

## CORPORATE GOVERNANCE STATEMENT



**SIR IAN POWELL**  
NON-EXECUTIVE CHAIRMAN

### Chairman's report

I am pleased to present this report on the work of the Capita Board during 2016, formed of this section (pages 64–70) and the section headed 'Other statutory and regulatory information' (pages 71–75).

Although 2016 has been a challenging year, the Board has continued to pursue the highest standard of corporate governance with the intent to uphold the highest standards of business practice. However, I believe that there are a number of areas in which we can continue to improve particularly in respect of Capita's diversity agenda. As an organisation of 73,000 people and one of the UK's largest employers, we must ensure that Capita has leading edge people and incentivisation strategies to empower and encourage our people to have equal opportunities to maximise and fulfil their potential.

As part of the challenges we have faced, governance must work within the structure of a whole organisation, without being overly cumbersome. The balance struck across Capita is greatly assisted by the transparent culture. The changes to the operational structure will further assist our work in this area and ensure oversight and transparency consistently across the entire business.

### Results for 2016

In Andy Parker's report on pages 8–14 we have detailed the results for the year. It has been a challenging year for the Group and the Board, and all Capita people were disappointed to have failed to deliver our expected profit for the year.

We have announced our intention to sell the majority of our Asset Services division and some other non-core businesses. We are on track to complete these in 2017.

The new and extended major contracts secured in 2016 were positive and are detailed within the strategic report. We enter 2017 with a strong pipeline of major sales opportunities and a reshaped and highly focused business development team working both on these deals and on increasing the success of our divisional sales teams.

See page 16 for more information.

### Board activities in 2016

The Board has a standing schedule to meet nine times a year and holds further meetings as required, operating with an open culture in line with Capita's own values and behaviours. We adopt a structured approach when setting Board and committee meetings, which are aligned with the financial calendar of our Company. We set an agenda to cover the wide range of matters that are brought to our attention, ensuring each is given appropriate time and focus.

Some additional meetings took place during the later part of 2016 to deal with the challenging trading conditions facing Capita, focusing on these conditions and the strategic direction that needed to be taken to move forward in 2017.

### Divisional senior management

Following a strategic review of the operations of our business, we restructured the divisions into six divisions from the previous 11. We continue to review the structures of our businesses and management and ensure that these are in line with our strategy for organic growth. These are detailed further on pages 34–44.

### Board evaluation in 2016

Board evaluation is undertaken annually, with external evaluation every three years.

An internal evaluation was undertaken in November 2016. This was carried out by questionnaire requiring written responses from all of the Directors. To ensure independence and objectivity, the questionnaire was conceived, administered and reviewed by the Group Company Secretary, the Chairman, Martin Bolland, and myself. The resultant report was presented in full to the Board.

The evaluation was completed whilst trading was challenging and the focus for the recommendations from the evaluation are detailed below:

- i. A review of the Board pack would be considered by a working party of the Board;
- ii. Additional strategy sessions would be considered for the Non-Executive Directors;
- iii. An action plan would be formulated by the Nomination Committee on Board Diversity.

The report was concluded following the challenges of trading in the later part of the year and subsequent announcements made to the shareholders. The processes for contract reporting and trading updates are being reviewed and will be updated as necessary.

In terms of progress against actions agreed from last year, these were:

- i. Develop risk topics further – working with the dedicated risk committees had enabled more focus to be undertaken in these areas and the Director of Risk and Compliance had provided more in-depth reporting to both these committees and the Audit and Risk Committee;
- ii. Extend topic of talent and succession planning – work continued from that undertaken in 2015 and reported on last year. As shown with the appointment of myself, Chris Sellers and Matthew Lester, succession planning was in place in some areas. Further work would be undertaken in 2017 following the changes to the structure with dedicated time within the Nomination Committee for this work being diarised.

In 2015 a full external evaluation of the Board was undertaken by Corinna Gillies from the independent consultancy Illuminating Leaders, neither of which has any other connection with the Company.

As part of our Board evaluation process, a meeting was held with the Non-Executives and the Senior Independent Director to discuss the performance of Martin Bolland. The views of the Executive Directors were taken into consideration by the Non-Executives as part of the evaluation. Martin Bolland was not present at either meeting. A meeting of the Non-Executive Directors without Executive Directors was also held. Martin Bolland and I met with all members of the Board individually to receive feedback and discuss current and long-term opportunities.

Consideration of the Board balance is kept under review by the Chief Executive and myself.

## BOARD EVALUATION PROCESS

### COMPILATION

Internal evaluation in November 2016  
Questionnaire agreed with Sir Ian Powell, Martin Bolland and Group Company Secretary  
Written questionnaire responses provided by all Directors  
Report presented in full to the Board

### 2017 RECOMMENDATIONS

1. A review of the Board pack would be considered by a working party of the Board
2. Additional strategy sessions would be considered by the Non-Executive Directors
3. An action plan would be formulated by the Nomination Committee on Board diversity

### 2016 ACTIONS

1. Develop risk topics further
2. Extend topic of talent and succession planning

### PROGRESS AGAINST 2016 ACTIONS

1. More in-depth risk reporting provided to both risk committees and the Audit and Risk Committee
2. Good succession planning was in place in some areas in 2016 with further work to be undertaken in 2017 following the changes to the organisational structure

## CORPORATE GOVERNANCE STATEMENT CONTINUED

**Risk and Compliance and Internal Audit**

On pages 46–55 of the strategic report we have described fully the roles of Risk and Compliance and Group Internal Audit together with the risks and internal controls for Capita.

In order for the Board to ensure that the strategic direction and growth of Capita can continue successfully and with the appropriate risk oversight, a number of meetings are held throughout the year. These include individual meetings between the Group Risk and Compliance Director and the Group Internal Audit Director with the Chairman of the Audit and Risk Committee, as well as normal scheduled meetings. Risks are identified and categorised in a number of ways and are prioritised and delegated in accordance with the risk ratings provided to the risk owner.

Both the Group Risk and Compliance Director and the Group Internal Audit Director report to the Group Finance Director and independently to the Audit and Risk Committee. Both report respectively on the internal audit programme and risk and compliance management activities and on the internal audit programme across Capita. They have access to all members of the Board and hold regular meetings with the Executive Directors and meet with the Audit and Risk Committee Chairman and myself at least quarterly. In 2017 a review will be undertaken of the risk sub-committees with a focus on operational, cyber security and IT risks.

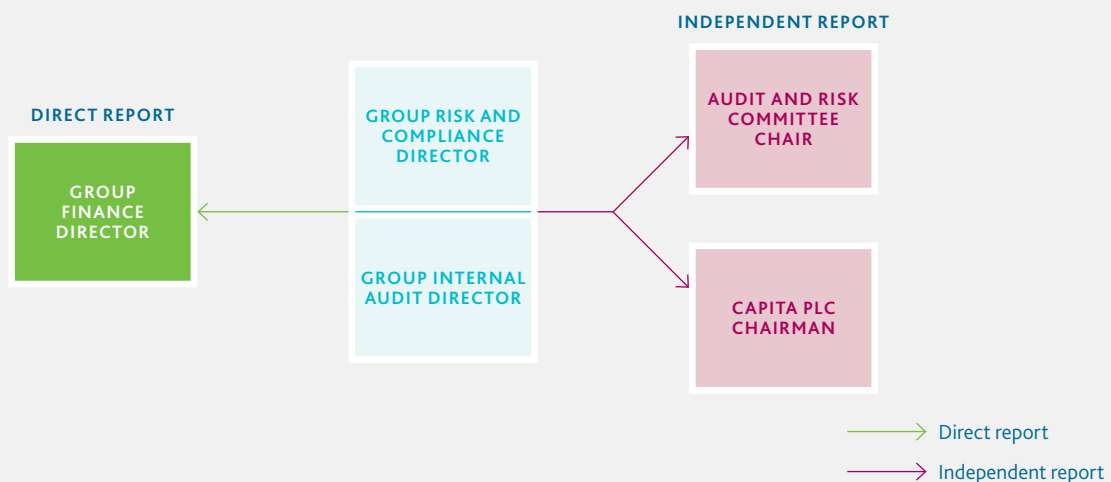
**Directors**

The Directors of the Company currently in office are listed on pages 62–63.

All members of the Board, with the exception of Paul Bowtell, will stand for re-election (Chris Sellers, Matthew Lester and myself for election) at the forthcoming AGM. All of the Board have received a formal performance evaluation, as described, which demonstrated that each Director continues to be effective and committed to the role.

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

**Sir Ian Powell**  
Non-Executive Chairman  
1 March 2017

**RISK, COMPLIANCE AND INTERNAL AUDIT**

## Compliance with the Financial Reporting Council's UK Corporate Governance Code

Capita plc and its subsidiaries (the Group) remain committed to maintaining high standards of corporate governance.

The UK Corporate Governance Code 2014 (the Code) applies to accounting periods beginning on or after 1 October 2014. A copy of the Code is available

from the Financial Reporting Council's website [www.frc.org.uk](http://www.frc.org.uk). Throughout the accounting period to which this report relates, the Company complied with all relevant provisions set out in sections A to E of the Codes except as detailed below:

Code provision	Area of non-compliance	Position during 2016	Position at 1 January 2017
B.1.2 Composition of the Board	During part of the period the Board had an imbalance of Executive Directors to Independent Non-Executive Directors.	From 1 January to 31 August the balance was five Executive Directors, four Independent Non-Executive Directors and a Non-Executive Chairman. From 1 September to 9 November the balance was five Executive Directors, five Independent Non-Executive Directors and a Non-Executive Chairman. From 10 November to 31 December the balance was four Executive Directors, five Independent Non-Executive Directors and a Non-Executive Chairman.	As at 1 January 2017 the balance was four Executive Directors, four Non-Executive Directors and a Non-Executive Chairman.

As noted above, the balance of independent Non-Executives to Executives is now equal and we are compliant with the Code.

Given the diversity of the Group's activities, the Board considers it appropriate to have the four Executive Directors on the Group Board rather than the lower number that many boards have. The presence and membership on the Board of the Group Business Development Director, Chris Sellers, and the Group Performance and Operations

Director, Vic Gysin, means that the Board is able to receive more detailed reports on proposed new contracts and major operational matters from formal Board members and discuss them directly with the responsible Directors.

The Board also believes that the Board should not be too large in order to ensure effective discussion and challenge and considers that the number of Non-Executive Directors provides a well-balanced Board overall.

Our Board has six strong independent Non-Executive Directors, including the Chairman, to provide robust challenge and independent review. This is a large group and provides a sufficiently powerful group to provide collective or individual thought and challenge. The Board feels that a Non-Executive group of six (including the Chairman) is large enough to provide independent strength. Overall the Board composition is specifically designed to ensure it remains an effective forum for appropriately detailed debate and challenge.

## Board changes in the year

Name	Date	Position
Sir Ian Powell	1 September 2016	Appointed Non-Executive Director (Chairman with effect from 1 January 2017)
Dawn Marriott-Sims	9 November 2016	Resigned as Joint Chief Operating Officer
Martin Bolland	31 December 2016	Retired as Chairman
Maggi Bell	31 December 2016	Retired as Group Business Development Director

Further information on the changes to the Board is set out in the Nomination Committee report on [page 78](#).

## CORPORATE GOVERNANCE STATEMENT CONTINUED

## Board composition

	Executive Directors	Non-Executive Directors
1 January 2016 – 31 August 2016	Andy Parker Nick Greatorex Maggi Bell Vic Gysin Dawn Marriott-Sims	Martin Bolland <sup>2</sup> Gillian Sheldon <sup>1</sup> Paul Bowtell <sup>1</sup> John Cresswell <sup>1</sup> Andrew Williams <sup>1</sup>
1 September 2016 – 9 November 2016	Andy Parker Nick Greatorex Maggi Bell Vic Gysin Dawn Marriott-Sims	Martin Bolland <sup>2</sup> Sir Ian Powell <sup>2</sup> Gillian Sheldon <sup>1</sup> Paul Bowtell <sup>1</sup> John Cresswell <sup>1</sup> Andrew Williams <sup>1</sup>
10 November 2016 – 31 December 2016	Andy Parker Nick Greatorex Maggi Bell Vic Gysin	Martin Bolland <sup>2</sup> Sir Ian Powell <sup>2</sup> Gillian Sheldon <sup>1</sup> Paul Bowtell <sup>1</sup> John Cresswell <sup>1</sup> Andrew Williams <sup>1</sup>
As at 1 January 2017	Andy Parker Nick Greatorex Vic Gysin Chris Sellers	Sir Ian Powell <sup>2</sup> Gillian Sheldon <sup>1</sup> Paul Bowtell <sup>1</sup> John Cresswell <sup>1</sup> Andrew Williams <sup>1</sup>
As at 1 March 2017	Andy Parker Nick Greatorex Vic Gysin Chris Sellers	Sir Ian Powell <sup>2</sup> Gillian Sheldon <sup>1</sup> Paul Bowtell <sup>1</sup> John Cresswell <sup>1</sup> Andrew Williams <sup>1</sup> Matthew Lester <sup>1</sup>

1 Independent in accordance with the Code.

2 Independent on appointment in accordance with the Code.

## Frequency of meetings and attendance

During 2016, the Board met nine times, excluding ad hoc meetings solely to deal with procedural matters. Attendance of the Board Directors is recorded in the table below:

	Board meetings
<b>Scheduled meetings</b>	<b>9</b>
Martin Bolland	9
Sir Ian Powell <sup>1</sup>	3
Andy Parker	9
Nick Greatorex	9
Maggi Bell	9
Vic Gysin	8
Gillian Sheldon	9
Paul Bowtell	8
John Cresswell	9
Andrew Williams	9
Dawn Marriott-Sims <sup>2</sup>	8

1 Sir Ian Powell was appointed to the Board on 1 September 2016.

2 Dawn Marriott-Sims resigned from the Board on 9 November 2016.

Due to the nature of the acquisition and bid strategy, consideration of meeting times has to include flexibility to hold meetings outside of this timetable and meetings of this nature tend to be held by telephone.

Any Director's absence from Board meetings was previously agreed with the Chairman of the Board or the Chief Executive.

During 2016, the following formal Director meetings took place:

- › The Chairman held one-to-one review sessions with each Executive Director and each Non-Executive Director.
- › The Non-Executive Directors met without Executive Directors.
- › The Non-Executive Directors met with just the Chief Executive.
- › The Non-Executive Directors met without the Chairman, led by the Senior Independent Director.

## Board leadership

Consistent with previous years, the Board continues to support the need to segregate the responsibility for operating the Board and managing the underlying business. This will continue in 2017 with Sir Ian Powell's role as Non-Executive Chairman and the role of Andy Parker as Chief Executive being separate.

Martin Bolland as Non-Executive Chairman, Sir Ian Powell as Chairman Designate and Gillian Sheldon as Senior Independent Director also held meetings solely comprising the Non-Executive Directors during 2016. Both Sir Ian and Gillian are also available to meet with shareholders when requested.

## Role of the Board

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

## ROLE OF THE BOARD

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 (amongst 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, customers and others.

The impact of the Company's operations on the community and the environment.

The desirability of the Company maintaining a reputation for high standards of business conduct.

The need to act fairly towards all shareholders of the Company.

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

### Board independence

Non-Executive Directors are required to be independent in character and judgement. All relationships that may materially interfere with this judgement are disclosed as required under the conflicts of interest policy. The Board has determined that all the Non-Executive Directors who served during the year were independent and before and upon appointment as Chairman, both Sir Ian Powell and Martin Bolland met the criteria of independence as outlined in the Code.

The Board does not believe that a Non-Executive's tenure materially interferes with their ability to act in the best interests of the Group. The Board also believes that each of the Non-Executives has retained independence of character and judgement and has not formed associations with management or others that may compromise their ability to exercise independent judgement or act in the best interests of the Group.

The Board is satisfied that no conflict of interest exists for any Director. This matter is a standing agenda item.

## MATTERS RESERVED FOR THE BOARD

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

Strategy and management, including responsibility for the overall leadership of the Group, setting the Group's values and standards and overview of the Group's operational management.

Structure and capital including changes relating to the Group's capital structure and major changes to the Group's corporate structure including acquisitions and disposals and changes to the Group's management and control structure.

Financial reporting including the approval of the half-yearly report, interim management statements and preliminary announcement for the final results. Also the approval of the dividend policy, the setting and approval of treasury policies and establishing and maintaining accounting policies.

Internal controls, ensuring that the Group manages risk effectively and approves all acquisitions, disposals of assets and share acquisitions.

Contracts, including approval of all major capital projects and major investments including the acquisition or disposal of interest of more than 3% in the voting shares of any company or the making of any takeover offer.

Ensuring satisfactory communication with shareholders.

Any changes to the structure, size and composition of the Board.

### Board of Directors' inductions 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. These have included familiarisation with:

- › Terms of reference for all committees and matters reserved for the Board
- › Overviews of the business via Monthly Operating Board (MOB) review reports
- › The Group approach to risk management.

On the announcement of the appointments of Sir Ian Powell, Chris Sellers and Matthew Lester to the Board, they received training and induction sessions with the previous Chairman, Executive Directors, the Group Company Secretary, the Group Risk and Compliance Director and the Group Internal Audit Director. Sir Ian Powell has held further induction meetings with the Divisional Executive Officers and other senior management.

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

### Group Company Secretary

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

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

The Group Company Secretary has direct access and responsibility to the Chairs of the standing committees and open access to all the Directors. The Group Company Secretary has been appointed as Secretary to the Audit and Risk, Remuneration and Nomination Committees to ensure that there are no conflicts of interest.

## CORPORATE GOVERNANCE STATEMENT CONTINUED

The Group Company Secretary meets regularly with the Chairman, the Chair of the Audit and Risk Committee and the Chair of the Remuneration Committee, and briefs them on areas of governance and committee requirements.

### Dialogue with shareholders

The Board encourages and seeks to build a mutual understanding of objectives between Capita and its shareholders. As part of this process the Executive Directors make regular presentations and meet with institutional shareholders to discuss the Group's business model and growth strategy, address any issues of concern, obtain feedback and consider corporate governance issues. The Board welcomed the revised UK Stewardship Code 2012 and the steps it made to improve engagement and purposeful dialogue between companies and investors. All shareholders are encouraged to attend the Annual General Meeting and information for shareholders is available on the Company's website – [www.capita.com](http://www.capita.com). All the Non-Executive Directors are available to meet with shareholders to understand their views more fully. The Chairman is available to the significant shareholders of Capita.

The Corporate Communications team has effective day-to-day responsibility for managing shareholder communications and always acts in close consultation with the Board. Shareholders can also access up-to-date information through the Group's website at [www.capita.com](http://www.capita.com). A telephone helpline, 0871 664 0300, provides a contact point directly to the Group's registrars.

In 2016, the Corporate Communications team and the Board maintained active, targeted communications with existing and potential shareholders and the wider investment community. The team focused on creating opportunities for Capita's CEO to further build his relationships with the investment community. It ensured that all shareholders were appraised of the causes of the weaker financial performance in the second half of the year and offered meetings with both Executive and Non-Executive Board members as necessary. Capita's share register includes a balanced set of long-term shareholders from the UK and overseas with substantial shareholdings.

## CASE STUDY: BOARD DIRECTOR'S INDUCTION AND TRAINING

Chairman – Sir Ian Powell

Began four-month handover and shadowing of Martin Bolland

Commenced meetings with Divisional Executive Officers and key heads of services

Provided with terms of reference for all committees

Provided with terms of reference for matters reserved for the Board

Training from Group Company Secretary

Briefing in governance and stakeholder relationships

Briefing from Group Risk and Compliance Director

Meetings with Head of Communications and Head of Investor Relations

Attendance at Divisional Business Planning Presentations

Commenced meetings with key shareholders

All members of the Board, including the Non-Executive Directors, receive a report on any significant discussions with shareholders and feedback that follows the annual and half-yearly presentations to investment analysts and shareholders. All analyst reports concerning Capita are circulated to the Directors.

Directors, including the Chair of the various committees, are present at the Annual General Meeting to answer any questions. The Board particularly encourages communication with and the participation of private investors at the Annual General Meeting.

### Remuneration Committee

Details of the Remuneration Committee and its activities are given in the Directors' remuneration report on pages 89–105.

### Risk management and internal control

The Board monitors the Company's risk management and internal control systems and annually carries out a review of their effectiveness. This is reported within the Audit and Risk Committee report. 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 46–54.

## Other statutory and regulatory information

### Strategic report

The Company is required to prepare a fair review of the Group's business during the financial year and its position at 31 December 2016 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 1–61. Details of the Group's business goals, strategy and model are on pages 6–7.

### Corporate governance report

The corporate governance statement as required by Rule 7.2.1 of the Financial Conduct Authority's Disclosure and Transparency Rules is set out on pages 62–105.

### Election to apply FRS101 – Reduced Disclosure Framework

The parent company continues to apply UK GAAP in the preparation of its individual financial statements in accordance with FRS101 and these are contained on pages 171–188. FRS101 applies IFRS as adopted by the European Union with certain disclosure exemptions. No objections were received from shareholders.

### Management report

For the purposes of Rule 4.1.5R(2) and Rule 4.1.8R of the Financial Conduct Authority's Disclosure and Transparency Rules, this Directors' report and the strategic report on pages 1–61, comprise the management report.

### Events after the balance sheet date

There are no post balance sheet events that require disclosure.

### Appointment, re-appointment and removal of Directors

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

All Directors are subject to election at the first Annual General Meeting after their appointment and to re-election at intervals of no more than three years in accordance with the Code and the Company's Articles of Association. However, all Directors (apart from Paul Bowtell) will retire and will offer themselves for re-election (Sir Ian Powell, Chris Sellers and Matthew Lester for election) at the Annual General Meeting in June 2017, in accordance with the UK Corporate Governance Code.

No person, other than a Director retiring at the meeting, shall be appointed or re-appointed a Director of the Company at any general meeting unless he/she is recommended by the Directors.

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

### Group activities

Capita is the UK's leading provider of technology-enabled business process and customer management services and professional services. We generate the majority of our revenues from long-term contracts and partnerships across the private and public sectors. The Group's chosen markets are in the private sector – life, pensions and insurance, financial services, utilities and telecoms, retail, travel and transport, and other private sector, and in the public sector – central government, local government, education, health, justice and emergency services and defence.

Transforming business processes to drive down administration costs while also improving the end-user experience is the goal of the majority of what we do for our clients. We focus on delivering technology-enabled solutions, providing excellent customer service and operational delivery. We will combine our expertise with technology to make processes smarter, organisations more efficient and customer experiences better.

A review of the development of the Group and its business activities during the year is contained in the strategic report on pages 1–61. Our divisional operations and financial performance are detailed on pages 34–45.

### Profits and dividends

The Group's reported profit before taxation amounted to £74.8m (2015: £112.1m). The Directors recommend a final dividend of 20.6p per share (2015: 21.2p per share) to be paid on 3 July 2017 to ordinary shareholders on the Register on 26 May 2017. This gives a total dividend for the year of 31.7p per share (2015: 31.7p per share).

The employee benefit trust has waived its right to receive a dividend on the shares being held within the Trust.

### Conflicts policy

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. In response to the conflicts of interest provisions, a comprehensive project was undertaken in 2008 to identify and disclose any conflicts of interest that have arisen or may arise across Capita. Procedures were implemented for evaluating and managing conflicts that have been identified in a way that ensures that decisions are not compromised by a conflicted Director. In addition, the Company's Articles of Association give the Board the power to authorise matters that give rise to actual or potential conflicts. The Board reports annually on the Company's procedures for ensuring that the Board's powers of authorisation of conflicts are operated effectively and that the procedures have been followed. A policy for ongoing identification and disclosure of conflicts is in place and is kept under regular review.



## CORPORATE GOVERNANCE STATEMENT CONTINUED

The Board has authorised the conflict of Nick Greatorex being a trustee of the Capita Pension and Life Assurance Scheme and gave specific guidance on this conflict going forward. Nick Greatorex did not participate in the discussion or vote on the guidance given. No other conflicts of interest declared were material to the Board. All conflicts

of interest are reviewed on an annual basis by the Board and are revisited as part of the year-end process by the Directors. None of the Directors of the Company had a material interest in any contract with the Company or its subsidiary undertakings, other than their contracts of employment.

**Directors' interests**

Details of Directors' interests in the share capital of the Company are listed on page 102.

**Share capital**

As at 17 February 2017, 670,241,242 ordinary shares of 2<sup>1</sup>/<sub>15</sub>p each have been issued and are fully paid up and are quoted on the London Stock Exchange. There are 3,100,242 shares held in treasury and the total number of voting shares is 667,141,000. During the year ended 31 December 2016, options were exercised pursuant to the Company's share option schemes, resulting in the allotment of 131,037 new ordinary shares. No shares have been allotted under these schemes since the end of the financial year to the date of this report. Of the total issued share capital, 1,714,041 shares are held within an employee benefit trust used for satisfying employee share options.

The share price at 31 December 2016 was 531p. The highest share price in the year was 1,206p and the lowest was 431.3p.

The Company renewed its authority to re-purchase up to 10% of its own issued share capital at the Annual General Meeting in May 2016. During the year, the Company did not purchase any shares (2015: nil).

**Major shareholders**

At 31 December 2016, the Company had received notifications that the following were interested in accordance with the Disclosure and Transparency Rules (DTRs):

Shareholder	Number of shares	% of voting rights as at 31 December 2016	Number of shares direct	Number of shares indirect
Veritas Asset Management LLP*	74,851,477	11.22	–	74,851,477
Woodford Investment Management LLP	71,070,139	10.65	71,070,139	–
Invesco Asset Management	65,566,578	9.83	–	65,566,578
The Capital Group Companies, Inc.	54,667,036	8.19	–	54,667,036
Baillie Gifford & Co Limited	50,923,208	7.63	–	50,923,208
BlackRock, Inc.	37,844,547	5.67	–	37,844,547
Marathon Asset Management LLP	22,618,408	3.39	–	22,618,408
T. Rowe Price	21,888,589	3.28	–	21,888,589
Standard Life Investments	20,426,845	3.06	20,426,845	–

\* This includes the holding of Veritas Funds PLC.

As at 17 February 2017, the Company had received notifications that the following were interested in accordance with the DTRs:

Shareholder	Number of shares	% of voting rights as at 17 February 2017	Number of shares direct	Number of shares indirect
Veritas Asset Management LLP*	81,163,342	12.17	–	81,163,342
Woodford Investment Management LLP	72,080,139	10.80	72,080,139	–
Invesco Asset Management	65,536,317	9.82	–	65,536,317
The Capital Group Companies, Inc.	60,297,424	9.04	–	60,297,424
Baillie Gifford & Co Limited	50,632,716	7.59	–	50,632,716
BlackRock, Inc.	38,567,956	5.78	–	38,567,956
Marathon Asset Management LLP	22,537,714	3.38	–	22,537,714
T. Rowe Price	19,521,004	2.93	–	19,521,004
Standard Life Investments	20,757,280	3.11	20,757,280	–

\* This includes the holding of Veritas Funds PLC.

**Viability statement**

This statement is detailed in full on page 55.

In accordance with provision C.2.2 of the 2014 revised Code, the Directors have assessed the viability of the Group over the three-year period to 31 December 2019, taking into account the Group's current position and the potential impact of the principal risks set out in the strategic report above. Based on this assessment, the Directors have a reasonable expectation that the Group is and will continue to be viable.

### Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report on pages 1–61. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 28–31. In addition, note 26 to the financial statements on pages 145–154 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.

The Group has sufficient financial resources and available funding options together with long-term contracts with a wide range of public and private sector clients and suppliers. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully.

The Company has not defaulted on, or breached the terms of, any material loans during the year.

The Group not only assesses the liquidity available to it to meet liabilities as they fall due, it must also assess its position in relation to its debt covenants both at the balance sheet date and for the period covered by the going concern statement. The covenants provided are adjusted net debt to adjusted EBITDA and adjusted EBITA to underlying interest and have been provided in respect of the Group's debt and banking facilities. The certifications are bi-annually and cover 12 months to the June half-year and to the December full year.

Key judgements are required in making this assessment, as set out below, together with the Board's considerations:

- › The Company's calculation of adjusted Net Debt to adjusted EBITDA at 31 December 2016 is 2.9 times and is in compliance with the ratios. Headroom has narrowed from previous periods in light of the performance of the Group in the year.

- › The Directors have applied their judgement in the preparation of these financial statements upon which the covenants are based. For the purpose of the calculation the Company has calculated the ratios for 2016 by applying the same treatment that has been applied in preparing the financial statements. Accordingly, items that are presented as non-underlying are excluded from the covenant definition of adjusted EBITDA, with the exception of acquisition costs. The basis of calculation is also consistent with the approach adopted in prior years.
- › The proposed disposal of non-core trading businesses but excluding the Asset Services division disposal. The expected proceeds from these disposals are assumed to be used to reduce the Company's gearing and strengthen the balance sheet in its forecast assumptions.

In concluding its assessment, the Board considered the above key measures and appropriate sensitivities, the Company's principal risks and uncertainties, the liquidity position of the Group taking into account the significant undrawn but committed facilities available, and reviewed compliance with and availability of headroom in relation to all key covenants.

The Board also considered a number of stress test scenarios to assess the robustness of the Group's cash flow forecasts. Under such scenarios, the Board considered the mitigating action available to it in managing its funding – these include deferral of capital and acquisition expenditure and arrangements with the Group's key suppliers.

After making enquiries, and having assessed the principal risks and other matters disclosed in relation to the viability statement on page 55, and in accordance with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting 2014, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future.

Accordingly, they consider it appropriate to adopt the going concern basis in preparing the annual financial statements. There are no material uncertainties to the Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements.

### Disabled persons

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

### Employee involvement

Capita has a real focus on supporting talent and development within the Group. Capita's approach to employee development ensures that individuals are offered continual challenges in their roles, supported through learning opportunities and personal development. The Group offers employees a comprehensive range of key business and management skills and personal development programmes through our internal training partners, as well as externally recognised universities and learning partners. At the same time our businesses provide business-specific training for all employees relevant to their role. In addition, the Group supports the achievement of professional qualifications including a range of National Vocational Qualifications and apprenticeships.

## CORPORATE GOVERNANCE STATEMENT CONTINUED

Employees receive news of the Group through: frequent email notices; internal notice board statements; the Group employee intranet, Capita Connections, and regular email updates on business performance from both Divisional and Group Directors. Capita Connections enables employees to find out what is happening in the wider Group and to share information within and between business units and employees are encouraged to contribute news, views and feedback. The Group maintains a strong communications network and employees are encouraged, through its open door policy, to discuss with management matters of interest to the employee and subjects affecting day-to-day operations of the Group. Employees are also encouraged to share their views through our employee survey and as outputs Divisions develop action plans to address any improvements that are highlighted.

Capita has an established employee share plan designed to promote employee share ownership and to give employees the opportunity to participate in the future success of the Group. In keeping with its belief that employees are the Group's most valuable asset, the Group operates employee recognition schemes both at Group and divisional level. The Capita People Awards, for example, celebrate the core values that embody the organisation and recognise employees for service excellence, teamwork, leadership, innovation and improvement, inter-divisional collaboration and charitable support and community engagement.

### Political donations

The Group did not make any political donation or incur any political expenditure during the year (2015: £nil).

### Greenhouse gas emissions

Details of the Group's greenhouse gas emissions are set out on page 60 of the strategic report.

### Financial instruments

The Group's financial instruments comprise primarily bonds, bank loans, finance leases and overdrafts. The principal purpose of these is to raise funds for the Group's operations. In addition, various other financial instruments such as trade creditors and trade debtors arise directly from its operations. From time to time, the Group also enters into derivative transactions, primarily interest rate swaps, currency swaps and forward exchange contracts, the purpose of which is to manage interest risk and currency risk arising from the Group's operations and its sources of finance.

The main financial risks, to which the Group has exposure, are interest rate risk, liquidity risk, credit risk and foreign currency risk.

The Group borrows in selected currencies at fixed and floating rates of interest and makes use of interest rate swaps and currency swaps to generate the desired interest profile and to manage its exposure to interest rate fluctuations.

In respect of liquidity risk, the Group aims to maintain a balance between continuity of funding and flexibility through the use of multiple sources of funding including bonds, bank loans, loan notes, finance leases and overdrafts, over a broad spread of maturities.

In respect of credit risk, the Group trades only with recognised, creditworthy third parties. 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.

With respect to credit risk arising from the other financial assets of the Group, such as cash, financial investments and derivative instruments, the Group's exposure to credit risk arises from default of the counterparty. The Group manages its operations to avoid any excessive concentration of counterparty risk and the Group takes all reasonable steps to seek assurance from the counterparties to ensure that they can fulfil their obligations.

The Group is not generally exposed to significant foreign currency risk, except in respect of its overseas operations in Europe, India and South Africa, which generates exposure to movements in the euro, Swiss franc, Indian rupee and South African rand exchange rates. The Group seeks to mitigate the effect of this exposure by entering into forward currency instruments, including non-deliverable forward contracts, to fix the sterling cost of highly probable forecast transactions denominated in Indian rupees and South African rand. Exposures to the euro and Swiss franc are mitigated through the use of foreign exchange derivatives or borrowings in those currencies. Further details of the Group's financial instruments can be found in note 26 to the consolidated financial statements on pages 145–154.

### Qualifying third party indemnity provisions for the benefit of Directors

Under the Companies Act 2006, companies are under an obligation to disclose any indemnities which are in force in favour of their directors. The current Articles of Association of the Company contain a provision that enables the Company to indemnify the Directors of the Company in respect of certain liabilities and costs that they might incur in the execution of their duties as Directors. Such provisions have been in force during the year and are in force at the date this report is approved. Copies of the relevant extract from the Articles of Association are available for inspection at the registered office of the Company during normal business hours on any weekday and will be available at the venue of the 2017 Annual General Meeting from 15 minutes before the meeting until it ends.

All Directors have deeds of indemnity. These will be available for inspection at the Annual General Meeting with the service contracts.

### Powers of Directors

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

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

### Change of control

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

Capita has a number of borrowing facilities provided by various banks and other financial institutions. Capita's bank debt contains a change of control provision under which the banks may require immediate repayment in full on change of control. The bonds issued by Capita contain a change of control provision which requires the Group to offer to prepay the bonds in full if a change of control event occurs and Capita does not obtain an investment grade credit rating.

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

### Rights and restrictions attaching to shares

Under the Company's Articles of Association, holders of ordinary shares are entitled to participate in the receipt of dividends pro rata to their holding. The Board may propose and pay an interim dividend and recommend a final dividend in respect of any accounting period out of the profits available for distribution under English law. A final dividend may be declared by the shareholders in a 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 at the meeting shall be decided on a poll. On a poll, every member who is present in person or by proxy shall have one vote for every share of which they are the holder.

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

### Restrictions on transfer of shares

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

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

### Annual General Meeting

The 2017 Annual General Meeting (AGM) of the Company will be held at the London Conrad St James Hotel, 22-28 Broadway, Westminster, London, SW1H 0BH, on 13 June 2017. At the AGM a number of resolutions will be proposed. The resolutions are set out in the Notice of Meeting, which is sent to shareholders with the 2016 Annual Report and Accounts and includes notes explaining the business to be transacted and is also available on the Company's website at [www.capita.com](http://www.capita.com).

In May 2016, shareholders granted authority for the Company to purchase up to 66,531,995 ordinary shares – this authority will expire at the conclusion of the 2017 AGM. No shares were purchased during 2016. A resolution to renew this authority will be put to shareholders at the 2017 AGM.

The Directors consider that each of the resolutions are 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 working (clear) 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	115
9.8.4 (2) (4-11) and (14)	n/a	n/a
9.8.4 (12-13)	Shareholder waiver of dividends	71

## CORPORATE GOVERNANCE STATEMENT CONTINUED

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

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

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

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

- › Select suitable accounting policies and then apply them consistently.
- › Make judgements and estimates that are reasonable and prudent.
- › For the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU.
- › For the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements.
- › Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

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 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 complies 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.

Details of the principal risk categories can be found on page 50.

### Approval of the annual accounts

#### Responsibility statement of Directors in respect of the annual financial statements

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 as a whole.

- › The Directors' report, including content by reference, includes a fair review of the development and performance of the business and the position of the Issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

#### Directors' statement on the Annual Report

The Directors consider the Annual Report taken as whole, to be fair, balanced and understandable and that it provides the information necessary for the shareholders to assess the Company's position and performance, business model and strategy.

The Directors' report (pages 1–105) has been approved by the Board.

On behalf of the Board

**Francesca Todd**  
Group Company Secretary  
1 March 2017

Capita plc  
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