are represented and supported in the way they wish to be recognised.
- Launching a new 'life leave' policy, to support employees with paid time off for fertility treatment, early pregnancy loss and more.
- Running an ongoing lunch and learn series to build awareness and understanding of our similarities and differences. In 2022 this included topics such as: menopause; faith and wellbeing; debunking the myths behind ADHD; baby loss awareness; and more.
- This was in addition to our ongoing celebration of awareness events, including (but not limited to) Pride, International Women's Day, International Men's Day, Racial Equality Week, Black History Month, Mental Health Awareness week, and International Day of People with Disabilities.
- Celebrating our Black colleagues with our second annual Black Employees Awards, held during Black History Month.
- Continuing to review employee survey results by protected characteristic and working with each of our employee network groups on results relevant to their area of focus.
- Developing a number of programmes to support the career progression of underrepresented groups.
- Our RISE (reduce inequality strive for equality) and RISE for Women programmes are specifically designed for Black, Asian & minority ethnic and female colleagues to help start them on a transformational journey that will give them the practical mechanisms to drive their careers forward.

We were extremely pleased that two Capita leaders – Kathy Quashie, Chief Growth Officer and Eileen Lewis, Social Responsible Resourcing Lead – were named in the global 2022 Empower Ethnic Minority Role Model Lists.

We were highly commended by the Employers Network for Equality & Inclusion for our approach to intersectionality, and recognised as a 'Leading Light' by the UK Social Mobility awards.

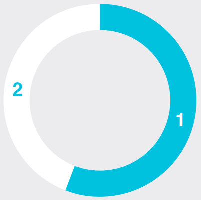
We also secured a place in the 100 Best Companies for Women in India, as well as being one of the 2022 Exemplars in Most Inclusive Companies Index in India, which is testimony to our diversity and inclusion commitments and practices.

In 2022 we continued with our three diversity focus areas: women in senior leadership; ethnic diversity in middle and senior leadership; and supporting colleagues with a disability. We are pleased to say that:

- We exceeded our 2022 targets for women in senior roles. Our workforce is 51% female, and in our senior leadership roles 42% are female. In addition, both our Board and Executive Committee are 44% female.

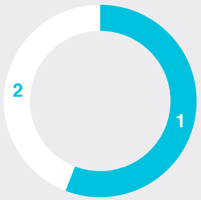
We secured a place in the 100 Best Companies for Women in India, as well as being one of the 2022 Exemplars in Most Inclusive Companies Index in India

Board



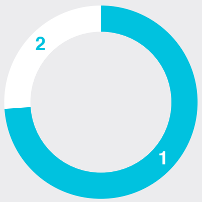
1 **5 (56%)** Male
2 **4 (44%)** Female

Executive Committee



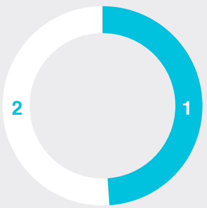
1 **5 (56%)** Male
2 **4 (44%)** Female

Senior management*



1 **73 (74%)** Male
2 **25 (26%)** Female

All employees



1 **24,240 (49%)** Male
2 **25,350 (51%)** Female

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

- We exceeded our 2022 targets for ethnic diversity in leadership roles. Our workforce is 21% ethnically diverse, including 7% Black, and our senior leaders are now 14% ethnically diverse (in the UK) and 3% Black. In 2023 we will be working on targets for additional geographies. In addition, both our Board and Executive Committee are each 22% ethnically diverse.
- In 2022 we were recognised as Disability Confident Employer (level 2) status across the Group and we are working to achieve level 3 status in 2023. We are particularly proud of the work we did with the Capita ability network to support our colleagues with a disability, such as the launch of our adjustments passport to ensure that reasonable adjustments follow our employees throughout their career in Capita. We also increased our disability declaration level by 8%.

We will continue to build on these figures in 2023, while also introducing an additional focus on how we measure and track social mobility within the organisation.

Supporting our colleagues' wellbeing

Focusing on the wellbeing, safety and health of all Capita employees continues to be a top priority. In 2022, we particularly focused on mental health and financial wellbeing, as the cost-of-living crisis intensified.

We are not afraid to tackle difficult subjects and also launched suicide awareness initiatives and new guidance relating to domestic abuse. We also launched our Group menopause procedure, supported with our first ever virtual Menopause Café.

Through the advancement of our wellbeing, safety, and health focus, our colleagues reported improved feelings of health and wellbeing, with a Wellbeing Index rating of 71% in our annual people survey (up 4% from 2021).

We introduced new mandatory safeguarding training with 98% completion for level 1 and 99% for level 2, which exceeds our internal compliance targets of 95%.

We also enhanced and expanded our SafetyNet initiative, which provides guidance and support to human resources representatives and business managers dealing with employees with complex issues related to wellbeing, safeguarding or vulnerability. As a multidisciplinary group, SafetyNet provides an independent view and advice, recommends additional interventions, and supports managers and colleagues through extremely difficult situations. In 2022, SafetyNet has supported 219 colleagues since it started in 2021.

We also completed the transition to our new provider, Health Partners, and launched a series of proactive occupational health interventions in the UK, building on the activities already in place in some of our international locations.

Reimagining our workplaces

We continued to transform and simplify our property footprint with further consolidation during 2022 with 19 locations closed globally.

We continue to look to invest, 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.

We also internally recycle as much quality furniture and equipment as possible from the sites we closed, with 36 locations benefiting from more than 5,200 items. As part of our responsible business commitment, we also donated more than 2,300 items of furniture to 12 schools, three NHS Trusts and six charities.

Community

Tackling economic inequalities

Helping to support and grow strong communities in the current economic climate is a key priority for Capita, and, we believe, an obligation for all businesses globally. We are therefore proud that we not only renewed our commitment to be a real living wage employer in 2023, but we also joined Business in the Community's cross-industry cost of living taskforce, which launched in December 2022. Capita was one of the first organisations to sign up to the UK Government's Kickstart Scheme. From the start of 2021 to end of 2022, we offered 59 Kickstart placements, with the majority being delivered virtually. 95% of our Kickstarters successfully completed the programme with 53% securing roles in Capita afterwards. 17% gained roles externally and 8% returned to full time education. Of the 53% that were retained after the programme, 90% remain within Capita.

In 2022 we pledged to gift more than £1.4m of our apprenticeship levy to support charities and SMEs to invest in skills development. We continued to support our employees to fundraise more than £60,000 and were pleased to donate more than £16,000 in matched charity funding. We also raised more than £180,000 through payroll giving.

At the start of the Ukraine war, our colleagues in Krakow collected clothes, food and money to support the refugees and some of our colleagues hosted refugee families. We have since raised further resources and bought a generator to provide power to a water plant which pumps to local hospitals in Ukraine.

All our employees globally are granted one day per year for volunteering activities, more than 7,800 hours of volunteering were requested in 2022.

We also continued our sponsorship of the UK Social Mobility Awards and were delighted to be awarded a 'Leading Light' award.

We were also particularly pleased to see the progress of our Compass programme, delivered in partnership with Project Remake, supporting ex-offenders into meaningful work. You can watch interviews with some of our Compass interns at www.capita.com/our-thinking/creating-better-outcomes-internships-prison-leavers. We hope to grow this programme further in 2023.

Digital inclusion

In 2022, Capita invested in WithYouWithMe, a workforce technology platform that finds employment for military veterans and other overlooked groups through delivering innovative aptitude testing and digital skills training. With them, we launched '15,000 Futures', an initiative to support former members of the UK armed forces and their partners to find employment in the technology and digital sectors after leaving the military, encouraging organisations to fill 5% of available digital roles with reskilled veterans.

We also continued to work with Good Things Foundation, the digital inclusion charity, to inspire senior leaders in England to set ambitious strategies to tackle digital inequality. The aim of this work is to ensure people from all backgrounds, including the disadvantaged, have access to devices and the skills necessary to use them. Our partnership engaged several combined authorities in England to help them develop their approaches to digital inclusion and led to the creation of a roadmap providing practical ideas for digital inclusion strategies aimed at tackling digital inequality.

Capita colleagues also volunteered their time during the year to take part in Business in the Community's ClickSilver Connections scheme, providing mentors to help older and vulnerable people to connect with friends and family, source essential items, find information and gain digital confidence.

Helping to support and grow strong communities in the current economic climate is a key priority for Capita; and, we believe, an obligation for all businesses globally

Community investment

c.£1m

(2021: c.£0.9m)

Planet

Fighting climate change

The Science Based Target initiative (SBTi) has verified Capita's 2035 net zero science-based target as follows:

Near-term targets
Capita has committed to reduce absolute Scope 1 and 2 greenhouse gases (GHG) emissions and absolute Scope 3 GHG emissions covering business travel by 46% by 2030 from a 2019 base year. Capita has also committed to 50% of its suppliers by spend – covering purchased goods & services and capital goods – having science-based targets by 2025.

Long-term targets
Capita has committed to reducing absolute Scope 1 and 2 GHG emissions, and absolute Scope 3 GHG emissions (covering purchased goods & services, capital goods, business-travel and employee commuting) by 90% by 2035 from a 2019 base year.

We set out our ambitious and far-reaching roadmap to take us to net zero in 2021. We are committed to these challenging targets at every level of our organisation, setting decarbonisation as our overarching objective. Our goal is for all residual emissions to be neutralised in line with SBTi criteria to reach net zero emissions.

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.

In 2022, as part of our business planning process, each division and function submitted its own net zero targets for 2023 and issued plans to achieve longer-term net zero milestones. Successful submission of these plans and reduction targets, together with demonstrable reduction in carbon emissions, forms part of 2022 management bonus plan criteria. 2023 incentives will focus on achievement of target, and reporting of performance against target will form part of the company-wide management reporting cycle.

Following our commitment to be net zero by 2035, the challenges we believe will be most difficult to address are: the decarbonisation of our heating systems; and collecting, monitoring and managing the reduction of emissions from more than 19,000 suppliers.

Driving down GHG emissions
Following the onset of the Covid pandemic, we significantly reduced business travel. While there was an increase over lockdown levels, travel bounceback in 2022 has been mitigated by our virtual first meeting strategy and remains less than 25% of pre-pandemic levels. Our electricity emissions also reduced, through efficiency, sourcing more renewable power and reducing the property portfolio.

We have already achieved our 2025 and 2030 near-term science-based targets apart from those relating to Scope 1 which we expect to achieve by 2024.

Work to improve the accuracy of our monitoring of Scope 3 emissions will accelerate in 2023. Across the Group we will develop our low carbon transition plan to ensure transparency to stakeholders across all areas of our carbon reduction planning, responding to climate-related risks and opportunities, and our contribution to economy wide transition.

With more than 50,000 colleagues across the globe, we are all too aware of our own internal responsibilities. We therefore launched a new environmental standard, setting out Capita's environmental commitments and responsibilities and incorporating an environmental training module for all employees to support the environmental standard and net zero commitment.

In 2022 we published our third disclosure statement against the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosure (TCFD), see page 49.

We are working 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

Milestone 1: Operational net zero	Milestone 2: Operational + travel net zero	Milestone 3: Full net zero
2025 Operational (Scope 1 & 2)	2030 Operational (Scope 1 & 2) + business travel emissions	2035 Operational (Scope 1 & 2) + business travel + supply chain emissions

Methodology

We measure our environmental performance by reporting our global carbon footprint annually in terms of tonnes CO_2 equivalent (tCO_2e), an absolute measure, and tonnes CO_2 equivalent per £1m revenue and per person (intensity measures). The data relates to Capita's owned and leased facilities and business travel under its operational control across all geographies. We report separately on our direct emissions from Capita-controlled and owned sources (Scope 1), indirect emissions from consumption of electricity, heat or steam (Scope 2), and emissions from third parties (Scope 3). This ensures our compliance with Part 7 of The Companies Act 2006 (Strategic Report and Director's Report) Regulations 2013 which requires certain disclosures in respect of GHG emissions (the Strategic Report GHG Emission disclosures). We engaged an external agency, Corporate Citizenship, to provide independent limited assurance over the selected GHG emissions data (highlighted in the table opposite with an *) using the assurance standards ISAE 3000 and 3410. 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 the UK, Ireland, Central Europe (Poland, Germany, Switzerland and Bulgaria), India and South Africa. Capita converts the consumption data into a carbon footprint with consideration for the World Business Council for Sustainable Development and World Resources Institute's Greenhouse Gas Protocol, together with the latest emissions factors from the UK Department for Environment, Food and Rural Affairs, Association of Issuing Bodies and International Energy Agency.

Annual GHG emissions

	2022	2021	2020
Scope 1 (tCO_2e)	**12,049***	15,021*	18,980*
Scope 2 (tCO_2e) (location-based)	**21,137***	24,088*	28,359*
Scope 2 (tCO_2e) (market-based)	**4,083***	10,328*	23,526*
Scope 3 (tCO_2e) (business travel and waste)	**6,101***	4,500*	7,881*
Total gross tonnes of CO_2e (location-based)	**39,287**	43,609	55,219
Total gross tonnes of CO_2e (market-based)	**22,233**	29,848	50,386
Total gross tonnes of CO_2e/£1m revenue (location-based)	**13.03**	**13.70**	**16.60**
Total gross tonnes of CO_2e/headcount (location-based)	**0.79**	**0.73**	**0.85**

Table of progress against targets

Progress against SBTi verified short-term targets	2022 actual	2022 target	2030 target
Scope 1 (tCO_2e)	**12,049**	**14,506**	10,201
Scope 2 (tCO_2e) (market-based)	**4,083**	**24,167**	14,876
Scope 3 (business travel and waste)	**6,101**	**26,869**	16,540
Progress against SBTi verified short-term engagement target	**2022 actual**	2022 target	2025 target
Scope 3 supply chain spend covered by science-based targets %	**50%**	32%	50%
Other metrics	**2022**	2021	2020
100% renewable power progress (as % of total power)	**85%**	80%	68%
Transition from internal combustion to low emission vehicles:			
Diesel	**47%**	62%	77%
Hybrid electric	**48%**	32%	19%
Pure electric	**4%**	5%	4%
Average CO_2e	**96g/km**	96g/km	98g/km%
Fleet vehicle energy source			

Notes:
Total gross tonnes of CO_2e/£1m revenue (location-based) in 2022, 2021 and 2020 has been calculated using statutory revenue.
Scope 1: Emissions from Capita sources that are controlled by us, including the combustion of fuel, company-owned vehicles and the operation of our facilities.
Scope 2: Emissions from the consumption of purchased electricity, heat or steam.
Scope 3: Emissions from non-owned sources related to Capita's activities, including business travel and waste.

Operating responsibly

Operating responsibly means ensuring we keep our purpose – to create better outcomes for all stakeholders – at the core of everything we do. In 2022, we maintained our focus by: continuing to support clients and communities in recovery from the Covid pandemic; engaging and working closely with our suppliers; understanding our colleagues needs; and dealing with wider societal challenges, such as the cost-of-living crisis.

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 2022, we received feedback from 585 individuals across 392 clients. This enabled us to achieve a 49% response rate and the results give Capita a cNPS score of +35 for 2022 which is an increase of +6 on 2021.

Our two core divisions (Public Service and Experience) received feedback from 403 individuals across 250 clients providing a 52% response rate. The results give the two core divisions a combined cNPS score of +24, an increase of +8 on 2021.

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 effect that the current economic situation is having on many of these suppliers, with varying demand for products and services often severely affecting their cash flow. Consequently, we strive as a business to prioritise and ensure payment to terms with our vendors at all times where possible.

We spent more than £1.98bn in 2022 with more than 19,000 direct suppliers in 69 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.

Business aligned objectives are in place for 2023 which are fully supported by the Board, in order for us to progress to meet our net zero goals for Scope 3 emissions. Our 2025 goals are that 55% of our suppliers by spend will have committed to having science-based targets (SBTs) in place and, by 2030, 85% of our suppliers by spend will have committed to having SBTs in place.

As signatories to the Prompt Payment Code, we report our payment practices and performance to the UK Government every six months; 99% of our suppliers were paid within 60 days.

cNPS score for 2022

+35

Spend with direct suppliers in 2022

£1.98bn

in

69

countries

Valuing the employee voice

As a people-centric business, we believe listening to, and involving, our colleagues in the highest levels of our strategic decision making is critical to our success. Our first two employee non-executive directors completed their terms in the summer of 2022, and we recruited a new employee director, Janine Goodchild, who joined the Board on 1 July 2022. We are proud of the exceptional contribution and fresh perspective that our employee directors make to Board-level governance in the organisation, and we would encourage other organisations to consider doing the same.

Building on this employee-oriented success, we launched our inaugural Capita Employee Leadership Council in 2022. The council comprises 11 individuals, drawn from different parts of Capita, who were identified as potential future leaders within the organisation. The council acts as an advisory group, representing the perspective of employees directly to the Executive Committee, the business' senior leadership team. It has also contributed to strategic projects.

Each council member's tenure is two years, during which they will benefit from learning and development opportunities designed to enhance their leadership skills. This will occur through projects the council is asked to deliver and a rotating programme of mentorships which will be provided by members of the executive, including our CEO, Jon Lewis.

Targeting bribery and corruption

We do not tolerate bribery or corruption in any form. 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 are committed to playing our role in global society by ensuring that through our management and operations we have the systems, policies and processes in place to identify any potential instances of exploitation and, if found, eradicate modern slavery in all its forms from our business and supply chain.

Our updated human rights policy details our commitments to upholding the principles of human rights, as set out in the UN Declaration of Human Rights and the International Labour Organization core labour principles. We comply with all relevant legislation, including the UK Modern Slavery Act and our compliance statement can be found on our website. We outline expectations and compliance to the standards we set out for suppliers, working with them to ensure they operate in accordance with this policy, and upholding the principles of human rights in their operations and supply chains. We are taking appropriate steps to ensure that everyone who works for Capita benefits from a working environment in which their fundamental human rights are respected

Members of our tech solution delivery team competed in a charity plane pull to raise funds for Action for Children

and anyone that we do business with also upholds these principles. If any client, employee, supplier or other stakeholder becomes aware of any potential breach of human rights (or any other ethical concern) they may report this confidentially to our Speak Up hotline. This hotline is externally managed for independence and confidentiality.

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 Assessment.

Reporting requirement	Policies and standards which govern our approach	Where is this referenced in this report?
Environmental matters	• Health, safety and environmental policy (E) • Environmental standard (I)	• Responsible business: fighting climate change pages 42 and 43
Employees	• Code of conduct (E) • Health, safety and environmental policy (E) • Diversity and inclusion policy (E) • Wellbeing policy (E) • Employee handbook (I)	• Our people section pages 33 to 36 • Responsible business: building an inclusive workplace pages 39 and 40 • Responsible business: diversity data page 40
Human rights	• Human rights policy (E) • Supplier charter (E) • Modern slavery statement (E) • Information and cyber security policy (E) • Privacy policy (E) • Employment screening policy (I) • Procurement policy (E) • Speak Up policy (E) • Safeguarding policy (E)	• Responsible business: operating responsibly – supplier engagement page 44 • Responsible business: community – tackling economic inequalities page 41 • Responsible business: operating responsibly – upholding human rights page 45 and 46
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 41 • Responsible business: community – tackling economic inequalities page 41
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 45
Due diligence and outcome	• Risk management framework • Annual internal audit plan • Risk register • Audit and Risk Committee report	• Risk management framework pages 55 and 56 • Audit and Risk Committee report pages 90 to 98
Business model		• Business model pages 6 and
Non-financial KPIs		• Non-financial KPIs page 1 • Responsible business pages 37 to 45

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

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.

See page 75 for more information.

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 on the Capita plc Board
- Employee focus groups and network groups
- Workforce engagement on remuneration
- Leadership Council
- Regular 'breakfast' sessions with the Executive Committee for our colleagues

Topics of engagement

- Creating an inclusive workplace
- Speak Up policy
- Health and wellbeing
- Directors' remuneration
- Acting on survey feedback

Outcomes and actions

The 2022 employee survey showed improvement across all metrics. We are developing and delivering a range of action plans, including ensuring our leaders feel confidence in, and ownership of Capita's strategy, plans and successes, developing inclusive opportunities for internal career mobility.

We developed a global career path framework which defines career levels, career job content, and reward framework and introduced mentoring schemes.

We introduced our first employee leadership council, comprising 11 individuals, drawn from different parts of Capita.

We refreshed our Speak Up policy.

Risks to stakeholder relationship

- Our ability to recruit due to the national and global labour market demand for resources
- Our ability to retain people, impacting our quality of service
- Our ability to evolve our culture and practices in line with our responsible business agenda

Key metrics

Employee NPS, Employee Engagement Index and people survey completion level.

Further details

Our people section on pages 33 to 36. Responsible business section on pages 37 to 45. Directors' remuneration report on pages 99 to 122.

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; and responsible and sustainable business credentials.

How we engaged

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

Topics of engagement

- Current service delivery
- Capita's digital transformation capabilities
- Possible future services
- Co-creation of client value propositions
- Ongoing benefits of hybrid working on client services

Outcomes and actions

Feedback provided to business units to address any issues raised; client value proposition teams supporting divisions with co-creation ideas; direct customer and sector feedback; and senior client partner programme undertaking client-focused growth sprints to build understanding of client issues and ideas to help address them.

Risks to stakeholder relationship

- Loss of business by not providing the services that our clients and customers want
- Damage to reputation by not delivering to the requirements of our clients and customers

Key metrics

Customer NPS; specific feedback on client engagements.

Further details

Chief Executive Officer's review on pages 10 to 15.

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
- Responsible Business
- Science based targets (SBTs)
- 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, suppliers committing to SBTs.

Risks to stakeholder relationship

- Environmental issues
- Commitment to tackling SBTs
- Supply chain resilience

Key metrics

99% of supplier payments within agreed terms; SME spend allocation; and supplier diversity profile.

Further details

Supplier engagement section on page 44.

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; directors' remuneration, access to the Board and senior management; and regular communication.

How we engaged

- Financial and other reports and trading updates
- Regular investor programme with the Board, including meetings with the Chairman and Remuneration Committee chair 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

- Disposal programme
- Medium term targets and outlook
- Social: attrition and engagement
- Balance sheet and liquidity
- Governance: remuneration
- Environmental: net zero target

Outcomes and actions

Frequent market communication; and active engagement with largest shareholders including with the Chairman and Remuneration Committee chair.

Hybrid arrangements for the 2022 annual general meeting to allow shareholders to attend both physically in-person and remotely.

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; valuation; and AGM voting.

Further details

Shareholder engagement section on page 44.

Principal decisions table on page 75.

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; accreditations and benchmarking; and cost of living crisis.

How we engaged

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

Topics of engagement

- Youth employment
- Promoting digital inclusion
- Workplace inequalities
- Diversity & inclusion
- Climate change

Outcomes and actions

Publication of net zero plan and verification during 2022 of Science Based Targets; continued commitment and accreditation as a real living wage employer; youth and employability programme; Capita's investment in WithYouWithMe, a workplace technology platform that finds employment for military veterans and other overlooked groups through delivering innovative aptitude testing and digital skills training; highly commended by the Employers Network for Equality & Inclusion for our approach to intersectionality; recognised as a 'Leading Light' by the UK Social Mobility awards; and joined the Cost-of-living Taskforce.

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

Responsible business: Planet section on pages 42 to 44.

Greenhouse gas emissions section on pages 79 to 81.

Task Force on Climate-related Financial Disclosures (TCFD)

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 2022, executive remuneration is linked to the achievement of Capita's climate targets during 2022.
- The newly formed ESG Committee has senior level oversight of climate-related issues and is chaired by the Chairman of the Board.

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. Work closely with the Group Risk and Compliance functions, particularly around the climate change principal risk.

Strategy

To identify, assess and manage climate risks and opportunities, Capita conducted an in-depth climate scenario analysis (CSA) in two phases.

Phase 1, a qualitative risks and opportunity assessment, was completed in 2021, while phase 2, the quantification of climate risks, was completed in 2022.

This analytical work has allowed Capita to understand the range of possible impacts arising from different long-term climate change scenarios to inform the overall business strategy, build resilience and mitigate climate risk impacts.

Climate risks and opportunities are assessed across short-term (0–3 years), medium-term (4–9 years), and long-term (10+ years) time horizons to reflect the longer-term impacts from climate change.

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

In 2021, Capita completed the first phase of its climate scenario analysis by qualitatively assessing climate risks and opportunities over forward-looking scenarios.

The qualitative assessment consisted of:

- A 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.

Capita has used the climate scenarios developed by Network for Greening the Financial System (NGFS). These include three scenario categories: orderly transition (for early ambitious action), disorderly transition (for when action is late and sudden), and hothouse world (for limited action resulting in significant warming).

Phase 2 (completed in 2022): quantitative modelling of five key climate risks

As a result of the qualitative CSA, Capita identified five risks likely to affect its operation in different climate scenarios:

- water stress (physical risk);
- carbon pricing (transition risk);
- supply chain pass-through costs (transition risk);
- energy pricing (transition risk); and
- carbon credit pricing (transition risk).

While Capita's exposure to the risks was modelled on a global level for the transition risks, the water stress risk was modelled at site level.

Physical risks

Exposure modelling

All of Capita's sites were screened for exposure to water stress in the baseline using publicly available projections; 20 highly exposed or strategic sites were taken forward for detailed modelling. The modelling was used to provide an exposure rating for each of Capita's sites. Scenarios used and timelines modelled are outlined in the risk table.

Vulnerability workshop

To understand Capita's vulnerability to water stress, an internal cross-functional workshop was conducted. The discussions and output from this workshop provided an understanding of site operations which was used to provide each site with a vulnerability rating.

Overall risk rating

The exposure and vulnerability risk ratings were multiplied together to understand the overall risk of water stress to each of the modelled sites. Results and mitigation measures are outlined in the risk table.

Transition risks

Exposure modelling

Three transition risks (carbon pricing, supply-chain pass through costs and energy pricing) were modelled, using publicly available projections in a low carbon <2°C scenario. Carbon credit pricing was modelled using a bespoke offset modelling system based on offsetting project type and market fluctuations. All scenarios and timelines are outlined in the risk table.

Carbon pricing, supply chain pass-through costs and energy pricing were all modelling under two internal emissions/energy consumption projections: business as usual (BAU) and net zero.

BAU: assumes that Capita's emissions or energy consumption remains constant from a 2019 baseline.

Net zero: assumes that Capita's emissions and energy consumption decrease in line with the SBTi verified near-term targets and 2035 net zero target.

Vulnerability

To understand Capita's vulnerability to the modelled transitional risks, an internal cross-functional workshop was conducted. The discussions and output from this workshop provided an understanding of Capita's financial planning, strategy and current mitigation measures. The outputs of the workshop and the exposure modelling were assessed to provide an overall potential impact rating for each risk, outlined in the risk table.

Risk table: we modelled five risks in terms of the scenarios and time horizons used, their potential impact and the current/potential mitigation actions.

Risk description	Climate scenario and time horizon	Potential impact	Mitigation actions
Water stress			
Ratio of renewable water supply to water demand. Increased water stress implies higher competition among users and reduced availability of, as well as increased costs of, water.	Scenario: SSP3 RCP8.5 (high carbon) Future time horizon: 2040 (long term) Baseline: 1960-2014	Seven sites in two locations were found to have potential major impact from water stress due to high exposure and vulnerability to water stress-related power issues. The other modelled sites were found to have no potential impact to moderate potential impact. Main impacts identified: • Power outages • Water, sanitation and hygiene facility maintenance • Increased cost and volatility of water supply	• Leasing agreements can provide flexibility and mitigation if water stress is considered • Include water stress risk into longer-term contracts • Integrate water stress risk into site location considerations • Utilise flexible working arrangements, including work from home protocols • Consider potential carbon emissions from mitigation techniques (eg diesel generators)
Carbon pricing			
Costs associated with tax on Capita's Scope 1 and 2 emissions and indirect costs to operations from taxing of emission sources.	Scenario: IEA net zero and NGFS divergent net zero (low carbon <2°C) Time horizon: 2019–2050 (short, medium and long term)	Potential minor impact to Capita from an explicit carbon tax but the implicit cost of carbon could have a greater impact if not considered in financial planning. Main impacts identified: • Increased costs of operations and energy procurement BAU projections show significantly greater impact than from emissions reducing in line with net zero target. Capita's current strategy is showing much greater resilience to risk from carbon pricing due to implemented carbon-reduction strategies and targets compared with the BAU scenario.	• Focus on emissions reductions across all scopes and ensure that the net zero and near-term reduction targets are met • Engage with supply chain • Implement an internal price of carbon • Build costs into financial planning and strategy

Risk description	Climate scenario and time horizon	Potential impact	Mitigation actions
Supply chain pass-through cost			
Costs from direct taxation on suppliers' emissions passed through to Capita and indirect costs from the low carbon transition on Capita's supply chain.	Scenario: IEA net zero and NGFS divergent net zero (low carbon <2°C) Time horizon: 2019–2050 (short, medium and long term)	Potential minor impact on Capita from an explicit carbon tax but the implicit cost of carbon could have a greater impact if not considered in financial planning. Main impacts identified: • Increased pass-through costs from supply chain as carbon intensive parts of the supply chain are impact by increasing carbon prices. BAU projections show significantly greater impact than from emissions reducing in line with net zero target. Capita's current strategy is showing much greater resilience to risk from carbon pricing due to implemented carbon-reduction strategies and targets compared with the BAU scenario.	• Focus on emissions reductions, particularly for Scope 3, and ensure that the net zero and near-term reduction targets are met • Engage with supply chain • Implement an internal price of carbon • Build costs into financial planning and strategy

Risk description	Climate scenario and time horizon	Potential impact	Mitigation actions
Energy pricing			
Projections of costs of different energy sources split by country.	Scenario: Enerbase (high carbon) and Energreen (low carbon <2°C) from Enerdata projection. Time horizon: 2019-2050 (short, medium and long term)	Exposure to high energy pricing is greater in a low-carbon scenario than a high-carbon scenario. Main impacts identified: • Increased energy price volatility • Increased energy costs due to carbon taxation Capita is already closely monitoring energy costs, implementing energy efficiency measures and buying on a contract basis, thereby mitigating against potential price volatility and making strategy more resilient.	• Detailed analysis of energy consumption • On-site renewable production • Focus on energy efficiency and usage reduction • Ensure all programmes are considered in capex planning
Carbon credit pricing			
Cost of purchasing carbon credits to offset Capita's residual emissions in line with our net zero targets.	Scenario: N/A Time horizon: 2019-2050 (short, medium and long term)	Potential moderate impact due to high costs of spot purchases after Capita's net zero target year of 2050. Main impacts identified: • Additional cost of offsetting to reach net zero target Risk could be higher if the net zero target or near-term targets are not met	• Introduce a carbon credit purchase strategy • Integrate carbon credit purchases into longer-term financial planning • Invest early in offsetting projects • Continued focus on emissions reduction

Climate transition plan

Capita is committed to achieving net zero by 2035, with near-term and long-term science-based targets validated by the SBTi. Further details on our targets and 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 electric vehicles 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.

Planned actions in 2023:

- Integrate results of 2022 quantitative CSA into Group-wide risk matrix and assess requirements for mitigation.
- Establish which identified risks would be most beneficial to assess quantitatively or assess on a more granular level.
- More detailed analysis of potential opportunities afforded to Capita by the low-carbon transition.
- Develop climate transition plan to Gold Standard in line with UK Taskforce on Transition Plan recommendations.

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 subject to oversight by the ARC and Board, and ownership is assigned to the Group Head of Environment. Risk identification and assessment process: since establishing climate change as a principal risk, Capita has held several internal interviews to understand how risks and opportunities manifest for different divisions and functions. A longlist of risks and opportunities was developed and cross-referenced against both a peer review and TCFD resources, and was qualitatively analysed in 2021.

In 2022, five key climate risks were quantitatively modelled and analysed. The results will be integrated into Capita's Group-wide risk management framework. Assessments into required mitigation actions will be carried out in 2023 and integrated into Capita's investment planning and strategy. 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 PPN 06/21), using Watermans (a third party legal register service provider) 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.

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 emission 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 business travel; and ongoing monitoring of health, safety and environment legislation. These controls and their effectiveness are reviewed regularly.

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, see page 43 and our full value chain emissions via CDP's climate questionnaire, in accordance with the GHG Protocol's methodology.
- Exposure to climate related risks: the climate scenario analysis conducted under strategy informs the amount of potential financial exposure to material climate impacts.
- Revenue from climate related opportunities: in 2023, Capita will initiate the categorisation of services that directly/indirectly enable GHG emission reductions through customer implementation. Once defined, systems will be adjusted 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 reviewed in 2023–2025.
- Internal carbon price: Capita is exploring how a bespoke internal carbon price can be used in the capital allocation process to support the business case for investment in low carbon initiatives.
- Proportion of executive remuneration assigned to climate considerations: Capita incorporated performance against Capita's climate targets in remuneration policy in FY2022.

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 the company's impact on global warming, and its exposure to climate-related risks. The SBTi has verified Capita's 2035 net zero science-based target.

Overall net zero target
Capita commits to reach net zero greenhouse gas emissions across the value chain by 2035 from a 2019 base year.

Near-term targets
Capita commits to reduce absolute Scope 1 and 2 GHG emissions and absolute Scope 3 GHG emissions covering business travel 46% by 2030 from a 2019 base year. Capita also commits that 50% of its suppliers by spend covering purchased goods & services and capital goods will have science-based targets by 2025.

Long-term targets
Capita commits to reduce absolute Scope 1 and 2 GHG emissions, and absolute Scope 3 GHG emissions covering purchased goods & services, capital goods, business travel and employee commuting 90% by 2035 from a 2019 base 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.

Risk management and internal control

We manage risks proactively

At Capita, we recognise that effective risk management and internal control is fundamental to helping us achieve our strategic objectives. Our ability to identify, assess and manage risks successfully enables us to continue to protect shareholder value and allows us to pursue potential opportunities for growth.

Impact of cost of energy, elevated inflation, rising interest rates and global economic weakness on Capita

In 2022, inflation rates in the UK and around the world rose to their highest levels since the early 1980s. While there is no single reason for this rapid rise in global prices, a series of events worked together to increase inflation to such high levels, including recovery from the Covid-19 pandemic (as demand outpaced supply) and Russia's invasion of Ukraine with resulting sanctions and supply chain disruption that have led to price increases in oil, gas and food across the world.

In November 2022, the Bank of England warned that the UK was facing its longest recession since records began, with the economic downturn expected to extend well into 2024 and unemployment likely to double to 6.5% during the country's two-year slump. Whilst the latest economic projections in the Bank of England's February 2023 Monetary Policy Report anticipate a less severe downturn, there remains considerable uncertainty about the strength of the economy and Capita will continue to monitor the impact on our principal risks.

Internal control and risk management

We continuously seek opportunities to enhance our risk management and internal control environment and introduce greater rigour and standardisation in our processes and controls.

The Board recognises that Capita's control effectiveness remains dependent on management intervention and that inconsistencies in control documentation can lead to process variability across the Group. The Board and the Audit and Risk Committee (the ARC) do not underestimate the work needed to ensure that robust internal control and risk assessment frameworks are embedded fully. Work will continue to be undertaken during 2023 to enhance and improve the standardisation and overall effectiveness of the Group's internal control framework.

Key control questionnaire

The key controls questionnaire (KCQ) is an annual management attestation process where business leaders testify to the effectiveness of key controls and adherence with group polices within their functions, divisions or business units. The results from the KCQ process inform the development of action plans for control improvement during the subsequent year.

The KCQ reinforces accountability and increases business leaders' awareness of their responsibilities in maintaining an effective control environment. The status of KCQ corrective actions arising from the exercise are reported to the executive risk and ethics committee (EREC) throughout the year.

Minimum control standards

The senior finance team undertake an annual self-assessment of financial controls across the Group against a specified set of Minimum Control Standards focused on identifying areas to strengthen controls of improve efficiency. Any material issues are dealt with through mitigating activities to ensure the effectiveness of the existing controls over financial reporting.

During 2022, the Finance function continued to enhance the self-assessment process across the whole organisation to obtain assurance over the operation of key financial controls. It is intended that this process will continue to operate in 2023, in parallel with new and existing control initiatives such as the finance control framework project, which will focus on strengthening key system access controls; refining key finance policies and standards and continuing to simplify and standardise key financial controls.

Risk oversight and governance

A risk-focused culture and tone is expected across all levels at Capita, reflecting the tone at the top set by the Board. The Board is ultimately accountable for providing strategic governance and stewardship of the company. Throughout 2022, 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 or 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 regular review of the principal risks 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 ARC, which has delegated responsibility from the Board for reviewing and assessing the risk management and internal control systems, is responsible for overseeing the Group's principal risk profile and management's risk mitigation strategy.

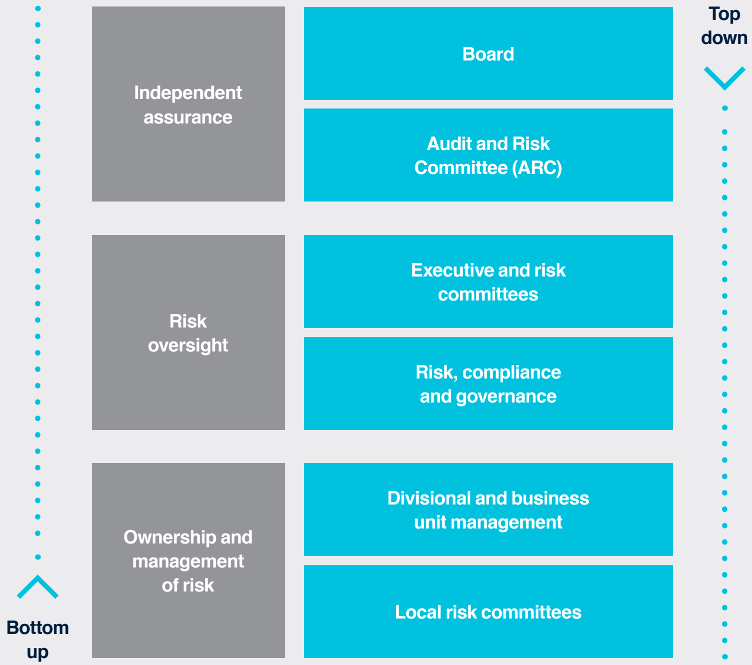
In 2022 the ARC reviewed, discussed and briefed the Board on risks, controls and assurance, including the annual assessment of the system of risk management and internal control, to monitor the effectiveness of the procedures for internal control over financial reporting, compliance and operational matters.

The EREC is responsible for identifying, assessing, overseeing and challenging principal risks across all Capita's unregulated businesses and provides regular updates to the main 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 regulatory risks associated with those businesses, which is provided by the financial regulated entities oversight committee (FREOC). The FREOC is chaired by an independent non-executive director, supported by specialist risk and compliance professionals and provides regular updates to the ARC.

On a day-to-day basis, divisional and functional leaders, senior leadership and business unit teams identify, manage and monitor risks that they are accountable for. Capita recognises that risk cannot be fully eliminated and that there are certain risks the Board and/or the senior leadership will accept when pursuing strategic business opportunities. However, these risk acceptance decisions are made at an appropriate authority level and reflect the organisation's defined risk appetite. Capita's risk governance framework is illustrated opposite.

Risk governance structure and assurance lines



3 **Third line of defence**

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

2 **Second line of defence**

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

1 **First line of defence**

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

Risk management process

The risk management framework ensures that ownership and responsibility for identification, assessment and management of key risks and opportunities are embedded throughout Capita. The Board sets the context for risk management through defining the strategic direction and risk tolerances 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 and risk reporting at the established risk governance committees. Key risks in the registers have assigned risk owners who review them regularly, and report on them at least a quarterly basis, as part of the risk reporting process. The strength of existing controls is

The impact on our risk profile of the rapid deterioration in the global economy, potential prolonged recession in the UK and cost-of-living challenges is being closely monitored

evaluated to determine whether any additional mitigation actions are needed to manage the risk level to within the risk tolerances and appetites set by the Board.

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 Capita. 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 divisions, functions, the EREC and the ARC. During 2022 standard terms of reference, agenda and data points were developed at each governance level to ensure risk management is consistently reported and understood across Capita.

Our risk management processes continued to operate effectively throughout 2022. The progression of Capita's disposal programme and external influences such as: the potential UK recession; rapidly increasing inflation and interest rates; and the associated cost-of-living challenges – were all reviewed and considered for their impact on Capita's principal risk profile by the executive team.

Risk appetite

The Board sets the Group's risk appetite, as proposed by the EREC, to ensure that it reflects current external factors 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 risk management maturity programme, risk owners, supported by Group Risk, have been developing risk appetite statements for their respective principal risks. 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.

Emerging risks

The identification of emerging risks is carried out by both the divisions and business units, using a bottom-up approach, and the executive, from a top-down perspective. Regular reviews of risks, including emerging risks and project/programme risks, are included in risk and assurance committees within Capita's existing governance structures. Capita did not identify any emerging risks during 2022. However, the impact on our risk profile of the rapid deterioration in the global economy, potential prolonged recession in the UK and cost-of-living challenges is being closely monitored.

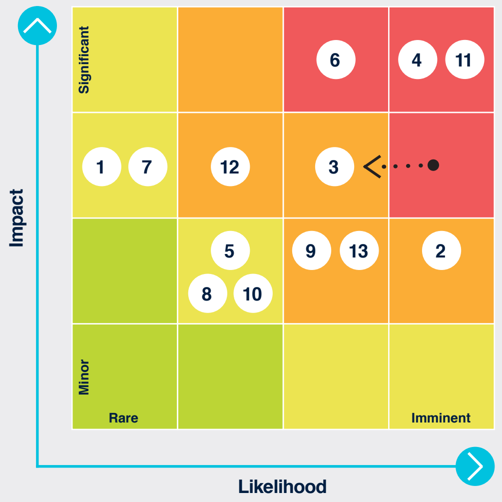
Principal risks

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.

A regular cycle of reassessment and reporting of the principal risks is undertaken within the remit of the EREC and the ARC.

For more details on the challenges faced and actions taken to address them, please refer to the Chief Executive Officer's review on page 10.

The Capita principal risk profile as at 31 December 2022, is illustrated below



Key: Level of risk

	Critical	The maximum level of risk Capita can bear and remain effective at delivering its strategy. Of immediate critical concern.
	Uncomfortable	Risk level 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 2021 year end

No.	Risk title	Risk description
1	**Living our purpose**	Failure to live our purpose and failure to change stakeholder perception so we are seen to live our purpose
2	**Strategy**	Failure to define, resource and execute the right medium-term strategy
3	**Innovation**	Failure to innovate and develop new value propositions for clients and customers
4	**People attraction & retention**	Failure to attract, develop, engage and retain the right people for current and future client propositions
5	**Culture**	Failure to change the culture and practices of Capita in line with our purpose and strategy
6	**Data protection**	Failure to protect data, information and IT systems
7	**Contracts**	Failure to secure new/extend existing contracts and services
8	**Delighting clients**	Failure to delight clients and customers and deliver contractual obligations
9	**Internal control**	Failure to maintain a risk-based system of internal control
10	**Geopolitical climate**	Failure to plan for, influence and respond to potential changes in the geopolitical climate
11	**Financial stability**	Failure to maintain financial stability and achieve financial targets
12	**Wellbeing, health & safety**	Failure of Capita to protect the wellbeing, safety and health of all Capita's employees, the people we work with and our service users
13	**Climate change**	Failure to adapt Capita and its services to the impacts of climate change

During the year, the likelihood of principal risk 3, failure to innovate and develop new value propositions for clients and customers, reduced when compared with the previous year. We now have a dedicated strategy team working on effectively managing existing propositions and working in collaboration with our sector, growth, consult and transform teams to identify opportunities to create new propositions for our clients. We have also developed stronger strategic partnerships with our key technology providers to enable us to better leverage their products to serve our clients.

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 Board also 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 opposite 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	• misalignment between the strategic objectives and the purpose of the business • 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	Cost of living and inflation impacts may cause us to have more challenging decision points in terms of being a purpose-led business. For example, where the needs of different stakeholders' conflict. **Mitigation actions in 2022** • Established a Board level ESG committee, to oversee our ESG initiatives • Centralised ESG strategic oversight into the Group People function to ensure a globally consistent approach • Developed a refreshed approach to how we deliver social value, and how this complements our core service offerings **Future actions** • Refresh our corporate responsibility business strategy to ensure maximum impact and alignment with our evolving business • Continue to build external visibility of activities related to our purpose, values, behaviours and ESG credentials • Further develop our approach to social value delivery in order to align to our overall ESG principles

Principal risk and risk level	Potential impact	How we manage the risk
2 Failure to define, resource and execute the right medium-term strategy Accountable officer: CEO	• misalignment between Group and divisional objectives • inability to evolve strategic objectives eg adapt to a changing market environment/ client expectations/ competitor action/policy • difficult to articulate and optimise investment case for investors • ineffective prioritisation of capital investment/ investment decisions with sub-optimal returns versus competitors	This risk is managed through regular review, challenge and update of divisional strategies at least annually with Executive Committee and Board approval, ensuring alignment to Capita's corporate strategy. **Mitigation actions in 2022** • Embedded the operating changes and focused on growth in our areas of core competencies • Continued to dispose of portfolio businesses at the right price to reduce debt and improve liquidity • Reviewed the divisional medium-term strategies, including market and competitor analysis, which were also presented to the Board and Executive Committee • Investment provided to develop and implement the first stage of Public Service divisions' digital strategy • Operational optimisation plan prepared within the Experience division for delivery throughout 2023 • Strengthened its commercial model with more stringent pricing discipline, given the macroeconomic backdrop **Future actions:** • Focus on growth in our areas of core competency • Execute and deliver Public Service division's digital strategy investment programme • Embed Experience division's operating model changes to drive more effective operations and delivery • Review and enhance Capita's strategic partnerships ecosystem

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	• 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	Within the Strategy function, we have a dedicated team working on effectively managing existing propositions and working in collaboration with Sectors, Growth, Consult/Transform and the digital transformation programme to identify prioritised opportunities to create new propositions for our clients. **Mitigation actions in 2022** • Horizon scanned new customer value propositions • Developed stronger strategic partnerships with key technology providers to enable us to better leverage their products to serve our clients • Explored opportunities to invest in the innovation and product teams to build future capability • Rolled out the governance product lifecycle **Future actions:** • Improve definition of propositions, and related communications and marketing material • Match our integrated capabilities to client and market demand • Standardise and integrate our digital capabilities to deliver more efficient solutions for our clients • Align innovation within the overall governance across the product lifecycle to develop scalable, monetizable, global client value propositions • Leverage market insight to identify opportunities to develop innovative & client centric value propositions with unique selling points • Align country led go to market strategies, as the north star to drive central and in-country innovative solutions
4 Failure to attract, develop, engage and retain the right people for current and future client propositions Accountable officer: Chief People Officer	• 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	The cost of living challenges and inflationary environment are having a significant impact on the UK labour market and our attrition levels. Unprecedented recruitment activity is being driven by job seekers looking for alternative employment, across sectors. **Mitigation actions in 2022** • Further developed our people proposition and attraction strategy to respond to market labour challenges • Continued focus on ensuring competitive pay and reward packages • Introduced a demand planning methodology to enable proactive recruitment • Improved the onboarding process to rationalise and reduce onboarding time for candidates • Developed a career path framework enabling employees to plan and develop their careers **Future actions:** • Further develop our people proposition and attraction strategy to respond to market labour challenges • Continue to review pay and reward packages to ensure that they remain competitive • Roll out the career path framework to enable employees to plan and develop their careers • Implement technology to enhance candidate journey and reduce time-to-offer

Principal risk and risk level	Potential impact	How we manage the risk
5 Failure to change the culture and practices of Capita in line with our in line with our purpose and strategy Accountable officer: CEO	• 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	Cost of living and inflation impacts may cause engagement challenges in specific parts of the business, particularly where our employees are in a lower pay bracket, and therefore are significantly more affected by increases in the cost of living. This could cause reduced engagement and cultural impacts, specifically related to employee confidence in Capita as a purpose-led business. **Mitigation actions in 2022** • Implemented a mid-year employee survey to improve employee engagement to identify further improvements • Continued to work with over 15,000 colleagues in our expanded employee network groups to deliver a range of policy and procedural changes based on employee feedback. We saw a resulting increase in our global inclusion index • Launched the Capita leadership council to provide more diverse employee input into Group-wide strategic decision making, as well as demonstrating our commitment to growing diverse, internal future leaders in line with our commitments as a purpose-led employer • Continued to work on the embedding of our employee value proposition throughout the full employee lifecycle, therefore working to create a consistent, purpose-led and values driven experience for every employee from attraction to exit **Future actions:** • Deliver our employee listening programme, acting at all levels on the feedback received via our surveys • Work with our employee network groups to drive positive cultural and policy changes • Work with our leadership council, to bring constructive challenge and diverse thinking to our executive

Principal risk and risk level	Potential impact	How we manage the risk
6 Failure to protect data, information and IT systems Accountable officer: Chief Technology Officer (CTO)	• 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	TSS was created in August 2021 as an IT and Software shared service to deliver products and services to Capita's colleagues and clients. This consolidation of resource and capability into TSS, enables Capita to better manage and continually improve the IT and cyber resilience posture, standardise toolsets and create repeatable and scalable products and services, and to simplify how we operate as a business. **Mitigation actions in 2022** Established the technology strategy for TSS as a wider business to introduce standardisation and harmonisation of Capita's IT landscape. Strategy created on the back of having completed industry, market led and client analyses of Capita's technology domains. • Consolidation of over 4,000 IT resources into a shared service to drive efficiencies and improve service levels • Improved stability of IT environments • Migration from legacy hosting into a Tier 3 industry standard for improved data centre performance, removal of end-of-life systems Identified a clear road map for technology to ensure full foresight of any upcoming technology obsolescence. **Future actions:** • Enhance our understanding and reassessment of the technology risk profile by creating a centralised risk register • Continue to evolve our cyber security posture • Create a pan-Capita IT disaster recovery shared service to consolidate and simplify the capability and enhance resilience • Continue to invest in our capabilities and people • Invest in enhancing digital capability in the identified priority tech domains • IT Asset Management to enhance visibility of the estate

Principal risk and risk level	Potential impact	How we manage the risk
7 Failure to secure new contracts/ extend existing contracts and services Accountable officers: divisional CEOs	• 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	We continue to bid for and win new contracts that we are confident we have the resources and proven track record to deliver. Continued focus on maximising the benefit of our operating model will ensure our competitiveness in our principal markets. Coupling this with our deep sectoral understanding through the industry verticals in our core divisions should enable us to maximise our market opportunities. **Mitigation actions in 2022** • Refreshed the contract review committee policy and deal review process • 'Solution briefcase' relaunched in Public Service • Public Service commercial playbook develop and embedded • Delegation of authority matrices updated to reflect new ways of working • Coordination between Pursuit, Programme and Performance teams improved • Go to market strategies to influence market trends and solutions approved by the Board • Focused on our technology and digital assets in collaboration with TSS and our Products and Customer Value Proposition teams **Future actions:** • Investment in digital propositions to enhance attractiveness to the market • Fortify the strategic deals team to support high value multi-year contract opportunities • Deploy clear focus on growth across geographies with specialisation across go to market value propositions • Leverage the new organisation and operating model to enhance market penetration via land and expand opportunities • Recalibrate pre-sales to delivery process, including governance across quality of deals, with focus on margins and profitability

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	• 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	We deliver services that are vital to the success of our clients; Capita will take all reasonable steps to ensure it meets contractual obligations and deliverables. Performance against deliverables is regularly and rigorously monitored through several governance forums. **Mitigation actions in 2022** • Continued development of the divisional operating environment to drive simplification and strengthening of service delivery • Increased automation of Development Operations • Improvements undertaken to operational performance reporting, to support earlier identification of potential performance concerns • Risk reduction operational maturity assessments undertaken to identify opportunities to deliver better outcomes for our clients • Commonality identified in failures or issues across divisions, and addressed through coordinated action • Rolled out foresight demand planning tool to better predict and manage recruitment pipeline and mitigate attrition risk across the business • Introduced a new customer success framework **Future actions:** • Project Accelerate to review, transform and strengthen current capabilities (incl. operational excellence plan 2023) • Continue top lessons learned activity to maintain learning from experience • Continued review/development of 'function' through the future Capita operating model work to drive consistency and standardisation • Focus on data-led, technology-driven and people-enabled business model, keeping our clients at the forefront of all our initiatives • Leverage Lean 6 Sigma capabilities to drive operational excellence across delivery platforms globally • Deploy continuous improvement insights and analytics to deliver solutions that drive enhanced customer experiences for our clients and their customers

Principal risk and risk level	Potential impact	How we manage the risk
9 Failure to maintain a risk-based system of internal control Accountable officer: CFO	• fraud, misstatement and inaccurate financial reporting • greater regulatory or client scrutiny • increased costs associated with risk remediation activities • breaches of law, statutory and legal reporting leading to regulatory fines in financial services sector and loss of key contracts • reputational damage and adverse media interest leading	Our internal controls effectiveness has historically been dependent on management experience and intervention. A multi-year control improvement programme is underway with progress being made in establishing and communicating standards, automating system access controls, and standardising control activities across the Group. The implementation of efficient processes and controls is key in reducing effort, duplication and costs to mitigate the impact of inflation on the Group. **Mitigation actions in 2022** • Established a programme to standardise finance processes and controls • Further improved the coverage of financial policies and associated standards • Refreshed and updated the delegation of authority document following the implementation of the new divisional structure • Deployed software which has automated reviews of access to key finance systems **Future actions:** • Continue to standardise finance processes and controls • Review and refresh the framework that ensures consistency and quality of Group wide policies and standards • Further documentation of our key business processes to enable additional standardisation and automation of our key business processes and controls
10 Failure to plan for, influence and respond to potential changes in the geopolitical climate Accountable officer: CEO	• unable to respond rapidly and effectively to new political priorities which change the regulatory environment and public sector customer priorities	We may encounter changes in government priorities as we approach a period of political turbulence in the run-up to a UK general election. We continue to monitor, engage and communicate with government stakeholders to understand emerging policy and contribute to consultations where appropriate. Our continued commitment to being a leading responsible business, our reputation for reliable delivery and seeking contracts that enhance social value will remain our key focus. **Mitigation actions in 2022** • Continued engagement with UK Government and others to promote and protect reputation • Continued monitoring of policy developments including emerging plans for governmental strategic objectives including levelling up **Future actions:** • Engage with Government and elected reps from all main UK political parties, including the devolved parliaments and assemblies to communicate Capita's delivery performance and capability, and our commitment as a responsible business

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	• 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	The impact of the challenging economic environment on the trading performance of the Group is outlined in the Chief Financial Officer's review. The Group's materially reduced level of net debt, pension deficit reduction, prudent approach to balance sheet management and focus on delivering against our financial objectives all serve to mitigate the risk of financial instability. **Mitigation actions in 2022** • Completed the disposal of several key businesses including the Trustmarque business, Pay360, and the real estate and infrastructure consultancy businesses • Agreed an extension to the Group's RCF to August 2024 **Future actions:** • Completion of remaining planned disposals of businesses • Review the Group's capital structure on completion of disposals • Continued focus on resources in the two core divisions and reductions in Group overheads with the aim of delivering sustainable material free cash flow

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 and Company Secretary	• 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	The cost-of-living crisis and rising inflation have increased financial and social concerns for many Capita colleagues with significant potential consequences for their day-to-day lives. These types of social, financial, and practical/day-to-day impacts are known to have potential negative effects on wellbeing in general and mental health in particular. **Mitigation actions in 2022** • Developed and implemented a culture of ownership and accountability for the wellbeing, safety and health of our people by Group, Divisional, and business leadership • Assessed and validated Capita's legal and statutory wellbeing, safety and health requirements • Embedded CRC HSE & Safeguarding risk assessments for new contracts • Updated the approach and process to wellbeing, safety and health incident and near-miss reporting, management and analysis **Future actions:** • Complete detailed pan-Capita wellbeing assessment • Develop a pan-Capita mental health plan including alignment • Initiate new mandatory HSE training programme • Expand proactive occupational health intervention programme in Capita UK • Review and confirm health screening policies for all Capita business units

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 and Company Secretary	• 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	The global economic downturn has contributed to lower-than-expected delivery against commitments made at COP26, which may lead to an increasingly disorderly low carbon transition. Scenario analysis of climate risks and opportunities point to a greater threat of disruption from disorderly transition, requiring immediate action to minimise the impact to Capita, its stakeholders and wider society. **Mitigation actions in 2022** • Linked objectives and management bonus to net zero initiatives • Reviewed the HSE policy to include specific environmental factors and creation of a new environmental standard • Engaged with suppliers and customers to ensure resilience to transitional and physical climate risk, developing low carbon business solutions supporting net zero commitments • Introduced further efficiency, renewable energy, and travel reduction programmes **Future actions:** • Integrate climate culture and practice into Capita business as usual • Progress against targets reported in divisional performance reporting from 2023 • Continue to improve understanding and management of Scope 3 emissions • Increase accuracy and maturity of supply chain emissions reporting and extend scope of supply chain engagement • Develop and implement net zero plans and low carbon transition plan • Further develop our emissions database, analysis, insights, and associated actions to minimise climate risk

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 2025, 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 created the platform for sustainable improving financial performance which underpins the viability of the Group and Parent Company. The Board particularly notes the following:

- 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 continued revenue growth and delivery of efficiency savings.
- Adjusted revenue growth in 2022 of 2.4%.
- A significant reduction in the Group's cost base, with cumulative savings during the transformation programme of £428m.
- The ongoing successful execution of the non-core business disposal programme which has realised net cash proceeds totalling c.£1.3bn since 1 January 2018, used to repay maturing debt, to make further deficit reduction contributions to the Group's main defined benefit pension scheme and to invest in driving growth in the remaining core businesses.
- The repayment of £1.7bn of debt, including lease liabilities, since 1 January 2018.
- The extension during 2022 of the Group's revolving credit facility (RCF) to 31 August 2024 and in February 2023, the Group entering into a committed bridge facility of £50m with three of its relationship banks providing additional liquidity from 1 January 2024.
- The payment of c.£350m of deficit reduction contributions to the Group's main defined benefit pension scheme since 1 January 2018, and the commitment to a further c.£70m of deficit reduction contributions across 2023–2024, which should enable the scheme to reduce its reliance on the covenant of the Group.

The foregoing elements provide the backdrop to the three-year business plan approved by the Board in January 2023 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:

- Further adjusted 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.
- Completion of the portfolio disposal programme during 2023.
- The refinancing of the Group's RCF prior to its maturity in August 2024.

The most material assumptions from a viability assessment perspective, relate to the continuation of adjusted revenue growth, operating profit margin expansion, and the refinancing of the RCF. Capita 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 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 in line with those considered in the severe but plausible downside case for the going concern assessment and from the crystallisation of specific risks including those set out in the principal risks section of the 2022 Annual Report and Accounts (refer to section 1 of the consolidated financial statements).

The risks applied have not been probability weighted but rather consider the impact should each risk materialise by applying a 'more likely than not' test. These wide-ranging risks are unlikely to crystallise simultaneously and there are mitigations under the direct control of the Group, including reductions in capital investment, substantially reducing and (or removing in full) bonus and incentive payments and significantly reducing discretionary spend, that can be actioned to address a combination of risk crystallisations that may occur under a severe but plausible downside. These have been considered in the Board's viability assessment.

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

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

Claire Denton
Chief General Counsel and Company Secretary
2 March 2023
Capita plc
Registered in England and Wales No.2081330

Corporate governance

Chairman's report

On behalf of the Board, I am pleased to introduce the Company's corporate governance report for the year ended 31 December 2022, which is my first report as your Chairman.

> "Capita is committed to creating an environment where diversity and inclusion are valued and respected, and where we benefit from all colleagues sharing their different perspectives."
>
> **David Lowden,** Chairman

Corporate governance

The corporate governance report sets out how the Company has complied with the 2018 UK Corporate Governance Code. It also aims to explain the work and activities of the Board, and the work of its committees, and details the annual evaluation process for the year under review.

Capita is a purpose-led business, and we are committed to being a responsible business – in how we operate, serve society, respect our people and the environment, and deliver improving returns to our investors. The Board is committed to ensuring Capita's governance structure aligns with this and operates to the highest standard – this is one of my principal objectives as your Chairman.

In June 2022, the Board established an ESG (environmental, social and governance) Committee, a forum not affected by the time pressures of the wider Board agenda. This enables ESG matters to be properly considered and helps support the work being undertaken by the business to tackle them, including our commitment to achieve net zero across our value chain by 2035. I am proud that in 2022 Capita was, for the first time, included in the Carbon Disclosure Project 'A' list, a universal global measure that scores companies and cities based on their journey through disclosure and towards environmental leadership.

As a Board, we were also kept fully informed of the Company's refreshed mandatory Code of Conduct training and the relaunched Speak Up policy, which is overseen by the Audit and Risk Committee. Both initiatives are pivotal to our commitment to ensuring we remain true to our values and, by complying with the Code of Conduct we demonstrate our commitment to creating better outcomes across Capita.

The Group's Board and committee structure, including the new ESG Committee, is outlined below. Further information on the ESG Committee and its remit is provided on pages 88 and 89, with further information on Capita's responsible business focus provided on pages 34 to 45.

Board composition

There were several changes to the Board during 2022.

Matthew Lester stepped down on 30 June 2022, having served as a director for five years. On behalf of the Board, I would like to thank Matthew for his hard work, commitment and wise counsel, and especially for his leadership as Chair of the Audit and Risk Committee.

Lyndsay Browne and Joseph Murphy, our first employee directors, resigned on 30 June 2022, having served their three-year terms. I would also like to thank them for their commitment and professionalism. Their contribution to the Board was significant and provided fresh insight and a vital new perspective.

	31 December 2022
Female representation	44.4%

We welcomed Nneka Abulokwe and Brian McArthur-Muscroft to the Board as independent Non-Executive Directors on 1 February and 1 June 2022 respectively. Nneka has a wealth of experience gained within both entrepreneurial and corporate environments. Her expertise has already been of great benefit to the Board, as Capita continues to develop digital innovation to help execute our growth strategy.

Brian, who also took over the responsibilities of Audit and Risk Committee Chair on 1 July 2022, is a highly experienced chief financial officer and board director. Janine Goodchild joined the Board on 1 July 2022, as our new Employee Non-Executive Director and has already provided great insight.

I joined the Board as a Director on 1 January 2021 and was appointed as Senior Independent Director on 1 March 2021. Sir Ian Powell stepped down as Chairman at the conclusion of the Company's AGM on 10 May 2022, and I was pleased to accept the Chairman appointment, having been appointed as Chairman designate on 22 March 2022 as part of the Board's succession planning. Sir Ian had, since his appointment as Chairman in 2017, provided outstanding leadership and strategic guidance to the Board during a period of significant change for the business.

On 3 February 2023, we announced that John Cresswell, independent Non-Executive Director had decided to step down from the Board with effect from 31 March 2023. I would like to thank John for his commitment and valuable contribution to the Board during his seven year tenure as a director.

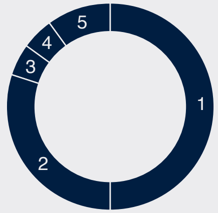
Capita is committed to creating an environment where diversity and inclusion are valued and respected, and where we benefit from all colleagues sharing their different perspectives. The Board will continue to lead by example through its own approach to inclusion and diversity across its composition. As at the date of this Annual Report, 44% of the Board is female, exceeding the FCA's target of 40%, including our Senior Independent Director. Our ethnic diversity continued to improve with the appointment of Nneka Abulokwe. Further details of Board appointments during 2022 can be found in the Nomination Committee report on pages 86 and 87.

Company purpose and culture

The Board recognises that it has ultimate responsibility for ensuring an appropriate culture is in place across Capita to underpin how the business behaves towards all its stakeholders. Our culture provides the foundation to drive our purpose and delivery of our strategy.

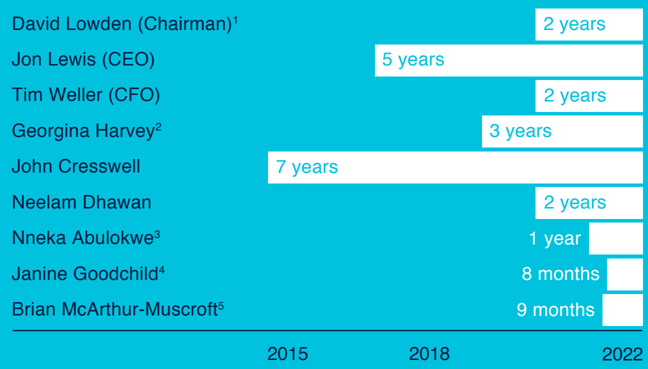
As a Board, we spend time focused on ensuring our culture enables us to build the organisational capability required to deliver on our commitments to our people, clients and customers, suppliers and partners, society and our investors. The Board receives regular reports on activities that enable it to 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

Board time allocation (%)



1 50% Strategy, transformation and growth
2 30% Executive reports
3 5% Governance (incl. Board evaluation)
4 5% IR / brand / reputation
5 10% Full and half-year results

Board directors: length of tenure



1. Joined the Board on 1 January 2021, appointed as Senior Independent Director (SID) on 1 March 2021 and as Chairman on 10 May 2022 when he ceased to be SID
2. Joined the Board on 1 October 2019 and as SID on 1 July 2022
3. Joined the Board on 1 February 2022
4. Joined the Board on 1 July 2022
5. Joined the Board on 1 June 2022

The time allocation chart is provided for guidance only and other matters were also considered by the Board.

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 33 to 36 and 37 to 45, respectively.

Metric	2022	2021
Movement in employee net promoter score (a measure of employee satisfaction)	+15 points	-22 points
Employee engagement index (a measure of employee engagement)	65%	56%
People survey response rate (a measure of employee engagement)	72%	68%
Employee rating of manager commitments (a measure of how managers live our values and demonstrate our behaviours)	90%	87%
Voluntary turnover (a measure of employee commitment)	30%	30%

The Board was pleased to note that, in 2022 scores increased in almost all areas of the people survey at a Group level and there is a general trend towards positivity. However, the Board recognises that we are still behind the benchmark in certain areas. A plan is being developed to deliver a range of action plans from Group level down to team level and this remains a key focus for our CEO, Jon Lewis, and the senior management team. The Board, through its ESG Committee, will continue to receive regular updates from management on the progress made against these action plans.

Board evaluation

The Board carries out effectiveness reviews annually. Due to the changes in Board membership, and an external evaluation being undertaken in 2021, the 2022 evaluation was undertaken internally.

Key findings of the evaluation performed in 2022 are set out below, together with actions taken during the year in response to the 2021 external evaluation performed by Independent Board Evaluation.

Finding from 2021 evaluation	Action 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.	The Nomination Committee reviewed the skill set of the Board, and agreed a skills matrix aligned to the Group's redefined strategy. During the year, Nneka Abulokwe was appointed as a non-executive director. Her skillset will assist with the Board's strategy to develop digital innovation as part of the Group's growth strategy. David Lowden was appointed as chair designate on 22 March 2022 as part of the Board's succession planning, being appointed as Chairman on 10 May 2022. Brian McArthur-Muscroft was appointed as a non-executive director on 1 June 2022, he brings additional and current financial expertise to the Board given his role as chief financial officer of Qontigo, a financial management and investment management business.
Strategy – the 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.	Regular presentations from the CEOs of Experience and Public Service are scheduled into the Board's annual calendar, together with presentations on the Group's growth strategy, which include both divisions. In September 2022, the Board held a strategy day where these matters were discussed in detail.

The 2022 Board evaluation, and the evaluation of the committees, was undertaken by the completion of a questionnaire by each director, followed by a one-to-one meeting with the Chairman. The Board received a report from the Chairman on the outcome of the evaluation, including formal recommendations which were discussed and approved by the Board. Committee feedback was presented to the relevant committee chair. The Chairman was assisted in this process by Claire Denton, Chief General Counsel and Company Secretary.

The evaluation concluded that the performance of the Board was viewed positively. A particular strength of the Board was found to be a culture with honest and open debate. 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.

Finding from 2022 evaluation	Proposed actions in 2023
Strategy – although noting the regular presentations from the CEOs of Experience and Public Service, additional focus was sought from the Board on the divisions' strategic focus on digital solutions and margin improvements.	Additional presentations have been included in the Board's annual calendar, these include a strategic focus on digital solutions to meet client requirements and margin improvement from Experience and Public Service.
Stakeholders – the Board noted that further interaction with both clients and senior management would be beneficial.	Visits to clients will be organised for the Board. In addition more members of the senior management team below the Executive Committee will be asked to present and meet with the Board in both a formal and more informal setting.

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.

David Lowden
Chairman
2 March 2023

Board members

Key to committees

A Audit and Risk
N Nomination
R Remuneration
Committee chair
E Environmental, Social and Governance (ESG)

Chairman

David Lowden
N E

Chairman

Appointed: January 2021 (independent Non-Executive Director); March 2021 (Senior Independent Director); May 2022 (Chairman)

Independent at appointment: Yes

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 PageGroup plc and 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; and Senior Independent Director of Morgan Sindall plc.

Executive Directors

Jon Lewis
N

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 Worldwide plc 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.

Independent Non-Executive Directors

Georgina Harvey
N R E

Senior Independent Director

Appointed: October 2019 (Non-Executive Director); July 2022 (Senior Independent Director)

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 Director of Superdry plc and McColl's Retail Group plc.

Brian McArthur-Muscroft
A N R

Appointed: June 2022

Key skills and experience: Brian was formerly the Group Chief Financial Officer at Micro Focus International plc, a FTSE 100 global infrastructure software company. Prior roles include CFO at Paysafe Group plc leading the business to a FTSE 250 listing on the LSE Main Market in 2016 and Group FD at Telecity Group plc. Also a restructuring specialist, he was interim CFO on the successful turnaround of MCI Worldcom EMEA. Prior to joining Capita he was a Non-Executive Director at Robert Walters plc. Brian holds a law degree and qualified as a chartered accountant with PricewaterhouseCoopers in London.

Other current appointments: Chief Financial Officer of Qontigo, a financial intelligence and investment management business.

Key to committees

(A) Audit and Risk (N) Nomination (R) Remuneration ● Committee chair

(E) Environmental, Social and Governance

Independent Non-Executive Directors

Nneka Abulokwe OBE (N) (R) (E)

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), Atos and Sopra Steria, in a corporate career spanning more than 25 years, before founding MicroMax Consulting, where she is currently CEO. Nneka was awarded Officer of the Order of the British Empire (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.

John Cresswell (A) (N) (E)

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: Chair of J Murphy and Sons Ltd; Chair of Bio4gas Holdings Limited and an Operating Advisor with Lazard Asset Management.

Neelam Dhawan (A) (N) (R)

Appointed: March 2021

Key skills and experience: Neelam has c.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. Neelam recently stepped down from the Board of Skylo Technologies Inc. and as a member of Koninklijke Philips NV Supervisory Board, having served for the maximum term of 10 years.

Other current appointments: Non-Executive Board Member of ICICI Bank Limited and Yatra Online Inc. She mentors and advises young startup companies and is on the board of Capillary Technologies.

Employee Non-Executive Director

Janine Goodchild (A) (E)

Appointed: July 2022

Key skills and experience: Janine is a registered adult nurse and lead clinical trainer in the Capita team which assesses personal independence payment claims on behalf of the Department for Work and Pensions. Janine joined Capita in January 2016. Janine's previous experience includes working in the banking industry within corporate actions, asset reconciliations and within employee training and development.

Other current appointments: None.

Directors who served during the year 2022

Sir Ian Powell stepped down from the Board on 10 May 2022 at the conclusion of the Company's 2022 AGM.

Matthew Lester, **Lyndsay Browne** and **Joseph Murphy** retired from the Board on 30 June 2022.

On 3 February 2023, the Company announced that **John Cresswell** had decided to step down from the Board with effect from 31 March 2023.

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:

- 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 (ARC) until 30 June 2022) and Lyndsay Browne (member of the Remuneration Committee (RemCo) until 30 June 2022), were both non-executive employee directors and therefore not considered independent. However, the Board considered that the value of the employee perspective brought by Lyndsay and Joseph to Board meetings should be replicated on those two committees. Lyndsay and Joseph resigned from the Board on 30 June 2022, having served their three-year term.
- Provision 12 (appointment of a senior independent director). Following David Lowden's appointment as Chairman on 10 May 2022 and until the appointment of Georgina Harvey as senior independent director (SID) on 1 July 2022, the Company did not have a SID.
- Following the appointment of David as Chairman, and the establishment of the ESG Committee, the Nomination Committee undertook a review of Committee membership and considered who should be appointed as members of each Committee and who should be appointed as SID. The Nomination Committee considered the skillset of each Director, to ensure that each committee has the appropriate skillset, balance of experience and diversity and that all members have sufficient time available to devote to the committees of which they are members. This review culminated in the appointment of Georgina Harvey as SID on 1 July 2022, given her experience as RemCo chair and her engagement with shareholders in this role, and the Committee membership which is detailed on page 85.
- The RemCo comprises solely independent non-executive directors, while the ARC, which is chaired by Brian McArthur-Muscroft, comprises John Cresswell and Neelam Dhawan, all non-executive directors, and Janine Goodchild, employee non-executive director. The formal appointment of Janine to the ARC continues to demonstrate how the Group values diversity of perspective and that this is considered more important than a purely compliance-driven approach to the Code. Janine was not appointed as a member of the RemCo recognising the strong views of shareholders relating to the independence of RemCo members given the more than 20% of votes cast against the re-election of Lyndsay at the 2022 AGM, as detailed on page 76.

Except for Janine's membership of the ARC, which does not comply with provision 24 of the Code, the Company currently complies with all relevant provisions of the Code set out in sections 1 to 5.

Board changes during the year

Nneka Abulokwe and Brian McArthur-Muscroft were appointed as independent Non-Executive Directors on 1 February and 1 June 2022 respectively. Sir Ian Powell stepped down as Chairman and David Lowden was appointed as his successor on 10 May 2022. Georgina Harvey, was appointed as SID on 1 July 2022. Matthew Lester, chair of the ARC, resigned from the Board on 30 June 2022. Lyndsay Browne and Joseph Murphy non-executive employee directors resigned from the Board on 30 June 2022 having served their three-year term. Janine Goodchild was appointed Employee Non-Executive Director on 1 July 2022. Further information on Board changes is set out on page 87.

Board changes after year end

There have been no changes to the Board since 1 January 2023.

On 3 February 2023, the Company announced that John Cresswell had decided to step down from the Board with effect from 31 March 2023. John joined the Board in 2016 and has made a significant contribution during this period.

Board composition

Composition of the Board at 31 December 2022 and at the date of this report is shown in the following table.

Board composition at 31 December 2022

Executive directors	Independent non-executive directors	Employee non-executive director
Jon Lewis	David Lowden[1]	Janine Goodchild
Tim Weller	Georgina Harvey	
	Brian McArthur-Muscroft	
	John Creswell[2]	
	Neelam Dhawan	
	Nneka Abulokwe	

1. Independent on appointment in accordance with the Code.
2. On 3 February 2023, the Company announced that John Cresswell had decided to retire as a director and would step down from the Board with effect from 31 March 2023.

The Board

Role of the Board

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

Matters reserved for the Board

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

Nomination Committee

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

Read more on page 86.

Audit and Risk Committee

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

Read more on page 90.

Remuneration Committee

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

Read more on page 99.

ESG Committee

- Approval of ESG strategy
- Oversee and monitor Capita's net zero emissions strategy

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.

Employee non-executive directors

Employee non-executive 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 2022, the Board held seven scheduled meetings. Additional ad hoc meetings were held as required. In 2022, this included meetings to approve the disposal of Pay360 Limited and the related shareholder circular.

Attendance of the directors at Board and committee meetings is shown below; the maximum number of meetings a director could attend is in brackets.

	Board	Audit and Risk Committee	Remuneration Committee	Nomination Committee	ESG Committee
David Lowden[1]	7(7)	2(3)	1(3)	6(8)	3(3)
Jon Lewis[2]	7(7)	n/a	n/a	0(3)	n/a
Tim Weller	7(7)	n/a	n/a	n/a	n/a
Georgina Harvey	7(7)	3(3)	6(6)	8(8)	3(3)
Brian McArthur-Muscroft[4]	4(4)	4(4)	3(3)	4(4)	n/a
John Cresswell[3]	6(7)	6(6)	3(3)	8(8)	3(3)
Neelam Dhawan[3]	7(7)	5(6)	6(6)	8(8)	n/a
Nneka Abulokwe[4]	6(6)	6(6)	5(5)	7(7)	3(3)
Janine Goodchild[5]	2(3)	2(3)	n/a	n/a	2(3)
Sir Ian Powell[6]	3(3)	n/a	n/a	3(4)	n/a
Matthew Lester[7]	4(4)	3(3)	2(3)	3(5)	n/a
Lyndsay Browne[6]	4(4)	n/a	3(3)	n/a	n/a
Joseph Murphy[6]	4(4)	3(3)	n/a	n/a	n/a

1. David Lowden was a member of the ARC and RemCo, until his appointment as Chairman on 10 May 2022. He recused himself from one Nomination Committee meeting which considered the appointment of a successor to Sir Ian Powell as Chairman due to his interest in the matter. He also recused himself from one RemCo meeting which considered his remuneration as Chairman.
2. Jon Lewis was appointed as a member of the Nomination Committee on 1 July 2022. However, due to prior scheduled business commitments, he was unable to attend three meetings.
3. John Cresswell was unable to attend one Board meeting and Neelam Dhawan one committee meeting due to a prior commitment.
4. Nneka Abulokwe, Brian McArthur-Muscroft and Janine Goodchild were appointed to the Board on 1 February, 1 June and 1 July 2022 respectively.
5. Janine Goodchild was unable to attend one Board, ARC and RemCo meeting due to Capita-related and other commitments made prior to her appointment.
6. Sir Ian Powell stepped down from the Board on 10 May and Matthew Lester, Lyndsay Browne and Joseph Murphy resigned from the Board on 30 June 2022.
7. Matthew Lester was unable to attend one RemCo and two Nomination Committee meetings due to prior commitments.

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

Any director's absence from Board or committee meetings was previously agreed with the Chairman of the Board or relevant committee and the CEO. Where possible the Chairman or committee chair will contact the director who is unable to attend the meeting to obtain their comments on Board and committee papers prior to the meeting.

During 2022, 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 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 David Lowden as Chairman and responsibility for the running of the Group's business by Jon Lewis as CEO.

David Lowden as Chairman has held meetings comprising solely the non-executive directors. Both David and Georgina 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 stakeholder engagement section on pages 47 and 48.

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 77. 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, David Lowden 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 experience and breadth of tenure of the non-executive directors means the Board is well positioned to advise, challenge and support executive management as the Group progresses its growth strategy.

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 77.

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 Nneka Abulokwe, Brian McArthur-Muscroft and Janine Goodchild to ensure they were properly equipped to fulfil their roles.

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, Nomination and ESG committees.

Claire will meet regularly with the Chairman of the Board and the Chairs of the ARC and RemCo, 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. David Lowden also met with existing institutional shareholders both prior to and following his appointment as Chairman on 10 May 2022.

Georgina Harvey, Chair of the RemCo, engaged with shareholders to discuss remuneration prior to the 2022 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.

Principal decisions

Principal decision*	Impact on long-term sustainable success	Stakeholder considerations	Further details
Disposal of Pay360 Limited: following a strategic review the Board decided to dispose of its Pay360 payments solutions business, a non-core business. The disposal of Pay360 required shareholder approval which was sought at a general meeting held on 1 November 2022.	**Strategy**: the disposal of Pay360 was expected to allow the Company to strengthen its balance sheet by reducing its indebtedness, improve the Group's liquidity and pension funding position and support the Group's strategy to build a more focused sustainable business for the long term. **Principal risks**: the strengthening of the Group's balance sheet as a result of the disposal has assisted in reducing two of Capita's principal risks: (i) to execute its medium-term strategy; and (ii) maintain financial stability.	**Our people, customers and suppliers:** the strengthening of the Group's balance sheet has supported the Group's strategy to build a more focused sustainable future providing more stability for our colleagues, customers and suppliers. **Investors:** the disposal of Pay360, a non-core business, has contributed to the ability of the Group to focus on its core business and to progress its growth strategy by strengthening the balance sheet and improving liquidity. The Company believes that this will improve the prospects of the Company and will benefit shareholders. Shareholders voted 99.99% in favour of the disposal of Pay360 at the general meeting held on 1 November 2022.	pages 30 and 171.
Appointment of David Lowden as Chairman	**Governance:** the chairman is critical in ensuring the effectiveness of the board in all aspects of its role. **Principal risks:** the appointment of a chairman with the appropriate skills and attributes is essential to the delivery of our strategy.	**All of our stakeholders:** all of our stakeholders have an interest in the delivery of our strategy and the way it is delivered. David Lowden, Chairman has a critical role in ensuring that our strategy is delivered in line with our purpose and values.	Nomination Committee report on page 87.
Establishment of Board ESG Committee	**Strategy:** to provide additional and strategic focus on ESG matters. **Principal risks:** the ESG Committee will have an increased focus on people, attraction and retention, culture, wellbeing, health and safety, and climate change.	**Our people, customers, suppliers, investors:** all of our stakeholders are concerned by the issues that will receive increased focus by the ESG Committee on behalf of the Board.	ESG Committee report on pages 88 and 89.

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

Shareholder meetings

Shareholders are encouraged to attend the AGM. However, given the situation with the Covid-19 pandemic at the beginning of 2022, the Company understood that many shareholders would not wish to attend the 2022 AGM in person. Consequently, the 2022 AGM was held as a combined physical and electronic meeting.

It is intended that the 2023 annual general meeting will be held as a physical meeting only and the Board looks forward to meeting and welcoming shareholders to the meeting. Directors, including chairs of the various committees, are expected to be present at the 2023 AGM, and will be available to meet with shareholders and answer any questions.

The Chairman and SID are normally available to meet with Capita's significant shareholders.

2022 voting outcome

At our 2022 AGM, the Board was again pleased that the majority of resolutions were passed with a high level of support from shareholders. The Board has considered the votes against resolution 11 the re-election of Lyndsay Browne (24.36%). Lyndsay was appointed as an employee non-executive director in July 2019 and was a member of the RemCo. As an employee non-executive director Lyndsay was not considered independent. In order to better understand the reasons for these votes against, the Board contacted shareholders who voted against this resolution and considered the views of proxy voting agencies as to voting recommendations (where these had been made available to the Company).

In addition, following the establishment of a Board ESG Committee in June 2022, the Board reviewed the membership of all committees to ensure that each committee has the appropriate skillset, balance of experience and diversity and that all members have sufficient time available to devote to the committees of which they are members.

Lyndsay resigned as an employee non-executive director on 30 June 2022, having served her three-year term. Recognising shareholders' views with regards to independence, Janice Goodchild who was appointed as an employee non-executive director on 1 July 2022, was not appointed as a member of the RemCo. However the Board continues to believe in the importance of bringing the contributions of its employees into committee meetings and considers that the value of the employee perspective brought by Lyndsay was of considerable value to this committee. Consequently, Janine may be invited, at the discretion of the RemCo Chair, to attend meetings and contribute to discussions.

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 Group, 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 shareholderenquiries@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 UK 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 engaging with stakeholders section on pages 47 and 48.

Remuneration Committee

Details of the RemCo and its activities are given in the directors' remuneration report on pages 99 to 122.

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 ARC 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 54 to 56.

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 emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. A description of those principal risks, what procedures are in place to identify emerging risks, and an explanation of how these are being managed or mitigated, is set out on pages 54 to 63.

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 2022 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 64. Details of the Group's business goals, strategy and business 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 71 to 84.

Management report
For the purposes of Rule 4.1.5R(2) and Rule 4.1.8R of the DTRs, this directors' report and the strategic report on pages 1 to 64 comprise the management report.

Post-balance sheet events
The following events occurred after 31 December 2022, and before the approval of these consolidated financial statements, but have not resulted in adjustment to the 2022 financial results:

Committed bridge facility
In February 2023, the Group entered into a committed bridge facility of £50m with three of its relationship banks providing additional liquidity from 1 January 2024. The committed bridge facility has an expiry date of 31 December 2024 and is subject to covenants, which are the same as those in the revolving credit facility (RCF). Both the RCF and the £50m bridge facility incorporate provisions such that they will partially reduce in quantum as a consequence of specified transactions including disposals, equity-raises or other refinancing.

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 215 to 227. 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 elect or re-elect each director will therefore be proposed at the AGM on 11 May 2023.

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 leading provider of business process services driven by data, technology and people. 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 64. 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 £61.4m from continued operations (2021: £285.6m). As previously announced, the directors do not recommend the payment of a final dividend (2021: nil). The total dividend for the year was nil (2021: 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 2022, 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 2022	Number of shares direct	Number of shares indirect
Schroders plc	321,365,363	19.08	–	321,365,363
RWC Asset Management LLP	286,449,316	17.01	286,449,316	–
Marathon Asset MGMT Limited	126,900,867	7.53	–	126,900,867
Veritas Asset Management LLP[1]	83,131,892	4.98	–	83,131,892
BlackRock Inc.	74,230,358	4.45	–	74,230,358
Invesco Ltd	70,883,236	4.24	–	70,883,236
Vanguard Group Inc.	64,670,000	3.84	64,670,000	–
Veritas Funds PLC	55,009,900	3.30	–	55,009,900
Jupiter Asset Management Limited	53,573,060	3.21	–	53,573,060
Odey Asset Management LLP	51,459,613	3.05	51,459,613	–

1. Includes the holding of Veritas Funds PLC.

On 10 January 2023, notification in accordance with the DTRs was received from RWC Asset Management LLP that it held directly 286,050,563 shares, being 16.98% of voting rights. At 24 February 2023, 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 117.

Share capital

At 24 February 2023, the number of ordinary shares of 2 1⁄15 p 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	100%
Treasury shares	0	0%
Total voting rights	1,684,273,523	100%
Employee Benefit Trust (EBT) shares[1]	9,263,250	0.55%

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

During the year ended 31 December 2022, no new ordinary shares were issued, and options exercised pursuant to the Company's share schemes were satisfied by the transfer of shares the EBT (8,770,217 shares). No new ordinary shares have been allotted under the Company's share option schemes since the end of the financial year to the date of this report. 37,102 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 2022 was 24.26p. The highest share price in the year was 38.94p and the lowest was 19.89p.

The Company renewed its authority to repurchase up to 10% of its own issued share capital at the AGM in May 2022. During the year, the Company did not purchase any shares (2021: nil).

Viability statement

This statement is detailed in full on page 64. The directors have assessed the viability of the Group over the three-year period to 31 December 2025, 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 64. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 26 to 32. In addition, section 4 in the financial statements on pages 188 to 202 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 2022, 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: revenue growth falling materially short of plan; operating profit margin expansion not being achieved; additional inflationary cost impacts which cannot be passed on to customers; unforeseen operational issues leading to contract losses and cash outflows, increased interest rates, reduction in deferred cash consideration in respect of completed disposals; non-availability of the Group's non-recourse receivables financing facility; and unexpected financial costs and penalties linked to incidents such as data breaches and/or cyber attacks.

To mitigate these, the Board has considered the mitigations, under the direct control of the Group, that could be implemented to address the financial impact should these risks materialise. These mitigations include reductions in capital expenditure, materially reducing and/or removing in full bonus and incentive payments and significantly reducing discretionary spend. Taking these mitigations into account, the Group's financial forecasts over the going concern period demonstrate liquidity headroom and compliance with all covenant measures throughout the going concern period to 31 August 2024.

Therefore, after careful consideration and reflecting also the Board's confidence in the expected benefits from the completion of the transformation, and its ability to implement the above mitigations should the severe but plausible downside materialise, coupled with the potential to obtain further financing beyond its existing committed funding facilities, 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 78;
- the longer-term viability statement, see page 64; and
- 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
  - ARC composition, role and responsibilities.

Further details are in the auditor's report, on pages 124 to 141.

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 training and 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, in April 2022. We are currently finalising plans to achieve Level 3 status in 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 33 to 36. Communication with employees in relation to Capita's financial performance is detailed in the remuneration report on page 103.

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 33 to 36 and 37 to 45 and the stakeholder engagement section on pages 47 and 48.

Political donations

The Group did not make any political donations or incur any political expenditure during the year (2021: 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 80 and on page 43 of the strategic report.

GHG emissions (tCO_2e) and energy use (kWh) for period 1 January 2022 to 31 December 2022

Period	Data source	Current reporting year 2022			Comparison reporting year 2021			Comparison reporting year 2020		
Region		UK and offshore	Global (excluding UK and offshore)	Total	UK and offshore	Global (excluding UK and offshore)	Total	UK and offshore	Global (excluding UK and offshore)	Total
Energy used to calculate emissions (kWh)										
Gas and fuel	Energy Bureau, UK est energy, FSC burn, int. est energy, Capita Europe	58,561,431	2,443,394	**61,004,825**	65,139,586	1,726,618	**66,866,204**	73,668,847	1,871,964	**75,540,811**
Electricity & district heat		65,813,485	15,405,065	**81,218,550**	93,211,777	26,513,142	**119,724,918**	81,491,440	16,112,463	**97,603,902**
Business travel, cars	SAP expenses	12,211,032	3,836,579	**16,047,610**	12,502,976	2,271,999	**14,774,974**	46,912,511	3,351,543	**50,264,055**
Total energy used (kWh)		136,585,947	21,685,038	**158,270,986**	170,854,338	30,511,758	**201,366,097**	202,072,798	21,335,969	**223,408,768**
% of total energy used		86%	14%	**100%**	85%	15%	**100%**	90%	10%	**100%**
Emissions from combustion of gas and fuel for heating tCO_2e (Scope 1)	Energy Bureau, Capita Europe	9,281	405	**9,686**	11,620	320	**11,941**	15,594	592	**16,186**
Emissions from combustion of fuel in company vehicles tCO_2e (Scope 1)	Fleet, FSC, fleet Germany, India, South Africa	1,851	67	**1,918**	1,845	71	**1,916**	1,695	86	**1,782**
Emissions from fugitive refrigerant gas tCO_2e (Scope 1)	Fugitive refrigerant gas	445	0	**445**	1,466	0	**1,466**	1,011	0	**1,011**
Emissions from purchased district heat tCO_2e (Scope 2)	Energy Bureau, Capita Europe	34	264	**298**	40	157	**198**	45	136.60	**181**
Emissions from purchased electricity (location based) tCO_2e (Scope 2)	Energy Bureau, UK est energy, int. est energy, Capita Europe, South Africa, India	12,827	8,012	**20,839**	23,891	6,853	**30,744**	18,938.58	9,239.43	**28,178**
Emissions from purchased electricity (market based) tCO_2e (Scope 2)	Energy Bureau	2,247	1,836	**4,083**	10,328	8,132	**18,460**	12,513	11,009	**23,522**
Emissions from business mileage, air, rail, tube tram and light rail, taxi, bus, coach, ferry, hotel, waste. tCO_2e (Scope 3)	SAP, Agiito	4,857	1,244	**6,101**	3,860	640	**4,500**	6,829	1,052	**7,881**
Total gross tCO_2e Scope 1 and 2 (location based)		24,438	8,748	**33,186**	38,863	7,401	**46,264**	37,284	10,055	**47,338**
Total gross tCO_2e emissions (location based)		29,294	9,992	**39,287**	42,722	8,042	**50,763.93**	44,113	11,107	**55,220**
Total gross tCO_2e emissions (market based)		18,680	3,552	**22,233**	29,119	9,163	**38,282.35**	37,643	12,740	**50,383**
Intensity ratio: gross Scope 1 and 2 tCO_2e (location based) per £1M turnover		8.1	2.9	**11.0**	10.0	2.3	**12.3**	11.2	3.0	**14.2**
Intensity ratio: gross Scope 1 and 2 tCO_2e (location based) per headcount		0.77	0.48	**0.66**	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 Cibse guide F benchmarks (or previous years' consumption outside UK if available). Any fuel figures provided in litres have been converted into kWh or tCO_2e using Gov.UK and Defra conversion tables. Mileage provided has been converted into tCO_2e using Defra conversions for the relevant engine size and fuel type. kWh figures for air, rail, taxi and other public transport have been omitted as not practical to convert from passenger km or passenger fares but CO_2e emissions have been calculated using Defra conversion factors.

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

Energy efficiency action 2022

We invested in energy-efficiency measures across our estate in 2022 to deliver savings below.

Building plant upgrades and initiatives	tCO_2e reduction per annum
Replacement LED lighting	5.6
Replacement chillers and air conditioning units	70.1
Motor speed drives (VSD)	5.0
Upgraded building management controls	49.5
Lift motor drive and controls	5.9
Replacement heating plant	48.9
Total tCO_2e reduction	185.1

Our virtual meetings initiative resulted in further reductions in business travel CO_2. Post pandemic, travel emissions began to climb in 2022 but remained significantly below our short-term SBTi target for 2030. We have set a 2035 net zero target to augment our short term 1.5°C science based targets for greenhouse gas reduction. This target covers our full value chain and has been verified by SBTi. In 2022 we set net zero targets for functions and divisions, linked to incentive plans, to drive progress against our net zero milestones and plan. Capita reached the CDP 'A' list for the first time in 2022.

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 monitors the risk of a liquidity shortage through its business plan and liquidity cycle forecasts and analysis, taking into consideration the maturity of both the Group's financial instruments and the forecast cash flows from operations.

The Group does not rely on sources of funding that are not contractually committed. Its policy is to hold cash and undrawn committed facilities at a level sufficient to fund the Group's operations and its medium-term plans, and to maintain a balance between continuity of funding and flexibility through the use or availability of multiple sources of funding.

The Group's committed bank facilities provide liquidity for the cash fluctuations of the business cycle and an allowance for contingencies. At 31 December 2022 the RCF commitment was £288.4m (£385.7m at 31 December 2021) and was subsequently reduced to £284.7m on 4 January 2023 following receipt of proceeds from disposals.

The size of the available commitment will be right-sized each time the Group either refinances, raises funds through disposals, or raises equity with the RCF including mandatory cancellation mechanisms that determine the amount of the cancellation in each case. The commitments are subject to a minimum value of £180m regardless of the quantum of receipts.

The RCF expires on 31 August 2024 and was undrawn at 31 December 2022 (31 December 2021: £40m drawn).

US private placement loan notes and euro fixed-rate bearer notes (private placement loan notes) provide the Group's core funding, and to mitigate the risk of needing to refinance in challenging conditions, these have been arranged with a spread of maturities to November 2027. The bank facilities and private placement loan notes all include provisions that would require repayment in the event of a change of control, which are typical of these arrangements.

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

Various other financial instruments, such as trade debtors and trade creditors, arise directly from the Group's operations. In respect of trade creditors, the Group's standard supplier payment terms are to pay micro-businesses (less than 50 employees) within 14 days, SMEs (less than 250 employees) within 30 days, and larger organisations within 60 days. The Group aims to pay its suppliers on time in accordance 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 and to provide working capital funding at an economically favourable rate versus the RCF. The value of invoices sold under the arrangement at 31 December 2022 was £36.9m (2021: £3.9m). 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 2022 was £7.5m (2021: £12.5m).

As set out in note 6.2 (contingent liabilities), the Group has provided, through the normal course of its business, £34m letters of credit, performance bonds and guarantees (2021: £28.7m). £12.5m 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 cross-currency interest rate swaps and forward foreign exchange contracts.

The Group is not generally exposed to significant foreign currency transaction risk. The principal exceptions relate to service delivery based in India and South Africa, 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, ZAR and USD. Further details of the Group's financial instruments can be found in note 4.5 to the consolidated financial statements on pages 196 to 201.

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 2023 AGM of the Company will be held at 65 Gresham Street, London, EC2V 7NQ on 11 May 2023. 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 2022 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 2022, shareholders granted authority for the Company to purchase up to 168,427,352 ordinary shares. This authority will expire at the conclusion of the 2023 AGM. No shares were purchased during 2022. A resolution to renew this authority will be put to shareholders at the 2023 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	196
9.8.4 (12–13)	Shareholder waiver of dividends	77

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 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 on pages 1 to 122 has been approved by the Board.

On behalf of the Board.

Claire Denton
Chief General Counsel and Company Secretary
2 March 2023
Capita plc
Registered in England and Wales No. 2081330

Committees

Terms of reference

The terms of reference of the Nomination, Remuneration and Audit and Risk committees were reviewed in June 2022 upon the establishment of the ESG Committee, to ensure that relevant matters are now considered by the ESG Committee, when appropriate matters are considered in conjunction with other committees.

Committee terms of reference were also reviewed in December 2022 to reflect updates in good governance practices. These are summarised below and the Nomination, Remuneration, Audit and Risk and ESG committee terms of reference are displayed in full in the investor centre at www.capita.com/investors/corporate-governance, together with a summary of matters reserved for the Board.

Terms of reference	Brief description of responsibilities
Nomination Committee	• Reviews composition of the Board. • Recommends appointment of new directors. • Ensures plans are in place for orderly succession to both the Board and senior management positions. • Oversees development of diverse pipeline for succession.
Audit and Risk Committee	• Reviews accounting policies and contents of financial reports. • Monitors internal control environment. • Considers adequacy, effectiveness and scope of external and internal audit programme. • Oversees relationship with external auditor. • Monitors risk profile and obtains assurance that principal risks have been properly identified and appropriately managed.
Remuneration Committee	• Sets policy for Board and senior management remuneration. • Approves individual remuneration awards. • Agrees changes to senior executive incentive plans.
ESG Committee	• Oversees the development of the Group's ESG strategy, monitoring its performance in relation to ESG matters. • Considers the adequacy of the Group's ESG policies and processes. • Oversees and monitors the Group's progress against its net zero emissions strategy. • Oversees and supports stakeholder engagement on ESG matters.
Disclosure Committee	• Responsible for the appropriate identification and management of inside information, including any decision to delay public disclosure.

Membership

Membership of the Company's standing committees at 31 December 2022 is shown below:

	Nomination	Audit and Risk	Remuneration	ESG
David Lowden	C	–	–	C
Jon Lewis	X	–	–	–
Georgina Harvey	X	–	C	X
Brian McArthur-Muscroft	X	C	X	
John Cresswell	X	X	–	X
Neelam Dhawan	X	X	X	
Nneka Abulokwe	X	–	X	X
Janine Goodchild	–	X	–	X

(C) Chair

Changes to Committee membership

Following the establishment of the ESG Committee on 30 June 2022, the Nomination Committee reviewed the membership of the Company's standing committees on behalf of the Board to ensure that each committee comprised members with the appropriate skillset and diversity and that all members had sufficient time to devote to the committees.

Prior to this review John Cresswell, Neelam Dhawan and Nneka Abulokwe were members of all of the standing committees. David Lowden stepped down as a member of the Remuneration and Audit and Risk Committees upon his appointment as Chairman on 10 May 2022.

Frequency of meetings and attendance

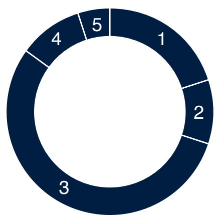
During 2022, the Nomination Committee met eight times, the Remuneration Committee six times, the Audit and Risk Committee six times and the ESG Committee three times. Attendance of directors at committee meetings is shown in the table on page 73.

Nomination Committee report

> We are committed to making sure we have the necessary skills, expertise and diversity on the Board to help support the delivery of Capita's strategy."
>
> **David Lowden,** Chair, Nomination Committee

The committee met eight times in 2022 and the members' attendance record is shown on page 73. 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 can be found on Capita's website at www.capita.com/investors/corporate-governance.

Nomination Committee time allocation (%)



1	**20%**	Board appointments
2	**10%**	Employee director appointment
3	**55%**	Succession planning
4	**10%**	Diversity
5	**5%**	Governance

The time allocation chart is provided for guidance only and other matters were also considered by the committee.

Responsibilities and activities

Key responsibilities

- Identify and nominate appropriate candidates for appointment to the Board, having due regard to the provisions of the Code and, in particular, the balance of skills, knowledge and experience on the Board and the diversity of its composition.
- Keep the structure and size of the Board, its committees and the leadership needs of the organisation under review and ensure that plans are in place for orderly succession and appointment to the Board.
- Review the time commitment and performance of non-executive directors.
- Oversee development of a diverse pipeline for succession.

Activity in 2022

- Succession planning for the Chairman.
- Recruitment and appointment of two independent non-executive directors.
- Overseeing the process of the appointment of a new employee director and reviewing and recommending the appointment of the preferred candidate to the Board.
- Review of diversity and inclusion activities and measures.
- Reviewing succession planning for members of the Executive Committee.
- Consideration of the contributions and effectiveness of the non-executive directors seeking re-election at the 2022 AGM.
- Reviewing committee membership and appointment of the SID.

Diversity and inclusion

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

Further information on actions taken to address diversity, inclusion and wellbeing across the workforce is on pages 39 and 40 of the strategic report.

Gender and ethnicity balance

The FCA has introduced a requirement for premium listed companies to disclose against a target of 40% female representation and ethnicity (at least one director of colour) on boards of premium listed companies in respect of accounting periods beginning on or after 1 April 2022. During 2022, we made further progress on gender and ethnicity balance at both Board and senior management levels, and we have already exceeded the FCA's target for female representation at Board level, but there is still more to do throughout the organisation.

At 31 December 2022, female representation on the Board and among senior management[1] was 44% and female representation among senior management[1] and direct reports was 35%. At 31 December 2022, ethnically diverse representation on the Board and among senior management[1] was 22%.

Appointment process

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

We are committed to making sure we have the necessary skills, expertise and diversity to help support the delivery of Capita's strategy.

During 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.

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

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.

Board appointments during the financial year

During the year the committee considered the following Board appointments, recommending the appointment of the preferred candidate to the Board. External search agencies Spencer Stuart and Lygon Group (Lygon), were engaged to assist in identifying suitable candidates for these Board positions. These firms have no other connection with the Company or individual directors.

Nneka Abulokwe who has significant experience of business and technology innovation was appointed to the Board on 1 February 2022, with Spencer Stuart assisting the committee.

The committee considered succession planning for the role of chairman. Lygon evaluated potential external candidates against David Lowden, the Company's SID and strong internal candidate. The committee considered a number of potential external candidates, before concluding that David was the strongest and preferred candidate for the role. Following this process the committee recommended to the Board that David should succeed Sir Ian Powell when he stepped down as Chairman at the conclusion of the Company's 2022 AGM on 10 May 2022. David was appointed as Chair designate on 22 March 2022. Sir Ian and David did not participate in these discussions. Georgina Harvey and John Cresswell, committee members, co-chaired the committee meeting which considered the appointment of Sir Ian's successor.

As part of its succession planning agenda, the committee engaged Lygon to identify candidates with strong current financial experience. This concluded in the appointment of Brian McArthur-Muscroft to the Board on 1 June 2022 and as Audit and Risk Committee chair on 1 July 2022. Brian is a chartered accountant and chief financial officer for Qontigo.

The committee considered, and recommended, the appointment of Janine Goodchild as employee non-executive director. Janine is a Lead Clinical trainer in the Capita team which assesses personal independence claims on behalf of the Department for Work and Pensions. Janine joined Capita in January 2016 and was appointed to the Board on 1 July 2022.

Board evaluation

Details of the annual board evaluation process are provided in the Chairman's report on page 68.

David Lowden
Chair
Nomination Committee
2 March 2023

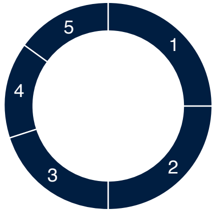
ESG Committee report

The committee oversees Capita's conduct as a responsible business and validates through ESG principles our approach to being a purpose-led business.

We have continued to make progress in delivering on our environmental, social and governance (ESG) objectives.

To enhance how we serve and respect our stakeholders, including society and the environment, we have also established an ESG committee to the Board. This committee was established on 30 June 2022 and met three times during 2022. David Lowden has been appointed as ESG Committee chair. Other members of the committee are Georgina Harvey, Nneka Abulokwe, John Cresswell and Janine Goodchild.

ESG Committee time allocation (%)



1	25%	Governance
2	25%	Employee-related issues including diversity and inclusion
3	20%	Net zero
4	15%	ESG-related bonus targets
5	15%	Strategy

The time allocation chart is provided for guidance only and other matters were also considered by the committee.

Responsibilities and activities

Key responsibilities

- Oversee the development of the Group's ESG strategy and monitor its performance in respect of ESG-related matters on behalf of the Board.
- Consider the adequacy of the Group's ESG-related policies.
- Oversee and monitor the Group's progress against its net zero strategy.
- Liaise with the Audit and Risk Committee regarding the Company's Speak Up policy.
- Receive, review and approve the Group's people strategy on behalf of the Board.

Activity in 2022

- Reviewed the terms of reference of the committee.
- Reviewed Capita's progress towards its net zero target.
- Received awareness training on net zero.
- Received a presentation on the Group's HSE framework and divisional/functional compliance, including wellbeing matters.
- Reviewed diversity and inclusivity data.
- Considered Capita's ESG strategy and governance structure.
- Received an update on Capita's people plan.
- Reviewed and recommended to RemCo ESG bonus-related targets for 2023 and reviewing and approving the outcome of ESG bonus-related targets for 2022.
- Received a report on ESG indices and how Capita is performing.

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

- cyber and information security
- IT resilience
- internal controls
- securing contracts and extending existing contracts
- risk of failing to deliver on our contractual obligations to our clients
- attracting, developing and retaining our people
- anti-bribery and corruption, including details of matters raised under the Group's Speak Up policy
- privacy
- legal update.

Establishment and role of the committee

The committee oversees Capita's conduct as a responsible business and validates, through ESG principles, our approach to being a purpose-led business.

The committee monitors progress against our responsible business strategy, ensuring that we remain focused on supporting the United Nations' Sustainable Development Goals (UNSDGs) as well as addressing the issues where we can have the biggest impact – through our own operations and the products and services we provide to our clients.

This committee provides a forum within which all components of Capita's responsible business strategy can be considered in-depth on a regular basis, and provides for a joined up approach across Board committees. The committee has a rolling agenda based upon our ESG strategy and mapped against the Ten Principles of the UN Global Compact, in support of achieving the UNSDGs by 2030.

The committee will work closely with the Nomination, Remuneration and Audit and Risk Committees on ESG-related issues, including in relation to diversity and inclusion (D&I), employee engagement, ESG-related bonus targets, Capita's Speak Up policy and TCFD compliance.

In addition to the attendance of committee members, the following individuals have a standing invitation to attend meetings: Jon Lewis, CEO; Caitlin Kinsella, Director of Employee Engagement, D&I and Responsible Business; and Dr Charles Young, Senior Medical Officer. Caitlin and Charles act as advisers to this committee. The Chief General Counsel and Company Secretary or their nominee act as secretary to the committee.

This committee is supported by an ESG working group comprising key individuals in the Group who are responsible for ESG-related matters. Members of the working group are invited to committee meetings to share their perspectives and insights on key issues and external developments. These discussions ensure the Committee stays alert to current and emerging trends and any potential risks arising from sustainability issues.

Focus of the committee

Following its establishment in June 2022, the committee has focused on the following matters.

Net zero target

Capita is committed to being net zero by 2035 and this has been an area of focus for the committee, which has received presentations on our progress towards net zero from Richard Walker, Head of Environment.

The committee was proud to note that, through the dedication and professionalism of our colleagues, Capita was included in the 2022 Carbon Disclosure Project 'A' list, a universal global measure that scores companies and cities based on their journey through disclosure and towards environmental leadership.

In addition, on 4 January 2023, Science Based Targets initiative (SBTi), the globally recognised body for climate-related target setting, verified Capita's 2035 net zero target as compliant with the highest standards of target setting methodology. At that date, only 134 companies had net zero targets verified by SBTi, showing the level of commitment and authenticity required.

Task Force on Climate-related Financial Disclosures

The committee has reviewed and considered the disclosures made within this annual report which are consistent with the TCFD recommendations.

The Group's HSE framework and wellbeing of our colleagues

The health and safety and the wellbeing of all our colleagues is a priority for the committee. The committee received presentations from the Senior Medical Officer detailing Capita's HSE framework, noting the improvements that had been made to the Group's HSE compliance during 2022 and from the Group Head of Wellbeing and Occupational Health, which explained the wide variety of global wellbeing support tools and activities that we provide for all our colleagues to help them manage their own wellbeing as well as supporting colleagues through challenging times. Our employee assistance programmes are a fundamental support service available to all colleagues providing 24/7 counselling and advice.

ESG-related bonus targets

This committee worked closely during the year with the Remuneration Committee on ESG-related bonus targets, both reviewing the outturn of the ESG-related targets included in the 2022 management bonus plan and reviewing ESG targets for the 2023 management bonus plan, making recommendations to the Remuneration Committee. These include traditional measures such as employee engagement together with targets that address broader societal concerns, such as climate change and D&I, consistent with the Board's responsibility to all stakeholders. Further details are provided in the Directors' remuneration report on pages 99 to 122.

Other matters

During the year the committee also addressed a range of other strategic and current issues including the results of our employee survey, gender pay gap information and D&I, and discussed the initiatives that are being undertaken by Capita in these areas.

Details of the progress made by our responsible business team and the challenges that the Group faces are detailed on pages 37 to 46 of this report. This includes details of our continuing commitment to be a real living wage accredited employer in the UK, our adherence to the UK Prompt Payment Code and other matters that will be considered by the committee during 2023, including Capita's focus on delivering an increasingly positive, consistent employee experience.

David Lowden
Chair
ESG Committee
2 March 2023

Audit and Risk Committee Report

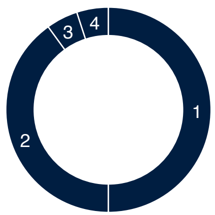
> "Following the decision by the Board and the committee at the end of 2021 to focus on optimising the current finance reporting systems, programmes have been established to deliver further improvements to the group risk and control framework, including financial controls."

Brian McArthur-Muscroft, Chair, Audit and Risk Committee

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

The terms of reference are reviewed annually and updated as required.

Audit and Risk Committee time allocation (%)



1 **50%** Risk management, internal control & compliance
2 **40%** Financial reporting (incl. external audit)
3 **5%** Private meetings with auditors
4 **5%** Governance

The time allocation chart is provided for guidance only and other matters were also considered by the committee.

Role and responsibilities

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

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

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

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

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

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

Risk and control framework

The committee continued 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 system of risk management and internal controls, and overseeing the activities of the group's internal audit function and its external auditor.

As noted below, further progress was made in strengthening the Group's controls. In addition, 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.

Further detail on the risk management and internal control environment is set out later in this report on page 97.

Controls improvement

Following the decision by the Board and the committee at the end of 2021 to focus on optimising the current finance reporting systems, programmes have been established to deliver further improvements to the Group risk and control framework, including financial controls. These programmes have focused on the simplification of finance activities and controls, continuing to embed the enterprise risk management framework, and further rationalisation of the overly complex legal structure. Key improvements in 2022 include: strengthening key system access controls; refining key policies, supporting standards, and communications; and continuing to mature risk management within our functions and divisions. In addition the legal entity rationalisation programme progressed well during the year with the number of legal entities in the Group being reduced by 37. At 1 January 2023, the Group had 180 legal entities compared with 369 legal entities in July 2018. The rationalisation programme is ongoing and the number of legal entities will further reduce during 2023. Further improvements to the Group risk and control framework are planned for 2023, taking into consideration the Government's proposed audit and governance reforms.

The Board and the committee also recognise the UK Government's proposed reforms in respect of fraud prevention and reporting. Elements of the Group's existing control framework are targeted at detecting fraud, bribery, corruption and criminal tax evasion. These include Capita's Code of Conduct and supporting mandatory training, a delegation of authority matrix applicable to all employees, and segregation of duties within key systems and processes to prevent fraud. These controls are supported by a Speak Up policy which enables whistleblowing within the Group and a Financial Crime function dedicated to identifying, preventing and investigating where fraud concerns have been raised.

Committee membership and attendance

Until 30 June 2022, all non-executive directors and Joseph Murphy, employee non-executive director, were members of the committee. Following a review of committee membership by the Nomination Committee in June 2022, the committee comprises myself as chair, together with John Cresswell and Neelam Dhawan, non-executive directors and Janine Goodchild, employee non-executive director. Although not considered independent under the UK Corporate Governance Code 2018 (Code), Janine brings valuable insights from the employee perspective into committee discussions and the Board considered that it was important from an employee engagement perspective for both Joseph and Janine formally to be a member of the committee despite their lack of independence.

I joined the committee on 1 June 2022 and was appointed as committee chair on 1 July 2022 with Matthew Lester stepping down as a director and chair of the committee on 30 June 2022. I was also invited to attend the April 2022 committee meeting as an observer. This, together with the one-month handover between Matthew and I, ensured that there was a seamless transition of the committee chair. Prior to my appointment as chair I also met with KPMG, our external auditor, and members of our Group Finance and Internal Audit teams, as part of my induction programme.

I would like to thank Matthew for his leadership of the committee. During his five-year tenure as committee chair, Matthew enhanced the committee's focus on financial controls and the identification and management of the material risk factors that Capita continues to face.

The committee is required to include at least one financially qualified member, with this requirement fulfilled by myself since my appointment as a committee member and by Matthew until his retirement from the committee.

All other committee members are considered to be financially literate given their qualifications and experience. John is a chartered accountant and has substantial experience in leading and growing organisations as CEO and executive director. Neelam has held senior positions in Hewlett-Packard, Microsoft, Compaq and IBM with responsibility for areas including strategy and corporate development. Janine's previous experience includes working in the banking industry within corporate actions and asset reconciliations.

As announced on 3 February 2023, John will step down from the Board and as a member of the committee on 31 March 2023. On behalf of the committee, I would like to thank John for his significant and valuable contribution to the committee's deliberations. Georgina Harvey, Senior Independent Director and Remuneration Committee Chair will be appointed as a member of the Committee upon John's departure.

To encourage effective communication, in addition to the above members, the Chairman, CEO, CFO, Chief General Counsel and Company Secretary, Director of Group Financial Control and Group Chief Accountant are invited to attend committee meetings along with certain members of the senior management team, the Director Internal Audit and Risk 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 Board evaluation, see page 68 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 Chief General Counsel and 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 planning meetings held in advance of each committee meeting, led by me and attended by the CFO, members of the Group Finance team and the Director of Internal Audit and Risk. I will also meet with the external auditor prior to committee meetings. 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 2022

The committee held six scheduled meetings during the year and attendance at each meeting is shown on page 73. Meetings are planned around the Company's financial calendar.

> **"Programmes have been established to deliver further improvements to the Group risk and control framework."**

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 93 to 95.

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 the full-year announcement was 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.

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.

Action
The committee considered the projections within the business plan, agreed by the Board in January 2023, and the key assumptions underpinning the future cash flow and profit forecasts. The committee received reports from executive management and KPMG (as part of their standard reporting to the committee in the course of performing their duty as statutory auditor) concerning the going concern and viability assessments, including the key risks identified. These included details on the key assumptions, the forecasting process including historical forecasting accuracy, the committed facilities available, and the mitigations within direct control of the Group. The committee also considered the risks identified and appraised the severity and plausibility of these in setting the downside scenario (see section 1 to the consolidated financial statements for details).

The committee reviewed the disclosures presented in section 1 of the consolidated financial statements together with the viability statement on page 64 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 64 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 contract 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. 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.

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.

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 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 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.

Outcome
The committee is satisfied with the impairment of goodwill recognised in these financial statements in respect of certain businesses within the Group's Portfolio division.

The committee is also satisfied that the assumptions, methodology and disclosure in note 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 balance to any further impairment risk.

Of particular importance to the committee was the inclusion of sufficient disclosures regarding the events and circumstances that have led to the impairment charges recorded in the year and the analysis showing sensitivity of the goodwill valuation to changes in key assumptions.

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.

Pensions

Matter considered
The measurement of the defined benefit liabilities 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 liabilities 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.

Deferred tax assets

Matter considered
The Group carries significant deferred tax assets. The recoverability assessment requires the application of judgement concerning future prospects and forecasts.

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 with the amount of deferred tax recognised in these financial statements.

The committee is also satisfied that the assumptions, methodology and disclosure in note 2.6 to the consolidated financial statements are sufficient to give the reader an understanding of the approach taken and the sensitivities within the assumptions that could reasonably give rise to a material derecognition of deferred tax.

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: income statement, 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 Financial Control 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.

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 £1.6m, and related to the review of interim results and services as reporting accountant for the disposal of Pay360 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; and
- 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.

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. Robert Brent the lead audit partner rotated off the audit team following the completion of the 2021 audit in March 2022 with Ian Griffiths replacing Robert in this role. Ian was appointed following a robust process. Ian attended committee meetings prior to his appointment as lead audit partner as part of ensuring a smooth transition of the change in lead audit partner. 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 determined 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 54 to 63.

Effectiveness and efficiency of risk management

During the year, the committee completed a robust assessment of the principal risks, including deep-dive reviews on four 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:

- Cyber and information security;
- IT resilience;
- Internal controls;
- Securing contracts and extending existing contracts;
- Risk of failing to deliver on our contractual obligations to our clients;
- Attracting, developing and retaining our people;
- Anti-bribery and corruption, including details of matters raised under the Group's Speak Up policy; and
- Privacy.

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 54. As detailed on page 54 further improvements to the Group risk and control framework, including financial controls were delivered during the year.

The committee concluded that the Group risk and control framework, including financial controls could be relied upon to be materially effective, noting that further improvements to the Group risk and control framework are planned for 2023 to ensure that financial controls are appropriately efficient for a Group of the scale and complexity of Capita.

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 Internal Audit and Risk who is also responsible for the Group's unregulated risk function. Regulated business risk is the responsibility of the CEO, Experience.

The three-year plan approved by the committee in June 2021, which focuses on key business risks and processes, formed the baseline for audit planning in 2022. Conducting audits over these risks and processes provides better insight into how risk is being managed and provides comparison across business units. The plan is structured to be flexible; to provide assurance over core 'business as usual' activities aligned to our principal risks; and, to offer continued support for ongoing change activities.

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, together with oral updates. 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 action.

Insights from 2022 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. 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.

As a result of the consistent themes identified during audits a plan was presented and approved by the committee during 2022 to address these issues and further improve the Group's financial controls framework. The committee will receive regular updates on the progress of this project.

Through regular interaction between the committee and the Director Internal Audit and Risk, 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.

Code of Conduct and Speak Up

During the year, the Company refreshed its mandatory Code of Conduct training and relaunched its Speak Up policy. The 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.

As part of the relaunch, a 12-month Speak Up communication plan was prepared to raise awareness of this policy and stimulate engagement with employees. The number of reported cases has increased following the relaunch, although reported cases are still considered to be low in certain jurisdictions given the size of Capita. The Chief General Counsel and Company Secretary and members of the Business Integrity team are scheduled to visit some of Capita's international sites during 2023 to reinforce and embed the Speak Up policy in these businesses.

This is an area of focus for the committee, which receives a report and update on the current level of reported cases at every meeting. Oversight of these arrangements is a matter reserved to the Board and it receives updates on the operation of the policy from the committee chair.

Privacy

In December 2022, the privacy function was restructured to form a central team with a managerial reporting line to the Data Protection Officer of Capita plc, while retaining the existing operational alignment of the current privacy teams to the divisions, TSS and shared services, ensuring that privacy is managed where data is created while ensuring that Capita's privacy policies and standards are implemented consistently throughout the Group.

The privacy teams across Capita continue to provide privacy assurance, training and support to business units in line with the requirements of data protection legislation. Throughout 2022, there were a number of new initiatives undertaken by the central privacy team aimed at raising privacy awareness throughout Capita including targeted training and regular meetings with key stakeholders.

Brian McArthur-Muscroft
Chair
Audit and Risk Committee
2 March 2023

Directors' remuneration report

"Our remuneration policy continues to work well, supporting our strategy to build a more focused and sustainable business for the long term."

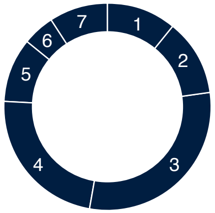
Georgina Harvey, Chair, Remuneration Committee

This report is split into three sections:

- The annual statement summarises how the committee discharged its roles and responsibilities in respect of 2022 and the proposed implementation of the directors' remuneration policy for 2023.
- 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 2023. A new policy will be put to shareholders for approval at the 2024 AGM.
- 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 2023.

The directors' remuneration report, excluding the policy, will be subject to an advisory shareholder vote at the 2023 AGM.

Remuneration Committee time allocation (%)



1 11% Governance
2 12% Executive director and executive committee remuneration
3 30% Annual bonus plan
4 23% LTIP/RSA
5 10% Wider workforce/gender pay gap
6 5% Shareholder consultation/feedback
7 9% Committee time only

Remuneration Committee membership and attendance

All members of the committee are independent non-executive directors. Following a change to the non-executive employee director during the year, this role now attends committee meetings by invitation, rather than being a member of the committee. The number of formal meetings held and the attendance by each member is shown in the table on page 73. The committee also held informal discussions as required. The Chief General Counsel and Company Secretary acts as secretary to the committee and is available to assist the members of the committee as required, ensuring that timely and accurate information is distributed accordingly.

The committee's terms of reference set out the role, responsibilities and authority of the committee and can be found on the Company's website at www.capita.com/investors. These are reviewed and updated where appropriate, on an annual basis.

The time allocation chart is provided for guidance only and other matters were also considered by the committee.

Annual statement

Dear shareholder,

I am pleased to present the directors' remuneration report for the year ended 31 December 2022.

Capita has delivered material progress in delivering our strategy to build a more focused, sustainable business for the long term despite the current economic headwinds and cost-of-living crisis. With this in mind, the committee's focus in 2022 has been centred on:

- Operating our remuneration policy as approved by shareholders at the 2021 AGM; and
- Colleague wellbeing and development: establishing Capita pay principles, development of the career path framework incorporating job sizing and market informed job pay ranges.

Details of the committee's approach to remuneration in 2022, and the proposed implementation of the policy for 2023, 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 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 and ethnicity 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.

Following the establishment of the ESG committee during the year, the ESG committee is responsible for making recommendations to the committee in respect of setting and assessing ESG targets in the annual bonus.

Committee activities

The key workstreams of the committee during the year included:

- Agreeing the vesting percentage in respect of the 2019 LTIP awards for the performance period ended 31 December 2021.
- Agreeing annual bonus awards under the annual bonus plan for the year ended 31 December 2021.
- Agreeing appropriate 2022 RSA levels under the 2021 Capita Executive Plan.
- Agreeing the design and targets for the 2022 annual bonus.
- Determining the remuneration arrangements for senior management leavers/joiners.
- Consideration of executive pay arrangements and alignment with those for the wider workforce.
- Ongoing workforce engagement in respect of executive remuneration and considering feedback.
- Receiving progress updates in respect of a review of wider workforce strategy on pay and progression (career path framework).

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 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.

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 the annual bonus plan and RSAs. 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 2022

A summary of the approach to remuneration in 2022 was as follows:

- The base salary level for the Chief Executive Officer (CEO) was increased by 3.17% from 1 January 2022 (his first salary increase since appointment in 2017). The Chief Financial Officer (CFO) did not receive a salary increase given his recent appointment to the Board in May 2021.
- The annual bonus operated in line with policy, with a maximum potential of 200% of salary for the CEO and 175% of salary for the CFO. The bonus was based on revenue, profit before tax and free cash flow (all equally weighted and totalling 80% of maximum bonus), with 20% based on strategic/individual objectives.
- RSAs were granted under the Capita Executive Plan in April 2022 at 100% of salary for both the CEO and CFO. Further details of the 2022 RSAs are set out in the annual report on remuneration.

Annual bonus for 2022

Following a review of performance against the annual bonus targets by the committee, annual bonuses of 60% of maximum were awarded to the CEO and CFO in respect of the year ended 31 December 2022. Revenue performance was between threshold and target and PBT and free cash flow performance were both between target and stretch. However, following a review of the broader stakeholder experience when assessing performance against the financial targets that were set, and noting the utilisation of an invoice discounting facility to a greater extent than had been assumed in the business plan, the committee exercised negative discretion post year end to reduce the free cash flow element to a target payout. Strategic/individual objectives were considered to have been met to a significant extent. Further details in respect of this performance assessment and the application of negative discretion are set out on pages 112 to 115.

After consideration of the progress made by Capita during 2022 in respect of the delivery of the strategy and individual performance, the committee believes that a 60% of maximum annual bonus award to the CEO and CFO for 2022 are both proportionate and appropriate.

Consistent with the shareholder approved remuneration policy, 50% of the bonus awards will be deferred into Capita plc shares for three years.

2020 LTIP award

The LTIP award granted to Jon Lewis in April 2020, which is due to vest in April 2023, will vest at 15% of the maximum opportunity as a result of the strong performance against the customer satisfaction and supplier targets (which are considered to be critical underpins to the performance and improvement of the business) over the three years to 31 December 2022. Further details in respect of this performance assessment and the estimated pre-tax value of the awards at vesting are set out on page 115.

Total remuneration

The committee is satisfied that total remuneration awarded to the CEO and CFO in respect of 2022 was appropriate when Capita's strategic progress and the stakeholder experience more generally in 2022 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 also use its judgement to adjust outcomes to ensure that any payments made reflect overall Company performance and stakeholder experiences more generally. Where discretion is exercised, the rationale for this discretion will be fully disclosed to shareholders in the relevant annual report. A summary of the discretion exercised by the committee over the last three years, is set out below:

	2020	2021	2022
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.	**Annual bonus awards for the CEO and CFO for the year ended 31 December 2022 were reduced from 69% to 60% of the maximum, see page 115.**
Share awards	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%.	**The 2022 RSA level for the CEO was reduced from the normal award level of 150% of salary to 100% of salary, see page 116.**

Board changes in 2022

Nneka Abulokwe was appointed as a non-executive director on 1 February 2022. David Lowden was appointed Chairman on 11 May 2022 following Sir Ian Powell's resignation as Chairman and non-executive director on 10 May 2022. Georgina Harvey was appointed Senior Independent Director on 1 July 2022 following David Lowden's appointment as Chairman.

Brian McArthur-Muscroft was appointed non-executive director and Janine Goodchild was appointed employee non-executive director on 1 June 2022 and 1 July 2022 respectively. Lyndsay Browne and Joseph Murphy stepped down as employee non-executive directors and Matthew Lester stepped down as non-executive director on 30 June 2022.

Remuneration policy for 2023

Following shareholder approval of the policy at the 2021 AGM and support received at the 2022 AGM, no policy changes are being proposed at the 2023 AGM. See pages 104 to 109 for a summary of the current approved policy. A new policy will be put to shareholders for approval at the 2024 AGM.

Implementing the policy for 2023

The committee's intended approach to the implementation of the policy for 2023 is set out below.

Fixed remuneration: the committee is mindful of the need for pay restraint at senior management levels in the current economic environment. As such, and consistent with the approach adopted for the majority of senior executives across Capita, executive directors will not receive an increase in salary in 2023. No changes will be made to benefit provision and executive directors will continue to receive a workforce-aligned pension allowance (5% of salary) in line with other employees.

2023 annual bonus: maximum annual bonus potential will continue to operate at 200% (CEO) and 175% (CFO) of salary. The financial performance metrics will be based on revenue, profit before tax and free cash flow (all equally weighted and totalling 80% of maximum bonus). The remaining 20% of maximum bonus will continue to be based on strategic/individual objectives incorporating ESG targets. To the extent that the threshold profit before tax target is not met, the committee will consider whether it is appropriate to pay out a bonus under the strategic/individual objectives and may exercise discretion to reduce pay out under these elements (including to zero) if considered appropriate.

2023 RSAs: the 2023 RSAs to be granted to executive directors in March 2023 will:

- be set at a maximum of 150% of salary for the CEO and 100% of salary for the CFO;
- 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 2023 awards:

- underpin 1: Capita's TSR over the three years ending 31 December 2025 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).

While the committee had originally intended to move to a more market standard approach to underpinning performance by the sole operation of underpin 2, a share price underpin will be retained for the 2023 RSAs. In addition, the committee will consider values at vesting to ensure they are reflective of Capita performance over the vesting period.

The actual number of shares under award will be determined just prior to the date of grant and full details will be in the RNS issued immediately following grant.

Shareholder views

The committee engaged with our major shareholders and the main representative bodies during 2022 in advance of the AGM. Support was strong with a 98% vote in favour of the report at the 2022 AGM. That said, the committee did note concerns from a number of shareholders and proxy agencies regarding the annual bonus awards for 2021 in light of the furlough support received. In response to the feedback received, and as stated in the RNS announcing the 2022 AGM voting results, Capita has committed to repay all furlough support taken during 2021 no later than the first half of 2023.

Employee engagement

In 2022, Jon Lewis regularly communicated with all employees, including on our 2021 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.

Following the appointment to the board of a new employee non-executive director during 2022, it was determined that this role would no longer be a member of the committee to avoid any independence issues. However, the new employee non-executive director attends committee meetings by invitation and is therefore able to provide colleague perspective on remuneration to the Board.

During 2022, the committee has continued to evolve the process of engaging with the workforce on how executive remuneration aligns with wider company pay policy, in compliance with the Code. A session was held with the chairs and co-chairs of the Capita employee network groups in mid-2022. In addition, a further session was held with a cross-section of employees from different levels, divisions and territories within the Capita Group in December 2022. Both sessions were chaired by Georgina Harvey and covered 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 will take place during 2023.

Concluding thoughts

As Capita continues to make material progress under our new, simpler, more client-focused divisional structure, the committee is satisfied that the remuneration policy has operated as intended to help 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 as it starts to consider its approach to reviewing the policy at the 2024 AGM.

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
2 March 2023

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 2023. 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 Chief General Counsel and 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 Chief General Counsel and 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.	Normally reviewed annually in December, with any changes usually effective in January. The committee may award salary increases at other times of the year if it considers it to be appropriate. The review takes into account: • Salaries in similar companies and comparably-sized companies • Remuneration policy • Economic climate • Market conditions • Group performance • The role and responsibility of the individual director • Employee remuneration across the broader workforce.	There is no prescribed maximum monetary annual increase to base salaries. Any annual increase in salaries is at the discretion of the committee, taking into account the factors stated in this table and the following principles: • Salaries would typically be increased at a rate consistent with the average salary increase (in percentage of salary terms) for the broader workforce. • Larger increases may be considered appropriate in certain circumstances (including, but not limited to, a change in an individual's responsibilities or in the scale of their role or in the size and complexity of the Group). • Larger increases may also be considered appropriate if a director has been initially appointed to the Board at a lower than typical salary.	Individual and business performance are considerations in setting base salaries.

Benefits

Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
Designed to be consistent with benefits available to employees in the Group.	Benefits include car allowance, private medical insurance, 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.	Benefit provision varies between different executive directors. While there is no maximum level set by the committee, benefits provision will be set at a level the committee considers appropriate and be based on individual circumstances. Participation in the Company's HMRC-approved all-employee share plan will be limited by the maximum level prescribed by HMRC.	Not performance-related.

Pension

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

Annual bonus

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

Restricted share awards

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

Shareholding guidelines

Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
To align interests of management and shareholders and promote a long-term approach to performance and risk management.	Shareholding guidelines require executive directors to reach a specified shareholding. 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. Post-cessation guidelines apply to share awards granted following the 2020 AGM. In determining the relevant number of shares to be retained post cessation, shares acquired from own purchases, any buyout awards and share awards granted prior to the 2020 AGM will not be counted.	**In employment:** 300% of salary (CEO); 200% of salary (CFO). **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).	Not performance-related.

Non-executive director (NED) fees

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

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

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

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

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

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

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

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 policy, although the two employee non-executive directors at that time (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.

Employee non-executive directors' terms of engagement

Employee non-executive 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 2023 AGM. The information on pages 110 to 122 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 operation of the remuneration policy, shareholder/proxy feedback and voting in respect of the 2022 AGM and remuneration-related disclosure within the accounts. FIT's fees were £79,653 (excluding VAT) during 2022 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 committee is detailed in the annual statement.

Shareholder voting at the AGM

The 2022 directors' remuneration report will be presented to shareholders at the 2023 AGM. At the 2022 AGM, the actual voting in respect of the ordinary resolution to approve the remuneration report for the year ended 31 December 2021 is set out below together with the vote on the current remuneration policy approved at the 2021 AGM.

	Votes cast for	Votes cast against	Abstentions[1]
Directors' remuneration report, other than the part containing the directors' remuneration policy, for the year ended 31 December 2021	1,148,723,621	23,356,565	3,956,217
	98.01%	1.99%	
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 2023

Details of the committee's intended approach to the implementation of the policy for 2023 is set out in the annual statement.

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

A summary of the fees for 2023 are as follows:

	Annual fee from 1 January 2023
David Lowden, Chairman	£290,000
Georgina Harvey, Senior Independent Director and Remuneration Committee Chair	£85,500
Brian McArthur-Muscroft, Audit and Risk Committee Chair	£75,000
Nneka Abulokwe	£64,500
John Cresswell	£64,500
Neelam Dhawan	£64,500
Janine Goodchild	£64,500

Following a review of the Chairman's fee, including his anticipated time commitment, David Lowden was appointed on an annual fee of £290,000. This is lower than the fee of his predecessor, Sir Ian Powell (£325,000). Fees for non-executive directors, the senior independent director and committee chairs are unchanged from 2022.

Directors' remuneration earned in 2022 – single-figure table (audited)

The table below summarises directors' remuneration received in 2022 (with prior year comparators).

		Base salary and fees £	Benefits[1] £	Pension £	Annual bonus £	LTIP £	RSA £	**Total remuneration £**	Total fixed remuneration £	Total variable remuneration £
David Lowden[2]	**2022**	213,447	839	–	–	–	–	**214,286**	214,286	0
	2021	75,000	–	–	–	–	–	**75,000**	75,000	0
Jon Lewis[3]	**2022**	748,000	17,986	37,400	897,600	66,986	–	**1,767,972**	803,386	964,586
	2021	725,000	18,837	36,250	359,020	46,308	–	**1,185,415**	780,087	405,328
Tim Weller[4]	**2022**	545,000	18,399	27,250	572,250	–	–	**1,162,899**	590,649	572,250
	2021	299,337	9,588	14,967	135,296	–	–	**459,188**	323,892	135,296
Georgina Harvey[5]	**2022**	80,250	–	–	–	–	–	**80,250**	80,250	0
	2021	75,000	–	–	–	–	–	**75,000**	75,000	–
Brian McArthur-Muscroft[6]	**2022**	42,875	–	–	–	–	–	**42,875**	42,875	0
	2021	–	–	–	–	–	–	**–**	–	0
Nneka Abulokwe[7]	**2022**	59,125	193	–	–	–	–	**59,318**	59,318	0
	2021	–	–	–	–	–	–	**–**	–	0
John Cresswell	**2022**	64,500	–	–	–	–	–	**64,500**	64,500	0
	2021	64,500	–	–	–	–	–	**64,500**	64,500	0
Neelam Dhawan[8]	**2022**	64,500	25,599	–	–	–	–	**90,099**	90,099	0
	2021	53,750	4,000	–	–	–	–	**57,750**	57,750	0
Janine Goodchild[9]	**2022**	32,250	–	–	–	–	–	**32,250**	32,250	0
	2021	–	–	–	–	–	–	**–**	–	0
Former Directors										
Sir Ian Powell[10]	**2022**	128,951	16	–	–	–	–	**128,967**	128,967	0
	2021	325,000	–	–	–	–	–	**325,000**	325,000	
Gordon Boyd[11]	**2022**	–	–	–	–	–	–	**–**	–	0
	2021	513,010	1,309	–	–	–	–	**514,320**	514,320	0
Patrick Butcher	**2022**	–	–	–	–	–	–	**–**	–	0
	2021	–	905	–	–	–	–	**905**	905	0
Matthew Lester[12]	**2022**	37,500	–	–	–	–	–	**37,500**	37,500	0
	2021	75,000	–	–	–	–	–	**75,000**	75,000	0
Baroness Lucy Neville-Rolfe[13]	**2022**	–	–	–	–	–	–	**–**	–	0
	2021	62,163	–	–	–	–	–	**62,163**	62,163	0
Gillian Sheldon[14]	**2022**	–	–	–	–	–	–	**–**	–	0
	2021	13,750	896	–	–	–	–	**14,646**	14,646	0
Andrew Williams[15]	**2022**	–	–	–	–	–	–	**–**	–	0
	2021	23,292	902	–	–	–	–	**24,194**	24,194	0
Lyndsay Browne[16]	**2022**	32,250	–	–	–	–	–	**32,250**	32,250	0
	2021	64,500	–	–	–	–	–	**64,500**	64,500	0
Joseph Murphy[16]	**2022**	32,250	–	–	–	–	–	**32,250**	32,250	0
	2021	64,500	–	–	–	–	–	**64,500**	64,500	–

1. Benefits include all taxable benefits as defined by paragraph 11(1) of the regulations. This includes private medical insurance, company car allowance, work travel and the value of matching share awards under the UK all-employee share scheme.
2. David Lowden was appointed Chairman on 11 May 2022 following the stepping down of Sir Ian Powell as Chairman and non-executive director on 10 May 2022. David stepped down from the position of senior independent director on his appointment as Chairman. Fees for 2022 reflect the change in roles and are shown on a pro-rata basis.
3. Details of the performance assessment and vesting of the 2020 LTIP award held by Jon Lewis are set out on page 115. The impact of share price movements on his awards, based on the average three-month share price to 31 December 2022 (25.23p), is as follows:

Face value of awards expected to vest, based on the share price at grant (1,770,000 shares x 15% x 32.72p)	£86,872
Expected value of awards at vesting (1,770,000 shares x 15% vesting x 25.23p)	£66,986
Impact of share price movements on vesting values	£19,886

The 2019 LTIP awards have been restated in the table above in respect of the prior year from £98,811 (based on a three-month average share price to 31 December 2021 of 44.34p) to £46,308 (based on a share price of 20.78p as at the 21 March 2022 vesting date). RSAs granted to Jon Lewis and Tim Weller in May 2021 and April 2022 with performance underpins, will be disclosed in the year ending just prior to the normal vesting date.

4. Tim Weller was appointed CFO on 12 May 2021. His remuneration for 2021 is shown from the date of his appointment to 31 December 2021, albeit reflecting a period of unpaid leave. The benefits figure for 2022 includes an element of backdated car allowance (£1,342) which was underpaid in 2021.
5. Georgina Harvey was appointed Senior Independent Director on 1 July 2022 following David Lowden's appointment as Chairman. Fees for 2022 reflect the change in role part way through the year.
6. Brian McArthur-Muscroft was appointed as a non-executive director on 1 June 2022 and replaced Matthew Lester as Chair of the Audit and Risk Committee on 1 July 2022. Fees for 2022 are shown from 1 June 2022 to 31 December 2022 and reflect his appointment as chair of a committee from 1 July 2022.
7. Nneka Abulokwe was appointed as a non-executive director on 1 February 2022. Fees for 2022 are shown from 1 February 2022 to 31 December 2022.
8. Neelam Dhawan was appointed as a non-executive director on 1 March 2021. Fees for 2021 are shown from 1 March 2021 to 31 December 2021. Neelam is based outside the UK and receives an allowance for physical attendance at a Board meeting. This is shown in the benefits column.
9. Janine Goodchild was appointed as employee non-executive director on 1 July 2022. Fees for 2022 are shown from 1 July 2022 to 31 December 2022. In addition to her fee as an employee non-executive director, she received earnings from the Group as an employee amounting to £24,421 for the period 1 July 2022 to 31 December 2022.
10. Sir Ian Powell stepped down as Chairman and non-executive director on 10 May 2022. Fees for 2022 are shown from 1 January 2022 to 10 May 2022 and include an element of accrued holiday pay.
11. Gordon Boyd stepped down from the Board and as interim CFO on 12 May 2021 following the appointment of Tim Weller. Reflecting the interim nature of Gordon's role, he received a base salary (£100,000 per month) but was not eligible for any variable remuneration and did not receive pension contributions. The figures disclosed for 2021 are for the period 1 January 2021 to 12 May 2021 and include an element of accrued holiday pay.
12. Matthew Lester stepped down as a non-executive director on 30 June 2022. Fees for 2022 are shown from 1 January 2022 to 30 June 2022.
13. Baroness Lucy Neville-Rolfe stepped down as a non-executive director on 14 December 2021. Fees disclosed for 2021 are for the period from 1 January 2021 to 14 December 2021.
14. Gillian Sheldon stepped down as a non-executive director 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.
15. Andrew Williams stepped down as a non-executive director on 11 May 2021. Fees disclosed for 2021 are for the period from 1 January 2021 to 11 May 2021.
16. Lyndsay Browne and Joseph Murphy stepped down as employee directors on 30 June 2022. Fees for 2022 are shown from 1 January 2022 to 30 June 2022. In addition to their fee as an employee non-executive director, both received earnings from the Group as an employee amounting to £54,763 for Lyndsay Browne and £35,605 for Joseph Murphy for the period from 1 January 2022 to 30 June 2022. As part of his participation in the Capita share ownership scheme Joseph Murphy received 504 matching shares (£135). The value of the matching shares is the sum of the cost of purchase over the period 1 January 2022 to 30 June 2022. The figures for earnings and matching shares for 2021 are disclosed in footnote 7 of the single figure table in the 2021 report.

Annual bonus for 2022 (audited)

The annual bonus for 2022 was operated at normal levels (200% of salary for the CEO and 175% of salary for the CFO). The bonus was based on a combination of revenue, profit before tax (PBT) reported free cash flow (all equally weighted and totalling 80% of maximum bonus) and strategic/individual objectives (20% of maximum bonus). For each performance measure, 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/individual targets are set out below.

Financial targets (80% of the bonus)

	Weighting (% of maximum bonus)	Threshold target (25% vests)	Target (50% vests)	Stretch (100% vests)	Actual performance[1]	Achievement against financial performance weighting
Revenue	26.67%	£2,785m	£2,932m	£3,079m	£2,846m	35.3%
PBT	26.67%	£62m	£70m	£79m	£74m[2]	72.3%
Free cash flow	26.67%	£14m	£23m	£32m	£29m	50.0%[3]
Financial measures bonus payout	80%				42%	

1. Excluding the impact of 2022 disposals (and planned disposals which have met the criteria to be excluded as business exits)
2. Actual PBT performance includes a c.£4.9m accrual in respect of the Board's decision to repay UK Government furlough support in 2023 that was received by Capita during 2021 (effectively reducing the PBT payout from c.100% to c.72% of this part of the bonus award.
3. Following a review of the broader stakeholder experience when assessing performance against the financial targets that were set in respect of the year ended 31 December 2022, and noting the utilisation of an invoice discounting facility to a greater extent than had been assumed in the business plan, the committee exercised negative discretion post year end to reduce the free cash flow element from a c.83% payout for this part of the award to a target payout (ie a 50% payout for this part of the bonus award).

Strategic/individual objectives (20% of the bonus)

Achievement against the strategic and individual objectives represented 20% of the total annual bonus opportunity for each executive director. The objectives were focused on ESG measures incorporating customer, employee, diversity & inclusion and net zero and an individual role-based measure. The objectives and targets were aligned for both executive directors.

Jon Lewis and Tim Weller

Objectives	Weighting (% of maximum bonus)	Assessment				Score (% of maximum bonus)
Customer – cNPS Deliver improvement in customer net promoter score (cNPS) for Capita Group (excluding Portfolio) by the end of 2022.	4%	**Threshold**	**Target**	**Maximum**	**Actual**	
		Maintain score	+2 point improvement	+4 point improvement	**+8 point improvement (max)**	4%
		Following a review of cNPS in respect of the year ended 31 December 2022, which remains key to the delivery of Capita's strategy, the committee noted a significant improvement compared with the year ended 31 December 2021. As such, the committee was satisfied that this objective was met in full.				
Employee – eNPS Deliver improvement in employee net promoter score (eNPS) for Capita Group by the end of 2022.	4%	**Threshold**	**Target**	**Maximum**	**Actual**	
		+2 point improvement	+5 point improvement	+10 point improvement	**+15 point improvement (max)**	4%
		Following a review of eNPS in respect of the year ended 31 December 2022, the committee was pleased to see a material improvement when compared with the 2021 outcome. As such, the committee was satisfied that this objective was met in full.				
Diversity & inclusion Meet/exceed Group diversity & inclusion hurdles. NB, If neither threshold target was met, there would have been no payout for this objective.	4%	Achieve minimum of 11% ethnic minority (including 2% Black)				
		Threshold	**Target**	**Maximum**	**Actual**	2%
		11% (including 2% Black)	+4 point improvement	+8 point improvement	**13.9% ethnic minority (including 3% Black) (below target)**	
		Achieve minimum of female average representation across senior/middle management in the UK				
		Threshold	**Target**	**Maximum**	**Actual**	
		38%	+4 point improvement	+8 point improvement	**+4 point improvement (target)**	
		In assessing this target, the committee noted that both hurdles were achieved with 13.9% ethnic minority (including 3% Black) and 41.8% female average representation across senior/middle management in the UK. Performance against the targets for the Inclusion Index was at target with a +4 improvement. The committee therefore considers this objective to be partially met.				

<table>
<tr><th>Objectives</th><th>Weighting (% of maximum bonus)</th><th colspan="4">Assessment</th><th>Score (% of maximum bonus)</th></tr>
<tr><td rowspan="3">Net zero
Ensuring all divisions and functions have plans in place which achieve the following: (i) ensure reporting on carbon emissions is built into the monthly performance review process (and an equivalent functional/executive committee process) to raise awareness and familiarise all colleagues with the net zero challenge; (ii) agree baseline data and set targets for 2023 as part of the business planning process; and (iii) agree and start to deliver 'no regret' changes to reduce carbon emission in 2022.</td><td rowspan="3">4%</td><td>Threshold</td><td>Target</td><td>Maximum</td><td>Actual</td><td rowspan="3">4%</td></tr>
<tr><td>Emissions reporting established in the monthly performance review/functional equivalent routine by year end and 2023 targets set</td><td>As for threshold but to include a detailed and executable plan for 2023–25 (first phase of net zero)</td><td>As target but to include demonstrable reduction in Capita's carbon footprint during the year</td><td>Met in full</td></tr>
<tr><td colspan="4">In assessing this target, the committee noted that emissions reporting had been successfully established in the monthly performance review process, a detailed and executable plan had been developed for 2023–25, and Capita's overall carbon footprint reduced by 16,323 tonnes CO_2e. As such, the committee was satisfied that this objective was met in full.</td></tr>
<tr><td rowspan="3">Debt reduction
Contribute to debt reduction through the successful execution of the 2022 divestment plan.</td><td rowspan="3">4%</td><td>Target</td><td>Maximum</td><td colspan="2">Actual</td><td rowspan="3">4%</td></tr>
<tr><td>Divest in accordance with the desired timeline and within the agreed price range</td><td>Divest in accordance with the desired timeline and deliver at the top end of the agreed price range</td><td colspan="2">Met in full</td></tr>
<tr><td colspan="4">In assessing this target, the committee noted the proceeds received from the divestment programme (together with the sale of Pay360) which were consistent with the Board's desired timelines and which resulted in a significant strengthening of Capita's balance sheet and reduced net debt position ahead of market expectations. As such, the committee was satisfied that this objective was met in full.</td></tr>
<tr><td>Total</td><td>20%</td><td colspan="4"></td><td>18% (out of 20%)</td></tr>
</table>

Summary of total 2022 bonus awards

	Jon Lewis		Tim Weller	
	% of maximum	% of salary	% of maximum	% of salary
Total financial	42%		42%	
Strategic/individual	18%		18%	
Total (%)	60%	120%	60%	105%
Total bonus (£)	£897,600		£572,250	

As noted on page 89, Capita established an ESG committee during 2022. One of the ESG committee's responsibilities is to review performance against ESG metrics in the MBP and to make recommendations to the committee on outturn. Following a review of financial and personal performance and the ESG committee recommendations by the committee post year end, annual bonuses of 60% of the maximum (reduced from 69% of the maximum following the committee's decision to reduce the free cash flow performance to a target performance level). This equates to 120% of salary for the CEO and 105% of salary for the CFO. Consistent with the shareholder approved remuneration policy, 50% of the bonus awards will be deferred into Capita plc shares for three years.

Long-term incentive awards due to vest in 2023 based on performance to 31 December 2022 (audited)

The performance assessment in respect of the 2020 LTIP awards[1] held by Jon Lewis is as follows:

Performance measure	Weighting	Threshold (25% vests)	Target (50% vests)	Stretch (100% vests)	Result	Vesting (% of maximum)
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)	Below median	0%
Responsible business scorecard:						
Customer	10%	3 point positive swing in NPS	6 point positive swing in NPS	9 point positive swing in NPS	20 point positive swing	10%
Employee	10%	3 point positive swing in NPS	6 point positive swing in NPS	9 point positive swing in NPS	Below threshold	0%
Suppliers adherence to prompt payment code	5%	–	Maintain current	Exceed current	Exceed	5%

1. The awards are subject to an underpin requiring the assessment of the underlying financial and operational performance of Capita over the performance period.

The TSR performance period runs for three years from the date of grant (16 April 2020) and therefore has not yet concluded. Based on performance to 31 December 2022, Capita's TSR performance against the FTSE 250 constituents (excluding investment trusts) was below median and therefore 0% of this part of the award is expected to vest. Actual vesting will be assessed at the end of the three-year performance period and any change in the vesting outcome and value of the LTIP 2020 for the purposes of the single figure of remuneration will be shown in next year's report.

While employee engagement has improved significantly during 2022, it fell below the threshold set for the 2020 LTIP award resulting in zero vesting for this element. However, performance against the customer NPS and supplier targets (which are considered to be critical underpins to the performance and improvement of the business) were very strong over the performance period. A 20 point positive swing in cNPS delivered full vesting of this element. In addition, adherence to the supplier prompt payment code exceeded the target set (with a record level of suppliers paid in less than 31 days) resulting in maximum vesting of this element.

Based on the customer and supplier performance, the committee believes that the 15% vesting is appropriate due to progress made in improving customer satisfaction and supplier payment scores.

In addition to noting that the 2020 LTIP award was reduced by 70% compared with normal award levels as a % of salary (which together with the subsequent share price decline has significantly impacted the estimated vesting value) and progress made in respect of the customer and supplier targets (both critical to the delivery of Capita's strategy), the committee also considered Capita's underlying performance over the three-year performance period. In this regard, it noted the material progress that has been made in delivering the strategy including the performance of the disposal programme, the significant strengthening of the balance sheet and strong operational delivery.

Based on the above outcomes, the estimated vesting of the long-term incentive for Jon Lewis in 2023 is:

	Awards granted	Shares vesting based on performance (15% of maximum)	Dividend equivalent shares[1]	Total shares expected to vest	Estimated value at vesting[2]
Jon Lewis	1,770,000	265,500	–	265,500	£66,986

1. No dividend equivalent shares are payable on the 2020 LTIP award.
2. Based on the average three-month share price to 31 December 2022 of 25.23p.

RSAs granted in 2022 (audited)

RSAs were granted under the Capita Executive Plan in April 2022 as follows:

Name of director	Number of shares awarded	Face value of RSA	Percentage of salary
Jon Lewis	3,481,985	£748,000	100%
Tim Weller	2,537,008	£545,000	100%

The CEO's award level was reduced from 150% to 100% of salary to reflect the prevailing share price at grant and noting the decision to continue to operate a TSR underpin for these awards (which was significantly underwater at the date of grant). No reduction was made to the CFO's award level given Tim Weller's recent recruitment and noting that the challenging TSR underpin was not originally intended to apply when the CFO's remuneration package was agreed in 2021.

RSAs granted to executive directors in 2022 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 2022 awards are as follows:

- 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).

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 2022	Beneficially held interests at 31 December 2021	Interests in share incentive schemes, awarded without performance conditions at 31 December 2022	Interests in share incentive schemes, awarded without performance conditions at 31 December 2021	Interests in share incentive schemes, awarded subject to performance conditions/underpins at 31 December 2022	Interests in share incentive schemes, awarded subject to performance conditions at 31 December 2021	Interests in share option schemes where performance/vesting conditions have been met but not exercised at 31 December 2022	Interests in share option schemes where performance/vesting conditions have been met but not exercised at 31 December 2021	Percentage of shareholding target requirement at 31 December 2022[1]
David Lowden	150,000	75,000	–	–	–	–	–	–	–
Jon Lewis	1,414,538	795,303	868,456	516,029	7,421,085	5,721,886	738,877	1,183,666	25%
Tim Weller	270,689	262,854	327,276	–	3,619,703	1,082,695	–	–	10%
Georgina Harvey	6,000	6,000	–	–	–	–	–	–	–
Brian McArthur-Muscroft	0	–	–	–	–	–	–	–	–
Nneka Abulokwe	0	–	–	–	–	–	–	–	–
John Cresswell	65,500	20,500	–	–	–	–	–	–	–
Neelam Dhawan	0	–	–	–	–	–	–	–	–
Janine Goodchild	0	–	–	–	–	–	–	–	–
Sir Ian Powell[2]	100,000	100,000	–	–	–	–	–	–	–
Matthew Lester[2]	49,186	49,186	–	–	–	–	–	–	–
Lyndsay Browne[3]	11,241	11,240	–	–	–	–	–	–	–
Joseph Murphy[3]	14,431	11,379	–	–	–	–	–	–	–

1. Calculated using the closing share price on 31 December 2022 (24.26p).
2. Ian Powell and Matthew Lester's beneficially held interests are shown at the date of their resignations on 10 May 2022 and 30 June 2022 respectively.
3. Lyndsay Browne and Joseph Murphy's beneficially held interests are shown at the date of their resignation on 30 June 2022.

Between the end of the 2022 financial year and 1 March 2023, Jon Lewis and Tim Weller acquired 2,488 shares under the Capita share ownership plan, increasing their beneficial interest in ordinary shares of the Company to 1,415,782 and 271,933 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 2022[1]

Name of director	2022 award[2]	Total
Jon Lewis	868,456	868,456
Tim Weller	327,276	327,276

1. As a result of no bonus award for 2019 performance and no bonus operated for 2020, there were no deferred bonus awards in 2020 or 2021.
2. The value of the 2022 deferred award granted on 25 March 2022 was included in the annual bonus value in the 2021 single-figure table (and is included in the comparative figures for 2021 in the table on page 111). This award is due to vest on 25 March 2025.

Unvested LTIP award

Name of director	2020 award
Jon Lewis	1,770,000

Details of the performance targets and expected vesting in respect of the 2020 award are set out on page 115.

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

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:				
	Customer	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	2022 award
Jon Lewis	2,169,100	3,481,985
Tim Weller	1,082,695	2,537,008

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).

The underpins for the 2022 awards are as follows:

- 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).

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 4.26% of the Company's share capital at 31 December 2022.

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
David Lowden[1]	1 January 2021	9 May 2025
Georgina Harvey[2]	1 October 2019	1 July 2025
Brian McArthur-Muscroft	1 June 2022	31 May 2025
Nneka Abulokwe	1 February 2022	31 January 2025
John Cresswell	17 November 2015	16 November 2024
Neelam Dhawan	1 March 2021	29 February 2024
Sir Ian Powell[1]	1 September 2016	10 May 2022
Matthew Lester[3]	1 March 2017	30 June 2022

1. David Lowden was appointed Chairman on 11 May 2022 and stepped down from his role as senior independent director. Sir Ian Powell stepped down from the Board as Chairman and non-executive director on 10 May 2022.
2. Georgina Harvey was appointed Senior Independent Director on 1 July 2022.
3. Matthew Lester stepped down from the Board on 30 June 2022.

Board changes

Sir Ian Powell and Matthew Lester stepped down from the Board on 10 May 2022 and 30 June 2022 respectively. No payments were made or are payable outside of their normal annual fees up to cessation. Lyndsay Browne and Joseph Murphy stepped down from the Board as employee non-executive directors on 30 June 2022. No payments were made or are payable outside of their normal annual fees up to cessation. However, they both remained employees and so continued to receive earnings from the Group as employees.

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 764,271 for the period from 1 December 2021 to 30 November 2022. 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 the change in base compensation, benefits and annual bonus for the Board directors in the 2022 and 2021 financial years, compared with the average for all employees of the Company (Capita plc):

	2022			2021			2020		
	Base salary/fees	Taxable benefits[14]	Annual bonus	Base salary/fees	Taxable benefits[14]	Annual bonus	Base salary/fees	Taxable benefits[14]	Annual bonus
Executive directors[1]									
Jon Lewis[2]	**3.2%**	**-4.5%**	**150%**	14.3%	5.1%	100%[2]	-12.5%	-36.9%	–
Tim Weller[3]	**0%**	**23%**	**132%**	–	–	–	–	–	–
Gordon Boyd[4]	–	–	–	0%	100%	–	–	–	–
Patrick Butcher[5]	–	–	–	–	-100%	–	-12.5%	-10.8%	–
Non-executive directors[1]									
David Lowden[6]	**286.7%**	**100%**	–	–	–	–	–	–	–
Georgina Harvey[7]	**14%**	–	–	14.3%	–	–	-12.5%	–	–
Brian McArthur-Muscroft[8]	–	–	–	–	–	–	–	–	–
Nneka Abulokwe[8]	–	–	–	–	–	–	–	–	–
John Cresswell	**0%**	–	–	14.3%	–	–	-12.5%	–	–
Neelam Dhawan[9]	**0%**	**540%**	–	–	–	–	–	–	–
Janine Goodchild[8]	–	–	–	–	–	–	–	–	–
Sir Ian Powell[10]	**0%**	**100%**	–	14.3%	–	–	-12.5%	-100%	–
Matthew Lester[10]	**0%**	–	–	13.9%	–	–	-12.5%	–	–
Baroness Lucy Neville-Rolfe[11]	–	–	–	14.3%	–	–	-12.5%	–	–
Gillian Sheldon[11]	–	–	–	14.3%	100%	–	-12.5%	–	–
Andrew Williams[11]	–	–	–	14.3%	100%	–	-12.5%	–	–
Lyndsay Browne[12]	**0%**	–	–	14.3%	–	–	-12.5%	–	–
Joseph Murphy[12]	**0%**	–	–	14.3%	–	–	-12.5%	–	–
Employee population[13]	**5%**	**7.4%**	**38.1%**	2.8%	4.4%	123.2%	5.5%	20.6%	-35.2%

1. The percentage change shown for the directors is based on the single figure information disclosed on page 111. The increase in salary/fees shown as the comparative for 2021 is due to the voluntary reduction taken by executive and non-executive directors in 2020 in response to Covid-19.
2. Jon Lewis did not receive a bonus in 2020 as the bonus plan was cancelled in response to Covid-19. The increase in 2021 is therefore shown as 100%.
3. Tim Weller was appointed to the Board on 12 May 2021. Comparative figures for 2021 are therefore unavailable. His salary, benefits and annual bonus for 2021 have been annualised to show an approximate percentage change since 2021. The increase in benefits is due to a backdated payment for car allowance (£1,342) which was underpaid in 2021.
4. Gordon Boyd received a base salary of £100,000 a month for the period of his appointment as interim CFO (16 November 2020 to 12 May 2021) 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.
5. Taxable benefits for Patrick Butcher reduced from £15,252 in 2020 to £905 in 2021.
6. David Lowden was appointed Chairman in May 2022. His fee for 2022 has been annualised to show the percentage change since 2021 following his change in role which has a significantly increased time commitment and associated fee. David was appointed to the Board during 2021, comparative figures for 2021 are therefore unavailable.
7. Georgina Harvey was appointed Senior Independent Director in July 2022. Her fee for 2022 has been annualised to show the percentage change since 2021 following her change in role.
8. Brian McArthur-Muscroft, Nneka Abulokwe and Janine Goodchild were appointed to the Board during 2022. Comparative figures for 2022 are therefore unavailable.
9. Neelam Dhawan was appointed to the Board during 2021. Comparative figures for 2021 are therefore unavailable. Her fee for 2021 has been annualised to show the percentage change since 2021.The increase in benefits is due to additional fees payable for physical attendance at board meetings as Neelam is based outside the UK.
10. Sir Ian Powell and Matthew Lester stepped down from the Board during 2022. For comparative purposes, their 2022 fees have been annualised to show the percentage change since 2021.
11. Baroness Lucy Neville-Rolfe, Gillian Sheldon and Andrew Williams stepped down from the Board during 2021. Comparative figures for 2022 are therefore unavailable.
12. Lyndsay Browne and Joseph Murphy stepped down from the Board during 2022. For comparative purposes, their 2022 fees have been annualised to show the percentage change (in fees as a non-executive employee director) since 2021.
13. The employee population information shown is for UK employees employed in the Capita plc entity.
14. Taxable benefits were £0 in 2021 but £839 and £16 for David Lowden and Sir Ian Powell in 2022 respectively. Taxable benefits were £0 in 2020 but £1,309, £896 and £902 for Gordon Boyd, Gillian Sheldon and Andrew Williams respectively in 2021. The increases are 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
2022	**Option B**	**76:1**	**56:1**	**36:1**
2021[1]	Option B	49:1	38:1	24:1
2020[2]	Option B	61:1	44:1	29:1
2019	Option B	41:1	25:1	14:1

1. In accordance with the regulations, the 2021 CEO single figure has been updated to reflect the value of the LTIP based on the share price at the vesting date. The 2021 pay ratio figures have therefore been adjusted accordingly.
2. 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. The 2020 pay ratio figures have therefore been adjusted accordingly.

The 2022 remuneration figures for the employee at each quartile were determined with reference to the financial year ending 31 December 2022. 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 2022 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 2022 full-time equivalent salary and total pay and benefits for the three identified quartile point employees:

2022	25th percentile (P25)	Median (P50)	75th percentile (P75)
Salary	**£22,354**	**£29,878**	**£46,260**
Total pay and benefits	**£23,188**	**£31,821**	**£48,707**

The committee recognises that the 2022 ratios are higher than last year. The CEO's single figure of remuneration for 2022 is higher than the figure for 2021 (c.49% increase) for the following reasons:

- The CEO received a base salary increase of 3.17% (his first salary increase since appointment in 2017).
- The 2022 single figure includes an annual bonus of £897,600 (60%) of maximum). This compares with an annual bonus award of £359,020 in 2021.
- The value of the 2020 LTIP vesting outcome (included in the 2022 single figure) is higher than the adjusted 2019 LTIP vesting outcome (included in the revised ratios for 2021).

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. 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 2022 gender pay gap data will be available on the government website https://gender-pay-gap.service.gov.uk from April 2023.

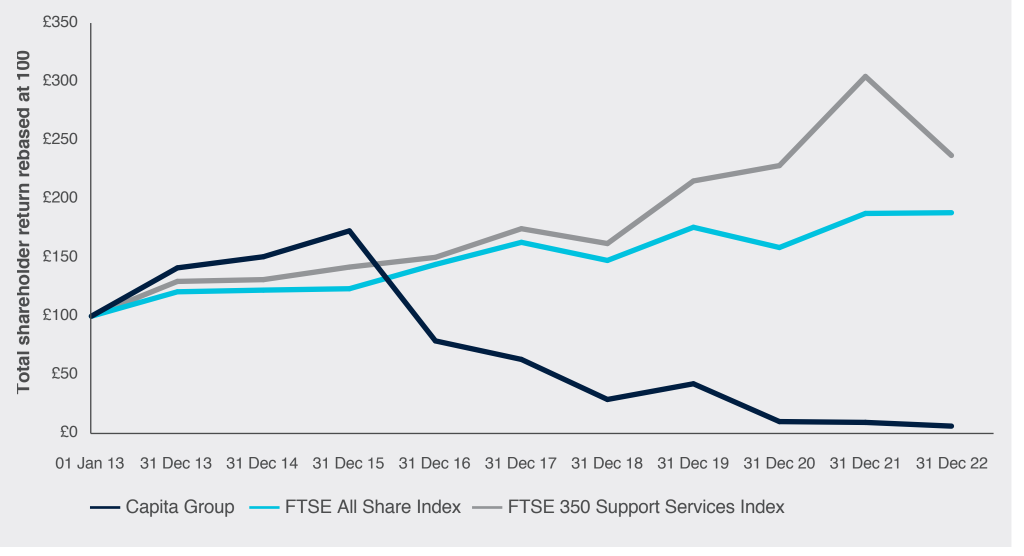
Relative importance of the spend on pay

The table below shows the spend on employee costs in the 2022 and 2021 financial years, compared with dividends:

	2022 £m	2021 £m	% change
Employee costs	**1,758.1**	1,767.1	-0.51%
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 past 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 2022 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)
2022	£1,767,972	60%	15%
2021	£1,185,415	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%

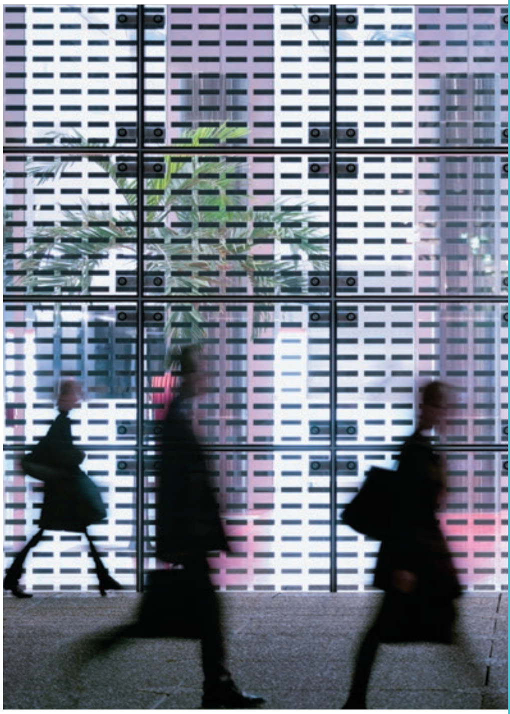
Note: the vesting percentages for the long-term incentives are averaged between the LTIP and the DAB vesting rates for 2013 and 2015. For 2014, this is the actual vesting for the LTIP as there is no DAB maturity in 2014. Note: figures for 2013 are based on remuneration for Paul Pindar. Figures for 2014–2016 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 2021 and 2020 CEO single figure have been updated to reflect the value of the LTIPs for each year 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 2 March 2023.

Georgina Harvey
Chair
Remuneration Committee
2 March 2023

Financial statements



KPMG LLP's Independent Auditor's Report

To the members of Capita plc

1. OUR OPINION IS UNMODIFIED

In our opinion:

- the financial statements of Capita plc give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2022, 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 Group and Parent Company financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

WHAT OUR OPINION COVERS

We have audited the Group and Parent Company financial statements of Capita plc ("the Company") for the year ended 31 December 2022 included in the Annual Report, which comprise:

Group (Capita plc and its subsidiaries)	Parent Company (Capita plc)
The consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and related notes, including the accounting policies in section 1 to 6 to the Group financial statements.	The company balance sheet, company statement of changes in equity and the related notes, including the accounting policies in section 7 to the Parent Company financial statements.

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 and matters included in this report are consistent with those discussed and included in our reporting to the Group Audit and Risk Committee ("ARC").

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.

KPMG LLP's Independent Auditor's Report

KPMG

To the members of Capita plc

2. OVERVIEW OF OUR AUDIT

FACTORS DRIVING OUR VIEW OF RISKS

Going concern remains a key audit matter. In FY21, the risk was focussed on the adequacy of disclosures around the material uncertainty. In FY22, the risk has changed to now reflect the judgement taken in reaching the conclusion of no material uncertainty, and adequacy of the accompanying disclosures.

The risk level remains stable for revenue recognition reflecting the volume and magnitude of contractual changes in the period. This KAM is focussed upon variations or modifications for the Group's long-term contracts, for which accounting can involve significant judgement.

The risk associated with impairment of goodwill is deemed as increased, with impairments recognised at both 30 June and 31 December within the Portfolio CGUs. There is inherent uncertainty in forecasting of future cash flows, which are the basis of recoverability. In particular for CGUs, measured as value in use on a disposal basis, the estimated disposal proceeds.

The risk associated with capitalisation and recoverability of contract assets is heightened due to economic uncertainties, including inflation, which could significantly impact contract assumptions which drives the assessment of asset recoverability and onerous contract provision.

For the Parent Company, recoverability of investments in, and amounts due from, its subsidiaries remains a KAM owing to the materiality of these balances and the estimation of the underlying cash flow forecasts. We note that no direct investments are held within subsidiaries in the Portfolio division.

Key Audit Matters ("KAMs")	Vs FY21	Item
Going Concern	←→	4.1
Revenue Recognition	←→	4.2
Impairment of Goodwill	↑	4.3
Capitalisation and Recoverability of contract assets	↑	4.4
Recoverability of the Parent Company's investments in, and amounts due from, its subsidiaries.	←→	4.5

We continue to perform procedures over litigation and claims provisions, defined benefit pension obligations and the presentation of items excluded from adjusted profits.
However, the level of estimation uncertainty associated with litigation and claims is lower than last year. Whilst we consider defined benefit obligations to be a significant risk, the completion of the triennial valuation and additional contributions made in FY21 means we no longer consider it a KAM. There is a reduced level of judgement associated with the volume and value of items excluded from adjusted results, which are set out in note 2.4 and 2.10 in the accounts. We have therefore not assessed any of these as one of the most significant risks in our current year audit and, therefore, they are not separately identified in our report this year.

AUDIT COMMITTEE INTERACTION

During the year, the ARC met six times. KPMG are invited to attend all ARC meetings and are provided with an opportunity to meet with the ARC in private sessions without the Executive Directors being present. For each Key Audit Matter, we have set out communications with the ARC in section 6, including matters that required particular judgement for each. The matters included in the Audit and Risk Committee Chair's report on pages 93 to 95 are materially consistent with our observations of those meetings.

OUR INDEPENDENCE

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.

We have not performed any non-audit services during FY22 or subsequently which are prohibited by the FRC Ethical Standard.

We were first appointed as auditor by the shareholders for the year ended 31 December 2010. The period of total uninterrupted engagement is for the 13 financial years ended 31 December 2022.

The Group engagement partner is required to rotate every 5 years. As these are the first set of the Group's financial statements signed by Ian Griffiths, he will be required to rotate off after the FY26 audit.

The average tenure of partners responsible for component audits as set out in section 7 is 3 years, with the shortest being 1 and the longest being 6.

Total audit fee (including interim review)	£6.1m
Audit related assurance services	£1.55m
Non-audit fee as a % of total audit and audit related fee %	20.3%
Date first appointed	18 August 2010
Uninterrupted audit tenure	13 years
Next financial period which requires a rotation	2030
Tenure of Group engagement partner	1 year
Average tenure of component signing partners	3 years

KPMG LLP's Independent Auditor's Report

To the members of Capita plc

MATERIALITY

(ITEM 6 BELOW)

The scope of our work is influenced by our view of materiality and our assessed risk of material misstatement.

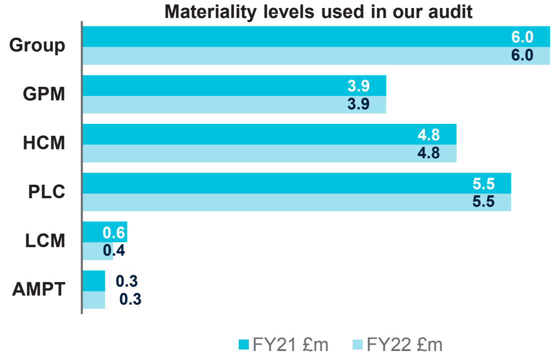
We have determined overall materiality for the Group financial statements as a whole at £6.0m (FY2Y1: £6.0m) and for the Parent Company financial statements as a whole at £5.5m (FY21: £5.5m).

A key judgement in determining materiality was the most relevant metric to select as the benchmark, by considering which metrics have the greatest bearing on shareholder decisions.

Consistent with FY21, we determined that Group revenue of £3,014.6m, normalised by excluding revenue in relation to business exits of £168.8m, as disclosed in note 2.8, remains the benchmark for the Group, of which it represents 0.21% (FY21: 0.20%). This reflects the continuing volatility in profit before tax from continuing operations, with total revenues providing a more stable measure year on year. Total revenue is also a significant focus for management and external stakeholders.

Materiality for the Parent Company financial statements was determined by reference to total Company assets and represents 0.15% of the Company's total assets (FY21: 0.15%).

Materiality levels used in our audit



Group	Group materiality
GPM	Group performance materiality
HCM	Highest component materiality
PLC	Parent Company Statutory materiality
LCM	Lowest component materiality
AMPT	Audit misstatement posting threshold

GROUP SCOPE

(ITEM 7 BELOW)

We have performed risk assessment and planning procedures to determine which of the Group's components are likely to include risks of material misstatement to the Group financial statements, the type of procedures to be performed at these components and the extent of involvement required from our component auditors around the world.

Of the Group's components we subjected 15 (FY21: 22) to full scope audits and performed specific risk-focused audit procedures over litigation and claims provisions on 1 component (FY21: 1).

The components within the scope of our work accounted for the percentages illustrated opposite.

In addition, we have performed Group level analysis on the remaining components to determine whether further risks of material misstatement exist in those components.

We consider the scope of our audit, as communicated to the Audit and Risk Committee, to be an appropriate basis for our audit opinion.

Coverage of Group financial statements

	2022	2021
Total Revenue	81%	86%
Total profits and losses	79%	86%
Total assets	89%	90%

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 and liabilities the Group holds on its balance sheet, and 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. Taking into account the nature of the Group's operations, 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) statement in the front half of the annual report and considered consistency with the financial statements and our audit knowledge.

KPMG LLP's Independent Auditor's Report

To the members of Capita plc

3. GOING CONCERN, VIABILITY AND PRINCIPAL RISKS AND UNCERTAINTIES

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's and the Parent Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could cast significant doubt over their ability to continue as a going concern from the date of approval of the financial statements to 31 August 2024 ("the going concern period").

GOING CONCERN

An explanation of how we evaluated management's assessment of going concern is set out in the related key audit matter in section 4.1 of this report.

Our conclusions

Our conclusions based on those procedures described in section 4.1 of this report are:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Parent Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the directors' statement in section 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Parent Company's use of that basis for the going concern period; and
- The related statement under the Listing Rules set out on page 64 is materially consistent with the financial statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Parent Company will continue in operation.

Summary of our conclusions

We found the directors' use of the going concern basis of accounting without any material uncertainty for the Group and Parent Company to be acceptable.

DISCLOSURES OF EMERGING AND PRINCIPAL RISKS AND LONGER-TERM VIABILITY

Our responsibility

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, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Corporate Governance statement on page 97 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 64 under the Listing Rules.

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.

Our reporting

We have nothing material to add or draw attention to in relation to these disclosures.

We have concluded that these disclosures are materially consistent with the financial statements and our audit knowledge.

KPMG LLP's Independent Auditor's Report

To the members of Capita plc

4. KEY AUDIT MATTERS

WHAT WE MEAN

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.

We include below the Key Audit Matters in decreasing order of audit significance 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, for the purpose of our audit of the financial statements as a whole. We do not provide a separate opinion on these matters.

4.1 GOING CONCERN (GROUP AND PARENT COMPANY)

Financial Statement Elements	Our assessment of risk vs FY21		Our findings
Going concern disclosures with no material uncertainties – section 1 to the Group financial statements.	←→	In FY21, the risk was focussed on the adequacy of disclosures around the material uncertainty. In FY22, the risk has changed to now reflect the judgement taken in reaching the conclusion of no material uncertainty, and adequacy of the accompanying disclosures.	FY22: We found the Group's judgement that there was no material uncertainty to be disclosed, to be **balanced**. We found the going concern disclosure in section 1 without any material uncertainty to be **proportionate**. FY21: We found the going concern disclosure in section 1 with a material uncertainty to be **proportionate.**

Description of the Key Audit Matter

Disclosure quality

The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and Parent Company.

That judgement is based on an evaluation of the inherent risks to the Group's and 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 2024 from the date of approval of these financial statements (the 'going concern period').

The risks most likely to adversely affect the Group's and Parent Company's available financial resources over this period include, but are not limited to, the following:

- An inability to achieve the growth targets in the Group's business plan;
- Increases in staff attrition, impacting upon ability to deliver services or secure new opportunities;
- Adverse impact from inflationary pressures, such as interest rates; and
- A significant unexpected downturn in performance in one of the Group's businesses.

There are also less predictable but realistic second order impacts, such as business disruption in the event of a cyber incident, or adverse changes in UK Government policy.

The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.

Our response to the risk

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Group's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively.

Our procedures to address the risk included:

Assessing transparency: We assessed whether the matters included in the going concern disclosure give a full and accurate description of the directors' assessment, including the judgements made, identified risks and mitigating actions.

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. We critically assessed whether economic headwinds in particular inflation risks, have been sufficiently factored in the forecast cash flows, along with the risks and uncertainties associated with the Group's customers, suppliers and workforce.

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 assessed whether these were sufficiently taken into consideration in the projections prepared to support the base case and the downside risks applied.

Test of detail: 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 and cost inflationary assumptions. We evaluated these via enquiries with each of the divisional 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

KPMG LLP's Independent Auditor's Report

To the members of Capita plc

	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. **Funding assessment:** We read the revolving credit facility (RCF) agreement to understand the terms including covenant requirements and any restrictions in the use of funds. We also read the Bridge facility agreement entered into in February 2023 which will provide additional liquidity from 1 January 2024. We re-performed the key financial covenants calculations for 30 June 2023 and 2024 and 31 December 2023, assessing compliance at these dates. 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. We evaluated the refinancing risk, including renewal of the RCF and additional sources of debt finance. This included consideration of the previous RCF extensions secured, the additional bridging facility signed in February 2023 and potential factors which remain outside of the Group's controls, including debt market conditions at the time of the fund raising. **Sensitivity analysis:** We critically challenged 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 organic growth and the ongoing effects from inflation based on the impacts experienced by the Group during the year. We assessed identified risk assumptions to ensure that they reflected a more likely than not chance of occurring under the downside scenarios. We also challenged the mitigating actions, to identify whether these were reasonable and within the direct control of the Group. **Evaluating directors' intent:** we evaluated the achievability of the actions the directors consider they would take to improve the position should the risks materialise, which included reductions in discretionary spend and capex investment, taking into account the extent to which the directors can control the timing and outcome of these. This included consideration of the nature and quantum of historical cost savings delivered and the feasibility of implementing these over the going concern period.

Communications with Capita plc's Audit and Risk Committee

Our discussions with and reporting to the Audit and Risk Committee included:

- Going concern period of assessment
- Assessment of the level of refinancing risk faced by the Group
- Assessment of the risk and potential mitigations in the downside case, including directors' intent should risks materialise
- Assessment of historical forecasting accuracy and current performance

Areas of particular auditor judgement

We identified the following as the areas of particular auditor judgement:

- The ability of the Group to secure a further extension or refinancing of the RCF ahead of its expiry in August 2024
- The level of severity in the downside assumptions and if proposed mitigations are executable and within control of the Company

Our findings

We found the Group's judgement that there was no material uncertainty to be disclosed, to be balanced.

We found the going concern disclosure in section 1 without any material uncertainty to be proportionate (FY21: we found the going concern disclosure in section 1 with a material uncertainty to be proportionate).

KPMG LLP's Independent Auditor's Report

To the members of Capita plc

4.2 REVENUE RECOGNITION

Financial Statement Elements	FY22	FY21	Our assessment of risk vs FY21	Our findings
Long-term contractual revenue	**£2,236.2m**	£2,325.2m	←→ Risk remains as stable vs FY21, reflecting the volume and magnitude of contractual changes in the period.	**FY22: Balanced** FY21: Balanced
Deferred Income	**£640.7m**	£794.7m		

Description of the Key Audit Matter

Subjective Judgement

The Group has many complex and bespoke contract arrangements which can span many years and involve the provision of more than one performance obligation. These long-term contracts are held within the Public Service and Experience Divisions of the Group.

Significant contract variations or modifications may give rise to judgement as to the impact for revenue recognition. These can arise throughout the year.

In the event of a full or partial termination, judgement arises in determining the effective date to trigger re-profiling of deferred income held, particularly where services are being handed back or across to another provider.

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 recognition. The opportunity is considered to apply to these long-term contracts, given the factors noted above.

Disclosure quality

There is a risk that the disclosures presented are not sufficient to explain the revenue recognition accounting policies and the key judgements applied.

Our response to the risk

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.

Our procedures to address the risk included:

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 Group that set out the key judgements 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.

In situations where there has been a significant modification, termination, or partial termination, we assessed the contract terms including any correspondence from the customer, to challenge the effective date of the modification or termination. We also challenged the judgements 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 judgements made by the Board are appropriate based upon the underlying contractual terms and evidence obtained.

Assessing transparency: We considered the disclosures in the financial statements to check that these were sufficient and provided proportionate detail of the revenue and profit recognition policies and of the key judgements applied. This included an assessment of whether notes 2.1 and 2.2 set out the impacts arising from the accounting policies applied in relation to the long-term contracts provided by the Group.

Communications with Capita plc's Audit and Risk Committee

Our discussions with and reporting to the Audit and Risk Committee included:

- Assessment of judgements linked to contract modifications and estimates in the year
- Adequacy of accompanying disclosures in respect to revenue recognition in notes 2.1 and 2.2 to the financial statements

KPMG LLP's Independent Auditor's Report

To the members of Capita plc

Areas of particular auditor judgement

We identified the following as the areas of particular auditor judgement:

- Timing of accounting for contract modifications and basis for revenue recognition applied across the long-term contract portfolio

Our findings
In determining the treatment of revenue recognition, the Group has applied accounting policies based on the requirements of IFRS15. In applying these policies there is room for judgement and we found that within that the Group's judgement was balanced (FY21: balanced). We found the disclosures associated with the IFRS15 policies to be proportionate (FY21: ample).

4.3 IMPAIRMENT OF GOODWILL

Financial Statement Elements			Our assessment of risk vs FY21		Our findings
	FY22	FY21	↑	Risk is increased against FY21 with impairments recognised at both 30 June 2022 and 31 December 2022 within the Portfolio CGUs.	**FY22: Balanced** FY21: Optimistic
Goodwill (Total as per financial statements)	**£605.9m**	£951.7m			

Description of the Key Audit Matter

Forecast-based valuation
We consider the carrying value of goodwill and goodwill impairment to be a significant audit risk. This reflects the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, and also the estimate of expected proceeds in relation to businesses anticipated for disposal.

The focus of our procedures was the Experience CGU (goodwill carrying value of £209.8m) and also those within the Portfolio Divisions (total goodwill carrying value £111.5m). These CGUs were most sensitive to changes in the underlying assumptions or were proposed for impairment.

Uncertainty in relation to the current macro-economic environment may further impact the Group's activities and performance and renders precise forecasting of the underlying cashflows challenging.

The Board has the incentive to maximise the disposal proceeds from businesses within the Portfolio Division. As a result, there could be bias from management towards achieving a particular valuation, either due to the potential to influence negotiations, or to maximise future gain on sale. This increases the risk in relation to forecast assumptions for these specific CGUs.

Disclosure quality
The financial statements (note 3.4) disclose the key assumptions underlying the goodwill impairment calculation and the sensitivity of the calculation to changes in these assumptions.

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 current uncertainty surrounding the macro-economic environment.

Our response to the risk

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.

Our procedures to address the risk included:

Determination of recoverable amount: We have assessed the judgements taken in respect to the Portfolio CGUs, including whether value in use should be measured on a perpetual basis or based on the future cash flows of the CGUs from continuing use up to estimated date of disposal, plus an estimate of the sale proceeds less cost of disposal.

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. For the Portfolio CGUs which were measured using estimated sale proceeds less costs of disposal, we reviewed the status of the ongoing disposal programmes and evaluated the reasonableness of expected disposal proceeds to correspondence with interested parties, through multiples analysis and through consideration of prior sales achieved.

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 of the current macro-economic environment. We also assessed the forecast revenue growth with reference to the most recent results for 2021 and 2022.

Benchmarking assumptions: We used external data and our own internal valuation models 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.

Comparing valuations: as an overall stand-back test 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 2022 and assessed the reasonableness of the factors identified by the Board to explain the differences.

KPMG LLP's Independent Auditor's Report

To the members of Capita plc

	Assessing transparency: We evaluated the adequacy of the disclosures related to the estimation uncertainty, judgements made and assumptions over the recoverability of goodwill, assessing the level of detail included in the disclosures and performing an assessment as to whether disclosure omissions identified were material.

Communications with Capita plc's Audit and Risk Committee

Our discussions with and reporting to the Audit and Risk Committee included:

- The Board's judgement on the change in methodology for determination of recoverable amount for certain CGUs within the Portfolio Division
- Refinement of the significant risk to focus on specific CGUs within the Portfolio Division and the Experience CGU
- Adequacy of the disclosures of goodwill impairment in section 3.4 to the financial statements

Areas of particular auditor judgement

We identified the following as the areas of particular auditor judgement:

- For two of the CGUs where recoverable amount was determined through value in use on a perpetual basis, the cash flow forecasts were deemed to be a significant assumption for the estimate
- The assumptions taken in respect to forecast net disposal proceeds for two of the Portfolio CGUs
- Adequacy of sensitivity disclosures and the assessment as to what would constitute a reasonably possible downside scenario for each CGU

Our findings

We consider the carrying value of Goodwill, following the impairment charges recognised, to be balanced (FY21 finding: optimistic).

We found the Group's disclosures in the description of the assumptions and estimates to be proportionate (FY21 finding: proportionate) and disclosures of the sensitivity of the valuation of goodwill to changes in those assumptions and estimates to be light (FY21 finding: proportionate).

4.4 CAPITALISATION AND RECOVERABILITY OF CONTRACT ASSETS

Financial Statement Elements			Our assessment of risk vs FY21	Our findings
	FY22	FY21	↑ Risk is heightened due to economic uncertainties including inflation, which could significantly impact assumptions concerning future performance metrics which drives the assessment of asset recoverability and onerous contract provision.	**FY22: Balanced** FY21: Balanced
Non-Current Contract Fulfilment Assets "CFA"	**£263.0m**	£286.7m		
Onerous Contract Provisions	**£52.8m**	£45.8m		

Description of the Key Audit Matter	Our response to the risk
Accounting application A contract fulfilment asset (CFA) is recorded for costs incurred on a contract or an anticipated contract that generate or enhance the resources of an entity that will be used in satisfying future obligations under the contract. **Subjective estimate** Note 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. Judgement may be required in determining whether the costs incurred are appropriate to be capitalised, and this leads to a risk that costs may be incorrectly capitalised as a result of error or fraud. Where a contract is not performing as expected, the costs capitalised may not be recoverable and an impairment of the asset should be recorded. Where no CFA has been recorded or the CFA has already been fully impaired, there is also a risk that the contract may be onerous, and an onerous contract provision (OCP) should be recorded. A risk of fraud arises as there may be an incentive to capitalise or expense items to achieve bonus targets or market consensus.	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. **Our procedures to address the risk included:** **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:** 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

KPMG LLP's Independent Auditor's Report

To the members of Capita plc

The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of contract assets and completeness and accuracy of the onerous contract provision have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.

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, or the key judgements applied in assessment of contract lifetimes and any onerous contract provisions required.

impact of inflation on the key assumptions, together with any contract modifications agreed with the customer in response to the economic environment, or more widely as part of commercial discussions.

In determining whether OCPs 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.

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, and on judgements taken in respect to recognition and measurement of OCPs.

Communications with Capita plc's Audit and Risk Committee

Our discussions with and reporting to the Audit and Risk Committee included:

- Assessment of judgements linked to contracts, potentially at risk of becoming onerous, or where an onerous contract provision is already held. This included consideration of recoverability of any CFA held
- Adequacy of accompanying disclosures in respect to contract assets in notes 2.1 and 3.1.3 to the financial statements

Areas of particular auditor judgement

We identified the following as the areas of particular auditor judgement:

- Assessment of the level of execution risk on cost saving initiatives for one of the Major Contracts
- Assessment of the need for onerous contract provision and/or CFA impairment for Major Contracts sensitive to forecast assumptions made in respect to remaining contract term

Our findings

We found the assumptions and estimates used to assess the CFAs to be recognised, and to determine the need for any onerous contract provisions, to be balanced (FY21: balanced).

We found that the Group's disclosures in note 2.1 and 3.1.3 to be proportionate (FY21: proportionate).

4.5 RECOVERABILITY OF THE PARENT COMPANY'S INVESTMENT IN, AND AMOUNTS DUE FROM, ITS SUBSIDIARIES

Financial Statement Elements	FY22	FY21	Our assessment of risk vs FY21	Our findings
Investment carrying value	**£994.3m**	£947.3m	↔ Risk is considered stable against FY21. We note that no direct investments are held within subsidiaries in the Portfolio division.	**FY22: Balanced** FY21: Balanced
Amounts due from subsidiaries	**£2,559.2m**	£2,619.8m		

Description of the Key Audit Matter

The carrying amount of the Parent Company's investment in, and amounts due from, its subsidiaries represent 27.3% and 70.4% (FY21: 25.4% and 70.3%) of its total assets respectively.

As with goodwill, there is a significant level of inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability for investments in subsidiaries and amounts due from subsidiaries.

Our response to the risk

We performed the tests below rather than seeking to rely on the Parent's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our procedures to address the risk included:

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

KPMG LLP's Independent Auditor's Report

To the members of Capita plc

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.	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. **Evaluating directors' intent:** We assessed the directors' intention in respect of the recovery of intercompany debt and based the recoverable amount on their intention of expected cashflows. **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, judgements 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.

Communications with Capita plc's Audit and Risk Committee

Our discussions with and reporting to the Audit and Risk Committee included:

- Appropriateness of methodology applied in measurement of recoverable amount for investment in subsidiaries
- Assumptions taken in respect to cash flow forecasts
- Assessment of the judgement taken in respect to Expected Credit Loss on intercompany receivables

Areas of particular auditor judgement

We identified the following as the areas of particular auditor judgement:

- For investments where recoverable amount was determined through value in use on a perpetual basis, the cash flow forecasts were deemed to be a significant assumption for the estimate

Our findings

We found the Parent Company's assessment of the recoverability of the investment in, and amounts due from, subsidiaries to be balanced (FY21: 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 (FY21: proportionate).

KPMG LLP's Independent Auditor's Report

To the members of Capita plc

5. OUR ABILITY TO DETECT IRREGULARITIES, AND OUR RESPONSE

FRAUD - IDENTIFYING AND RESPONDING TO RISKS OF MATERIAL MISSTATEMENT DUE TO FRAUD	
FRAUD RISK ASSESSMENT	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 ARC, internal audit and inspection of the Group's documented high-level policies and procedures to prevent and detect fraud, including the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud; • Reading Board and ARC meeting minutes; • Considering remuneration incentive schemes and performance targets for management and Directors including the short and long-term incentive plans 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, with the engagement partner and engagement key team members, and assisting with designing relevant audit procedures to respond to the identified fraud risks.
RISK COMMUNICATIONS	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 and specified procedure component audit teams of relevant fraud risks identified at the Group level and requested 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.
FRAUD RISKS	As required by auditing standards, taking into account possible pressures to meet profit targets and market consensus and continued ongoing economic uncertainty, and using our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue 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.
LINK TO KAMS	We also identified fraud risks related to inappropriate impairment of goodwill, inappropriate capitalisation, and recoverability of contract fulfilment assets. Further details in respect of inappropriate impairment of goodwill, inappropriate capitalisation and recoverability of contract fulfilment assets are set out in section 4 of this report.
PROCEDURES TO ADDRESS FRAUD RISKS	We performed procedures including: • Identifying journal entries and other adjustments to test for all full scope components, based on risk criteria specific to the component, and comparing the identified entries to supporting documentation. These included where relevant, those posted by senior finance personnel and those posted to unusual accounts, including unexpected account combinations of entries to revenue, expenses, cash and borrowings. • Assessing whether the judgement made in accounting estimates are indicative of a potential bias, including those over revenue recognition, capitalisation and recoverability of contract assets and impairment of goodwill.

LAWS AND REGULATIONS - IDENTIFYING AND RESPONDING TO RISKS OF MATERIAL MISSTATEMENT RELATING TO COMPLIANCE WITH LAWS AND REGULATIONS	
LAWS AND REGULATIONS RISK ASSESSMENT	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, 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.
RISK COMMUNICATIONS	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.
DIRECT LAWS CONTEXT AND LINK TO AUDIT	The potential effect of these laws and regulations on the financial statements varies considerably. The Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related company 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.

KPMG LLP's Independent Auditor's Report

To the members of Capita plc

MOST SIGNIFICANT INDIRECT LAW/ REGULATION AREAS	The Group is subject to many 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 (in relation to the financial and regulated nature of certain 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.
CONTEXT	
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 fraud 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.

KPMG LLP's Independent Auditor's Report

To the members of Capita plc

6. OUR DETERMINATION OF MATERIALITY

The scope of our audit was influenced by our application of materiality. We set quantitative thresholds and overlay qualitative considerations to help us determine the scope of our audit and the nature, timing and extent of our procedures, and in evaluating the effect of misstatements, both individually and in the aggregate, on the financial statements as a whole.

£6M **FY21: £6M** **MATERIALITY FOR THE GROUP FINANCIAL STATEMENTS AS A WHOLE**	**What we mean** A quantitative reference for the purpose of planning and performing our audit. **Basis for determining materiality and judgements applied** Materiality for the Group financial statements as a whole was set at £6m (FY21: £6m). Consistent with FY21, this was determined with reference to a benchmark of Group revenue of £3,014.6m, normalised by excluding revenue in relation to business exits of £168.8m, as disclosed in note 2.8. Use of total revenue as the benchmark reflects the continuing volatility in profit before tax from continuing operations, with total revenues providing a more stable measure year on year. Total revenue is also a significant focus for management and external stakeholders. Our Group materiality of £6m was determined by applying a percentage to the normalised Group revenue. When using this benchmark, KPMG's approach for listed entities considers a guideline range 0.5% - 1% of the measure. In setting overall Group materiality, we applied a percentage of 0.21% (FY21: 0.20%) to the benchmark which is below the lower end of the expected range. This acknowledges the low historic margin of the Group. Materiality for the Parent Company financial statements was set at £5.5m (FY21: £5.5m), determined by reference to total Company assets and represents 0.15% of the Company's total assets (FY21: 0.15%).

£3.9M **(FY21: £3.9M)** **PERFORMANCE MATERIALITY**	**What we mean** 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 as a whole. **Basis for determining performance materiality and judgements applied** Performance materiality for the Group and the Parent Company was set at 65% (FY21: 65%) of materiality for the financial statements as a whole, which equates to £3.9m (FY21: £3.9m) for the Group and £3.6m (FY21: £3.6m) 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.

£0.3M **(FY21: £0.3M)** **AUDIT MISSTATEMENT POSTING THRESHOLD**	**What we mean** This is the amount below which identified misstatements are considered to be clearly trivial from a quantitative point of view. We may become aware of misstatements below this threshold which could alter the nature, timing and scope of our audit procedures, for example if we identify smaller misstatements which are indicators of fraud. This is also the amount above which all misstatements identified are communicated to Capita Plc's Audit Committee. **Basis for determining the audit misstatement posting threshold and judgements applied** We set our audit misstatement posting threshold at 5% (FY21: 5%) of our materiality for the Group financial statements. We also report to the ARC other identified misstatements that warrant reporting on qualitative grounds.

The overall materiality for the Group financial statements of £6m (FY21: £6m) compares as follows to the main financial statement caption amounts:

	Group Revenue		Group profit before tax		Total Group Assets	
	FY22	FY21	**FY22**	FY21	**FY22**	FY21
Financial statement Caption	**£3,014.6m**	£3,182.5m	**£61.4m**	£285.6m	**£2,552.6m**	£3,142.4m
Group Materiality as % of caption	**0.20%**	0.19%	**9.77%**	2.10%	**0.24%**	0.19%

KPMG LLP's Independent Auditor's Report

To the members of Capita plc

7. THE SCOPE OF OUR AUDIT

What we mean

How the Group audit team determined the procedures to be performed across the Group.

GROUP SCOPE

The Group has 209 (FY21: 232) reporting components. To determine the work performed at the reporting component level, we identified those components which we considered to be of individual financial significance and those remaining components on which we required procedures to be performed to provide us with the evidence we required in order to conclude on the Group financial statements as a whole.

We determined individually financially significant components as those contributing at least 7.5% (FY21: not considered) of total assets or 7.5% (FY21: 10%) of total revenue or 7.5% (FY21: 10%) of the Group profit before tax. We selected total assets, total revenue, and profit before tax because these are the most representative of the relative size of the components. We identified 4 (FY21: 3) components as individually financially significant components and performed full scope audits on these components.

In addition to the individually financially significant components, we identified 3 (FY21: 8) components as significant, owing to significant risks of material misstatement affecting the Group financial statements and performed full scope audits on these components.

In addition, to enable us to obtain sufficient appropriate audit evidence for the group financial statements as a whole, we selected 9 (FY21:12) components on which to perform procedures. Of these components, we performed full scope audits for 8 components (FY21: 11) and performed specific risk-focused audit procedures over litigation and claims provisions on 1 component (FY21: 1).

The components within the scope of our work accounted for the following percentages of the Group's results, with the prior year comparatives indicated in brackets:

Scope	Number of components	Range of materiality applied	Group Revenue	Total profits and losses that made up Group PBT	Total Assets
Full scope audit	15 (22)	£4.8m - £0.4m (£4.8m - £0.6m)	81% (86%)	79% (86%)	89% (90%)
Specified audit procedures	1 (1)	£2m (£2m)	N/A	N/A	N/A
TOTAL	**16** (23)		**81%** (86%)	**79%** (86%)	**89%** (90%)

The remaining 19% (FY21: 14%) of total Group revenue, 21% (FY21: 14%) of total profits and losses that made up Group profit before tax and 11% (FY21: 10%) of total Group assets is represented by 193 (FY21: 209) reporting components. For these 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.

Full scope audits were performed by component auditors at 13 reporting components in the United Kingdom, Switzerland, and Germany, and by the Group audit team over 2 key components in the United Kingdom, including the Parent Company (FY21: 20 in the United Kingdom, Switzerland, and Germany, and by the Group audit team over 2 key components in the United Kingdom, including the Parent Company). Specified audit procedures were performed by component auditors at a reporting component in Guernsey (FY21: 1 in Guernsey).

The Group audit team has performed testing of IT Systems and certain controls in the shared service centre on behalf of the components and communicated the results of these procedures to the component teams. This is because of the centralised systems and processes in place across the Group.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, as detailed in the table above, having regard to the mix of size and risk profile of the Group across the components.

The scope of the audit work performed was predominantly substantive as we placed limited reliance upon the Group's internal control over financial reporting.

KPMG LLP's Independent Auditor's Report

To the members of Capita plc

GROUP AUDIT TEAM OVERSIGHT	**What we mean** The extent of the Group audit team's involvement in component audits.
	In working with component auditors, we: • Held planning calls with component audit teams to discuss the significant areas of the audit relevant to the components, including the key audit matters of revenue recognition and capitalisation and recoverability of contract assets • Issued Group audit instructions to component auditors on the scope of their work, including specifying the minimum procedures to perform in their audit of Journals and long term contracts • Visited the UK component audit teams in-person as the audit progressed to understand and challenge the audit approach and organised frequent video conferences with the partners and directors of the Group and component audit teams, including those based overseas. At these meetings the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component audit teams • Inspected the component audit teams' key work papers (in person and/or using remote technology) to evaluate the quality of execution of the audits of the components with a particular focus on work performed by the components on Group-level significant risks and key audit matters

8. OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

ALL OTHER INFORMATION

Our responsibility

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.

Our reporting

Based solely on that work we have not identified material misstatements or inconsistencies in the other information.

STRATEGIC REPORT AND DIRECTORS' REPORT

Our responsibility and reporting

Based solely on our work on the other information described above we report to you as follows:

- 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

Our responsibility

We are required to form an opinion as to whether the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Our reporting

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

KPMG LLP's Independent Auditor's Report

To the members of Capita plc

CORPORATE GOVERNANCE DISCLOSURES	
Our responsibility We are required to perform procedures to identify whether there is a material inconsistency between the financial statements and our audit knowledge, and: ▪ the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; ▪ the section of the annual report describing the work of the Audit and Risk Committee, including the significant issues that the Audit and Risk Committee considered in relation to the financial statements, and how these issues were addressed; and ▪ the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.	**Our reporting** Based on those procedures, we have concluded that each of these disclosures is materially consistent with the financial statements and our audit knowledge.
We are also 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.

OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION	
Our responsibility 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.	**Our reporting** We have nothing to report in these respects.

9. RESPECTIVE RESPONSIBILITIES

Directors' responsibilities

As explained more fully in their statement set out on pages 83 and 84, 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 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.

The Company is required to include these financial statements in an annual financial report prepared using the single electronic reporting format specified in the TD ESEF Regulation. This auditor's report provides no assurance over whether the annual financial report has been prepared in accordance with that format.

KPMG LLP's Independent Auditor's Report

To the members of Capita plc

10. 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.

Ian Griffiths
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
2 March 2023

Structure of the financial statements

Notes to the consolidated financial statements

Company financial statements

Additional information

Consolidated income statement

For the year ended 31 December 2022		Notes	2022 £m	2021 £m
Continuing operations:				
Revenue		2.2	**3,014.6**	3,182.5
Cost of sales			**(2,298.6)**	(2,506.7)
Gross profit			**716.0**	675.8
Administrative expenses		2.3, 2.4, 2.8	**(795.6)**	(762.4)
Operating loss		2.3, 2.4, 2.8	**(79.6)**	(86.6)
Share of results in associates and investment gains			**5.8**	(0.6)
Net finance expense		4.3	**(31.7)**	(46.9)
Gain on business disposal		2.8	**166.9**	419.7
Profit before tax		2.4	**61.4**	285.6
Income tax credit/(charge)		2.6	**14.6**	(61.5)
Profit for the year from continuing operations			**76.0**	224.1
Discontinued operations:				
Profit for the year		2.9	**—**	3.1
Total profit for the year			**76.0**	227.2
Attributable to:				
Owners of the Company			**74.8**	224.7
Non-controlling interests		4.7	**1.2**	2.5
			76.0	227.2
Earnings per share		2.7		
Continuing:	– basic		**4.47 p**	13.33 p
	– diluted		**4.40 p**	13.15 p
Total operations:	– basic		**4.47 p**	13.52 p
	– diluted		**4.40 p**	13.33 p
Adjusted operating profit/(loss)[1]		2.4	**102.9**	(77.7)
Adjusted profit/(loss) before tax[1]		2.4	**73.8**	(122.8)
Adjusted earnings/(loss) per share[1]		2.7	**6.20 p**	(7.74)p
Adjusted and diluted earnings/(loss) per share[1]		2.7	**6.09 p**	(7.74)p

1. From 1 January 2022, the Board has limited the items excluded from the adjusted results to: business exits, amortisation and impairment of acquired intangibles, impairment of goodwill and certain mark-to-market valuation changes that impact net finance expense/income. Please refer to note 2.4 for further details.

Consolidated statement of comprehensive income

For the year ended 31 December 2022	Notes	2022 £m	2021 £m
Total profit for the year		**76.0**	227.2
Other comprehensive expense			
Items that will not be reclassified subsequently to the income statement			
Actuarial (loss)/gain on defined benefit pension schemes	5.2	**(8.9)**	109.4
Tax effect on defined benefit pension schemes	2.6	**2.0**	(18.1)
Gain on fair value of investments		**0.2**	0.1
Items that will or may be reclassified subsequently to the income statement			
Exchange differences on translation of foreign operations		**(0.6)**	3.0
Exchange differences realised on business disposals		**0.3**	(2.8)
Gain on cash flow hedges	4.2.4	**11.5**	1.3
Cash flow hedges recycled to the income statement	4.2.4	**(5.1)**	0.6
Tax effect on cash flow hedges	2.6	**(1.6)**	2.2
Other comprehensive (expense)/ income for the year net of tax		**(2.2)**	95.7
Total comprehensive income for the year net of tax		**73.8**	322.9
Attributable to:			
Owners of the Company		**72.6**	320.5
Non-controlling interests	4.7	**1.2**	2.4
		73.8	322.9

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated balance sheet

At 31 December 2022

	Notes	2022 £m	2021 £m
Non-current assets			
Property, plant and equipment	3.2	**101.1**	129.0
Intangible assets	3.3	**106.0**	147.3
Goodwill	3.4	**605.9**	951.7
Right-of-use assets	3.5	**249.5**	287.9
Investments in associates and joint ventures		**0.2**	0.7
Contract fulfilment assets	3.1.3	**263.0**	286.7
Financial assets	4.5	**118.2**	107.2
Deferred tax assets	2.6	**189.5**	176.0
Employee benefits	5.2	**42.7**	13.3
Trade and other receivables	3.1.1	**15.8**	15.7
		1,691.9	2,115.5
Current assets			
Financial assets	4.5	**23.6**	17.5
Disposal group assets held-for-sale	2.8	**—**	138.8
Trade and other receivables	3.1.1	**430.4**	547.1
Cash	4.5.4	**396.8**	317.6
Income tax receivable		**9.9**	5.9
		860.7	1,026.9
Total assets		**2,552.6**	3,142.4
Current liabilities			
Trade and other payables	3.1.2	**492.5**	542.2
Deferred income	2.2.3	**585.1**	669.8
Overdrafts	4.5.4	**219.6**	231.9
Lease liabilities	4.4,4.5	**55.6**	61.6
Disposal group liabilities held-for-sale	2.8	**—**	81.1
Finance liabilities	4.5	**84.6**	286.3
Provisions	3.6	**75.7**	126.6
		1,513.1	1,999.5
Non-current liabilities			
Trade and other payables	3.1.2	**15.1**	15.4
Deferred income	2.2.3	**55.6**	124.9
Lease liabilities	4.4,4.5	**341.9**	386.8
Financial liabilities	4.5	**212.6**	291.9
Deferred tax liabilities	2.6	**6.9**	5.9
Provisions	3.6	**51.6**	14.0
Employee benefits	5.2	**3.1**	7.5
		686.8	846.4
Total liabilities		**2,199.9**	2,845.9
Net assets		**352.7**	296.5
Capital and reserves			
Share capital	4.6	**34.8**	34.8
Share premium	4.6	**1,145.5**	1,145.5
Employee benefit trust and treasury shares	4.6	**(4.2)**	(8.0)
Capital redemption reserve		**1.8**	1.8
Other reserves		**(4.5)**	(9.0)
Retained deficit		**(843.2)**	(890.6)
Equity attributable to owners of the Company		**330.2**	274.5
Non-controlling interests	4.7	**22.5**	22.0
Total equity		**352.7**	296.5

The accompanying notes are an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Board of directors on 2 March 2023 and signed on its behalf by:

Jon Lewis
Chief Executive Officer

Tim Weller
Chief Financial Officer

Company registered number: 02081330

Consolidated statement of changes in equity

For the year ended 31 December 2022

	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 31 December 2020	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 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 on 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[2]	—	—	—	—	—	—	—	(36.8)	(36.8)
Movement in put-options held by non-controlling interests[3]	—	—	—	—	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**
Impact of change in accounting standards – amendments to IAS 37[1]	**—**	**—**	**—**	**—**	**(21.7)**	**—**	**(21.7)**	**—**	**(21.7)**
At 1 January 2022 on adoption of IAS 37	**34.8**	**1,145.5**	**(8.0)**	**1.8**	**(912.3)**	**(9.0)**	**252.8**	**22.0**	**274.8**
Profit for the year	**—**	**—**	**—**	**—**	**74.8**	**—**	**74.8**	**1.2**	**76.0**
Other comprehensive income/(expense)	**—**	**—**	**—**	**—**	**(6.7)**	**4.5**	**(2.2)**	**—**	**(2.2)**
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**68.1**	**4.5**	**72.6**	**1.2**	**73.8**
Share-based payment net of tax effects (note 2.6; note 5.1)	**—**	**—**	**—**	**—**	**5.4**	**—**	**5.4**	**—**	**5.4**
Elimination of non-controlling interest on disposal (note 2.8.1)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(0.3)**	**(0.3)**
Exercise of share options under employee long-term incentive plans (note 4.6; note 5.1)	**—**	**—**	**3.8**	**—**	**(3.8)**	**—**	**—**	**—**	**—**
Dividends paid	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(0.4)**	**(0.4)**
Movement in put-options held by non-controlling interests	**—**	**—**	**—**	**—**	**(0.6)**	**—**	**(0.6)**	**—**	**(0.6)**
At 31 December 2022	**34.8**	**1,145.5**	**(4.2)**	**1.8**	**(843.2)**	**(4.5)**	**330.2**	**22.5**	**352.7**

1. The Group initially applied the amendments to IAS 37 on 1 January 2022 and the cumulative effect of applying the amendments was recognised as an opening balance adjustment to retained earnings. Refer to note 1 for further details.
2. The dividends paid to non-controlling interests in 2021 included amounts from AXELOS Limited (£36.6m) who paid £10.7m 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 2022 or 2021 on the Parent Company's ordinary shares.
3. 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 £8.6m (2021: £8.3m deficit) and the cash flow hedging reserve surplus of £4.1m (2021: £0.7m deficit).
Non-controlling interests (NCI) – This represents equity in subsidiaries 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 2022

	Notes	2022 £m	Restated[1] 2021 £m
Cash generated from/(used by) operations	2.10	**117.8**	(148.5)
Income tax paid		**(7.9)**	(17.7)
Net interest paid		**(38.0)**	(40.1)
Net cash inflow/(outflow) from operating activities		**71.9**	(206.3)
Cash flows from investing activities			
Purchase of property, plant and equipment	3.2	**(20.6)**	(25.6)
Purchase of intangible assets	3.3	**(27.3)**	(32.5)
Proceeds from sale of property, plant and equipment and intangible assets	2.3, 3.2, 3.3	**0.5**	0.1
Additions to investments held at fair value through profit and loss		**(2.4)**	(0.1)
Capital repayment from investments at fair value through other comprehensive income		**0.2**	0.3
Subsidiary partnership payment		**—**	(4.7)
Capital element of lease rental receipts		**5.8**	0.5
Total proceeds received from disposals net of disposal costs	2.8	**463.4**	510.3
Cash held by subsidiaries when sold	2.8	**(75.5)**	(25.9)
Net cash inflow from investing activities		**344.1**	422.4
Cash flows from financing activities			
Dividends paid to non-controlling interests		**(0.4)**	(10.8)
Capital element of lease rental payments	2.10.3	**(61.8)**	(82.6)
Proceeds from issue of share capital (net of issuance costs)		**—**	2.2
Repayment of private placement loan notes and other debt	2.10.3	**(237.4)**	(232.3)
(Repayment of)/proceeds from credit facilities	2.10.3	**(46.0)**	46.0
Proceeds from cross-currency interest rate swaps	2.10.3	**10.1**	19.7
Debt financing arrangement costs	2.10.3	**(5.2)**	(1.9)
Net cash outflow from financing activities		**(340.7)**	(259.7)
Increase/(decrease) in cash and cash equivalents		**75.3**	(43.6)
Cash and cash equivalents at the beginning of the period		**101.5**	141.1
Effect of exchange rates on cash and cash equivalents		**0.4**	4.0
Cash and cash equivalents at 31 December		**177.2**	101.5
Cash and cash equivalents comprise:			
Cash	4.5.4	**396.8**	317.6
Overdrafts	4.5.4	**(219.6)**	(231.9)
Cash, net of overdrafts, included in disposal group assets and liabilities held-for-sale	2.8	**—**	15.8
Total		**177.2**	101.5

Cash generated from/(used by) operations before business exits	2.10	**116.5**	(109.7)
Free cash flow before business exits	2.10	**29.0**	(218.6)

1. The 2021 cash flow has been restated to include £27.2m of cash, received from the purchasers of subsidiaries when sold to settle inter-company balances, within investing activities, which were previously included within operating activities. This results in an increase in net cash flow from investing activities by £27.2m and decrease in net cash flows from operating activities, cash generated from operations, and free cash flow by the same amount. There is no impact on the reported net movement in cash and cash equivalents.

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.

This section also includes 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 2022 were authorised for issue in accordance with a resolution of the directors on 2 March 2023.

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 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 2022, 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, sensitivities, and mitigations 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 2024 ('the going concern period') and which aligns with the expiry of the revolving credit facility (RCF).

The base case financial forecasts used in the going concern assessment are derived from the 2023-2024 business plans as approved by the Board in January 2023.

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 committed RCF was £288.4m at 31 December 2022 and it expires on 31 August 2024. In February 2023, the Group executed a committed bridge facility of £50m with three of its relationship banks providing additional liquidity from 1 January 2024. The committed bridge facility has an expiry date of 31 December 2024 and is subject to covenants, which are the same as those in the RCF. Both the RCF and the £50m bridge facility incorporate provisions such that they will partially reduce in quantum as a consequence of specified transactions, including disposals, equity raises or other refinancing.

Given the track record of the Group extending the RCF in prior years, including in 2022, and the committed bridge facility executed in February 2023, the Board is confident that the RCF will be extended or refinanced and be of a sufficient quantum well ahead of its expiry in August 2024.

Financial position at 31 December 2022
As detailed further in the Chief Financial Officer's review in the strategic report, as at 31 December 2022 the Group had net debt of £482.4m (2021: £879.8m), net financial debt (pre-IFRS 16) of £84.9m (2021: £431.4m), liquidity of £405.2m (2021: £392.4m) and was in compliance with all debt covenants.

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 the proceeds from the Board approved disposal programme and available committed facilities allows the Group to manage scheduled debt repayments. The most material sensitivity to the base case is the risk of not delivering the planned revenue growth.

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 completion of the disposal programme requires agreement from third parties, and major disposals may be subject to shareholder and lender approval. Such agreements and approvals, are outside the direct control of the Company and as such, the inclusion of the effect of any potential future disposals in the Group's projections is inappropriate for going concern assessment purposes in accordance with IAS 1 Presentation of Financial Statements.

Section 1: Basis of preparation continued

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, other than in respect of the current RCF as noted above.

The base case financial forecasts demonstrate liquidity headroom and compliance with all debt covenant measures throughout the going concern period to 31 August 2024.

Severe but plausible downside scenario
In considering severe but plausible downside scenarios, the Board has taken account of the potential adverse financial impacts resulting from the following risks:
- revenue growth falling materially short of plan;
- operating profit margin expansion not being achieved;
- additional inflationary cost impacts which cannot be passed on to customers;
- unforeseen operational issues leading to contract losses and cash outflows;
- increased interest rates;
- reduction in deferred cash consideration in respect of completed disposals;
- non-availability of the Group's non-recourse receivables financing facility; and
- unexpected financial costs and penalties linked to incidents such as data breaches and/or cyber-attacks.

The likelihood of simultaneous crystallisation of the above risks is considered by the directors to be relatively low. Nevertheless in the event that simultaneous crystallisation were to occur, the Group would need to take action to mitigate the risk of insufficient liquidity and covenant headroom. In its assessment of going concern, the Board has considered the mitigations, under the direct control of the Group, that could be implemented including reductions in capital investment, substantially reducing (or removing in full) bonus and incentive payments and significantly reducing discretionary spend. Taking these mitigations into account, the Group's financial forecasts, in a severe but plausible downside scenario, demonstrate sufficient liquidity headroom and compliance with all debt covenant measures throughout the going concern period to 31 August 2024.

Adoption of going concern basis
Reflecting the Board's confidence in the benefits expected from the completion of the transformation programme and ability to obtain further RCF financing beyond its existing committed funding facilities coupled with its ability to implement appropriate mitigations should the severe but plausible downside materialise, 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 2024.

Foreign currency translation
The functional and presentation currency of Capita plc and its 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 on the balance sheet date and their income statements are translated using 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.

Current versus non-current classification
The Group presents assets and liabilities in the balance sheet based on whether they are current or non-current.

An asset is current when it is:
- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:
- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

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.

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, onerous contract provisions.

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 49 to 53. 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
- Deferred tax asset recognition (note 2.6)
- Impairment of goodwill (note 3.4)
- Measurement of defined benefit pension 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)

For ease of reference, this symbol has been used to denote significant accounting judgements and estimates where they occur within the note:

J **Denotes significant accounting judgements, estimates and assumptions**

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 amendments to standards which are listed below. These amendments were either not applicable or not material to the Group, except for the impact of the Amendments to IAS 37 detailed further below.

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

Onerous contracts – cost of fulfilling a contract (amendments to IAS 37)
An onerous contract is a contract under which the unavoidable costs (ie the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services, which include both incremental costs (eg the costs of direct labour and materials) and an allocation of costs directly related to contract activities (eg depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The Group has adopted the amendment which resulted in a change in accounting policy for performing an onerous contract assessment. Previously, the Group included only incremental costs to fulfil a contract when determining whether that contract was onerous. The revised policy requires inclusion of both incremental costs and an allocation of other direct costs.

In accordance with the transitional provisions, the Group applies the amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application) and has not restated its comparative information.

Section 1: Basis of preparation continued

The adoption of the amended standard has resulted in a reduction in retained earnings at 1 January 2022 of £21.7m, comprising an increase of £18.8m in onerous contract provisions and an impairment of contract related assets of £2.9m. The additional onerous contract provision recognised is tax deductible, however, no deferred tax asset has been recognised reflecting the probable level of future taxable profits that will be available against which the assets can be utilised at 1 January 2022.

Impact of amendments to IAS 37	1 January 2022 £m
Property, plant and equipment	(0.5)
Contract fulfilment assets	(2.4)
Total assets	(2.9)
Provisions (current)	(10.6)
Provisions (non-current)	(8.2)
Total liabilities	(18.8)
Retained earnings	(21.7)
Total equity	(21.7)

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
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
Sale or contribution of assets between an investor and its associate or joint venture (Amendments to IFRS 10 and IAS 28)	1 January 2023

The Group is assessing the impact of these new standards and the Group's financial reporting will be presented in accordance with these standards from the effective date.

IFRS 17 Insurance Contract and amendments to IFRS 17 Insurance Contracts
IFRS 17 Insurance Contracts (IFRS 17) is a comprehensive new accounting standard for insurance contracts covering recognition, measurement, presentation and disclosure, and will replace IFRS 4 Insurance Contracts (IFRS 4). IFRS 17 applies to all types of insurance contracts (ie life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023 and must be applied retrospectively unless impracticable, in which case the Group has the option of using either the modified retrospective approach or the fair value approach. Based on initial analysis performed, it is not anticipated that this new accounting standard will have a material impact on the way the Group recognises its provisions in relation to insurance contracts.

Section 2: Results for the year

This section contains notes related to the financial performance of the Group. These include:

AP **Denotes accounting policies**

J **Denotes significant accounting judgements, estimates and assumptions**

Key highlights

Reported revenue

£3,014.6m

(2021: £3,182.5m)

Reported free cash flow

£24.5m

(2021: £(264.3)m)

Reported profit before tax

£61.4m

(2021: profit £285.6m)

Reported earnings per share (EPS) – continuing operations

4.47p

(2021: 13.33p)

Adjusted revenue[1]
Aim: Achieve long-term organic revenue growth

£2,845.8m

(2021: £2,777.8m)

Free cash flow before business exits[1]
Aim: Achieve sustainable, long-term positive free cash flow growth generation

£29.0m

(2021: £(218.6)m)

Adjusted profit before tax[1]
Aim: Achieve long-term growth in profit

£73.8m

(2021: loss £122.8m)

Adjusted earnings per share (EPS)[1]
Aim: Achieve long-term growth in EPS

6.20p

(2021: (7.74)p)

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 2022 the Group's adjusted revenue[1] increased year on year. Adjusted profit before tax[1] significantly improved year on year following completion of the significant restructuring programme in 2021 and provisions and impairments during 2021 in our closed book Life & Pensions business. The higher level of profit supplemented by a lower cash outflow from movements in working capital and a reduction in capital expenditure and materially lower deferred VAT repayments and pension deficit contributions, resulting in free cash inflow before business exits[1] of £29.0m (2021: £218.6m outflow).

The Group had additional cash inflow of £4.1m (2021: £36.2m inflow) arising from those businesses sold in the year, primarily Pay360 and businesses in the Capita Portfolio division, offset by additional pension deficit payments triggered by these disposals totalling £8.6m (2021: £81.9m).

Revenue
Adjusted revenue[1] increased by 2.4% year-on-year.

The adjusted revenue increased as a result of the following:

- ***Capita Public Service:*** growth from contract wins, including a contract to supply laptops to teachers in Northern Ireland as well as the annualised benefit of the Royal Navy training contract, increased growth in existing contracts in Central Government, and completion of a full test cycle on the Standards Testing Agency contract, offsetting contract hand-backs in Local Public Services;
- ***Capita Experience:*** stabilisation in revenue, with the impact of significant prior year contract losses offset by positive revenue contributions in particular from new client wins in International and with ScottishPower; and
- ***Capita Portfolio:*** growth in transactional revenue mainly from Travel and Enforcement following the turnaround in these Covid-19 impacted businesses.

The difference of £168.8m between adjusted revenue of £2,845.8m and reported revenue of £3,014.6m is related to business exits in the year (refer to note 2.8).

For additional information, which does not form part of these consolidated financial statements, the Chief Financial Officer's review in the strategic report includes further information in respect of the movement.

Profit before tax
The adjusted result before tax[1] improved by £196.6m year-on-year to a profit of £73.8m.

The adjusted profit before tax[1] increased as a result of the profit impact of the following:

- ***Capita Public Service:*** benefits from the wins in 2022, the annualised benefit of the Royal Navy training contract and the non-recurrence of Electronic Monitoring programme costs in 2021; offset by a reduction on the British Army recruitment (RPP) contract resulting from transition to the next phase of service delivery;
- ***Capita Experience:*** flow through of prior year losses including 3UK, William Hill and in closed book Life & Pensions business. 2021 was impacted by provisions and impairments in our closed book Life & Pensions business and completion of significant restructuring;
- ***Capita Portfolio:*** benefits from post Covid-19 recovery in transactional businesses and the non-repeat of 2021 restructuring costs, offset by operational investment in certain businesses; and
- ***Capita plc:*** benefits from the end of the transformation programme (2021 included £128.0m of significant restructuring) and efficiencies realised; offset by the effect of the announced intention to repay the 2021 furlough related income (£4.9m).

Adjusted profit before tax[1] 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 £61.4m (2021: profit £285.6m). The year-on-year reduction has arisen from a lower gain on business disposals and a higher impairment of goodwill. A reconciliation of the adjusted profit before tax[1] to reported loss before tax is detailed in note 2.4.

Reported operating loss for the year was £79.6m (2021: loss £86.6m). Details of items charged/credited in arriving at the reported operating loss can be found in note 2.3.

For additional information, which does not form part of these consolidated financial statements, the Chief Financial Officer's review in the strategic report includes further information in respect of the movement.

Taxation
The income tax credit of £31.8m on adjusted profit before tax[1] of £73.8m (2021: charge of £4.0m on adjusted loss before tax of £122.8m) differs from the notional tax charge at the UK corporation tax rate of 19%, mainly due to adjustments in the carrying value of recognised deferred tax assets.

Earnings per share
The movement in reported basic earnings per share and adjusted basic earnings per share[1] for continuing operations was a result of the performance explained above.

Dividend
The Board is not recommending the payment of a final dividend (2021: £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

Free cash flow before business exits[1]

Adjusted operating profit to free cash flow before business exits[1]	2022 £m	2021 £m
Adjusted operating profit[1]	**102.9**	(77.7)
Add: depreciation/amortisation and impairment of property, plant and equipment and intangible assets	**135.9**	220.7
Adjusted EBITDA	**238.8**	143.0
Working capital	**(32.7)**	(113.6)
Non-cash and other adjustments	**(44.7)**	38.6
Operating cash flow before business exits[1]	**161.4**	68.0
Deferred VAT repayment	**(14.9)**	(104.1)
Pension deficit contributions	**(30.0)**	(73.6)
Cash generated/(used) by operations before business exits[1]	**116.5**	(109.7)
Net capital expenditure	**(43.6)**	(51.2)
Interest/tax paid	**(43.9)**	(57.7)
Free cash flow before business exits[1]	**29.0**	(218.6)

Adjusted EBITDA increased by 67% reflecting the improvement in adjusted profit[1] explained earlier offset by the significant reduction in depreciation, amortisation and impairment of property, plant and equipment and intangible assets, largely driven by the Group's property rationalisation programme and the step-down in impairment charges following the £53.5m write-down of finance system investment in 2021.

Cash generated from operations before business exits[1] benefited from the improvement in adjusted EBITDA, a lower working capital outflow compared with 2021, materially lower deferred VAT repayments and pension deficit contributions; offset by a reduction in non-cash and other adjustments.

The lower working capital outflow arises from contracts moving into the operational phase and increased utilisation of non-recourse trade receivables financing in 2022.

The reduction in non-cash and other adjustments reflects utilisation of customer contract provisions in 2022 compared with provision recognition in 2021, and the utilisation of the remaining restructuring provision.

Free cash flow before business exits[1] for the year ended 31 December 2022 was an inflow of £29.0m (2021: outflow £218.6m). The improvement reflected the above increase in cash generated from operations before business exits[1], and a reduction in capital expenditure, and net interest paid in respect of leases and the Group's private placement loan notes.

Adjusted operating cash conversion[1] increased to 68% (2021: 48%).

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 2022, the Group had the following results and balance sheet items related to long-term contracts:

	Notes	2022 £m	2021 £m
Long-term contractual revenue[1]	2.2	**2,236.2**	2,325.2
Non-current and current deferred income		**640.7**	794.7
Non-current contract fulfilment assets	3.1.3	**263.0**	286.7
Non-current and current onerous contract provision		**52.8**	45.8

1. The 2021 comparative has been re-presented to reflect the recategorisation of certain contracts between contract types (long-term contractual, short-term contractual and transactional (point-in-time)) following a review in 2022.

Background

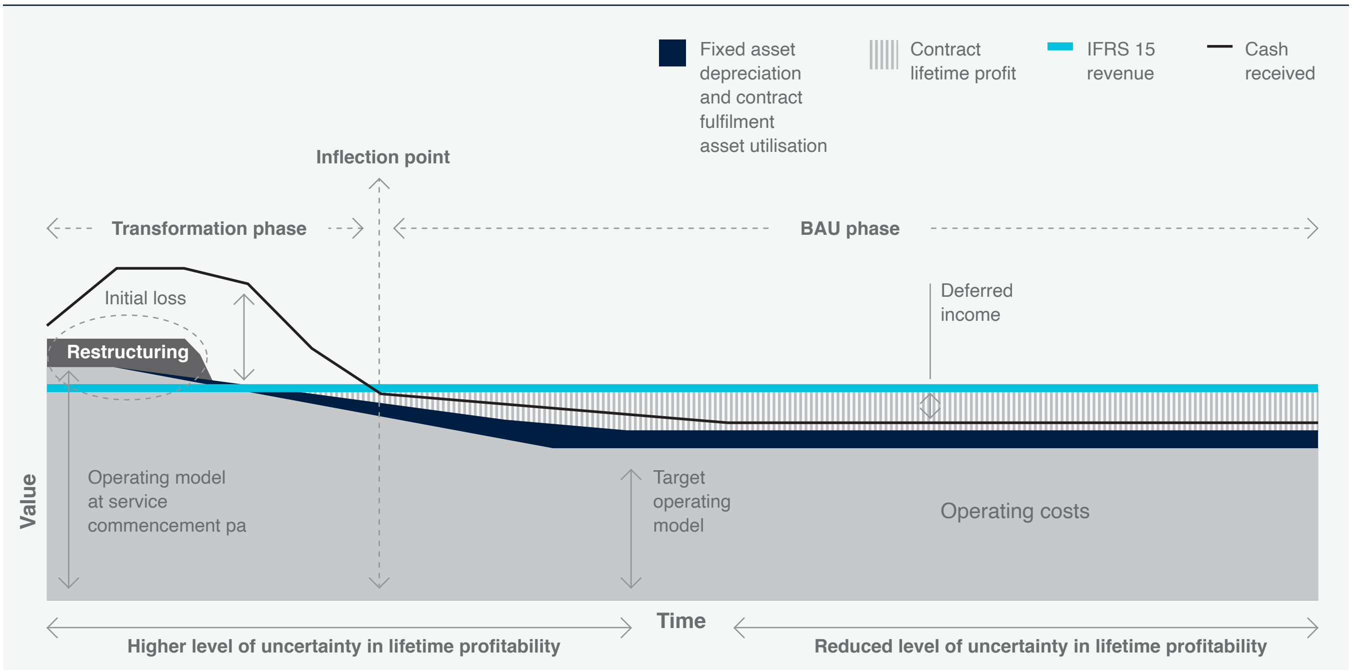
The Group operates diverse businesses. The majority of the Group's revenue is from contracts greater than two years in duration (long-term contractual), representing 74% of Group revenue in 2022 (2021: 73%).

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:



J **Significant accounting judgements, estimates and assumptions**

Due to the size and complexity of some of the Group's contracts, there are significant judgements to be applied, specifically in assessing: (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; impact of inflation; 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. An assessment of which contracts are major contracts is performed twice a year, and to enable comparability the prior period balances below are re-presented to reflect the same scope as the current period. Other contracts are reported to the Audit and Risk Committee as deemed appropriate. These contracts are collectively referred to as 'major contracts' in the remainder of this note.

The major contracts contributed £1.4 billion (2021: £1.3 billion) or 49% (2021: 47%) of Group adjusted revenue. Non-current contract fulfilment assets at 31 December 2022 were £263.0m, of which £106.3m (2021: £118.6m) relates to major contracts with ongoing 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, £40.4m at 31 December 2022 (2021: £41.9m). The recoverability of these assets is dependent on no significant adverse change in the key contract assumptions arising during the next financial year. The balance of deferred income associated with these contracts was £116.5m at 31 December 2022 (2021: £126.6m) 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 £42.5m at 31 December 2022 (2021: £39.5m).

Following these reviews, and reviews of smaller contracts across the business, as outlined in note 3.1.3, contract fulfilment asset impairments of £3.8m (2021: £7.3m) were identified and recognised within cost of sales, of which £0.5m (2021: £nil) relates to contract fulfilment assets added during the period, and net onerous contract provisions of £1.7m (2021: £32.0m) were identified and recognised in cost of sales. As discussed in note 1, the adoption of the amendment to IAS 37 resulted in additional onerous contract provisions being required, as well as contract asset impairments. On adoption of the amended standard the cumulative effect was recognised as an opening balance adjustment to retained earnings.

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, £106.3m of non-current contract fulfilment assets relates to major contracts with ongoing transformational activities; and, £40.4m of non-contract fulfilment assets and £42.5m 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 major transformation contracts have key milestones during the next twelve months and an inability to meet these key milestones could lead to reduced profitability and a risk of impairment of the associated contract assets. These contracts include Royal Navy training and TfL Road User Charging.

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.

Section 2: Results for the year continued

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 'over time' as control of the performance obligation is transferred to the customer.

For all contracts, the Group determines if the arrangement with a customer creates enforceable rights and obligations. This assessment results in certain Master Service Agreements (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.

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 over time, the Group applies a revenue recognition method that faithfully depicts the Group's performance in transferring control of the goods or services to the customer. This decision requires assessment of the real nature of the goods or services that the Group has promised to transfer to the customer. The Group applies the relevant output or input method consistently to similar performance obligations in other contracts.

When using the output method, the Group recognises revenue on the basis of direct measurements of the value to the customer of the goods and services transferred to date relative to the remaining goods and services under the contract. This is a faithful depiction of the transfer of services since the service delivered to the customer is unchanged. 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.

When transfer of control is most closely aligned to Group efforts in delivering the service, the input method is used to measure progress and revenue is recognised in direct proportion to costs incurred. This is a faithful depiction of the transfer of services because costs (or other inputs) most accurately reflect the incremental benefits received by the customer from efforts to date.

If performance obligations in a contract do not meet the over time 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 because the types of modifications will vary contract by contract and may result in different accounting outcomes.

Section 2: Results for the year continued

2.2 Revenue including segmental revenue continued

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. For example, if pricing is subject to indexation based on an external metric (such as CPI or RPI) then the revenue related to the indexation will only be recognised once the relevant indexation is confirmed. Future indexation will not be recognised because it is not highly probable that a significant reversal of an indexation adjustment will not 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.

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 over time (active) or at a point-in-time (passive) from the go-live date of the licence.

Deferred and accrued income
The Group's customer contracts include a diverse range of payment schedules dependent upon the nature and type of goods and/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.

Section 2: Results for the year continued

2.2 Revenue including segmental revenue continued

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 as reported to the Chief Operating Decision Maker. The Group comprises two core trading divisions - Capita Public Service and Capita Experience - and a third division - Capita Portfolio - which comprises non-core businesses that the Group intends to exit in due course. Comparative information has been re-presented to reflect businesses exited during 2022.

Adjusted revenue, excluding results from businesses exited in both years (adjusting items), was £2,845.8m (2021: £2,777.8m), an increase of 2.4% (2021: increase 0.1%).

Year ended 31 December 2022	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		**1,157.3**	**986.2**	**33.1**	**—**	**2,176.6**	**59.6**	**2,236.2**
Short-term contractual		**236.7**	**150.0**	**37.7**	**—**	**424.4**	**70.4**	**494.8**
Transactional (point-in-time)		**51.3**	**14.5**	**179.0**	**—**	**244.8**	**38.8**	**283.6**
Total segment revenue		**1,445.3**	**1,150.7**	**249.8**	**—**	**2,845.8**	**168.8**	**3,014.6**
Trading revenue		**1,487.5**	**1,190.9**	**334.2**	**—**	**3,012.6**	**—**	**3,012.6**
Inter-segment revenue		**(42.2)**	**(40.2)**	**(84.4)**	**—**	**(166.8)**	**—**	**(166.8)**
Total adjusted segment revenue		**1,445.3**	**1,150.7**	**249.8**	**—**	**2,845.8**	**—**	**2,845.8**
Business exits – trading	2.8	**—**	**33.3**	**135.5**	**—**	**—**	**168.8**	**168.8**
Total segment revenue		**1,445.3**	**1,184.0**	**385.3**	**—**	**2,845.8**	**168.8**	**3,014.6**

Year ended 31 December 2021 (Re-presented)[1]	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		1,115.3	982.2	38.5	—	2,136.0	189.2	2,325.2
Short-term contractual		211.1	152.7	42.9	—	406.7	127.7	534.4
Transactional (point-in-time)		84.0	6.0	145.1	—	235.1	87.8	322.9
Total segment revenue		1,410.4	1,140.9	226.5	—	2,777.8	404.7	3,182.5
Trading revenue		1,443.5	1,226.9	265.4	—	2,935.8	—	2,935.8
Inter-segment revenue		(33.1)	(86.0)	(38.9)	—	(158.0)	—	(158.0)
Total adjusted segment revenue		1,410.4	1,140.9	226.5	—	2,777.8	—	2,777.8
Business exits – trading	2.8	—	43.9	360.8	—	—	404.7	404.7
Total segment revenue		1,410.4	1,184.8	587.3	—	2,777.8	404.7	3,182.5

1. The 2021 comparative figures have been re-presented to reflect the recategorisation of certain contracts between contract types (long-term contractual, short-term contractual and transactional (point-in-time)) following a review in 2022.

Geographical location

The table below presents revenue by geographical location.

	2022			2021		
	United Kingdom £m	**Other £m**	**Total £m**	United Kingdom £m	Other £m	Total £m
Revenue	**2,718.6**	**296.0**	**3,014.6**	2,882.4	300.1	3,182.5

Section 2: Results for the year continued

2.2 Revenue including segmental revenue continued

2.2.2 Order book

The tables below show the order book for each division, categorised into long-term contractual (contracts with length greater than two years) and short-term contractual (contracts with length less than two years). The length of the contract is calculated from the start of the service commencement date. The figures represent the aggregate amount of currently contracted transaction price allocated to the performance obligations that are unsatisfied or partially unsatisfied. Revenue expected to be recognised upon satisfaction of these performance obligations is as follows:

Order book 31 December 2022	Capita Public Service £m	Capita Experience £m	Capita Portfolio £m	Capita plc £m	Total £m
Long-term contractual	2,916.7	2,465.3	201.9	—	5,583.9
Short-term contractual	68.3	61.4	91.6	—	221.3
Total	2,985.0	2,526.7	293.5	—	5,805.2

Order book 31 December 2021	Capita Public Service £m	Capita Experience £m	Capita Portfolio £m	Capita plc £m	Total £m
Long-term contractual	3,172.8	2,170.0	417.1	—	5,759.9
Short-term contractual	113.5	101.8	140.2	—	355.5
Total	3,286.3	2,271.8	557.3	—	6,115.4

The table below shows the expected timing of revenue to be recognised on long-term contractual orders at 31 December 2022:

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	843.3	708.3	25.2	—	1,576.8
1–5 years	1,417.0	1,489.8	62.6	—	2,969.4
> 5 years	656.4	267.2	114.1	—	1,037.7
Total	2,916.7	2,465.3	201.9	—	5,583.9

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 consolidated 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, future indexation linked to an external metric, 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 included in the tables above amounted to £577.0m (2021: £668.0m). The amounts presented do not include orders for which neither party has performed, and each party has the unilateral right to terminate a wholly unperformed contract without compensating the other party.

Of the £5.6 billion (2021: £5.8 billion) revenue to be earned on long-term contracts, £4.2 billion (2021: £4.3 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 £0.7 billion (2021: £2.3 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 £831.4m (2021: £941.1m).

Movements in the deferred income balances were driven by transactions entered into by the Group within the normal course of business during the year (2021: 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).

Section 2: Results for the year continued

2.3 Operating profit

2.3.1 Items charged/(credited) to reported operating profit

	Notes	2022 £m	2021 £m
Depreciation of property, plant and equipment	3.2	**40.9**	48.6
Depreciation of right-of-use assets	3.5	**56.0**	68.2
Impairment of property, plant and equipment	3.2	**4.7**	1.9
(Reversal of impairment)/impairment of right-of-use assets	3.5	**(2.7)**	13.3
Amortisation of intangible assets	3.3	**41.5**	57.7
Impairment of intangible assets	3.3	**5.9**	58.7
Impairment of goodwill	3.4	**169.0**	16.1
Impairment of disposal group assets held-for-sale	2.8	**—**	44.1
Loss on sale of property, plant and equipment and intangibles	2.10.1	**3.5**	0.7
Foreign exchange differences		**6.9**	(0.2)
Contract fulfilment asset utilisation, impairment and derecognition	3.1.3	**85.7**	107.8
Contract termination gains		**—**	(4.7)
The net of: accelerated deferred income unwind, and contract fulfilment asset utilisation		**—**	(7.5)
Onerous contract provisions (net of additions and releases)		**1.7**	32.0

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 has recognised an impairment against costs capitalised as contract fulfilment assets totalling £3.8m (2021: £7.3m) in 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. There were no in-year customer contract terminations for customer convenience that led to associated exit fees being earned by Capita (2021: £4.7m in Capita Experience) and recorded as income during the year.

The net of: accelerated deferred income unwind and contract fulfilment asset utilisation: during 2022 the Group recognised no gains or losses (2021: gain £7.5m) related to the net of accelerated deferred income unwinds and contract fulfilment asset utilisation. In 2021 the gains 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.

Onerous contract provisions: during 2022 the Group recognised a net loss of £1.7m related to onerous contract provisions (refer to note 3.6) in Capita Experience (2021: £32.0m loss related to contracts in Capita Experience).

2.3.2 Fees payable to auditors

The amounts included in the table below relate to fees payable to KPMG LLP and its associates:

	2022 £m	2021 £m
Audit and audit-related services		
The audit of the Parent Company and the Group's consolidated financial statements	**5.1**	5.1
The audit of the financial statements of the Group's subsidiary companies	**1.0**	1.9
Total audit and audit-related services	**6.1**	7.0
Non-audit services		
Other assurance services	**1.6**	1.5
Total non-audit services	**1.6**	1.5
Total audit and non-audit services	**7.7**	8.5

The non-audit fees in respect of 2022 related to the review of interim results, and services as reporting accountant for the disposal of Pay360 Limited. In respect of 2021, the non-audit fees related to the review of interim results, and services as reporting accountant for the disposal of AXELOS Limited.

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 disclose separately 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 90 to 98. The Board considers alternative performance measures (APMs) to be helpful to the reader, but notes that APMs have certain limitations, including the exclusion of significant recurring items, and may not be directly comparable with similarly titled measures presented by other companies.

From 1 January 2022, the Board has limited the items excluded from the adjusted results to: business exits; amortisation and impairment of acquired intangibles; impairment of goodwill; and, certain mark-to-market valuation changes that impact net finance expense/income; because the adjusted metrics provide a more representative measure of the underlying performance of the business post completion of the Group-wide transformation.

In prior years, the Board excluded other items from the adjusted results because they were material and required separate disclosure for users of the financial statements to obtain a proper understanding of the financial information and the underlying performance of the business. These items included: significant restructuring; contract-related provisions and impairments; and, certain litigation and claims.

The comparatives have been re-presented on the same basis, with significant restructuring (£147.5m), certain litigation and claims (credit £2.3m) and contract related provisions and impairments (£43.1m) now included within adjusted results for the year ended 31 December 2021.

The items below are excluded from the adjusted results:		Operating profit/(loss)		Profit/(loss) before tax	
	Notes	2022 £m	2021 £m (Re-presented[4])	2022 £m	2021 £m (Re-presented[4])
Reported		**(79.6)**	(86.6)	**61.4**	285.6
Amortisation and impairment of acquired intangibles	3.3	**5.1**	7.7	**5.1**	7.7
Impairment of goodwill	3.4	**169.0**	11.5	**169.0**	11.5
Net finance (income)/costs	4.3	**—**	—	**(3.4)**	1.4
Business exits	2.8	**8.4**	(10.3)	**(158.3)**	(429.0)
Adjusted		**102.9**	(77.7)	**73.8**	(122.8)

1. Adjusted operating profit increased by 232.4% (2021: increased 26.6%) and adjusted profit before tax increased by 160.1% (2021: increased 15.1%). Adjusted operating profit of £102.9m (2021: loss £77.7m) was generated on adjusted revenue of £2,845.8m (2021: £2,777.8m) resulting in an adjusted operating margin of 3.6% (2021: (2.8)%).
2. The tax credit on adjusted profit before tax is £31.8m (2021: £4.0m charge) resulting in adjusted profit after tax of £105.6m (2021: £126.8m loss).
3. The adjusted operating loss and adjusted loss before tax for 2021 have been re-presented for the impact of business exits during 2022 and the change in adjusting items. This has resulted in adjusted operating profit decreasing from £139.1m to a loss of £77.7m and adjusted profit before tax decreasing from £93.5m to a loss of £122.8m.
4. 2021 adjusted results have been re-presented - please refer to further detail above.

Amortisation and impairment of acquired intangible assets: the Group recognised acquired intangible amortisation of £5.1m (2021: £7.7m) and impairment of £nil (2021: £nil). These charges are excluded from the adjusted results of the Group because they are non-cash items generated from historical acquisition related activity.

Impairment of goodwill: the Group carries on its balance sheet significant balances related to goodwill. Goodwill is subject to annual impairment testing and any impairment charges are reported separately because they are non-cash items generated from historical acquisition related activity.

Net finance costs: net finance costs excluded from adjusted profits relate to movements in the mark-to-market value of forward foreign exchange contracts to cover anticipated future costs and therefore have no equivalent offsetting transaction in the accounting records, also refer to note 4.2.2.

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 to enable comparability of 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.

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 pages16 to 25.

The tables below present profit for the Group's business segments. 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. Comparative information has been re-presented to reflect businesses exited during 2022 and the change in definition of what the Board excludes from adjusted results (refer to note 2.4).

Information on segmental revenue can be found in note 2.2.

Year ended 31 December 2022	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	91.5	38.5	16.2	(43.3)	102.9	—	102.9
Business exits – trading	2.8	—	4.3	10.4	—	—	14.7	14.7
Total trading result		91.5	42.8	26.6	(43.3)	102.9	14.7	117.6
Non-trading items:								
Business exits – non-trading	2.8					—	(23.1)	(23.1)
Other adjusting items	2.4					—	(174.1)	(174.1)
Operating profit/(loss)						102.9	(182.5)	(79.6)
Interest income								8.9
Interest expense								(40.6)
Share of results in associates and investment gains								5.8
Gain on business disposal								166.9
Profit before tax								61.4
Supplementary Information								
Depreciation and amortisation	3.2	38.5	67.2	19.4	3.3	128.4	10.0	138.4
Impairment of property, plant and equipment, intangible assets and right-of-use assets	3.3 3.5	—	7.7	—	(0.2)	7.5	0.4	7.9
Contract fulfilment assets utilisation, impairment and derecognition	3.1.3	67.2	16.3	0.8	—	84.3	1.4	85.7
Onerous contract provisions	2.3	—	1.7	—	—	1.7	—	1.7

Section 2: Results for the year continued

2.5 Segmental information continued

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
		Re-presented[1]						
Adjusted operating profit	2.4	93.2	8.9	(0.1)	(179.7)	(77.7)	—	(77.7)
Business exits – trading	2.8	—	6.9	72.4	—	—	79.3	79.3
Total trading result		93.2	15.8	72.3	(179.7)	(77.7)	79.3	1.6
Non-trading items:								
Business exits – non-trading	2.8					—	(69.0)	(69.0)
Other adjusting items	2.4					—	(19.2)	(19.2)
Operating loss						(77.7)	(8.9)	(86.6)
Interest income								4.7
Interest expense								(51.6)
Share of results in associates and investment gains								(0.6)
Gain on business disposal								419.7
Profit before tax								285.6
Supplementary Information								
Depreciation and amortisation		42.2	78.8	21.8	6.6	149.4	25.1	174.5
Impairment of property, plant and equipment, intangible assets and right-of-use assets	3.2 3.3 3.5	3.3	5.5	2.6	59.9	71.3	2.6	73.9
Contract fulfilment assets utilisation, impairment and derecognition	3.1.3	64.5	21.8	2.0	—	88.3	19.5	107.8
Onerous contract provisions	2.3	—	32.0	—	—	32.0	—	32.0

1. 2021 adjusted results have been re-presented - please refer to note 2.4 for further details.

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.

	2022			2021		
	United Kingdom £m	**Other £m**	**Total £m**	United Kingdom £m	Other £m	Total £m
Non-current assets	**1,320.9**	**20.6**	**1,341.5**	1,791.3	27.7	1,819.0

Section 2: Results for the year continued

2.6 Taxation

AP Accounting policies

Tax on the profit or loss for year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except:
- where the deferred tax liability arises from the initial recognition of goodwill;
- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, 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.

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.

J Significant accounting judgements, estimates and assumptions

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. This involves an assessment of when those assets are likely to reverse, and a judgement as to whether or not there will be sufficient taxable profits available to offset the assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there may be an increase or decrease in the amounts recognised in respect of deferred tax assets as well as in the amounts recognised during the year in which the change occurs.

Sensitivities and additional information relating to deferred tax assets/liabilities are provided in note 2.6.2.

2.6.1 Income tax credit
There is a reported income tax credit for the period of £14.6m on reported profit before tax of £61.4m (2021: reported income tax charge of £61.5m on reported profit of £285.6m), and an adjusted income tax credit for the period of £31.8m on adjusted profit before tax of £73.8m (2021: adjusted tax charge of £4.0m on adjusted loss of £122.8m). The most significant reconciling items, explaining the difference from the standard UK rate of 19%, are changes in the accounting estimate of recognised deferred tax assets, non-taxable profit on disposals and non-deductible goodwill impairment.

The forecast future adjusted effective tax rate, before and assuming no material changes to tax laws in the jurisdictions in which Capita operates, is expected to be broadly in line with the UK corporation tax rate, with an increase for taxable profits in higher tax rate jurisdictions. However, management anticipates that in the short term, the continued divestment programme may impact the future effective tax rate because the profits of divested businesses fall outside of the assessment of future taxable profits, impacting the recognisable deferred tax asset assessment.

The major components of income tax charge/(credit) are set out below:

	2022			2021		
Consolidated income statement	**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	**14.0**	**12.6**	**1.4**	27.2	(14.5)	41.7
Adjustment in respect of prior years	**(1.2)**	**(1.2)**	**—**	3.8	3.8	—
Deferred tax						
On origination and reversal of temporary differences	**(36.7)**	**(52.5)**	**15.8**	76.1	60.3	15.8
Effect of changes in tax rate on deferred tax balances	**3.0**	**3.0**	**—**	(39.0)	(39.0)	—
Adjustment in respect of prior years	**6.3**	**6.3**	**—**	(6.6)	(6.6)	—
Total	**(14.6)**	**(31.8)**	**17.2**	61.5	4.0	57.5

Section 2: Results for the year continued

2.6 Taxation continued

Consolidated statement of comprehensive income and consolidated statement of changes in equity	2022 £m	2021 £m
Current income tax movement on cash flow hedges	—	(2.0)
Deferred tax movement on cash flow hedges	1.6	(0.2)
Deferred tax movement in relation to actuarial changes on defined benefit pension schemes	5.2	32.2
Current income tax movement on defined benefit pension scheme contributions	(7.2)	(11.5)
Effect of rate change on deferred tax on defined benefit pension schemes	—	(2.6)
Current income tax deduction on the exercise of share options	—	(0.4)
	(0.4)	15.5

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	
		2022 £m	2021 £m	2022 £m	2021 £m
Profit before tax from continuing operations		61.4	285.6	61.4	285.6
Notional charge at UK corporation tax rate of 19%		11.7	54.3	11.7	54.3
Adjustments in respect of current income tax of prior years	a	(1.2)	3.8	(1.2)	3.8
Adjustments in respect of deferred tax of prior years	b	6.3	(6.6)	—	—
Non-deductible expense/(non-taxable income) – adjusted	c	(2.3)	3.7	(2.3)	3.7
Non-deductible expenses – business exit	d*	2.3	1.5	2.3	1.5
Non-taxable income – specific items		—	(1.1)	—	(1.1)
Profit on disposal of business	e*	(31.6)	(51.7)	(31.6)	(51.7)
Non-deductible goodwill impairment	f*	32.0	11.4	32.0	11.4
Difference in rate recognition of temporary differences		3.1	(39.0)	—	—
Tax provided on unremitted earnings	g	1.3	1.1	—	3.2
Attributable to different tax rates in overseas jurisdictions	h	0.5	(0.1)	0.5	(0.1)
Movement in deferred tax unrecognised	note 2.6.2	(36.7)	84.2	—	—
Fixed asset timing differences		—	—	6.8	(2.0)
Current tax impact on other timing differences		—	—	(6.4)	0.2
Carry forward/(utilisation) of losses in current period	i	—	—	1.0	7.8
At the effective total tax rate of (23.8)% (2021: 21.5%) and the effective current tax rate of 20.8% (2021: 10.9%)	j	(14.6)	61.5	12.8	31.0
Tax (credit)/charge reported in the income statement		(14.6)	61.5	12.8	31.0

* These £2.7m (2021: £(39.9)m) of reconciling items relate to reported tax charge only, with no impact on the adjusted tax charge. Further details are given (*) below.

a The £1.2m prior year credit adjustment includes: (i) a £1.2m release of uncertain tax positions due to the relevant entity being put into liquidation; (ii) a £6.3m credits which have a corresponding impact within deferred tax of prior years; and (iii) a £6.0m credit to adjust for finalisation of submitted tax returns.
b Adjustments in respect of deferred tax of prior years mainly relate to £6.3m of charges which have a corresponding impact within current income tax of prior years.
c Relates mainly to a one-off tax deduction triggered due to the adoption of IAS 37. Refer to section 1 for further details.
d* Business exit: relates to non-deductible closure costs associated with the sale of entities. Refer to note 2.8 for further details.
e* Relates to the application of the tax exemption on accounting profits from the sale of entities. Refer to note 2.8.1 for further details.
f* Relates to the intangible asset impairments as detailed further in note 3.4.
g Movement in the deferred tax liability recognised on the unremitted earnings of those subsidiaries affected by withholding taxes.
h 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).
i Relates to the (utilisation)/carry forward of tax losses during the current period.
j The current tax charge of £12.8m (2021: £31.0m) results in an effective current tax rate of 20.8%, which is different from the UK statutory rate of tax of 19% predominantly due to: tax impact of non-taxable profits from disposals of businesses; non-deductible goodwill impairment; and losses carried forward. The impact of differing overseas tax rates is minimal and covered in footnote (h).

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 assets for the period to 31 December 2022, and the prior period, have been calculated based on this rate.

Deferred tax relates to the following:

		Credited/(charged) to			
	At 1 January £m	Income statement £m	OCI and changes in equity £m	Other movements[2] £m	At 31 December £m
Deferred tax assets					
Fixed assets which qualify for tax relief	77.3	12.2	—	1.3	90.8
Deferred income	(0.1)	1.2	—	(1.1)	—
Provisions and other timing differences	14.7	(3.7)	(1.6)	1.1	10.5
Pension schemes	19.8	(8.7)	(5.2)	—	5.9
Share-based payments	3.8	(0.4)	—	(2.1)	1.3
Tax losses[1]	63.3	27.2	—	(9.1)	81.4
	178.8	27.8	(6.8)	(9.9)	189.9
Jurisdictional netting	(2.8)				(0.4)
Net deferred tax assets	176.0	27.8	(6.8)	(9.9)	189.5
Deferred tax liabilities					
Acquired intangibles	(0.7)	0.5	—	—	(0.2)
Contract fulfilment assets	(4.4)	0.4	—	1.8	(2.2)
Unremitted earnings	(3.6)	(1.3)	—	—	(4.9)
	(8.7)	(0.4)	—	1.8	(7.3)
Jurisdictional netting	2.8				0.4
Net deferred tax liabilities	(5.9)	(0.4)	—	1.8	(6.9)
Net deferred tax	170.1	27.4	(6.8)	(8.1)	182.6

1. Mainly trading losses available to shelter future profits and deferred interest.
2. Other movements includes business disposals.

The main movements in the net deferred tax asset are due to the income statement tax credit arising on the change in the accounting estimate of deferred tax, the deferred tax charge to other comprehensive income (OCI) and income statement on the defined benefit pension scheme surplus recognised for accounting purposes, and the deferred tax assets disposed of on the sale of subsidiaries.

For the purpose of recognising deferred tax on the pension scheme surplus, withholding tax at 35% would apply for any surplus being refunded to the Group at the end of the life of the scheme. Corporation tax at 25% would apply for any surplus expected to unwind over the life of the scheme. Management have concluded that the corporation tax rate should apply to the recognition of deferred tax on the pension scheme surplus, reflecting the Group's intention regarding the manner of recovery of the asset.

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 2022 has been based on the forecast accounting profits in the 2023-2025 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 2.2%, as used for impairment test purposes, has been applied to years beyond 2025. 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 asset. 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 have concluded that an additional deferred tax asset should be recognised this year. The impact of this is an adjustment to recognise additional deferred tax assets of £36.7m. This is net of £16.7m change in the deferred tax asset estimate due to the reduction in future taxable profits on disposal of taxable subsidiaries, reflected in the tax arising on business exits (see note 2.8).

Deferred tax asset recognition is reliant on the accuracy of management's forecasts and the assumptions that underlie them. Management have considered the severe but plausible downsides, applied to the base-case projections, to gauge sensitivity and identify a reasonable possible alternative result. This scenario identified a further potential reduction in recognised deferred tax assets of approximately £17m. Further disposals, planned as part of the simplification agenda, could also reduce the recognised deferred tax asset in future periods, which management currently estimate at approximately £41m.

The Group has unrecognised tax losses and other temporary differences 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. The table below shows the amounts split between UK and non-UK jurisdictions.

Section 2: Results for the year continued

2.6 Taxation continued

	2022 £m Gross Amount	2021 £m Gross Amount
At 31 December		
UK:		
Tax losses	**332.7**	498.0
Other temporary timing differences	**113.9**	99.7
	446.6	597.7
Non-UK:		
Tax losses	**60.8**	44.9
Other temporary timing differences	**11.6**	14.8
	72.4	59.7
Total	**519.0**	657.4

Assets have no time expiry, but some losses are subject to specific loss restriction rules. £39.9m (2021: £50.7m) of the losses were incurred by companies acquired by the Group and are not a result of the Group's trading performance.

Dividends received from subsidiaries are largely exempt from UK tax but may be subject to dividend withholding taxes levied by the overseas tax jurisdictions in which the subsidiaries operate. The gross temporary differences of those subsidiaries affected by such potential taxes is £58.4m (2021: £42.8m). A deferred income tax liability of £4.9m (2021: £3.6m) has been recognised on the unremitted earnings of those subsidiaries affected by such potential taxes because the Group is able to control the timing of reversal and it is anticipating dividends to be distributed. The earnings remitted during the year have resulted in a reduction in the closing deferred tax liability.

2.6.3 Uncertain tax positions

The Group files income tax returns in several jurisdictions and some of those 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 this criteria.

Income tax receivable of £9.9m at 31 December 2022 is net of a £2.9m (2021: £4.1m) liability in relation to uncertain tax positions. The Group released £1.2m (2021: £1.7m) of uncertain tax positions during 2022 relating to tax risks which are no longer considered likely to arise, due to the relevant entity being put into liquidation. 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 during the next financial year.

2.6.4 Global minimum tax

In December 2021, the OECD released the Pillar II global minimum tax draft legislative framework which ultimately seeks to introduce a global minimum corporation tax rate of 15%. Following consultation the UK Government has proposed that Pillar II will first apply to accounting periods beginning on or after 31 December 2023, but at the time of signing these financial statements no tax jurisdiction Capita operates in had enacted or substantively enacted laws to implement the Pillar II framework.

As disclosed in our Responsible Taxation report, which can be found in the Responsible Business area of the Capita website, Capita has minimal profits arising in jurisdictions with a low tax rate. A high level impact assessment of a potential top-up tax, chargeable in respect of profits in jurisdictions which have an effective tax rate lower than 15%, suggests that Capita may be subject to some top-up tax due to a trading legal entity in the Isle of Man which has a statutory corporate tax rate lower than 15%. There has been a lack of Pillar II legislative progress globally, with the UK only having draft legislation currently available. As such, Capita is unable to determine the impact of the framework with any degree of certainty.

Capita is committed to paying its fair share of tax in all jurisdictions. As a conscientious taxpayer, Capita will continue to monitor the legislative progress in all the jurisdictions it operates in.

2.6.5 Capita's responsible approach to taxation

Capita has an open and positive working relationship with HMRC, has a designated customer compliance manager, and is committed to prompt disclosure and transparency in all dealings with HMRC and overseas tax authorities. The Group does not have a complex tax structure, nor does it pursue aggressive tax avoidance activities. The Group has a low-risk rating from HMRC, re-assessed in 2021, and has been awarded the Fair Tax Mark for its tax disclosures from 2018 to 2021. 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 tax strategy 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 £153.2m (2021: £162.3m) in taxes from its UK operations during 2022. This consisted of a net repayment of £2.6m (2021: net repayment of £0.5m) of UK corporation tax; £15.0m (2021: £18.1m) incurred in irrecoverable VAT; £124.8m (2021: £125.5m) in employer national insurance contributions (NIC); and £16.0m (2021: £19.3m) in other levies including business rates, import duties, the apprenticeship levy and environmental taxes. Additionally, the Group's 2022 UK VAT payments were £315.1m (2021: £318.7m). A further £14.9m VAT was remitted in 2022, which was VAT deferred from 2020 under HMRC's Covid-19 deferral scheme: The Group also collected £272.8m (2021: £287.8m) of Capita UK employee payroll taxes (PAYE and NIC). Capita entities in overseas jurisdictions paid £8.5m (2021: £15.0m) corporation tax, which mainly covers corporate income tax on local profits.

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.

		2022 Continuing operations p	2022 Total operations p	2021 Continuing operations p	2021 Total operations p
Basic earnings/(loss) per share	– reported	**4.47**	**4.47**	13.33	13.52
	– adjusted [1]	**6.20**	**6.20**	(7.74)	(7.74)
Diluted earnings/(loss) per share	– reported	**4.40**	**4.40**	13.15	13.33
	– adjusted [1]	**6.09**	**6.09**	(7.74)	(7.74)

1. 2021 adjusted results have been re-presented. Please refer to note 2.4 for further details.

The following tables show the earnings and share data used in the basic and diluted earnings/(loss) per share calculations:

		2022 Continuing operations £m	2022 Total operations £m	2021 Continuing operations £m	2021 Total operations £m
Reported profit before tax for the period		**61.4**	**61.4**	285.6	288.7
Income tax credit/(charge)	2.6	**14.6**	**14.6**	(61.5)	(61.5)
Reported profit for the period		**76.0**	**76.0**	224.1	227.2
Less: Non-controlling interest		**(1.2)**	**(1.2)**	(2.5)	(2.5)
Total profit attributable to shareholders		**74.8**	**74.8**	221.6	224.7
Adjusted profit/(loss) before tax for the period [1]	2.4	**73.8**	**73.8**	(122.8)	(122.8)
Income tax credit/(charge)	2.6.1	**31.8**	**31.8**	(4.0)	(4.0)
Adjusted profit/(loss) for the period [1]		**105.6**	**105.6**	(126.8)	(126.8)
Less: Non-controlling interest		**(2.0)**	**(2.0)**	(1.9)	(1.9)
Adjusted profit/(loss) attributable to shareholders [1]		**103.6**	**103.6**	(128.7)	(128.7)

1. 2021 adjusted results have been re-presented. Please refer to note 2.4 for further details.

	2022 m	2021 m
Weighted average number of ordinary shares (excluding trust and treasury shares) for basic earnings per share	**1,671.7**	1,661.9
Dilutive potential ordinary shares:		
Employee share options	**30.0**	23.9
Weighted average number of ordinary shares (excluding trust and treasury shares) adjusted for the effect of dilution	**1,701.7**	1,685.8

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 a total reported and an adjusted basis. The earnings per share for business exits and specific items are reconciling items between total reported and adjusted 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 authorised 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 sold, exited during the period, or are in the process of being sold or exited in accordance with the Group's strategy. 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 businesses, 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 2021 comparatives have been re-presented to exclude the businesses classified as business exits during 2022.

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, and, the sale should be expected to be completed within one year from the date of classification.

Based on the above requirements, individual businesses within the Portfolio Division will only reach the criteria to be treated as held-for-sale when their disposal is seen to be highly probable, and expected to complete within the following twelve months. At 31 December 2022 no disposals were deemed to have met this threshold. At 31 December 2021, the disposals of three businesses (AMT Sybex software, Secure Solutions and Services (SSS), and Speciality Insurance) were deemed to have met this threshold.

2022 business exits
Business exits at 31 December 2022 primarily comprised:

Business	Disposal completed on
AMT Sybex	1 January 2022
Secure Solutions and Services	3 January 2022
Trustmarque	31 March 2022
Speciality Insurance	29 April 2022
Real estate and infrastructure consultancy	22 September 2022
Optima Legal Services	30 November 2022
Pay360	1 December 2022
Capita Translation and Interpreting	29 December 2022

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 2022, their trading results were included within adjusted results. However, exit costs related to those disposals, which include professional fees, salary costs and separation planning costs, are included within business exit non-trading administrative expenses.

	2022			2021		
Income statement impact	Trading £m	Non-trading £m	Total £m	Trading £m	Non-trading £m	Total £m
Revenue	**168.8**	**—**	**168.8**	404.7	—	404.7
Cost of sales	**(135.3)**	**—**	**(135.3)**	(269.0)	—	(269.0)
Gross profit	**33.5**	**—**	**33.5**	135.7	—	135.7
Administrative expenses	**(18.8)**	**(23.1)**	**(41.9)**	(56.4)	(69.0)	(125.4)
Operating profit/(loss)	**14.7**	**(23.1)**	**(8.4)**	79.3	(69.0)	10.3
Net finance costs	**(0.2)**	**—**	**(0.2)**	(0.7)	(0.3)	(1.0)
Gain on business disposal	**—**	**166.9**	**166.9**	—	419.7	419.7
Profit before tax	**14.5**	**143.8**	**158.3**	78.6	350.4	429.0
Taxation	**(2.8)**	**(14.7)**	**(17.5)**	(16.1)	(43.0)	(59.1)
Profit after tax	**11.7**	**129.1**	**140.8**	62.5	307.4	369.9

Trading revenue and costs represent the current period trading performance of the above businesses up to the point of being disposed or exited, and in the comparative those businesses disposed of during 2021 (ESS, Life Insurance and Pensions Servicing business in Ireland, and the AXELOS joint venture with the UK Government). Trading expenses primarily comprise payroll costs of £96.9m (2021: £217.6m) and information technology costs of £23.2m (2021: £65.2m).

Included within non-trading administrative expenses is £nil (2021: £9.3m) of amortisation of acquired intangibles which, in accordance with the Group's policy, were excluded from the Group's adjusted results and have been reclassified to business exits because they relate to businesses sold or being exited. Other non-trading administrative expenses include: asset impairments of £nil (2021: £53.1m); disposal project costs of £14.4m (2021: £8.9m); other costs including staff and redundancy costs of £8.7m (2021: £4.7m); and, other income of £nil (2021: £7.0m).

Section 2: Results for the year continued

2.8 Business exits and assets held for sale continued

2.8.1 Disposals

During 2022 the Group disposed of eight businesses: AMT Sybex, Secure Solutions and Services, Trustmarque, Speciality Insurance, Real estate and infrastructure consultancy, Optima Legal Services, Pay360 and Capita Translation and Interpreting. During 2021 the Group disposed of three businesses: ESS, Life Insurance and Pensions Servicing business in Ireland and AXELOS.

The assets and liabilities disposed of and the related gain on disposal are as follows:	2022 £m	2021 £m
Property, plant and equipment	0.2	0.2
Intangible assets	20.4	20.0
Goodwill	178.3	65.7
Right-of-use assets	0.2	—
Income tax recoverable and deferred tax assets	7.6	—
Contract fulfilment assets	2.8	0.1
Trade and other receivables	136.6	2.6
Cash and cash equivalents	55.9	8.2
Disposal group assets held-for-sale	143.0	120.2
Trade and other payables	(127.0)	(6.7)
Deferred income	(38.6)	(2.9)
Lease liabilities	(0.3)	—
Deferred consideration payable	—	(22.8)
Loans payable[1]	—	(26.0)
Capita group loan balances	(102.3)	(27.2)
Income tax payable and deferred tax liabilities	(0.7)	(4.3)
Provisions	(0.4)	—
Disposal group liabilities held-for-sale	(135.4)	(57.5)
Net identifiable assets sold	**140.3**	69.6
Non-controlling interests	(0.3)	(3.4)
	140.0	66.2
Sales price:		
received in cash	330.0	508.6
deferred receivable	10.5	—
Less: disposal costs	(33.3)	(25.5)
Net sales price	**307.2**	483.1
Realisation of cumulative currency translation difference	(0.3)	2.8
Gain on business disposals	**166.9**	419.7
Net cash inflow		
Proceeds received	330.0	508.6
Less disposal costs:		
income statement charge	(33.3)	(25.5)
change in accrued disposal costs during the year	9.9	—
Settlement of receivables due from disposed subsidiaries:		
disposal of subsidiaries in the period	102.3	27.2
disposal of subsidiaries classified as held-for-sale	54.5	—
Total proceeds received net of disposal costs paid	**463.4**	510.3
Total cash held by subsidiaries when sold		
Cash held by subsidiaries when sold	(55.9)	(8.2)
Cash held by subsidiaries classified as held-for-sale	(19.6)	(17.7)
Total cash held by subsidiaries when sold	**(75.5)**	(25.9)
Net cash inflow	**387.9**	484.4

1. 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%pa and was settled on completion of the disposal on 29 July 2021.

Disposal costs of £7.1m, 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

As part of the disposal of Trustmarque to One Equity Partners in March 2022, Capita entered into a five year agreement committing to procure a sufficient amount of the Group's IT and technology requirements through Trustmarque as a reseller of such services to enable Trustmarque to realise a specified level of gross profits over the period of that agreement. The price paid for these purchases will be equivalent to that paid by other customers of Trustmarque, and the Group expects to have sufficient demand to meet the commitment. It is currently estimated that the total expenditure with Trustmarque under this agreement over the five year period will be approximately £300m of which less than 25% is expected to be capital in nature.

During 2022, management identified that the net assets of a business held-for-sale at 31 December 2021 and used to assess for impairment were incorrectly determined when comparing to the expected net disposal proceeds. This resulted in an overstatement of a goodwill impairment charge recognised within business exits (£19.0m) and consequently, an understatement of assets held-for-sale at 31 December 2021. This error did not impact the adjusted results of the Group.

Management has considered IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and concluded that the impact of this error is not deemed material since it would not influence the economic decisions of primary users of the consolidated financial statements, not least because the business has been disposed of in the current period, and therefore, the correction of the impairment has been recognised in the current period within the gain on business disposal.

2.8.2 Disposal group assets and liabilities held-for-sale
Disposal group assets and liabilities held-for-sale at 31 December 2021 comprised the AMT Sybex, Secure Solutions and Services and Speciality Insurance businesses, whose disposals were completed during the first half of 2022. At 31 December 2022, no disposals were deemed to have met the threshold to be treated as held-for-sale.

	2022 £m	2021 £m
Property, plant and equipment	—	0.4
Intangible assets	—	14.4
Goodwill	—	44.2
Contract fulfilment assets	—	32.6
Trade and other receivables	—	10.7
Accrued income	—	5.1
Prepayments	—	5.2
Cash and cash equivalents	—	15.8
Income tax receivable and deferred tax assets	—	10.4
Disposal group assets held-for-sale	—	138.8
Trade and other payables	—	1.6
Other taxes and social security	—	1.6
Accruals	—	3.4
Deferred income	—	69.8
Income tax payable and deferred tax liabilities	—	2.3
Provisions	—	2.4
Disposal group liabilities held-for-sale	—	81.1

Business exit cash flows
Businesses exited and being exited had a cash generated from operations inflow of £9.9m (2021: cash inflow of £43.1m).

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. No further material movements in provisions related to the disposal of the Asset Services business are anticipated.

The earnings per share impact from discontinued operations is nil p (2021: 0.19p) on basic earnings per share and nil p (2021: 0.18p) 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

	Notes	2022 Reported £m	2022 Before business exits £m	2021 Restated[2] Reported £m	2021 Restated[2] Before business exits £m
Cash flows from operating activities:					
Reported operating loss	2.4	**(79.6)**	**(79.6)**	(86.6)	(86.6)
Less: business exit operating loss/(profit)	2.8	**—**	**8.4**	—	(10.3)
Total operating loss		**(79.6)**	**(71.2)**	(86.6)	(96.9)
Adjustments for non-cash items:					
Depreciation	3.2, 3.5	**96.9**	**96.7**	117.1	115.7
Amortisation of intangible assets	3.3	**41.5**	**36.8**	57.7	41.4
Share-based payment expense	5.1	**5.4**	**5.4**	1.2	1.2
Employee benefits	5.2	**9.0**	**9.0**	8.9	8.9
Loss on sale of property, plant and equipment and intangible assets	2.3	**3.5**	**3.5**	0.7	0.7
Amendments and early terminations of leases		**(4.7)**	**(4.7)**	—	—
Impairment of disposal group assets		**—**	**—**	44.1	—
Impairment of non-current assets		**176.9**	**176.5**	90.0	82.8
Other adjustments:					
Movement in provisions		**(42.1)**	**(47.9)**	21.9	36.2
Pension deficit contributions		**(38.6)**	**(30.0)**	(155.5)	(73.6)
Other contributions into pension schemes		**(10.0)**	**(10.0)**	(8.4)	(8.4)
Movements in working capital:					
Trade and other receivables		**(41.0)**	**18.6**	(5.2)	(10.0)
Non-recourse trade receivables financing		**28.0**	**28.0**	(5.7)	(5.7)
Trade and other payables		**84.8**	**25.9**	17.0	20.6
VAT deferral		**(14.9)**	**(14.9)**	(104.1)	(104.1)
Deferred income		**(116.0)**	**(124.2)**	(116.9)	(62.9)
Contract fulfilment assets (non-current)		**18.7**	**19.0**	(24.7)	(55.6)
Cash generated from/(used by) operations		**117.8**	**116.5**	(148.5)	(109.7)
Adjustments for free cash flows:					
Income tax paid		**(7.9)**	**(6.5)**	(17.7)	(17.7)
Net interest paid		**(38.0)**	**(37.4)**	(40.1)	(40.0)
Net cash inflows/(outflow) from operating activities		**71.9**	**72.6**	(206.3)	(167.4)
Purchase of property, plant and equipment	3.2	**(20.6)**	**(16.8)**	(25.6)	(18.7)
Purchase of intangible assets	3.3	**(27.3)**	**(27.3)**	(32.5)	(32.5)
Proceeds from sale of property, plant and equipment and intangible assets		**0.5**	**0.5**	0.1	—
Free cash flow[1]		**24.5**	**29.0**	(264.3)	(218.6)

1. Definitions of the alternative performance measures and related KPIs can be found in section 8.2.
2. The 2021 cash flow has been restated to include £27.2m of cash, received from the purchasers of subsidiaries when sold to settle inter-company balances, within investing activities, which were previously included within the operating activities. This results in an increase in net cash flow from investing activities by £27.2m and decrease in net cash flows from operating activities, cash generated from operations, and free cash flow by the same amount. There is no impact on the reported net movement in cash and cash equivalents.

Section 2: Results for the year continued

2.10 Cash flow information continued

2.10.2 Free cash flow and cash generated from operations (alternative performance measures - refer to section 8.2)

From 1 January 2022, the Board considers free cash flow, and cash generated from operations before business exits, to be alternative performance measures because these metrics provide a more representative measure of the sustainable cash flow of the Group.

These measures are analysed below:

	Free cash flow		Cash generated/(used) by operations	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Reported	**24.5**	(264.3)	**117.8**	(148.5)
Business exits	**(4.1)**	(36.2)	**(9.9)**	(43.1)
Pension deficit contributions triggered by disposals	**8.6**	81.9	**8.6**	81.9
Before business exits	**29.0**	(218.6)	**116.5**	(109.7)

A reconciliation of net cash flow to movement in net debt is included in note 2.10.3.

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 31 December 2021 results have been re-presented for those businesses exited, or in the process of being exited, during the period from 1 January 2022 to 31 December 2022 to enable comparability of the adjusted results.

Pension deficit contributions triggered by disposals: the Trustee of the Capita Pension and Life Assurance Scheme (the Scheme) has agreed with the Group to accelerate the payment of future agreed deficit contributions on a pound for pound basis in the event of disposal proceeds being used to fund mandatory prepayments of debt. During the year, the disposal of the Trustmarque business led to accelerated deficit contributions of £5.9m being paid into the Scheme (plus up to a further £14.5m in accelerated contributions will be required to be paid by 31 March 2024). In addition, an accelerated deficit contribution of £2.7m was paid into the Scheme during the year as a result of the disposal of the Axelos business in 2021 (2021: Pension deficit contributions of £81.9m triggered by: the disposal of the ESS business which led to accelerated deficit contributions of £50.2m; and the disposal of the Parking Eye business in 2018, where actual settlement of accelerated deficit contributions of £31.7m was deferred until 2021).

2.10.3 Reconciliation of net cash flow to movement in net debt

Overdrafts comprise the aggregate value of overdrawn bank account balances within the Group's notional interest pooling arrangements. These aggregate overdrawn amounts are fully offset by surplus balances within the same arrangements.

At 31 December 2022, the Group's £288.4m committed revolving credit facility was undrawn (31 December 2021: £40.0m drawn).

Year ended 31 December 2022	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	**101.5**	**75.3**	**0.4**	**177.2**
Other loan notes	4.5	**(1.3)**	**0.6**	**—**	**(0.7)**
Credit facilities		**(46.0)**	**46.0**	**—**	**—**
Private placement loan notes[1]	4.5	**(512.9)**	**242.0**	**(14.6)**	**(285.5)**
Cross-currency interest rate swaps[1]	4.5	**28.0**	**(10.1)**	**6.9**	**24.8**
Lease liabilities	4.4	**(448.4)**	**84.4**	**(33.5)**	**(397.5)**
Total net liabilities from financing activities		**(980.6)**	**362.9**	**(41.2)**	**(658.9)**
Deferred consideration	4.5	**(0.7)**	**—**	**—**	**(0.7)**
Net debt	4.1.1	**(879.8)**	**438.2**	**(40.8)**	**(482.4)**

1. The sum of these items equates to the fair value of the Group's private placement loan note's debt of £260.7m (2021: £484.9m). Cash flow movement in private placement loan notes includes both repayment of private placement loan notes of £236.8m (2021: £232.3m) and finance arrangement costs of £5.2m (2021: £1.9m).
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 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	4.5	(765.1)	234.2	18.0	(512.9)
Cross-currency interest rate swaps	4.5	57.5	(19.7)	(9.8)	28.0
Interest rate swaps	4.5	0.5	—	(0.5)	—
Lease liabilities[3]	4.4	(508.1)	106.2	(46.5)	(448.4)
Total net liabilities from financing activities		(1,217.5)	275.7	(38.8)	(980.6)
Deferred consideration	4.5	(0.7)	—	—	(0.7)
Net debt	4.1.1	(1,077.1)	232.1	(34.8)	(879.8)

3. Cash flow movements in respect of lease liabilities have been re-presented to include net interest paid on finance leases (£23.6m) previously included within non-cash movement.

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:

AP **Denotes accounting policies**

J **Denotes significant accounting judgements, estimates and assumptions**

Key highlights

	Note	2022 £m	2021 £m	Year on Year movement £m
Working capital (current and non-current):	3.1	**(439.1)**	(502.8)	63.7
Trade and other receivables	3.1.1	**446.2**	562.8	(116.6)
Trade and other payables	3.1.2	**(507.6)**	(557.6)	50.0
Deferred income	2.1	**(640.7)**	(794.7)	154.0
Contract fulfilment assets	3.1.3	**263.0**	286.7	(23.7)
Property, plant and equipment	3.2	**101.1**	129.0	(27.9)
Intangible assets	3.3	**106.0**	147.3	(41.3)
Goodwill	3.4	**605.9**	951.7	(345.8)
Right-of-use assets	3.5	**249.5**	287.9	(38.4)
Provisions	3.6	**(127.3)**	(140.6)	13.3

The decrease in trade and other receivables is primarily driven by a reduction in trade receivables (£82.1m), prepayments (£19.4m) and current contract fulfilment assets (£13.0m). The reduction in trade and other receivables is largely a result of the disposal of businesses during the year (£75.2m), alongside a drive in cash collection towards the end of the year. This was offset by an increase in accrued income (£6.9m).

The Group uses non-recourse invoice discounting facilities, with £44.4m of outstanding invoices sold under these facilities at 31 December 2022 (2021: £16.4m).

The decrease in trade and other payables was primarily a result of the disposal of businesses during the year (£54.8m) and repayment of VAT under the Government's VAT deferral scheme (£14.9m). This was offset by an increase in other payables (£6.3m).

The decrease in deferred income was a result of the normal reduction in deferred income balances, partially offset by increases from advanced receipts and higher activity levels on contracts such as Royal Navy training.

Contract fulfilment assets decreased as a result of additions of £67.1m predominantly in Capita Public Service (£44.2m) on contracts including TfL Networks and Royal Navy training being offset by a utilisation of £81.5m mainly within Capita Public Service (£67.8m), as well as impairments of £3.8m primarily in Capita Experience.

Property, plant and equipment decreased due to depreciation of £40.7m being partially offset by £20.6m of additions.

Intangible assets decreased due to amortisation of £31.7m being partially offset by £27.3m of additions relating primarily to investment in capitalised software.

Goodwill decreased primarily as a result of the businesses sold in the year (£178.3m), and impairment of certain cash generating units in the Capita Portfolio division (£169.0m).

The decrease in provisions of £13.3m during the year was predominantly due to new provisions totalling £66.2m, with the largest increases being additional customer contract provisions (£20.6m) and business exit provisions (£25.0m), being offset by releases and utilisations totalling £97.9m.

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	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Trade receivables	**149.9**	232.0	**—**	—
Other receivables[1]	**32.6**	43.4	**5.8**	4.0
Current contract fulfilment assets[2]	**10.7**	23.7	**—**	—
Accrued income	**179.1**	169.5	**—**	2.7
Prepayments	**58.1**	78.5	**10.0**	9.0
	430.4	547.1	**15.8**	15.7

1. Other receivables includes £0.4m (2021: £1.6m) 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:

	2022 £m	2021 £m
At 1 January	**19.4**	11.3
Utilised	**(4.0)**	(6.7)
Provided in the year	**15.3**	15.2
Business disposal	**(1.0)**	—
Transfer to disposal group assets held-for-sale	**—**	(0.4)
At 31 December	**29.7**	19.4

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.

Ageing of trade receivables	2022 £m	2021 £m
Not due	**118.5**	203.3
Overdue by less than three months	**26.9**	29.8
Overdue between three and six months	**6.3**	6.6
Overdue between six and twelve months	**9.9**	11.4
Overdue more than twelve months	**18.0**	0.3
Allowance for doubtful debts	**(29.7)**	(19.4)
	149.9	232.0

Non-recourse trade receivables facilities
The value of the outstanding invoices sold under non-recourse trade receivable facilities was £44.4m at 31 December 2022 (2021: £16.4m). The cost of selling such invoices totalling £0.8m (2021: £0.6m) was included in administrative expenses in the consolidated income statement.

3.1.2 Trade and other payables

	Current		Non-current	
	2022 £m	2021 £m	2022 £m	2021 £m
Trade payables	**134.9**	153.7	**0.1**	—
Other payables	**32.8**	26.7	**6.5**	6.3
Other taxes and social security	**85.6**	122.9	**6.0**	5.0
Accruals	**239.2**	238.9	**2.5**	4.1
	492.5	542.2	**15.1**	15.4

Trade payables are non-interest bearing and are settled on terms agreed with the suppliers.

The Group aims to pay its suppliers on time in accordance with agreed terms.

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 follows[1]:

	2022 £m	2021 £m
At 1 January	**286.7**	294.8
Impact of change in accounting standards – amendments to IAS 37[2]	**(2.4)**	—
At 1 January 2022 on adoption of IAS 37	**284.3**	294.8
Additions	**67.1**	132.2
Transfer to assets held-for-sale	**—**	(32.6)
Disposal of business	**(2.8)**	(0.1)
Impairment	**(3.8)**	(7.3)
Derecognition	**(0.4)**	(16.6)
Utilised during the year	**(81.5)**	(83.9)
Exchange movement	**0.1**	0.2
At 31 December	**263.0**	286.7

1. Refer to note 3.1.1 for current contract fulfilment assets.
2. The Group initially applied the amendments to IAS 37 at 1 January 2022 and the cumulative effect of applying the amendments was recognised as an opening balance adjustment to retained earnings. Refer to note 1 for further details.

Impairment: In 2022, the Group recognised an impairment of £3.8m (2021: £7.3m) in cost of sales, of which, £0.5m (2021: £nil) relates to contract fulfilment assets added during the year.

Derecognition: In 2022, £0.4m (2021: £16.6m) was derecognised in relation to a contract 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 2021 the derecognition primarily related 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.

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.

	2022			2021		
	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	99.6	169.1	268.7	103.3	193.2	296.5
Additions	7.7	12.9	20.6	8.1	17.5	25.6
Disposal of business	—	(0.4)	(0.4)	—	(0.8)	(0.8)
Disposals – included in adjusted profit	(9.1)	(7.4)	(16.5)	(2.3)	(10.0)	(12.3)
Disposals – included in business exits	—	—	—	(0.1)	(0.4)	(0.5)
Transfer to assets held-for-sale	—	—	—	(0.1)	(0.6)	(0.7)
Reclassifications	1.3	(1.8)	(0.5)	—	(1.9)	(1.9)
Asset retirements	(3.7)	(27.9)	(31.6)	(8.9)	(25.8)	(34.7)
Exchange movement	0.2	2.0	2.2	(0.4)	(2.1)	(2.5)
At 31 December	96.0	146.5	242.5	99.6	169.1	268.7
Depreciation and impairment						
At 1 January	40.5	99.2	139.7	41.6	97.7	139.3
Impact of change in accounting standards – amendments to IAS 37[1]	—	0.5	0.5	—	—	—
At 1 January 2022 on adoption of IAS 37	40.5	99.7	140.2	41.6	97.7	139.3
Depreciation charged in the year - included in adjusted profit	10.1	30.6	40.7	9.3	38.2	47.5
Depreciation charged in the year - included in business exits	—	0.2	0.2	0.1	1.0	1.1
Disposal of business	—	(0.2)	(0.2)	—	(0.6)	(0.6)
Disposals – included in adjusted profit	(7.3)	(6.9)	(14.2)	(2.0)	(9.7)	(11.7)
Disposals – included in business exits	—	—	—	(0.1)	(0.5)	(0.6)
Impairment – included in adjusted profit	2.0	2.7	4.7	0.6	1.3	1.9
Transfer to assets held-for-sale	—	—	—	(0.1)	(0.2)	(0.3)
Reclassifications	0.8	(0.8)	—	—	(0.4)	(0.4)
Asset retirements	(3.7)	(27.9)	(31.6)	(8.9)	(25.8)	(34.7)
Exchange movement	0.1	1.5	1.6	—	(1.8)	(1.8)
At 31 December	42.5	98.9	141.4	40.5	99.2	139.7
Net book value						
At 1 January	59.1	69.9	129.0	61.7	95.5	157.2
At 31 December	53.5	47.6	101.1	59.1	69.9	129.0

1. The Group initially applied the amendments to IAS 37 at 1 January 2022 and the cumulative effect of applying the amendments was recognised as an opening balance adjustment to retained earnings. Refer to note 1 for further details.

Section 3: Operating assets and liabilities continued

3.2 Property, plant and equipment continued

At 31 December 2022, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £2.7m (2021: £3.6m), relating to building improvements on leased property.

During the prior 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. Following the change in presentation of adjusted results (refer to note 2.4) the related charge has been re-presented and included within adjusted profit.

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 accumulated amortisation and impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. There were no indefinite-lived assets in 2022 or 2021.

Amortisation: Amortisation is charged on assets with finite lives and is disclosed as an administrative expense in the consolidated income statement. 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.

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. 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 an adjustment to the carrying value of intangible assets.

Section 3: Operating assets and liabilities continued

3.3 Intangible assets continued

	2022			2021		
	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	**55.4**	**222.7**	**278.1**	174.3	314.2	488.5
Disposal of business	**—**	**(33.0)**	**(33.0)**	(61.3)	(7.6)	(68.9)
Additions	**—**	**27.3**	**27.3**	—	32.5	32.5
Disposals – included in adjusted profit	**—**	**(12.2)**	**(12.2)**	—	(3.0)	(3.0)
Disposals – included in business exits	**—**	**—**	**—**	—	(3.4)	(3.4)
Transfer to assets held-for-sale	**—**	**—**	**—**	(6.8)	(16.4)	(23.2)
Reclassifications	**—**	**0.5**	**0.5**	—	1.9	1.9
Asset retirement	**(53.1)**	**(11.2)**	**(64.3)**	(50.3)	(94.8)	(145.1)
Exchange movement	**0.7**	**0.5**	**1.2**	(0.5)	(0.7)	(1.2)
At 31 December	**3.0**	**194.6**	**197.6**	55.4	222.7	278.1
Amortisation and impairment						
At 1 January	**49.6**	**81.2**	**130.8**	135.4	88.1	223.5
Amortisation charged in the year - included in adjusted profit	**—**	**31.7**	**31.7**	—	33.7	33.7
Amortisation charged in the year - excluded from adjusted profit	**5.1**	**—**	**5.1**	7.7	—	7.7
Amortisation charged in the year - included in business exits	**—**	**4.7**	**4.7**	9.2	7.1	16.3
Impairment – included in adjusted profit	**—**	**5.5**	**5.5**	—	56.1	56.1
Impairment – included in business exits	**—**	**0.4**	**0.4**	—	2.6	2.6
Disposal of business	**—**	**(12.6)**	**(12.6)**	(46.5)	(2.4)	(48.9)
Disposals – included in adjusted profit	**—**	**(10.5)**	**(10.5)**	—	(2.7)	(2.7)
Disposals – included in business exits	**—**	**—**	**—**	—	(3.4)	(3.4)
Transfer to assets held-for-sale	**—**	**—**	**—**	(5.7)	(3.1)	(8.8)
Reclassifications	**—**	**—**	**—**	—	0.4	0.4
Asset retirement	**(53.1)**	**(11.2)**	**(64.3)**	(50.3)	(94.8)	(145.1)
Exchange movement	**0.7**	**0.1**	**0.8**	(0.2)	(0.4)	(0.6)
At 31 December	**2.3**	**89.3**	**91.6**	49.6	81.2	130.8
Net book value						
At 1 January	**5.8**	**141.5**	**147.3**	38.9	226.1	265.0
At 31 December	**0.7**	**105.3**	**106.0**	5.8	141.5	147.3

Intangible assets acquired in business combinations include: committed sales (net book value 2022: £0.7m, 2021: £3.3m); and client lists and relationships (net book value 2022: £nil, 2021: £2.5m). Intangible assets capitalised or purchased include capitalised software development (net book value 2022: £90.9m, 2021: £120.7m) and purchased software (net book value 2022: £14.4m, 2021: £20.8m).

Impairment included in adjusted profit in 2021 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. This charge was previously excluded from adjusted profit, however following the change in presentation of adjusted results (refer to note 2.4) the related charge has been re-presented and included within adjusted profit.

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.

	2022 £m	2021 £m
Cost		
At 1 January	**1,676.8**	1,918.5
Disposal of businesses	**(255.0)**	(65.7)
Transfer to disposal group assets held-for-sale	**—**	(177.3)
Exchange movement	**1.5**	1.3
At 31 December	**1,423.3**	1,676.8
Accumulated impairment		
At 1 January	**725.1**	798.0
Disposal of businesses	**(76.7)**	—
Transfer to disposal group assets held-for-sale	**—**	(89.0)
Impairment – excluded from adjusted profit	**169.0**	11.5
Impairment – included in business exits	**—**	4.6
At 31 December	**817.4**	725.1
Net book value		
At 1 January	**951.7**	1,120.5
At 31 December	**605.9**	951.7

Section 3: Operating assets and liabilities continued

3.4 Goodwill continued

Cash-generating units
Reflecting the way management exercises oversight and monitors the Group's performance, the lowest level at which goodwill is monitored is at the divisional level for Capita Public Service and Capita Experience, and at a sub-divisional level for Capita Portfolio. At 31 December 2022 the Group has seven CGUs or groups of CGUs for the purpose of impairment testing of goodwill.

In light of the ongoing disposal processes within the Capita Portfolio division, the CGUs and groups of CGUs relating to the Capita Portfolio division have been presented in aggregate in the table below, and where relevant in this note. An aggregated disclosure of the carrying value of goodwill for the Capita Portfolio division with recoverable amount sensitivity disclosed, including the impact on the aggregate impairment charge recognised, is considered by management to provide meaningful information to the primary users of these consolidated financial statements.

Carrying amount of goodwill allocated to groups of CGUs:

CGU	Capita Public Service £m	Capita Experience £m	Capita Portfolio £m	Total £m
At 1 January	284.6	220.2	446.9	951.7
Business disposals	—	(11.9)	(166.4)	(178.3)
Impairment – excluded from adjusted profit	—	—	(169.0)	(169.0)
Exchange movement	—	1.5	—	1.5
At 31 December	**284.6**	**209.8**	**111.5**	**605.9**

Business exits
As set out in note 2.8, eight businesses were fully disposed of during the year. Goodwill relating to three of these businesses had been reclassified to disposal group assets held-for-sale at 31 December 2021. Goodwill relating to the other disposals is included within the Group's brought forward goodwill balances as at 1 January 2022, and has either been impaired during the course of the year, or derecognised as part of business disposals.

No businesses that the Group intends to dispose of in 2023 met the criteria to be treated as held-for-sale at 31 December 2022.

The impairment test
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.

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, where value in use would typically be the expected cash flows to be generated from operating the businesses into perpetuity.

At 31 December 2022, no planned disposals met the threshold to be classified as held-for-sale (refer to note 2.8). However, the disposal of businesses aligned to the People, Business Solutions (excluding one smaller business where the disposal process is less advanced), Travel and Fera CGUs or groups of CGUs in the Capita Portfolio division were sufficiently advanced that the Board's judgement was that for impairment testing purposes the value-in-use of these CGUs or groups of CGUs should be determined based on the future cash flows of the CGUs or groups of CGUs from continuing use, up to the estimated date of disposal, plus an estimate of the sale proceeds less cost of disposal.

At 30 June 2022, a goodwill impairment of £92.5m was recognised in respect of the People and Property groups of CGUs, and at 31 December 2022, a further goodwill impairment of £76.5m was recognised in respect of the People, Travel and Business Solutions groups of CGUs. The impairments arose primarily due to the expectation of acquirers factoring in additional investment and costs required to run the businesses outside of the Group, and general macroeconomic conditions. The Property group of CGUs was disposed of in the second half of 2022.

As at 31 December 2022, the estimated recoverable amount of each remaining Group of CGUs exceeded its respective carrying value. 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 2023-2025 business plans (BP) approved by the Board.

Global economic uncertainties continue to lead to increased judgement being applied, 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.

For ongoing disposals that are seen to be sufficiently advanced, forecast cash flows cover both operational cash flows up to the expected date of disposal, as well as the Board's best estimate of expected net proceeds at disposal. These have been derived from management's latest financial projections and reflect an assessment of the range of bids currently being considered by the Board, the status of these sale processes and the time horizon over which these transactions are expected to complete.

Allocation of central function costs
The Board has considered an appropriate methodology to apply when allocating central function costs. The methodology applied for the 2022 impairment test was aligned to that applied in reporting segmental performance (refer to note 2.5). The costs of Capita plc, which have not been allocated as part of segmental reporting, are allocated based on 2023 forecast EBITDA.

Long-term growth rate
The long-term growth rate is based on economic growth forecasts by recognised bodies and this has been applied to forecast cash flows for years four and five (2026 and 2027) and for the terminal period. The 2022 long-term growth rate is 2.2% (2021: 1.7%).

Section 3: Operating assets and liabilities continued

3.4 Goodwill continued

Discount rates

Management estimates discount rates using pre-tax rates of comparator companies for each CGU or group of CGUs, which reflect the latest market assumptions for the risk-free rate, the equity risk premium and the net cost of debt, and which are all based on publicly available external sources.

The table below represents the pre-tax discount rates applied to the cash flows for 2022 and 2021.

			Capita Portfolio				
	Capita Public Service	Capita Experience	People	Software	Business Solutions	Travel	Fera
2022	11.8%	10.4%	14.3%	12.1%	12.1%	13.0%	11.2%
2021	13.0%	11.6%	12.4%	12.8%	13.3%	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.

Sensitivity scenarios applied estimate 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 2023 to 2025, and the long-term growth rate (2.2%) applied to projected cash flows for 2026, 2027, and the terminal period. We have also considered the impact of all of the scenarios together, which is also a reasonable possible alternative.

This sensitivity analysis covers CGUs where the associated business' value-in-use has been calculated based on operating the business into perpetuity (covering Capita Public Service, Capita Experience, the Portfolio Software pillar, and one smaller business within the Portfolio Business Solutions pillar where the disposal process is less far advanced). No additional impairments have been identified under any of these sensitivity scenarios, including the combination sensitivity scenario. However, for the Portfolio Software group of CGUs it is noted that the key assumption impacting the impairment test is the forecast EBITDA growth included in the BP (compound annual growth rate over the BP period in excess of 60%). The forecast EBITDA in 2025 would need to reduce by more than 45% before the group of CGUs recoverable amount would be equal to its carrying amount.

For the businesses in the Capita Portfolio division where for impairment testing purposes the value-in-use has been determined based on the future cash flows of the CGUs from continuing use up to the estimated date of disposal, plus an estimate of the net sale proceeds (being businesses aligned to the People, Business Solutions, Travel and Fera CGUs or groups of CGUs), assumptions around the expected sale proceeds are seen to be the only key assumption impacting the impairment test.

While it is the Board's intention to complete these disposals in the short-term, where there are presently no signed agreements in place with any counterparty, there are a range of possible outcomes that could occur, and the actual net proceeds received could be materially higher or lower than those assumed in the impairment assessment. Given the dependence on commercial negotiations it is not possible to quantify a reasonably possible change in this key assumption, however a change of 10% in the aggregate net proceeds would have materially altered the impairment charge recognised. The expected sales proceeds are based on the Board's best estimate, based on the knowledge existing at the time of estimation.

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 2021	310.0	16.9	15.2	342.1
Addition of new leases	18.2	4.2	—	22.4
Depreciation charged during the year - included in adjusted profit	(55.1)	(6.5)	(6.6)	(68.2)
Impairment - included in 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
Addition of new leases	**12.9**	**2.4**	**—**	**15.3**
Depreciation charged during the year - included in adjusted profit	**(45.8)**	**(6.0)**	**(4.2)**	**(56.0)**
Reversal of Impairment - included in adjusted profit	**2.4**	**—**	**0.3**	**2.7**
Disposal of business	**(0.2)**	**—**	**—**	**(0.2)**
Disposal	**(6.3)**	**(1.6)**	**(0.5)**	**(8.4)**
Exchange movement	**1.4**	**—**	**—**	**1.4**
Other movements	**7.0**	**0.4**	**(0.6)**	**6.8**
At 31 December 2022	**237.0**	**10.6**	**1.9**	**249.5**

Other movements include amendments to existing leases.

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. 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 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.

J Significant accounting judgements, estimates and assumptions

As detailed in note 2.1, in respect of onerous customer contract provisions, 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.

Provisions
The movements in provisions during the year are as follows:

	Restructuring provision £m	Business exit provision £m	Claims and litigation provision £m	Property provision £m	Customer contract provision £m	Other provisions £m	Total £m
At 1 January	25.6	1.5	13.2	9.7	84.7	5.9	140.6
Impact of change in accounting standards – amendments to IAS 37[1]	—	—	—	—	**18.8**	—	**18.8**
At 1 January 2022 on adoption of IAS 37	**25.6**	**1.5**	**13.2**	**9.7**	**103.5**	**5.9**	**159.4**
Reclassification[2]	**(25.6)**	—	—	**21.8**	**(0.5)**	**4.3**	—
Provisions in the year	—	**25.0**	**7.6**	**7.0**	**20.6**	**6.0**	**66.2**
Releases in the year	—	**(1.2)**	**(1.4)**	**(7.8)**	**(17.1)**	**(3.7)**	**(31.2)**
Utilisation	—	**(14.6)**	**(2.4)**	**(11.7)**	**(33.0)**	**(5.0)**	**(66.7)**
Disposal of subsidiaries	—	—	—	**(0.3)**	—	**(0.1)**	**(0.4)**
At 31 December	—	**10.7**	**17.0**	**18.7**	**73.5**	**7.4**	**127.3**

	31 December 2022 £m	31 December 2021 £m
Current	75.7	126.6
Non-current	51.6	14.0
	127.3	140.6

1. The Group initially applied the amendments to IAS 37 at 1 January 2022 and the cumulative effect of applying the amendments was recognised as an opening balance adjustment to retained earnings. Refer to note 1 for further details.
2. Following the end of the Group-wide transformation programme, restructuring provision relating to severance and property costs (including unavoidable running costs, such as insurance, security, and dilapidation costs) where properties have been exited as a result of the transformation programme, have been reclassified to others and property provision respectively as at 1 January 2022.

Section 3: Operating assets and liabilities continued

3.6 Provisions continued

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 these 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. The expectation is that this expenditure will be incurred over the remaining periods of the leases which vary up to 25 years.

Customer contract provision: The provision includes onerous contract provisions in respect of customer contracts where the costs of fulfilling a contract (both incremental and costs directly related to contract activities) exceeds the economic benefits expected to be received under the contract, 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 of up to six years.

The customer contract provision includes £59.7m (2021: £54.5m) in respect of contracts in Capita Experience. 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 after the transformation phase was completed. Under the Group's long-term contract accounting policy, 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 potentially allowing the customers to extend the contracts indefinitely until the run-off of the underlying life and pension books is complete.

The closed book Life & Pensions business has remained in structural decline because 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 contractual dynamics have led to onerous conditions to service certain of these contracts. Management 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, the Group has, in prior years, provided for the onerous contract conditions based on the best estimate of the remaining contract terms.

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. In 2021, management 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 was 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, provided cover for contracts to extend out to 2026. This resulted in an increase to the contract provision of £39.5m at 31 December 2021. At 31 December 2022, the provision was increased to provide cover for contracts to extend out to December 2027 (ie a five-year rolling period).

Other provisions: Relates to provisions in respect of other potential exposures arising as a result of the nature of some of the operations that the Group provides. 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:

AP **Denotes accounting policies**

J **Denotes significant accounting judgements, estimates and assumptions**

Key highlights

Net financial debt to adjusted EBITDA[1] (both pre-IFRS 16)

Aim: Maintain the ratio of net financial debt to adjusted EBITDA[1] (both pre-IFRS 16) at ≤1.0x times over the long term

0.5x

(2021: 3.7x)

Available liquidity

£405.2m

(2021: £392.4m)

1. Details of all alternative performance measures and related KPIs can be found in section 8.2.

Capital strategy

The Group's capital strategy is to build a strong and flexible balance sheet, which supports the Group's strategic objectives, the investment needed to grow the business and allows for contributions required to reduce pension liabilities.

The Board expects to maintain the ratio of net financial debt to adjusted EBITDA, both on a pre-IFRS 16 basis at ≤1.0x times.

Liquidity

Available liquidity at 31 December 2022 was £405.2m (31 December 2021 £392.4m) and during 2022 adjusted net debt (excluding leases and restricted cash) reduced by £346.5m from £431.4m to £84.9m.

Liquidity remains a key area of focus and in July 2022, the Group signed an extension of the £300m forward start revolving credit facility (RCF) with its lending banks for a further twelve months to August 2024. The new facility commenced on 31 August 2022 upon the expiry of the previous RCF and provides the Group with committed liquidity for the cash fluctuations of the business cycle and an allowance for contingencies, and incorporates provisions such that it will partially reduce in quantum as a consequence of specified transactions. The RCF was not drawn upon at 31 December 2022 and had a total committed value of £288.4m.

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. Both of these KPIs have been achieved and as a result a slight reduction in the facility margin was applied.

Net finance costs

Net finance costs have decreased by £15.2m to £31.7m (2021: £46.9m) driven by an increase in interest receivable resulting from the higher interest rate environment, a decrease in interest payable as a result of debt maturities in 2022 and favourable change in the value of our non-designated foreign exchange forward contracts.

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	2022 £m	2021 £m	Year on Year movement
Cash and cash equivalents	4.5.4	**(396.8)**	(333.4)	(63.4)
Overdraft	4.5.4	**219.6**	231.9	(12.3)
Lease liabilities	4.4.1	**397.5**	448.4	(50.9)
Private placement loan notes[1]	4.5.2	**285.5**	512.9	(227.4)
Credit facilities[2]		**—**	46.0	(46.0)
Other loan notes	4.5.2	**0.7**	1.3	(0.6)
Currency and interest rate swaps	4.5.2	**(24.8)**	(28.0)	3.2
Deferred consideration	4.5.2	**0.7**	0.7	—
Net debt		**482.4**	879.8	(397.4)
Undrawn available financing facilities	4.5.2b	**288.4**	345.7	(57.3)
Capital		**770.8**	1,225.5	(454.7)

1. Private placement loan notes include US dollar and British pound sterling private placement loan notes, and euro fixed rate bearer notes.
2. 2021: 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.

During the year, USD and GBP private placement loan notes of £40.5m and £36.7m were repaid at maturity on 22 January 2022 and 22 April 2022 respectively. The associated currency and interest rate swaps also expired on these dates, such that the combined net cash outflow for these repayments was £67.2m. Additionally, £20.7m of the outstanding EUR fixed rate notes were prepaid during June and July 2022 as a result of the disposal of Trustmarque with a further repayment at maturity on 10 November 2022 of £138.8m.

4.1.2 Capital management

Focus on capital management forms an important component of Board meetings, including review of forecast 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 are two separate sets of covenant tests underlying the Group's financial instruments with the key difference being the treatment of IFRS 16. There have been no breaches in the financial covenants of any loans or borrowings during the reporting period.

The committed RCF provides the liquidity needed to cover the cash fluctuations of the business cycle, allowing a buffer for contingencies.

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, and all of them complied with all externally imposed financial services regulatory capital requirements applicable to them.

To provide working capital funding at an economically favourable rate versus the RCF, in the UK, the Group uses a non-recourse invoice discounting facility, and the value of invoices sold under this arrangement at 31 December 2022 was £36.9m (2021: £3.9m) . Additionally, the Group's German business uses a non-recourse invoice discounting arrangement for a specific customer contract, and the value of invoices sold under that arrangement at 31 December 2022 was £7.5m (2021: £12.5m).

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 54 to 63 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 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 monitors the risk of a liquidity shortage through its business plan and liquidity cycle forecasts and analysis, taking into consideration the maturity of the Group's financial instruments, projected cash flows from operations and an allowance for contingencies.

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. Multiple sources of funding are used to maintain a balance between continuity of funding and flexibility without placing reliance on sources that are not contractually committed.

The Group's committed bank facilities provide liquidity for the cash fluctuations of the business cycle and an allowance for contingencies. At 31 December 2022 the RCF commitment was £288.4m (31 December 2021: £385.7m) and was subsequently reduced to £284.7m on 4 January 2023 following receipt of proceeds from disposals. The RCF expires on 31 August 2024 and was not drawn upon at 31 December 2022 (31 December 2021: £40.0m drawn).

The size of the available commitment will be right-sized each time the Group either refinances, raises funds through disposals, or raises equity with the RCF including mandatory cancellation mechanisms that determine the amount of the cancellation in each case. The commitments are subject to a minimum value of £180m regardless of the quantum of receipts.

The Group's core funding is provided by US private placement loan notes and euro fixed-rate bearer notes ('private placement loan notes'), and to mitigate the risk of needing to refinance in challenging conditions, these have been arranged with a spread of maturities to November 2027.

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.

In March 2022 the Group executed a committed backstop bridge facility with one of its relationship banks which provided £70m of additional liquidity and incorporated provisions such that it would be cancelled or partially reduced in quantum as a consequence of specified transactions, including on the completion of the announced disposal of Trustmarque. The facility was cancelled on 10 March 2022 following receipt of the Trustmarque disposal proceeds.

In February 2023, the Group entered into a committed bridge facility of £50m with three of its relationship banks providing additional liquidity from 1 January 2024. It incorporates provisions such that it will partially reduce in quantum as a consequence of specified transactions. The committed facility has an expiry date of 31 December 2024 and is subject to covenants, which are the same as those in the RCF.

The tables below summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted cash flows. All balances are stated based on the prevailing foreign exchange rates and the contractual interest rates at the end of the reporting period.

At 31 December 2022	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*	219.6	—	—	—	—	—	219.6
Private placement loan notes	75.0	—	91.4	34.7	94.0	—	295.1
Interest on loan notes	9.6	7.9	6.2	4.5	2.6	—	30.8
Lease liabilities	76.1	64.9	49.0	39.7	33.6	296.7	560.0
Deferred consideration	—	—	—	—	0.7	—	0.7
Put options of non-controlling interests	9.2	—	—	—	—	—	9.2
Cross-currency interest rate swaps	0.8	0.8	0.8	0.8	—	—	3.2
Other financial instruments	0.7	—	—	—	—	—	0.7
	391.0	73.6	147.4	79.7	130.9	296.7	1,119.3

* 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 above are fully offset by credit balances in the same arrangement.

Section 4: Capital structure and financing costs continued

4.2 Financial risk continued

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

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 South Africa and incurred in Indian rupee (INR) and South African rand (ZAR). The Group seeks to mitigate the short term effect of this exposure by entering into forward foreign exchange contracts to fix the British pounds sterling (GBP) cost of highly probable transactions over a rolling 24 month period.

At 31 December 2022, the Group held forward foreign exchange contracts against forecast internal monthly INR and ZAR 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, ZAR 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		ZAR	
	Effect on profit before tax £m	Effect on equity £m	Effect on profit before tax £m	Effect on equity £m	Effect on profit before tax £m	Effect on equity £m
2022	**—**	**0.8**	**—**	**0.3**	**1.8**	**—**
2021	—	(3.3)	—	(5.3)	(3.1)	—

4.2.3 Interest rate risk

The Group manages its interest rate exposure, which arises from the Group's private placement loan notes, cash, deposits and RCF drawings at variable interest rates through cross-currency interest rate swaps. The swaps are designated fair value hedges against the fair value changes of the private placement loan notes.

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:

Nominal amounts At 31 December 2022	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	**27.5**	**—**	**29.7**	**18.6**	**71.2**	**—**	**147.0**
Floating rate							
Cash in hand	**(396.8)**	**—**	**—**	**—**	**—**	**—**	**(396.8)**
Overdraft	**219.6**	**—**	**—**	**—**	**—**	**—**	**219.6**
Private placement loan notes	**38.8**	**—**	**46.2**	**15.5**	**17.1**	**—**	**117.6**

Nominal amounts 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	169.2	27.5	—	29.7	18.6	74.2	319.2
Floating rate							
Cash in hand	(333.4)	—	—	—	—	—	(333.4)
Overdraft	231.9	—	—	—	—	—	231.9
Private placement loan notes	48.5	38.8	—	46.2	15.5	17.1	166.1
Credit facilities	46.0	—	—	—	—	—	46.0

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 £0.6m (2021: £1.1m) 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 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 £3.2m (2021: £30.0m loss) was equal to the loss/gain 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 £0.2m debit (2021: £0.1m credit) 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 2022 is as follows:

	Notional amount £m	Carrying amount £m	Line item in the balance sheet	Change in FV used for measuring ineffectiveness £m
Cross-currency interest rate swaps – assets	**102.1**	**25.8**	Financial assets	(4.4)
Cross-currency interest rate swaps – liabilities	**15.5**	**(1.0)**	Financial liabilities	1.2
		24.8		(3.2)

	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	**285.5**	**24.8**	Financial Liabilities	3.2

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 (NDFs), 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 2022 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:

	2022 £m	2021 £m
At 1 January	**(0.7)**	(4.8)
Change in fair value recognised in the consolidated statement of other comprehensive income	**11.5**	1.3
Reclassified to the consolidated income statement:		
recognised in administrative expenses	**(5.1)**	—
recognised in net finance cost	**—**	0.6
Change in tax	**(1.6)**	2.2
At 31 December	**4.1**	(0.7)

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 - also refer note 3.1.1.

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 (ie the expected credit losses) 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	2022 £m	2021 £m
Interest income			
Interest on cash		**(1.1)**	(0.4)
Interest on finance lease assets		**(4.2)**	(4.3)
Net interest income on defined benefit pension schemes	5.2	**(3.6)**	—
Total interest income		**(8.9)**	(4.7)
Interest expense			
Private placement loan notes[1]		**12.0**	17.9
Cash flow hedges recycled to the income statement		**—**	0.6
Bank loans and overdrafts		**9.2**	5.4
Interest on finance lease liabilities		**22.6**	23.8
Net interest expense on defined benefit pension schemes	5.2	**—**	1.5
Total interest expense		**43.8**	49.2
Net finance expense included in adjusted profit		**34.9**	44.5
Included within business exits			
Bank loans and overdrafts		**0.2**	0.7
Discount unwind on public sector subsidiary partnership payment	4.5.2	**—**	0.4
Other financial (income)/expense		**—**	(0.1)
Other items excluded from adjusted profits			
Non-designated foreign exchange forward contracts – mark-to-market		**(3.6)**	1.5
Fair value hedge ineffectiveness[2]	4.2.4	**0.2**	(0.1)
Net finance (income)/expenses excluded from adjusted profit		**(3.2)**	2.4
Total net finance expense		**31.7**	46.9

1. Private placement loan notes comprise US private placement loan notes and euro fixed rate bearer notes.
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.

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	2022 £m	2021 £m	Type of financial instrument
Lease liabilities		**397.5**	448.4	Financial liabilities

The lease liability includes £5.0m (2021: £18.8m) 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 £13.2m (2021: £23.1m) (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 £84.4m (2021: £106.2m) consisting of interest paid of £22.6m (2021: £23.6m) and capital element of £61.8m (2021: £82.6m).

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	2022 £m	2021 £m	Type of financial instrument
Lease receivables	**76.3**	82.1	Financial assets

The maturity analysis of lease receivables, including the undiscounted lease payments to be received, is as follows:

	2022 £m	2021 £m
Within 1 year	**9.8**	10.8
Between 1-2 years	**9.7**	9.6
Between 2-3 years	**8.2**	9.6
Between 3-4 years	**7.7**	8.2
Between 4-5 years	**4.0**	7.7
More than 5 years	**70.2**	73.0
Total undiscounted lease payments receivable	**109.6**	118.9
Unearned finance income	**(33.3)**	(36.8)
Net investment in lease receivables	**76.3**	82.1

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 of £70.5m as of 31 December 2022. 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, are carried at either amortised cost or cost (undiscounted cash flows) as a reasonable approximation of fair value.

During the year ended 31 December 2022, 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 2022	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	—	—	—	76.3	76.3	5.9	70.4
Cash flow hedges	4.2.4	Level-2	—	—	5.4	—	5.4	3.0	2.4
Non-designated foreign exchange forwards and swaps		Level-2	5.3	—	—	—	5.3	4.4	0.9
Cross-currency interest rate swaps	a	Level-2	—	—	25.8	—	25.8	8.3	17.5
Originated loans receivable		n/a	—	—	—	0.5	0.5	—	0.5
Financial assets at fair value through P&L		Level-3	17.2	—	—	—	17.2	—	17.2
Financial assets at fair value through OCI		Level-3	—	0.8	—	—	0.8	—	0.8
Deferred consideration receivable		n/a	—	—	—	10.5	10.5	2.0	8.5
			22.5	0.8	31.2	87.3	141.8	23.6	118.2
Other financial assets									
Cash	4.5.4	n/a	—	—	—	396.8	396.8	396.8	—
Total financial assets			22.5	0.8	31.2	484.1	538.6	420.4	118.2
Financial liabilities									
Private placement loan notes	a	n/a	—	—	—	285.5	285.5	74.6	210.9
Other loan notes		n/a	—	—	—	0.7	0.7	0.7	—
Non-designated foreign exchange forwards and swaps		Level-2	0.1	—	—	—	0.1	0.1	—
Cross-currency interest rate swaps	a	Level-2	—	—	1.0	—	1.0	—	1.0
Deferred consideration payable		n/a	—	—	—	0.7	0.7	—	0.7
Put options of non-controlling interests	d	Level-3	—	9.2	—	—	9.2	9.2	—
			0.1	9.2	1.0	286.9	297.2	84.6	212.6
Other financial liabilities									
Overdrafts	4.5.4	n/a	—	—	—	219.6	219.6	219.6	—
Lease liabilities	4.4.1	n/a	—	—	—	397.5	397.5	55.6	341.9
Total financial liabilities			0.1	9.2	1.0	904.0	914.3	359.8	554.5

Section 4: Capital structure and financing costs continued

4.5 Financial instruments and the fair value hierarchy continued

Financial assets measured at amortised cost consist of cash, lease receivables, originated loans and deferred consideration receivable. The carrying value of cash is a reasonable approximation of its fair value due to the short-term nature of the instruments. Lease receivables, originated loans and deferred consideration receivable are measured at amortised cost using the effective interest rate method. Included in other investments are £0.8m (31 December 2021: £0.8m) of strategic investments in unlisted equity securities which are not held-for-trading and the Group elected to recognise at Fair Value through Other Comprehensive Income (FVOCI). During the period no dividends were received from, and no disposals were made of, strategic investments.

The financial assets at Fair Value through P&L (FVPL) relate to the Group's minority shareholding in companies as part of Capita Scaling Partners. The assets are revalued when reliable information on fair value becomes available, which is normally at each funding round.

Financial liabilities measured at amortised cost consist of loan notes, overdrafts, lease liabilities, credit facilities and deferred consideration payable. With the exception of certain series within the fixed rate private placement loan notes, the carrying value of financial liabilities are a reasonable approximation of their fair value. This is because either the interest payable is close to market rates or the liability is short-term in nature. The private placement loan note series that remain subject to a fixed rate of interest have an underlying carrying value of £144.9m (2021: £320.7m) and a fair value of £130.2m (2021: £278.2m). The carrying value of overdrafts is a reasonable approximation of fair value reflecting the short-term nature of the instruments. Lease liabilities and deferred consideration payable 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
The private placement loan notes were issued in US dollars, pounds sterling, and euros at fixed interest rates. The Group manages its exposure to foreign exchange and interest rate movements through cross-currency interest rate swaps, interest rate swaps, and forward foreign exchange contracts.

b. Bank facilities
Details of the Group's bank facilities are provided in the Liquidity section above. At 31 December 2022, the total value of committed facilities was £288.4m, of which none was drawn (2021: total facilities of £385.7m of which £40.0m was drawn).

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 2022 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.

Section 4: Capital structure and financing costs continued

4.5 Financial instruments and the fair value hierarchy continued

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
Originated loans receivable		n/a	—	—	—	0.5	0.5	—	0.5
Financial assets at fair value through P&L		Level-3	8.4	—	—	—	8.4	—	8.4
Financial assets at fair value through OCI		Level-3	—	0.8	—	—	0.8	—	0.8
			10.2	0.8	31.1	82.6	124.7	17.5	107.2
Other financial assets									
Cash	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			10.2	0.8	31.1	416.0	458.1	350.9	107.2
Financial liabilities									
Private placement loan note	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	Level-2	—	—	—	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 payable		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

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.

	Subsidiary partnership payment £m	Put options of non-controlling interests £m	Investments FVPL and FVOCI £m
At 1 January 2021	27.1	99.7	2.3
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	9.2
Change in put-options recognised in other comprehensive income	**—**	**0.6**	**—**
Additions	**—**	**—**	**2.3**
Reclassification from other investment categories	**—**	**—**	**0.4**
Gain in fair value recognised in income statement	**—**	**—**	**5.9**
Gain in fair value recognised in other comprehensive income	**—**	**—**	**0.2**
At 31 December 2022	**—**	**9.2**	**18.0**

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 facility are shown in the above liquidity section (see note 4.5.2b).

Borrowing costs of £2.4m were capitalised in the year (2021: £1.9m). At 31 December 2022, the Group's private placement loan note series had a GBP equivalent underlying carrying value of £260.5m (2021: £484.8m) (see note 4.5.2a) analysed as follows:

Maturity	Denomination	Interest rate %	Nominal value Ccy'm
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		99.6
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 denominated[1]	USD		178.3
10 November 2027	EUR	3.625	53.4
Total euro denominated[2]	EUR		53.4

1. USD denominated loan notes have a GBP equivalent underlying carrying value of £117.2m. The Group has entered into cross-currency interest rate swaps for the USD issues to achieve a floating rate of interest based on SONIA. 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 £45.8m.

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:

	2022 £m	2021 £m
Cash and cash equivalents	**396.8**	317.6
Overdrafts	**(219.6)**	(231.9)
Cash, net of overdrafts, included in disposal group assets and liabilities held for sale	**—**	15.8
Cash, cash equivalents and overdrafts	**177.2**	101.5

4.6 Issued share capital

Allotted, called up and fully paid	2022 № m	2021 № m	2022 £m	2021 £m
Ordinary shares of 2 1/15p each				
At 1 January	**1,684.1**	1,671.1	**34.8**	34.5
Issue of share capital	**—**	13.0	**—**	0.3
At 31 December	**1,684.1**	1,684.1	**34.8**	34.8

Share premium	2022 £m	2021 £m
Ordinary shares of 2 1/15p each		
At 1 January	**1,145.5**	1,143.3
VAT refund on rights issue issuance costs	**—**	2.2
At 31 December	**1,145.5**	1,145.5

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.

Treasury shares	2022 № m	2021 № m	2022 £m	2021 £m
Ordinary shares of 2 1/15p				
At 1 January	**—**	2.3	**—**	(0.1)
Issued on exercise of share options	**—**	(2.3)	**—**	0.1
At 31 December	**—**	—	**—**	—

During the year, the Group did not purchase any treasury shares (2021: none) and did not allot nor issue any treasury shares (2021: 2,299,955 whose aggregate nominal value was £47,532). The total consideration received in respect of the shares allotted during 2021 was £nil.

Employee benefit trust shares	2022 № m	2021 № m	2022 £m	2021 £m
Ordinary shares of 2 1/15p				
At 1 January	**18.1**	12.6	**(8.0)**	(11.1)
Shares purchased	**—**	13.0	**—**	(0.3)
Issued on exercise of share options	**(8.8)**	(7.5)	**3.8**	3.4
At 31 December	**9.3**	18.1	**(4.2)**	(8.0)

The Group will use shares held in the Employee Benefit Trust (EBT) 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 (2021: nil) were allotted to the EBT for an aggregate nominal value of £268,667 to satisfy exercises under the Group's share plans. The total consideration received in respect of these shares was £268,667. During the year, 8,770,217 (2021: 7,560,173) shares with a value of £3.8m (2021: £3.4m) 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 (2021: £nil).

The Group has an unexpired authority to repurchase up to 10% of its issued share capital.

Section 4: Capital structure and financing costs continued

4.7 Group composition and non-controlling interests

The Group's subsidiaries are listed in notes 7.3.4 and 7.3.17 of the Parent Company financial statements on pages 219 and 224 to 227.

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:

AP **Denotes accounting policies**

J **Denotes significant accounting judgements, estimates and assumptions**

Key highlights

Additional funding into the defined benefit schemes

£38.6m

(2021: £155.5m)

Net defined benefit pension surplus

£39.6m

(2021: surplus £5.8m)

Employee benefit expense

£1,758.1m

(2021: £1,767.1m)

The net defined benefit pension position on an accounting basis moved from a small net asset at the start of the year to a larger net asset by 31 December 2022. As part of the deficit funding plan £38.6m of additional funding was paid into the defined benefit schemes.

Net defined benefit pension asset	2022 £m	2021 £m	Movement £m
Defined benefit obligation	**(1,136.1)**	(1,791.5)	655.4
Fair value of plan assets	**1,175.7**	1,797.3	(621.6)
Net defined pension asset after effect of asset ceiling limit	**39.6**	5.8	33.8

The main reason for the movement in the net defined benefit pension position was the deficit funding contributions (£38.6m) paid into the Capita Pension and Life Assurance Scheme (CPLAS) (plus a net £0.2m deficit funding contribution in respect of other schemes). Both the value attributed to the pension liabilities and the value of the assets fell materially over the year predominantly due to the material increase in the yields available on both long-dated Government and corporate bonds. Due to the investment strategy adopted by the CPLAS Trustee Board the impact of these changes has been broadly hedged so that the value of the assets has moved to a similar degree to the value of the liabilities. The schemes are highly sensitive to the change in discount rates (with a 0.5% pa change resulting in a c.£87.5m impact) and in future inflation expectations (with a 0.5% pa change resulting in a c.£48.8m impact).

The 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 are scheme specific and allow for an appropriate amount of prudence, with the discount rate being based on the actual assets of the CPLAS. While for accounting purposes the assumptions are determined on a best estimate basis in accordance with 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 2022 the net asset of the CPLAS scheme was broadly the same on a funding basis (ie the funding assumption principles adopted for the full actuarial valuation at 31 March 2020) as that 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 2022 was £5.4m (2021: £1.2m), 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 99 to 122).

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 2022 was £0.22 (2021: £0.33). The weighted average share price during the year was £0.26 (2021: £0.43).

The total cash value of the deferred shares awarded during the year was £0.2m (2021: £nil).

Long-term incentive plans (LTIPs)
The structure of the Group's LTIP schemes was approved at the Company's AGM in 2017. From 2021, no new awards will be granted under the LTIP although the 2020 awards are yet to vest.

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; six 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; eight 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 net debt. Threshold vesting (25%) is dependent on 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.

Details of the LTIP awards made to executive directors over the same period are set out in the directors' remuneration report, on page 115.

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.

Section 5: Employee benefits continued

5.1 Share-based payment plans continued

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 and 2022 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 116.

	2022 № m	2021 № m
Outstanding at 1 January	**46.4**	48.5
Awarded during the year	**28.5**	15.8
Exercised	**(8.8)**	(9.8)
Forfeited	**(24.4)**	(8.1)
Outstanding at 31 December	**41.7**	46.4
Exercisable at 31 December	**—**	—

The weighted average remaining contractual life of the above shares outstanding at 31 December 2022 was 1.3 years (2021: 1.0 years).

All schemes
The fair value of the options granted/awarded during the year was £0.22 per share (2021: £0.41 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.

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

J Significant accounting judgements, estimates and assumptions

The measurement of defined benefit obligations – the accounting cost of these benefits and the present value of pension liabilities involve judgements about uncertain events including such factors as the life expectancy of members, the salary progression of 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 retained the assumed difference between RPI and CPI at an average of 0.65%pa.

Short-term inflation expectations continued to rise due to the global economic recovery from the initial phase of Covid-19, combined with supply constraints in certain sectors such as energy. Current inflation levels exceed 10% pa. This will have an impact on pension increases that are linked to inflation and this impact, where applicable, has been reflected in the disclosures. It should be noted that a material proportion of pension increases are capped (at different levels, but the main cap is 5% pa) with some caps applying annually and others applying over a period of years.

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 experiences in 2020 and 2021 are a short-term phenomenon, 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; however, some allowance has been reflected for actual mortality experienced in 2020 and 2021 by making a refinement in an initial addition parameter used in the future mortality improvement assumptions from 0.5% to 0.25% (which makes an allowance for a decrease in initial rates of longevity improvement stemming from Covid-19) and which results in the life expectancy reducing by around 0.1 years (around 0.4% of liabilities).

Pension expense included in the consolidated income statement

	2022 £m	2021 £m
Defined contribution scheme	**55.2**	60.2
Defined benefit schemes		
Current service cost	**4.4**	6.3
Administration costs	**3.9**	3.5
Past service cost	**0.6**	(0.2)
Effect of settlements	**0.1**	(0.7)
Interest cost	**(3.6)**	1.5
Total defined benefit schemes	**5.4**	10.4
Total charged to profit before tax in the consolidated income statement	**60.6**	70.6

At 31 December 2022, retirement obligations were disclosed in relation to 9 (2021: 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 200 members continuing to accrue benefits – out of a total membership of around 16,600 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	2023[2]
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 Capita Scotland (Pension) Limited Partnership, and in respect of a section 75 debt. The Trustee Board has agreed with the Group to accelerate the payment of some of the deficit contributions on a pound for pound basis in the event of disposal proceeds being used to fund mandatory prepayments of debt.
2. In addition, in 2023, the £5.0m held in escrow at 31 December 2022 is expected to 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 with a low dependency covenant 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 2022 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 2022, showed a funding level of 104% on a Technical Provisions basis.

The Group expects to contribute around £52m to the CPLAS during 2023. This includes the acceleration of agreed deficit contributions on a pound for pound basis as noted above.

Other defined benefit schemes
The total employer contributions to the 'Other' schemes during 2023 are estimated to be £3m.

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 at 16 January 2020 had been carried out and an exit credit payment of £192,587 was due from the scheme to the Group. The payment was received by the Group on 17 March 2022 and no further amounts are due to the Group with the scheme's assessed liability to the Group now settled.

Other UK schemes
- Three segregated sections in an industry-wide scheme under which defined benefits are not continuing to accrue. The latest full actuarial valuations (at 31 December 2018) showed that two of these sections were in surplus and therefore no deficit contributions were required. The third section showed a small deficit but the Trustees agreed that no deficit contributions would be required. The actuarial valuations as at 31 December 2021 are currently in progress and as part of those valuations the contribution requirements will be reviewed, and if necessary, amended. 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 2021, this was estimated at £8.9m.

Overseas defined benefit schemes
The Group is responsible for an Irish defined benefit scheme which is classed as a cross-border scheme where the beneficiaries of the scheme have their liabilities, and the trustees hold assets, denominated in euro. The scheme is governed under UK regulations and subject to further requirements applying to cross-border schemes. There are two segregated sections in the scheme. The latest full actuarial valuation (at 31 March 2022) 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.

Additional defined benefit schemes

There are a further 46 (2021: 48) defined benefit pension arrangements in which various Capita businesses participated during 2022. Of these arrangements, 41 (2021: 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 £12m of employer contributions were paid to these 46 schemes during 2022.

Section 5: Employee benefits continued

5.2 Pensions continued

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.

Environmental Social and Governance (ESG) risk: ESG risk relates to these issues having a detrimental impact on financial returns. The fiduciary manager has policies in place to reduce this risk, although there is a higher risk in older externally held assets.

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 2022 of £50.1m (2021: £67.8m).
- 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. At 31 December 2022 around 95% of CPLAS's liabilities measured on the Trustee Board's long-term funding basis was hedged. As the funding level improves it is planned to further increase the level of hedging. Despite the market volatility during the last quarter of 2022, the CPLAS held sufficient liquid assets to meet its collateral calls and maintain its hedged positions throughout the year, as well as holding a sufficient buffer against future adverse movements. The fiduciary manager has confirmed that the investment strategy held up well despite the market volatility and that they continue as planned with the current strategy (which involved the selling down of more illiquid holdings in any event).

The hedging aims to match the value of the assets to the movement in liabilities (on a funding basis) 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. Although credit spreads (difference between the yields available on long-dated corporate bonds and long-dated government bonds) have been volatile over the year, they have fallen back down towards levels seen at the start of the year. This means that the hedge has broadly had the same impact on the funding position of the scheme and the accounting disclosures at the year-ends.

To illustrate how sensitive the value of the defined benefit obligations is to different market conditions, the table below shows what the resulting defined benefit obligation would be if the assumptions were changed as shown (assuming all other assumptions remain constant):

Change in assumptions compared with 31 December 2022 actuarial assumptions	Group Total £m
Base defined benefit obligation	1,136.1
0.5% pa decrease in discount rate	1,223.6
0.5% pa increase in salary increases	1,137.4
0.5% pa increase in inflation (and related assumption, eg salary and pension increases)	1,184.9
1 year increase in life expectancy	1,169.7

Due to the higher interest rate environment and recent market volatility, please note the change in method used to prepare the sensitivity analysis (analysis from 0.1% pa to 0.5% pa).

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:

						Group total
			2022			2021
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Scheme assets at fair value:						
Equities:						
– UK	**0.2**	**2.5**	**2.7**	1.0	3.1	4.1
– Overseas	**2.0**	**24.8**	**26.8**	7.0	76.5	83.5
– Private	**0.2**	**—**	**0.2**	0.5	—	0.5
	2.4	**27.3**	**29.7**	8.5	79.6	88.1
Debt securities:						
– UK Government	**482.0**	**—**	**482.0**	789.1	0.2	789.3
– UK Corporate	**0.4**	**11.6**	**12.0**	1.1	7.6	8.7
– Overseas Government	**10.1**	**11.4**	**21.5**	2.6	53.4	56.0
– Overseas Corporate	**0.9**	**101.0**	**101.9**	1.2	67.8	69.0
– Emerging Markets	**0.5**	**27.3**	**27.8**	1.4	—	1.4
– Private Debt	**—**	**134.5**	**134.5**	—	129.5	129.5
– Secured Loans	**—**	**39.8**	**39.8**	0.1	—	0.1
	493.9	**325.6**	**819.5**	795.5	258.5	1,054.0
Property	**2.6**	**88.2**	**90.8**	2.8	97.5	100.3
Infrastructure	**1.5**	**—**	**1.5**	1.5	—	1.5
Credit Funds	**2.7**	**—**	**2.7**	3.2	160.1	163.3
Hedge Funds	**—**	**2.1**	**2.1**	—	54.1	54.1
Absolute Return Funds	**0.1**	**—**	**0.1**	0.8	—	0.8
Diversified Growth Funds	**—**	**—**	**—**	—	79.5	79.5
Insurance Contracts	**—**	**71.4**	**71.4**	—	86.8	86.8
Cash	**34.3**	**133.2**	**167.5**	148.1	11.2	159.3
Other	**(8.5)**	**(1.1)**	**(9.6)**	1.2	8.4	9.6
	32.7	**293.8**	**326.5**	157.6	497.6	655.2
Total	**529.0**	**646.7**	**1,175.7**	961.6	835.7	1,797.3
Present value of scheme liabilities (before effect of asset ceiling limit)			**(1,136.0)**			(1,789.2)
Net surplus (before effect of asset ceiling limit)			**39.7**			8.1
Effect of asset ceiling limit			**(0.1)**			(2.3)
Present value of scheme liabilities (after effect of asset ceiling limit)			**(1,136.1)**			(1,791.5)
Net surplus (after effect of asset ceiling limit)			**39.6**			5.8

* Some investments are in funds which are in themselves not traded in active markets. Please also note a change in asset classification for CPLAS's Credit Funds (£93.0m) and Diversified Growth Funds (£56.8m) as at 31 December 2022 which are now classified on a 'look-through' basis.

Section 5: Employee benefits continued

5.2 Pensions continued

The CPLAS Trustee Board 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 (on a funding basis) 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 2022 (approximately £484.3m) has been mapped as 97.0% Quoted UK Government Bonds, 1.7% Quoted Overseas Government Bonds, 3.1% Quoted Cash and -1.8% Quoted Other.

The assets do not include any directly owned financial instruments issued by the Group.

Within the Private Debt allocation, approximately £97.3m relates to lagged valuations as at 30 September 2022. Allowance has been made for broad market movements and distributions over the period to 31 December 2022.

In accordance with the CPLAS Trustee Board's focus on financially material considerations, it is acknowledged that Environment, Social and Governance (ESG) factors can impact security prices. The CPLAS Trustee Board has discussed their views on ESG factors, and considered the Group's perspective, and developed responsible investment beliefs. These can be found in the CPLAS's Statement of Investment Principles (which can be found at https://www.cplas-pension.co.uk/library).

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 marginally increase the deficits shown at this balance sheet date for only one scheme, which is reflected in the balance sheet position. For the CPLAS, the Group's main defined benefit scheme, IFRIC 14 would not limit the surplus or increase the deficits shown at the balance sheet date because the Group has an unconditional right to a refund at some point during the life of the scheme.

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: approximately £0.1m as at 31 December 2022 (£nil as at 31 December 2021).

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	
	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m
At 1 January	(1,791.5)	(1,882.3)	1,797.3	1,630.2	5.8	(252.1)
Included in the consolidated income statement:						
Current service cost	(4.4)	(6.3)	—	—	(4.4)	(6.3)
Administration costs	(3.9)	(3.5)	—	—	(3.9)	(3.5)
Past service cost	(0.6)	0.2	—	—	(0.6)	0.2
Effect of settlements	0.1	5.5	(0.2)	(4.8)	(0.1)	0.7
Interest income/(expense)*	(44.0)	(27.5)	47.6	26.0	3.6	(1.5)
Sub-total in consolidated income statement	(52.8)	(31.6)	47.4	21.2	(5.4)	(10.4)
Included in other comprehensive income:						
Actuarial gain/(loss) arising from:						
– demographic assumptions	6.8	(10.7)	—	—	6.8	(10.7)
– financial assumptions	706.1	129.2	—	—	706.1	129.2
– experience adjustments	(50.4)	(41.6)	—	—	(50.4)	(41.6)
– changes in asset ceiling/minimum liability	2.3	(2.3)	—	—	2.3	(2.3)
Return on plan assets excluding interest	—	—	(673.7)	34.8	(673.7)	34.8
Sub-total in other comprehensive income	664.8	74.6	(673.7)	34.8	(8.9)	109.4
Employer contributions	(0.2)	—	48.7	158.9	48.5	158.9
Contributions by employees	(1.7)	(1.6)	1.7	1.6	—	—
Benefits paid	47.8	48.8	(47.8)	(48.8)	—	—
Exchange movement - recognised in other comprehensive income	(2.5)	0.6	2.1	(0.6)	(0.4)	—
At 31 December	(1,136.1)	(1,791.5)	1,175.7	1,797.3	39.6	5.8
Schemes in a net surplus						
CPLAS	(1,087.0)	(1,725.3)	1,126.3	1,732.5	39.3	7.2
Other schemes	(15.2)	(23.8)	18.6	29.9	3.4	6.1
	(1,102.2)	(1,749.1)	1,144.9	1,762.4	42.7	13.3
Schemes in a net deficit						
Other schemes	(33.9)	(42.4)	30.8	34.9	(3.1)	(7.5)
	(33.9)	(42.4)	30.8	34.9	(3.1)	(7.5)
At 31 December	(1,136.1)	(1,791.5)	1,175.7	1,797.3	39.6	5.8

*includes impact of asset ceiling on net interest of £0.1m in 2022 (2021: £nil).

Of the total pension cost of £5.4m (2021: £10.4m), £5.1m (2021: £5.4m) was included in cost of sales, £3.9m (2021: £3.5m) was included in administrative expenses, and, in net finance costs: £3.6m of net interest income (2021: £1.5m of net interest expense).

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)
	2022	2022	2021	2021
Active members	6	16.9	5	21.4
Deferred members	59	18.0	63	22.8
Pensioners	35	10.6	32	13.0
Total percentage / average duration	100	15.5	100	19.6

Duration is a weighted average of when benefits are expected to be paid from a pension scheme. It is sensitive to the interest rate used to calculate it. The increase in yields has acted to reduce the duration of the CPLAS (as less weight is placed of the pension cash flows stretching far out into the future).

Section 5: Employee benefits continued

5.2 Pensions continued

Financial and demographic assumptions

Main assumptions[1]:	All schemes 2022 %	2021 %
Rate of price inflation – RPI	**3.15**	3.30
Rate of price inflation – CPI	**2.50**	2.65
Rate of salary increase	**3.15**	3.30
Rate of increase of pensions in payment[2]:		
– RPI inflation capped at 5% per annum	**3.05**	3.20
– RPI inflation capped at 2.5% per annum	**2.15**	2.20
– CPI inflation capped at 5% per annum	**2.50**	2.65
Discount rate	**4.75**	1.90
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 3.8% per annum and for the Swiss schemes it is 2.2% per annum in 2022.
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 2022 and 31 December 2021 are as follows:

	Member currently aged 65 (current life expectancy)				Member currently aged 45 (life expectancy at 65)			
	Male		Female		Male		Female	
	2022	2021	2022	2021	2022	2021	2022	2021
Capita Scheme[1]	**22.4**	22.5	**24.3**	24.4	**22.3**	22.4	**25.2**	25.3
Other Schemes[2]	**21.1 to 22.7**	21.6 to 22.6	**23.7 to 24.5**	23.5 to 24.4	**22.3 to 25.0**	22.4 to 24.9	**25.2 to 26.5**	25.1 to 26.4

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 (CMI 2021 core model Sk=7.0) with a long-term rate of improvement of 1.25% p.a., an 'A' parameter of 0.25% for both males and females and no weighting applied to 2020 and 2021 data). The rate for members currently aged 65 is derived from the pensioner membership and the rate for members reaching age 65 in 20 years' time is derived from non-pensioner membership.
2. This does not apply to the Admitted Body Scheme.

5.3 Employee 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	2022 £m	2021 £m (Re-presented)[1]
Wages and salaries[1]		**1,536.1**	1,540.9
Social security costs		**152.4**	155.9
Pension costs		**64.2**	69.1
Share-based payments	5.1	**5.4**	1.2
		1,758.1	1,767.1

1. The 2021 comparative figures have been re-presented to reflect the reclassification of employee contributions from pension costs to wages and salaries.

During 2021, 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 were treated as a government grant and deducted from the relevant cost in the consolidated income statement. During 2021, the Group claimed £4.9m under CJRS. These amounts are included within the relevant cost headings in the table above. In May 2022, we announced the Group's intention to repay the amounts received in 2021 under CJRS at the end of the Group's publicly stated disposal programme and no later than the end of June 2023. An accrual has been recognised for this repayment in the year ended 31 December 2022.

Section 5: Employee benefits continued

5.3 Employee benefit expense continued

The aggregate amount of directors' remuneration (salary, bonus and benefits) is shown on page 111 of the directors' remuneration report.

- The aggregate amount of gains made by directors on exercise of share options was £119,102 (2021: £nil) (refer to note 6.1).
- The remuneration of the highest paid director was £1,767,972 (2021: £1,185,415).
- Payments have been made to a defined contribution pension scheme on behalf of five directors (2021: four directors). For the highest paid director, pension contributions of £37,400 (2021: £36,250) were made.

The average number of employees during the year was made up as follows:	2022 Number	2021 Number
Sales	598	766
Administration	3,093	3,259
Operations	47,509	49,305
	51,200	53,330

Section 6: Other supporting notes

This section includes disclosures of those items that are not explained elsewhere in the financial statements.

In this section you will find disclosures about:

AP Denotes accounting policies

6.1 Related-party transactions

Compensation of key management personnel

	2022 £m	2021 £m
Short-term employment benefits	7.6	12.7
Pension	—	—
Share-based payments	2.2	0.3
	9.8	13.0

Gains on share options exercised in the year by Capita plc executive directors were £119,102 (2021: £nil) and by key management personnel £396,621 (2021: £1,132,231), totalling £515,723 (2021: £1,132,231).

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 £112.0m (2021: £90.1m) 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 £34.0m (2021: £28.7m).

The Group is reviewing its position in respect of a number of its closed book Life & Pensions contracts. The outcomes and timing of this review, which are uncertain, 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 2022, and before the approval of these consolidated financial statements, but have not resulted in adjustment to the 2022 financial results:

Committed bridge facility
In February 2023, the Group entered into a committed bridge facility of £50m with three of its relationship banks providing additional liquidity from 1 January 2024. The committed bridge facility has an expiry date of 31 December 2024 and is subject to covenants, which are the same as those in the Revolving Credit Facility (RCF). Both the RCF and the £50m bridge facility incorporate provisions such that they will partially reduce in quantum as a consequence of specified transactions including disposals, equity-raises or other refinancing.

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	2022 £m	2021 £m
Non-current assets			
Intangible assets	7.3.2	—	26.8
Tangible assets	7.3.3	0.8	13.2
Investments	7.3.4	994.3	947.3
Financial assets	7.3.5	20.8	22.0
Deferred tax assets	7.3.6	11.2	12.7
Amounts owed by subsidiary companies	7.3.7	64.4	—
Trade and other receivables	7.3.8	—	0.1
		1,091.5	1,022.1
Current assets			
Financial assets	7.3.5	15.7	10.9
Amounts owed by subsidiary companies	7.3.7	2,494.8	2,619.8
Trade and other receivables	7.3.8	1.6	13.1
Income tax receivable		33.6	59.3
Cash		—	—
		2,545.7	2,703.1
Total assets		3,637.2	3,725.2
Current liabilities			
Amounts owed to subsidiary companies	7.3.7	2,302.7	2,086.8
Trade and other payables	7.3.9	9.6	7.9
Accruals and deferred income		16.6	41.7
Overdrafts		14.6	31.0
Borrowings	7.3.11	—	196.2
Financial liabilities	7.3.5	0.1	5.2
Provisions	7.3.10	4.8	8.2
		2,348.4	2,377.0
Non-current liabilities			
Trade and other payables	7.3.9	—	0.3
Borrowings	7.3.11	44.2	51.7
Financial liabilities	7.3.5	1.0	3.6
		45.2	55.6
Total liabilities		2,393.6	2,432.6
Net assets		1,243.6	1,292.6
Capital and reserves			
Issued share capital	7.3.12	34.8	34.8
Employee benefit trust and treasury shares	7.3.12	(4.2)	(8.0)
Share premium	7.3.12	1,145.5	1,145.5
Capital redemption reserve		1.8	1.8
Merger reserve		44.6	44.6
Cash flow hedging reserve		—	(0.7)
Retained earnings		21.1	74.6
Total equity		1,243.6	1,292.6

The Company's loss after taxation was £55.1m (2021: £198.0m loss).

The accompanying notes form part of the financial statements.

The accounts were approved by the Board of directors on 2 March 2023 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 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 1 January 2022	34.8	(8.0)	1,145.5	1.8	44.6	(0.7)	74.6	1,292.6
Loss for the year	**—**	**—**	**—**	**—**	**—**	**—**	**(55.1)**	**(55.1)**
Other comprehensive expense	**—**	**—**	**—**	**—**	**—**	**0.7**	**—**	**0.7**
Total comprehensive expense for the year	**—**	**—**	**—**	**—**	**—**	**0.7**	**(55.1)**	**(54.4)**
Shares issued	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Exercise of share options under employee long-term incentive plans	**—**	**3.8**	**—**	**—**	**—**	**—**	**(3.8)**	**—**
Share-based payment net of tax effects	**—**	**—**	**—**	**—**	**—**	**—**	**5.4**	**5.4**
At 31 December 2022	**34.8**	**(4.2)**	**1,145.5**	**1.8**	**44.6**	**—**	**21.1**	**1,243.6**

1. The directors did not declare a dividend in 2022 or 2021.

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 of 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 UK-adopted international accounting standards, 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.

(a) Investments in subsidiaries

J **Significant accounting judgements, estimates and assumptions**

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 determines 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 defined contribution scheme where contributions are charged to the profit and loss account in the year in which they are due. The scheme is funded and the payment of contributions is made to a separately administered trust fund. The assets of the scheme 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.

The last remaining active employee transferred to a subsidiary company on 1 November 2022. Since the Company no longer has any active members in the Capita DB Scheme, this triggered a cessation event which means a Section 75 debt (which is a statutory debt due from a participating employer to the trustees of a multi-employer defined benefit pension scheme which is in deficit) became due. However, the Trustee Board of the Capita DB Scheme has agreed that the pension liabilities attributable to the Company can be transferred to Capita Business Services Limited (the Principal Employer of the Capita DB Scheme), which will remove the Section 75 debt due from the Company. This Flexible Apportionment Arrangement (FAA) is expected to be finalised in 2023. Following the finalisation of the FAA, the Company will no longer be a formal participating employer in the Capita DB Scheme.

Since 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 Capita Business Services Limited. The Company then recognises a cost equal to its contribution payable for the applicable 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 with 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 full actuarial valuation 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 qualified 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, Capita Business Services Limited has agreed to make additional, non-statutory, contributions of £15m each year in 2024, 2025 and 2026 to meet a secondary funding target.

Section 7: Company financial statements continued

7.3.1 Accounting policies continued

The Trustee Board has agreed with Capita Business Services Limited to accelerate the payment of some of the deficit contributions on a pound for pound basis in the event of disposal proceeds being used to fund mandatory prepayments of debt.

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 about the pension obligations.

(c) Share-based payments
Subsidiary companies 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 companies

J **Significant accounting judgements, estimates and assumptions**

The amounts owed by and to subsidiary companies are shown at cost plus accrued interest less any provision for impairment. Amounts owed by subsidiary companies 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 companies 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 counterparty 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 either based on repayment on demand or fixed term loan 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 2022	31.8	15.7	47.5
Intragroup transfer	**(31.1)**	**(15.7)**	**(46.8)**
Retirement	**(0.7)**	**—**	**(0.7)**
At 31 December 2022	**—**	**—**	**—**
Amortisation			
At 1 January 2022	11.2	9.5	20.7
Charge for the year	**5.1**	**0.9**	**6.0**
Intragroup transfer	**(15.9)**	**(10.4)**	**(26.3)**
Retirement	**(0.4)**	**—**	**(0.4)**
At 31 December 2022	**—**	**—**	**—**
Net book value:			
At 1 January 2022	20.6	6.2	26.8
At 31 December 2022	**—**	**—**	**—**

On 1 November 2022, certain tangible and intangible assets were transferred to Capita Shared Services Limited (a wholly owned subsidiary of the Company) as part of a Group reorganisation. All the assets were transferred at their net book value, with the consideration remaining outstanding as an inter-company loan.

Other intangibles relates to software purchased from third parties.

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 2022	22.2	1.3	0.4	23.9
Additions	**3.0**	**0.1**	—	**3.1**
Intragroup transfer	**(23.9)**	**0.1**	—	**(23.8)**
Asset retirements	**(1.3)**	**(0.1)**	—	**(1.4)**
At 31 December 2022	—	**1.4**	**0.4**	**1.8**
Depreciation				
At 1 January 2022	9.8	0.5	0.4	10.7
Charge for the year	**4.7**	**0.3**	—	**5.0**
Intragroup transfer	**(13.2)**	**(0.1)**	—	**(13.3)**
Asset retirements	**(1.3)**	**(0.1)**	—	**(1.4)**
At 31 December 2022	—	**0.6**	**0.4**	**1.0**
Net book value:				
At 1 January 2022	12.4	0.8	—	13.2
At 31 December 2022	—	**0.8**	—	**0.8**

On 1 November 2022, certain tangible and intangible assets were transferred to Capita Shared Services Limited (a wholly owned subsidiary of the Company) as part of a Group reorganisation. All the assets were transferred at their net book value, with the consideration remaining outstanding as an inter-company loan.

7.3.4 Investments

	Shares in subsidiary undertakings £m
Net book value	
At 1 January 2022	947.3
Additions[1]	**54.0**
Impairment[2]	**(7.0)**
At 31 December 2022	**994.3**

1. During the year ended 31 December 2022, Capita plc invested £54.0m in Capita Life & Pensions Regulated Services Limited.
2. During the year ended 31 December 2022, Capita plc impaired its investments in Capita Financial Services Holdings Limited by £6.4m and Capita Employee Benefits Holdings Limited by £0.6m.

Direct investments	Registered office	Proportion of nominal value of issued shares held by the Company
Capita Pension Solutions 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 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[6]	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
6. Internal services company

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 7.3.17 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 2022 in accordance with Section 479A of The Companies Act 2006.

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 7.3.17 to the Company financial statements.

The Company considered whether there was an indicator of impairment in investments in subsidiaries at 31 December 2022, 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 2023-2025 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 2022 long-term growth rate is 2.2% (2021: 1.7%).

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 table below represents the pre-tax discount rates applied to the cash flows for 2022 and 2021.

			Capita Portfolio				
	Capita Public Service	Capita Experience	People	Software	Business Solutions	Travel	Fera
2022	11.8%	10.4%	14.3%	12.1%	12.1%	13.0%	11.2%
2021	13.0%	11.6%	12.4%	12.8%	13.3%	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 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	—	—	—	—
Capita Financial Services Holdings Limited	—	—	—	—
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 2022, an impairment of £7.0m (2021: £0.8m) arose from the impairment test performed. Under the combination sensitivity scenario no additional impairments were highlighted where the enterprise value was used for impairment assessment.

Management continue to monitor closely the performance of all investments in subsidiaries and consider the impact of any changes to the key assumptions. Given that 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 2022 £m	Financial liabilities 2022 £m	Financial assets 2021 £m	Financial liabilities 2021 £m
Cash flow hedges	—	—	0.9	1.8
Non-designated foreign exchange forwards and swaps	10.7	0.1	1.8	4.7
Lease liabilities	—	—	—	0.1
Cross-currency interest rate swaps	25.8	1.0	30.2	2.2
	36.5	1.1	32.9	8.8
Analysed as:				
Current	15.7	0.1	10.9	5.2
Non-current	20.8	1.0	22.0	3.6
	36.5	1.1	32.9	8.8

7.3.6 Deferred tax

	2022 £m	2021 £m
Deferred tax included in the balance sheet is as follows:		
Accelerated capital allowances	3.9	5.4
Tax losses	1.0	1.0
Other short term timing differences	6.3	6.3
	11.2	12.7

7.3.7 Amounts owed by/to subsidiary companies

	Current		Non-current	
	2022 £m	2021 £m	2022 £m	2021 £m
Amounts owed by subsidiary companies	2,494.8	2,619.8	64.4	—

Amounts due within one year are repayable on demand along with any accrued interest. Amounts due after more than one year is a fixed term loan. The expected credit loss provision against amounts owed by subsidiary undertakings is immaterial.

The non-current receivable relates to a long-term loan to a subsidiary. This was previously considered to be a current receivable but following a reassessment has been reclassified to non-current at 31 December 2022.

	Current		Non-current	
	2022 £m	2021 £m	2022 £m	2021 £m
Amounts owed to subsidiary companies	2,302.7	2,086.8	—	—

Amounts owed to subsidiary companies are repayable on demand along with any accrued interest.

7.3.8 Trade and other receivables

	Current		Non-current	
	2022 £m	2021 £m	2022 £m	2021 £m
Trade receivables	—	—	—	—
Other debtors	1.1	2.0	—	—
Other taxes and social security	0.1	1.4	—	—
Prepayments	0.4	9.7	—	0.1
	1.6	13.1	—	0.1

Section 7: Company financial statements continued

7.3.9 Trade and other payables

	Current		Non-current	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Trade creditors	**8.9**	7.2	**—**	—
Other creditors	**0.7**	0.7	**—**	0.3
	9.6	7.9	**—**	0.3

7.3.10 Provisions

	2022 £m	2021 £m
At 1 January	**8.2**	17.3
Provisions provided for during the year	**1.6**	8.8
Provisions released during the year	**(1.2)**	(5.9)
Utilisation	**(3.8)**	(12.0)
At 31 December	**4.8**	8.2

The majority of the provisions relate to the claims and litigation provision of £4.0m. Further detail on these provisions can be found in note 3.6 to the Group's consolidated financial statements.

7.3.11 Borrowings

	2022 £m	2021 £m
Private placement loan notes	**44.2**	201.9
Credit facilities[1]	**—**	46.0
	44.2	247.9

1. Credit facilities includes £nil (2021: £40.0m) drawing on the RCF.

	2022 £m	2021 £m
Maturity analysis is as follows:		
Falling due within a year	**—**	196.2
Falling due after more than 5 years	**44.2**	51.7
Total borrowings	**44.2**	247.9

The Company issued guaranteed unsecured private placement loan notes as follows:

	Interest rate (%)		EUR (m)	Maturity
Fixed rate bearer notes	3.625	EUR	53.4	10 November 2027
Total of euro denominated private placement loan notes			53.4	

In July 2022, the Group signed an extension of the £300m forward start revolving credit facility (RCF) with its lending banks for a further twelve months to August 2024. The new facility commenced on 31 August 2022 upon the expiry of the previous RCF and provides the Group with committed liquidity for the cash fluctuations of the business cycle and an allowance for contingencies, and incorporates provisions such that it will partially reduce in quantum as a consequence of specified transactions. The RCF was not drawn upon at 31 December 2022 and had a total committed value of £288.4m.

Further detail on these facilities can be found in note 4.2 to the Group's consolidated financial statements.

7.3.12 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.

7.3.13 Contingent liabilities

The Company has provided, through the normal course of its business, performance bonds and bank guarantees of £34.0m (2021: £28.7m).

Section 7: Company financial statements continued

7.3.14 Related-party transactions

In the following, amounts for purchases and sales are for transactions invoiced during the year inclusive of VAT where applicable. All transactions are undertaken at arm's-length prices.

During the year, the Company sold goods/services in the normal course of business to Entrust Support Services Limited for £1.2m (2021: £0.8). The Company purchased goods/services in the normal course of business for £0.4m (2021: £0.2m). At the balance sheet date, the net amount receivable from Entrust Support Services Limited was £nil (2021: £nil).

During the year, the Company sold goods/services in the normal course of business to Capita Glamorgan Consultancy Limited for £0.1m (2021: £0.1m). The Company purchased goods/services in the normal course of business for £nil (2021: £nil). At the balance sheet date, the net amount receivable from Capita Glamorgan Consultancy Limited was £nil (2021: £nil).

During the year, the Company sold goods/services in the normal course of business to Fera Science Limited for £0.7m (2021: £0.6m). The Company purchased goods/services in the normal course of business for £0.1m (2021: £nil). At the balance sheet date, the net amount receivable from Fera Science Limited was £nil (2021: £nil).

7.3.15 Pension costs

The Company operates defined benefit and defined contribution schemes. The pension charge for these schemes for the year was £1.5m (2021: £2.0m).

7.3.16 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 2022 of £5.4m (2021: £1.2m), 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 £3.0m (2021: £0.6m).

Section 7: Company financial statements continued

7.3.17 Related companies

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
Agiito Limited [9]	£1.00 Ordinary
Akinika Debt Recovery Limited [7]	£1.00 Ordinary
Akinika Limited [7]	£1.00 Ordinary
Akinika UK Limited (in liquidation) [1]	£1.00 Ordinary
Artificial Labs Ltd [16] ●	£0.000025 Ordinary
Barrachd Limited (in liquidation) [15]	£1.00 Ordinary
BCS Design Ltd (in liquidation) [1]	£1.00 Ordinary
Booking Services International Limited [9]	£1.00 Ordinary
Brentside Communications Limited (D) [9]	£1.00 Ordinary
Brightwave Enterprises Limited [9]	£1.00 Ordinary
Brightwave Holdings Limited [9]	£1.00 Ordinary
Brightwave Limited [9]	£1.00 Ordinary
BSI Group Limited [9]	£1.00 Ordinary
Call Vision Technologies Ltd (in liquidation) [1]	£1.00 Ordinary
Capita (02549055) Limited (in liquidation) [1]	£1.00 Ordinary
Capita (04472243) Limited (in liquidation) [1]	£1.00 Ordinary
Capita (210568) Limited [6]	€0.0012 Ordinary
Capita (6588350) Limited (in liquidation) [1]	£1.00 Ordinary
Capita (Polska) Spółka z ograniczoną odpowiedzialnością [17]	PLZ50.00 Ordinary
Capita (South Africa) (Pty) Limited [13]	ZAR1.00 Ordinary
Capita (USA) Holdings Inc. [12]	US$1.00 Ordinary
Capita Birmingham Limited [9]	£1.00 Ordinary
Capita Business Services Ltd [9]	£1.00 Ordinary
Capita Business Support Services Ireland Limited [6]	€1.00 Ordinary
Capita Corporate Director Limited (D) [9]	£1.00 Ordinary
Capita CTI (USA) LLC [12]	US$1.00 Ordinary
Capita Customer Management Limited [9]	£1.00 Ordinary
Capita Customer Services (Germany) GmbH [30]	€1.00 Ordinary
Capita Customer Services AG [22]	CHF1.00 Ordinary
Capita Customer Solutions (UK) Limited [9]	£1.00 Ordinary
Capita Customer Solutions Limited [34]	€1.00 Ordinary
Capita Cyprus Holdings Limited [33]	£1.00 Ordinary
Capita Dubai Limited [9]	£1.00 Ordinary
Capita Employee Benefits (Consulting) Limited [9]	£1.00 Ordinary
Capita Employee Benefits Holdings Limited [9] *	£1.00 Ordinary
Capita Energie Services GmbH [24] ►	€1.00 Ordinary
Capita ESS Holdings Limited [9]	£1.00 Ordinary
Capita Financial Services Holdings Limited [9] *	£1.00 Ordinary
Capita Gas Registration and Ancillary Services Limited [9]	£1.00 Ordinary
Capita GMPS Trustees Limited (D) [9]	£1.00 Ordinary
Capita Grosvenor Limited (in liquidation) [1]	£1.00 Ordinary
Capita Group Insurance PCC Limited [27] *	£1.00 CG1 £1.00 CIC2 £1.00 Ordinary
Capita Group Limited (in liquidation) [1]	£1.00 Ordinary
Capita Group Secretary Limited (D) [9]	£1.00 Ordinary
Capita HCH Limited [9]	£1.00 Ordinary
Capita Health and Wellbeing Limited [9]	£1.00 Ordinary
Capita Health Holdings Limited [9]	£1.00 Ordinary
Capita Holdings Limited [9] *	£1.00 Ordinary
Capita IB Solutions (HK) Limited [11]	HKD1.00 Ordinary A HKD1.00 Ordinary B
Capita IB Solutions (Ireland) Limited [6]	€1.00 Ordinary
Capita IB Solutions Limited [9]	£1.00 Ordinary
Capita India Private Limited [26]	INR10.00 Ordinary
Capita Insurance Services Group Limited [9]	£1.00 Ordinary
Capita Insurance Services Holdings Limited [9]	£1.00 Ordinary
Capita Insurance Services Limited [9]	£1.00 Ordinary
Capita International Limited [9] *	£1.00 Ordinary
Capita International Retirement Benefit Scheme Trustees Limited [9] *	£1.00 Ordinary
Capita Ireland Limited [6] *	€1.00 Ordinary
Capita IT Services (BSF) Limited [9]	£1.00 Ordinary
Capita IT Services Holdings Limited [9]	£1.00 Ordinary
Capita IT Services Limited [25]	£1.00 Ordinary
Capita Justice & Secure Services Holdings Limited [9]	£1.00 Ordinary
Capita Land Limited (in liquidation) [1]	£1.00 Ordinary
Capita Learning Limited [9]	£1.00 Ordinary
Capita Legal Services Limited [9] *	£1.00 Ordinary
Capita Life & Pensions Regulated Services Limited [9] *	£1.00 Ordinary
Capita Life & Pensions Services Limited [9] *	£1.00 Ordinary
Capita Life and Pensions International Limited [9]	£1.00 Ordinary
Capita Life and Pensions Services (Isle of Man) Limited [28]	£1.00 Ordinary
Capita Managed IT Solutions Limited [20]	£1.00 Ordinary
Capita Mclarens Limited [31]	£1.00 Ordinary
Capita Mortgage Administration Limited [9]	£1.00 Ordinary
Capita Mortgage Software Solutions Limited [9]	£1.00 Ordinary
Capita Norman + Dawbarn Limited (D) [3] □	NGN1.00 Ordinary
Capita Offshore Services Private Limited (in liquidation) [26]	INR10.00 Ordinary
Capita Pension Solutions Limited [9] *	£1.00 Ordinary
Capita Property and Infrastructure (Structures) Limited [9]	£1.00 Ordinary
Capita Property and Infrastructure Consultants LLC (in liquidation) [2] ♦	AED1,000.00 Ordinary
Capita Property and Infrastructure Holdings Limited [9]	£1.00 Ordinary
Capita Property and Infrastructure International Holdings Limited (D) [9]	£1.00 Ordinary
Capita Property and Infrastructure International Limited (D)[9]	£1.00 Ordinary
Capita Property and Infrastructure Limited [9]	£1.00 Ordinary

Section 7: Company financial statements continued

7.3.17 Related companies continued

Company name	Share class
Capita Resourcing Limited [9]	£1.00 Ordinary
Capita Retail Financial Services Limited [9]	£1.00 Ordinary
Capita Retain Limited [9]	£1.00 Ordinary
Capita Retain (USA) LLC [12]	N/A
Capita Scotland (Pension) Limited Partnership [25]	N/A
Capita Scotland General Partner (Pension) Limited [25]	£1.00 Ordinary
Capita Secure Information Solutions Limited [9]	£1.00 Ordinary
Capita Shared Services Limited [9] *	£1.00 Ordinary
Capita Southampton Limited [9]	£1.00 Ordinary
Capita Symonds (Asia) Limited [9]	£1.00 Ordinary
Capita Symonds India Private Limited (in liquidation) [26]	INR10.00 Ordinary
Capita Symonds Saudi Arabia Limited (D) [21]	N/A
Capita Travel & Events Holdings Limited [9]	£1.00 Ordinary
Capita West GmbH [30]	€25,000.00 Ordinary
Capita Workforce Management Limited [9]	£1.00 Ordinary
CAS Services US Inc [18]	US$1.00 Ordinary
CCSD Services Limited (in liquidation) [1]	£1.00 Ordinary
CHKS Limited [9]	£1.00 Ordinary
Clinical Solutions Acquisition Limited [9]	£1.00 Ordinary
Clinical Solutions Finance Limited [9]	£1.00 Ordinary
Clinical Solutions Group (International) LLC (D) [18]	N/A
Clinical Solutions Holdings Limited [9]	£1.00 Ordinary
Clinical Solutions International Limited [9]	£1.00 Ordinary
Clinical Solutions IP Limited (D) [9]	£1.00 Ordinary
Complete Imaging Limited (in liquidation) [1]	£1.00 Ordinary
Computerland UK Limited [9]	£1.00 Ordinary
Contact Associates Limited [9]	£1.00 Ordinary
CPLAS Trustees Limited (D) [9]	£1.00 Ordinary
CS Clinical Solutions India Private Limited (in liquidation) [26]	INR10.00 Ordinary
Cymbio Limited (in liquidation) [1]	£1.00 Ordinary
Daisy Updata Communications Limited [23] ▲	£1.00 Ordinary B
Debt Solutions (Holdings) Limited [7]	£1.00 Ordinary
Dragonfly Technology Solutions Ltd [9] ○	£0.000001 Ordinary £0.000001 A Ordinary
DSTBTD LIMITED [36] <	£0.001 Ordinary
Duke 2021 Topco Limited [4] >	£1.00 B Ordinary
E.B. Consultants Limited (D) [9]	£1.00 Ordinary
Electra-Net (UK) Limited [9]	£1.00 Ordinary
Electra-Net Group Limited (in liquidation) [1]	£1.00 Ordinary
Electra-Net Holdings Limited (in liquidation) [1]	£1.00 Ordinary
Emercom Ltd (in liquidation) [1]	£1.00 Ordinary
Entrust Support Services Limited [32] ▼	£1.00 Ordinary X
Equita Limited [8]	£1.00 Ordinary
Equitable Holdings Limited (D) [9]	£1.00 Ordinary
Eureka Assessoria Empresarial Ltda (D) [14] ◊	BRL1.00 Ordinary
Euristix (Holdings) Limited [9]	£1.00 Ordinary
Euristix Limited [9]	£1.00 Ordinary

Company name	Share class
Evolvi Rail Systems Limited [9]	£1.00 Ordinary
Expotel Hotel Reservations Limited (in liquidation) [1]	£1.00 Ordinary
Fera Science Limited [9] ■	£1.00 Ordinary B
Fire Service College Limited [9]	£1.00 Ordinary
FirstAssist Services Limited [9]	£1.00 Ordinary
Full Circle Contact Centre Services (Proprietary) Limited [13]	ZAR0.01 Ordinary
Gissings Trustees Limited (in liquidation) [1]	£1.00 Ordinary
Grosvenor Career Services Limited (D) [9]	£1.00 Ordinary
Health Analytics Ltd (in liquidation) [1]	£1.00 Ordinary
Level Financial Technology Limited [29] ◙	£0.001 Ordinary
Liberty Printers (Ar And Rf Reddin) Limited [9]	£1.00 Ordinary
Market Mortgage Limited [9] ◄	£0.001 Ordinary
Metacharge Limited (in liquidation) [1]	£1.00 Ordinary
NYS Corporate Ltd. (in liquidation) [1]	£1.00 Ordinary
Octal Business Solutions Limited [9]	£1.00 Ordinary
Optilead Inc. (in liquidation) [12]	US$0.001 Common Stock
Optilead Limited (in liquidation) [1]	£1.00 Ordinary
PageOne Communications Limited [9]	£1.00 Ordinary
RE (Regional Enterprise) Limited [9] ▼	£1.00 Ordinary A
Retain International (Holdings) Limited [9]	£1.00 Ordinary
Retain International Limited (D) [9]	£1.00 Ordinary
Ross & Roberts Limited [8]	£1.00 Ordinary
Sbj Benefit Consultants Limited (D) [9]	£1.00 Ordinary
Sbj Professional Trustees Limited (D) [9]	£1.00 Ordinary
SDP Regeneration Services 2 Limited (in liquidation) [1]	£1.00 Ordinary
Security Watchdog Limited (in liquidation) [1]	£1.00 Ordinary
Smart DCC Limited [9]	£1.00 Ordinary
Stirling Park LLP [5]	N/A
Synaptic Software Limited [9]	£1.00 Ordinary
Tascor E & D Services Limited [9]	£1.00 Ordinary
Tascor Services Limited [9]	£1.00 Ordinary
TELAG AG [19]	CHF1,000.00 Ordinary
The G2G3 Group Ltd. [25]	£1.00 Ordinary
Thirty Three Group Limited [9]	£1.00 Ordinary
Thirty Three LLP [9]	N/A
ThirtyThree APAC Limited (D) [10]	HKD1.00 Ordinary
ThirtyThree USA Inc. [12]	US$1.00 Ordinary
Updata Infrastructure (UK) Limited [9]	£1.00 Ordinary
Updata Infrastructure 2012 Limited (D) [9]	£1.00 Ordinary
Urban Vision Partnership Limited [9] ►	£1.00 Ordinary B
Ventura (India) Private Limited [35]	INR10.00 Ordinary
Ventura (UK) India Limited [9]	£1.00 Ordinary
Venues Event Management Limited (in liquidation) [1]	£1.00 Ordinary
Voice Marketing Limited [9]	£1.00 Ordinary
Western Mortgage Services Limited [9]	£1.00 Ordinary
Woolf Limited [9]	£1.00 Ordinary

Section 7: Company financial statements continued

7.3.17 Related companies continued

Footnotes

* Companies directly held by Capita plc.
> Shareholdings owned indirectly by the company and represent 0.37% of the issued share capital of subsidiary.
< Shareholdings owned indirectly by the company and represent 9.63% of the issued share capital of subsidiary.
● Shareholdings owned indirectly by the company and represent 5.43% of the issued share capital of subsidiary.
○ Shareholdings owned indirectly by the company and represent 9.38% 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 26.87% of the issued share capital of subsidiary.

Registered office address

1. 1 More London Place, London, SE1 2AF,England
2. 1004 Bin Hamoodah Building, Khalifa St., PO Box 113 740, Abu Dhabi, United Arab Emirates
3. 10th Floor, UBA House, No 57, Marina Street, Lagos Island, Lagos, Nigeria
4. 22 Grenville Street, St. Helier, JE4 8PX, Jersey
5. 24 Blythswood Square, Glasgow, G2 4BG, Scotland
6. 2nd Floor, Block 5, Irish Life Centre, Abbey Street Lower, Dublin 1, D01 P767, Ireland
7. 33/34 Winckley Square, Preston, Lancashire, PR1 3EL, England
8. 42/44 Henry Street, Northampton, Northamptonshire, NN1 4BZ, England
9. 65, Gresham Street, London, EC2V 7NQ, England
10. 803 Manning House, 38 Queen's Road Central, Hong Kong
11. 803 Manning House, 48 Queen's Road Central, Hong Kong
12. 850 New Burton Road, Suite 201, Dover, DE, 19904, United States
13. 8th Floor, Union Castle Building, 55 St Georges Mall, Cape Town, Western Cape, 8001, South Africa
14. Alameda dos Guaramomis, no 930, 1st Floor, Suite 01, Bairro, Moema, CEP 04076-011, Brazil
15. Atria One, 144 Morrison Street, Edinburgh, EH3 8EX, Scotland
16. Bourne House, 475 Goodstone Road, Whyteleafe, Surrey, CR3 0BL, England
17. Centrum Biurowe Lubicz ul. Lubicz 23, 31-503 Krakow, Polska
18. Corporation Service Company, 251 Little Falls Drive, Wilmington, County of Newcastle, Delaware 19808, United States
19. Hardturmstrasse 101, Zürich, 8005, Switzerland
20. Hillview House, 61 Church Road, Newtownabbey, Co Antrim, BT36 7LQ, Northern Ireland
21. King Abdul Aziz Street, PO Box 7052, Dammam, Saudi Arabia
22. Konstanzerstrasse 17, Tägerwilen, 8274, Switzerland
23. Lindred House, 20 Lindred Road, Brierfield, Nelson, Lancashire, BB9 5SR, England
24. Nassauer Ring 39-41, Krefeld, 47803, Germany
25. Pavilion Building Ellismuir Way, Tannochside Park, Uddingston, Glasgow, G71 5PW, Scotland
26. Plant 6, Gate No. 2, Godrej and Boyce Complex, LBS Marg, Pirojshahnagar, Vikhroli (West), Mumbai, 400079, India
27. PO Box 33, Dorey Court, Admiral Park, St. Peter Port, Guernsey, GY1 4AT
28. PO Box 227, Peveril Buildings, Peveril Square, Douglas, Isle of Man, IM99 1RZ
29. Rift Accounting House, 160 Eureka Park Upper Pemberton, Kennington, Ashford, TN25 4AZ, England
30. Rudower Chaussee 4, Berlin, 12489, Germany
31. The Beacon, 176 St Vincent Street, Glasgow, G2 5SG, Scotland
32. The Riverway Centre, Riverway, Stafford, ST16 3TH, England
33. Themistokli Dervi 3, Julia House, Nicosia, 1066, Cyprus
34. Unit B, West Cork Technology Park, Clonakilty, Cork, Ireland
35. Upper Ground Level, Level 1, Level 2, & Level 3, Tower B1, Margapatta City SEZ, Margapatta City, Hadapsar, Pune, 411013, India
36. Wsm, Connect House 133-137 Alexandra Road, Wimbledon, London, SW19 7JY, England

Section 7: Company financial statements continued

7.3.17 Related companies 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 2022. This exemption is taken in accordance with Section 479A of the Companies Act.

Company name	Company registration	Company name	Company registration
Akinika Debt Recovery Limited	1242485	Capita Southampton Limited	10207906
Akinika Limited	1613010	Capita Symonds (Asia) Limited	3023340
Booking Services International Limited	1833039	Capita Travel & Events Holdings Limited	6258931
Brentside Communications Limited	1991595	CHKS Limited	2442956
Brightwave Enterprises Limited	7066783	Clinical Solutions Acquisition Limited	5353896
Brightwave Holdings Limited	7462788	Clinical Solutions Finance Limited	5337592
Brightwave Limited	4092349	Clinical Solutions Holdings Limited	5337596
BSI Group Limited	3005596	Clinical Solutions International Limited	4394761
Capita Birmingham Limited	5660977	Clinical Solutions IP Limited	5354046
Capita Customer Solutions (UK) Limited	7886341	Computerland UK Limited	2275625
Capita Dubai Limited	10908066	Contact Associates Limited	5601393
Capita Employee Benefits Holdings Limited	6722404	Debt Solutions (Holdings) Limited	3673307
Capita ESS Holdings Limited	12714191	E.B. Consultants Limited	1106104
Capita Financial Services Holdings Limited	10016286	Electra-Net (UK) Limited	3419833
Capita Gas Registration and Ancillary Services Limited	5078781	Equita Limited	3168371
Capita HCH Limited	2384029	Equitable Holdings Limited	2239663
Capita Health and Wellbeing Limited	3185776	Euristix (Holdings) Limited	5564856
Capita Health Holdings Limited	6413394	Euristix Limited	5420948
Capita Insurance Services Group Limited	2777642	Fire Service College Limited	8102633
Capita Insurance Services Holdings Limited	6041965	FirstAssist Services Limited	1404718
Capita Insurance Services Limited	1396443	Grosvenor Career Services Limited	3119327
Capita International Limited	2683437	Liberty Printers (AR and RF Reddin) Limited	2920033
Capita International Retirement Benefit Scheme Trustees Limited	2328910	Octal Business Solutions Limited	5182624
Capita IT Services (BSF) Limited	1855936	PageOne Communications Limited	04560277
Capita IT Services Holdings Limited	6002593	Retain International (Holdings) Limited	7871708
Capita IT Services Limited	SC045439	Retain International Limited	3061744
Capita Justice & Secure Services Holdings Limited	4746912	Ross & Roberts Limited	3365520
Capita Learning Limited	4968329	Sbj Benefit Consultants Limited	1834757
Capita Legal Services Limited	8540594	Sbj Professional Trustees Limited	2547932
Capita Life and Pensions International Limited	5952054	Stirling Park LLP	SO300097
Capita Managed IT Solutions Limited	NI032979	Tascor E & D Services Limited	9980217
Capita Mclarens Limited	SC021024	The G2G3 Group Ltd	SC199414
Capita Mortgage Software Solutions Limited	1855353	Thirty Three Group Limited	3626724
Capita Property and Infrastructure (Structures) Limited	2082106	Thirty Three LLP	OC372712
Capita Property and Infrastructure Holdings Limited	3840627	Updata Infrastructure (UK) Limited	6957593
Capita Property and Infrastructure International Holdings Limited	3860653	Updata Infrastructure 2012 Limited	4342422
Capita Property and Infrastructure International Limited	2752154	Urban Vision Partnership Limited	5292634
Capita Retail Financial Services Limited	5296886	Ventura (UK) India Limited	5131185
Capita Scotland General Partner (Pension) Limited	SC434757	Voice Marketing Limited	5820091
Capita Secure Information Solutions Limited	1593831	Woolf Limited	1564535

Section 8: Additional information

In this section

8.1 Shareholder information

In this section we have provided you with some key information to manage your shareholding in Capita plc.

Useful websites
Capita (www.capita.com/investors)
Our corporate site is our main external communication channel where we showcase our services, solutions and innovations from across the wider Company. It also contains an investor section, where institutional and private shareholders can access the latest announcements, financial and statutory information and reports.

Shareholder portal (www.capitashares.co.uk)
Capita's register of shareholders is maintained by Link 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) 7720 169 269 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: shareholderenquiries@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 – Helen Parris

Company Secretariat
secretariat@capita.com
Chief General Counsel and Company Secretary – Claire Denton

Company advisers

Independent auditor
KPMG LLP

Corporate brokers
Barclays Bank plc

Numis Securities Limited

Bankers
Barclays Bank plc

Citicorp North America, Inc

Goldman Sachs International Bank

ING Bank NV, London Branch

Lloyds Bank plc

National Westminster Bank plc

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. This includes key performance indicators (KPIs) such as adjusted revenue, adjusted profit before tax, adjusted earnings per share, free cash flow before business exits, 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 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		

APM: Adjusted revenue R — **Closest equivalent IFRS measure: Revenue**

Calculated as revenue less any revenue relating to businesses that have been sold, or exited during the year or prior year; or, are in the process of being sold, or exited.

This measure of revenue is used internally in respect of the Group's continuing business (being the Group's continuing activities, which exclude business exits) and the Board believes it is a good indication of ongoing performance.

The table below shows a reconciliation between reported and adjusted revenue, as well as adjusted revenue growth:

	2022	2021
Reported revenue per the income statement	£3,014.6m	£3,182.5m
Deduct: business exits (note 2.2.1)	(£168.8m)	(£404.7m)
Adjusted revenue	£2,845.8m	£2,777.8m
Adjusted revenue growth	2.4 %	0.1 %

APM: Adjusted operating profit U — **Closest equivalent IFRS measure: Operating profit**

Calculated as reported operating profit excluding items determined by the Board to be outside underlying operations. These items are detailed in note 2.4.

The Board believes 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.

A reconciliation of reported to adjusted operating profit is provided in note 2.4.

APM: Adjusted operating profit margin U — **Closest equivalent IFRS measure: Operating profit margin**

Calculated as the adjusted operating profit divided by adjusted revenue.

This measure is an indicator of the Group's operating efficiency.

The table below shows the components, and calculation, of adjusted operating profit margin:

		2022	2021[1]
Adjusted revenue	a	£2,845.8m	£2,777.8m
Adjusted operating profit (note 2.4)	b	£102.9m	(£77.7m)
Adjusted operating profit margin	b/a	3.6 %	(2.8)%

APM: Adjusted EBITDA U — **Closest equivalent IFRS measure: EBITDA**

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).

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.

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.

The table below shows the calculation of adjusted EBITDA:

	Post IFRS 16		Pre IFRS 16	
	2022	2021[1]	2022	2021[1]
Adjusted profit before tax	£73.8m	(£122.8m)	£79.0m	(£117.6m)
Add back: adjusted net finance costs (note 4.3)	£34.9m	£44.5m	£16.5m	£25.0m
Add back: adjusted depreciation and impairment of property, plant and equipment (note 3.2)	£45.4m	£49.4m	£45.4m	£49.4m
Add back: depreciation and impairment of right-of-use assets (note 3.5)	£53.3m	£81.5m	£—m	£—m
Add back: adjusted amortisation and impairment of intangibles (note 3.3)	£37.2m	£89.8m	£37.2m	£89.8m
Remove: Share of results in associates and investment gains (income statement)	(£5.8m)	£0.6m	(£5.8m)	£0.6m
Adjusted EBITDA	£238.8m	£143.0m	£172.3m	£47.2m
Adjusted EBITDA margin	8.4 %	5.1 %	6.1 %	1.7 %

8.2 Alternative performance measures continued

APM	Closest equivalent IFRS measure	Definition, Purpose and Reconciliation
Income statement continued		
Adjusted profit before tax U	**Profit before tax**	Calculated as profit or loss before tax excluding the items detailed in note 2.4 which include: business exits (trading results, non-trading expenses, and any gain/(loss) on business disposal); acquired intangible amortisation; and impairment of goodwill and acquired intangibles. The Board believes 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. A reconciliation of reported to adjusted profit before tax is provided in note 2.4.
Adjusted profit after tax U	**Profit after tax**	Calculated as the above adjusted profit or loss before tax, less the tax credit or expense on adjusted profit or loss. The table below shows a reconciliation:

	2022	2021[1]
Adjusted profit/(loss) before tax (note 2.4)	**£73.8m**	(£122.8m)
Tax on adjusted profit/(loss) (note 2.6.1)	**£31.8m**	(£4.0m)
Adjusted profit/(loss) after tax	**£105.6m**	(£126.8m)

APM	Closest equivalent IFRS measure	Definition, Purpose and Reconciliation
Adjusted effective tax rate U	**Tax rate**	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. The effective tax rate for 31 December 2022 is calculated from the current year elements of corporation (£12.6m) and deferred taxes (£(52.5)m) (2021: £(14.5)m and £60.3m respectively), which exclude one-off items. The Board believes that this tax rate provides an indication of the effective average tax rate across the Group on adjusted profit before tax. For further information refer to note 2.6.
Adjusted basic earnings per share U	**Basic earnings per share**	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. The Board believes that this provides an indication of basic earnings per share of the Group on adjusted profit after tax. For the calculation of adjusted basic earnings per share refer to note 2.7.
Adjusted diluted earnings per share U	**Diluted earnings per share**	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. The Board believes that this provides an indication of diluted earnings per share of the Group on adjusted profit after tax. For the calculation of adjusted diluted earnings per share refer to note 2.7.
Cash flows and net debt		
Cash flows generated/(used) by operations before business exits N	**Cash generated / (used) by operations**	Calculated as the cash flows generated from operations excluding the items detailed in note 2.10.2 which includes: business exits (trading results, non-trading expenses) and pension deficit contributions which have been triggered by disposals. The Board believes 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. A reconciliation of reported to cash generated/(used) by operations excluding business exits is provided in note 2.10.2.
Free cash flow before business exits N	**Net cash flows from operating activities**	Calculated as 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, but before the impact of business exits. From 1 January 2022, the Board considers free cash flow and cash generated from operations before business exits provide a more representative measure of the sustainable cash flow of the Group. Free cash flow is a measure used to show how efficient the Group is at generating cash and the Board believes 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. 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 free cash flow excluding business exits is provided in note 2.10.2.

8.2 Alternative performance measures continued

APM	Closest equivalent IFRS measure	Definition, Purpose and Reconciliation
Cash flows and net debt continued		
Adjusted operating cash conversion N	**Operating cash conversion**	Calculated as operating cash flow before business exits divided by adjusted EBITDA. The Board believes 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.

		2022	2021[1]
Adjusted EBITDA	a	**£238.8m**	£143.0m
Working capital		**(£32.7m)**	(£113.6m)
Non-cash and other adjustments		**(£44.7m)**	£38.6m
Operating cash flow before business exits	b	**£161.4m**	£68.0m
Adjusted operating cash conversion	b/a	**67.6 %**	47.6 %

APM	Closest equivalent IFRS measure	Definition, Purpose and Reconciliation
Net debt	**Borrowings, cash, derivatives, lease liabilities and deferred consideration**	Calculated as the net of the Group's: cash, cash equivalents and overdrafts; private placement loan notes debt; other loan notes; currency and interest rate swaps; lease liabilities; and deferred consideration. The Board believes 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. The calculation of net debt is provided in notes 2.10.3 and 4.1.1
Net financial debt (pre-IFRS 16)	**No direct equivalent**	Calculated as the sum of the Group's: cash, cash equivalents and overdrafts; the fair value of the Group's private placement loan notes; other loan notes; and deferred consideration. The Board believes that this measure of net debt allows investors to see the Group's net debt position excluding its IFRS 16 lease liabilities.

	2022	2021
Net debt (note 4.1.1)	**£482.4m**	£879.8m
Remove: IFRS16 impact (note 4.4)	**(£397.5m)**	(£448.4m)
Net financial debt (pre-IFRS 16)	**£84.9m**	£431.4m

APM	Closest equivalent IFRS measure	Definition, Purpose and Reconciliation
Gearing: net debt to adjusted EBITDA ratio U	**No direct equivalent**	This ratio is calculated as net financial debt (pre-IFRS 16) divided by adjusted EBITDA over a rolling twelve month period including business exits not yet completed at the balance sheet date. The Board believes that this ratio is useful because it shows how significant net debt is relative to adjusted EBITDA. This measure has been calculated including and excluding the impact of IFRS 16 leases on EBITDA and net debt because the Board believes this provides useful information to enable investors to understand the impact of the Group's lease portfolio on its gearing ratio. The table below shows the components, and calculation, of the net debt / net financial debt (pre-IFRS 16) to adjusted EBITDA ratio:

	Post IFRS 16		Pre IFRS 16	
	2022	2021[2]	2022	2021[2]
Adjusted EBITDA	**£238.8m**	£181.7m	**£172.3m**	£85.9m
EBITDA in respect of business exits not yet completed	**£1.3m**	£32.2m	**£1.3m**	£32.2m
Adjusted EBITDA (including business exits not yet completed)	**£240.1m**	£213.9m	**£173.6m**	£118.1m
Net debt / net financial debt (pre-IFRS 16)	**£482.4m**	£879.8m	**£84.9m**	£431.4m
Net debt / net financial debt (pre-IFRS 16) to adjusted EBITDA ratio	**2.0x**	4.1x	**0.5x**	3.7x

1. 2021 adjusted results have been re-presented - please refer to note 2.4 for further details.
2. 2021 adjusted EBITDA has been re-presented excluding changes in business exits - please refer to note 2.4 for further details.

N New APM in the year

U Definition updated in the year

R Comparatives re-presented

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