Capita plc

Half Year Results 2020

Summary

- Challenging six months for Capita and our colleagues
- We continue to make progress delivering operational improvement as part of our transformation
- It enabled us to respond to COVID-19 with robust and decisive action to protect services and the business
- COVID-19 impact has come in a pivotal year for Capita when we expected to see revenue growth
- Profit has been significantly affected and the delay in the return to growth means we will not generate sustainable cash flow[2] for 1-2 years
- We have accelerated strategic decisions including to simplify and align the Software portfolio with core Capita
- Disposal proceeds will be used to strengthen the balance sheet

H1 2020 Financial outcome

- Adjusted revenue[1] decreased by 9% to £1,652.2m (H1 2019 £1,815.5m), mainly due to 2019 contract losses and COVID-19 impact
- Adjusted profit before tax[1] of £30.1m (H1 2019 £117.8m); decline resulting from change in profit mix from prior year revenue losses, net impact of COVID-19 and £42.6m non-cash accrual for untaken holiday
- Reported loss before tax of £28.5m (H1 2019 profit £31.2m)
- Adjusted cash from trading operations[2] of £193.3m (H1 2019 £187.8m); Adjusted free cash flow £176.0m (H1 2019 £30.1m); improved operating cash flow and a £77m benefit from early customer payments
- H1 covenants achieved: gearing ratios at 2.1x for Euro and 1.5x for US notes; net debt of £1,096.6m (31 December 2019 £1,353.2m); liquidity of £704.1m; includes £117.3m benefit from VAT deferral scheme

Continuing to improve the business

- Fixing underperforming contracts, improving operational delivery and strengthening client relationships, developed further by strong COVID-19 response
- £73m delivered in the cost transformation programme
- Winning and renewing significant contracts to offset losses; more opportunities in the pipeline

Robust response to COVID-19

- Colleagues' safety prioritised; over 50,000 employees working remotely and 4,400 furloughed at peak
- Decisive action to secure delivery of resilient core of long-term digital business process outsourcing ('BPO') and software contracts
- Robust cost and cash preservation measures deliver £57m of offset to revenue loss in the first half

Simplify the portfolio and strengthen the balance sheet

- Accelerated strategic decisions, including to focus on a portfolio of software capabilities better aligned to Capita's core services and vertical markets; Eclipse Legal Systems ('Eclipse') sold on 30 June
- Disposal proceeds to be used to strengthen the balance sheet by reducing net debt and pension liabilities

Outlook

- Expect COVID-19 to continue to negatively impact volumes and transactional revenue
- Further cost action and holiday accrual reversal to benefit H2
- Expect to comply with H2 covenants; net debt returns towards 31 December 2019 levels
- Inflection to sustainable cash flow[2] delayed by 1-2 years
- Continue to build a more focused, sustainable business for the long term

Jon Lewis, Chief Executive Officer, said:

"Capita and its people faced a challenging first half of the year, like many other companies. Thanks to our transformation progress over the last two years - and the hard work and professionalism of our colleagues - we were able to deliver a strong and decisive operational response to the COVID-19 crisis.

"However, this crisis has come in a pivotal year for Capita when we had expectations of beginning to generate revenue growth and sustainable cash flow.

"Instead, we have had to focus on managing our way through the crisis, while accelerating some strategic decisions, including our plan for the disposal of Education Software Solutions, a standalone business in our Software division.

"We expect to make further disposals which, alongside other measures, will strengthen the balance sheet and help build towards a more focused, sustainable Capita for the long term. These are unprecedented times and we need to adapt but our strategy remains the right one."

Six months ended 30 June 2020

Financial highlights - continuing operations	Reported 2020	Reported 2019	Adjusted[1] 2020	Adjusted[1] 2019	Adjusted[1] YOY change
Revenue	**£1,682.7m**	£1,852.0m	**£1,652.2m**	£1,815.5m	(9)%
Operating profit/(loss)	**(£34.6m)**	£60.8m	**£57.6m**	£146.1m	(61)%
Profit/(loss) before tax	**(£28.5m)**	£31.2m	**£30.1m**	£117.8m	(74)%
Earnings per share	**0.38p**	1.36p	**3.38p**	5.43p	(38)%
Free cash flow	**£277.7m**	(£85.9m)	**£176.0m**	£30.1m	485%
Net debt	**(£1,096.6m)**	(£1,215.1m)	**(£1,096.6m)**	(£1,215.1m)	10%

[1] Capita reports results on an adjusted basis to aid understanding of business performance. In 2019, International Financial Reporting Standard 16 Leases (IFRS 16) was adopted, and to aid comparison with 2019, the primary adjusted measures used by the Board for evaluating performance were presented before the impact of IFRS 16. The 2019 adjusted results have been represented in 2020 to include IFRS 16. Refer to alternative performance measures in the appendix.

[2] Sustainable cash flow = reported free cash flow including restructuring costs, pension deficit payments, non-recourse trade receivables financing and payment of deferred VAT

Investor presentation

A presentation for institutional investors and analysts hosted by Jon Lewis, CEO and Patrick Butcher, CFO, will be held at 09:00am UK time, Tuesday 18th August 2020. This will be a live audio webcast on our website www.capita.com/investors and will subsequently be available on demand. The presentation slides will be published on our website at 07:00am and a full transcript will be available by midday the following day.

Webcast link:

https://webcast.openbriefing.com/capita-hy20/

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This announcement contains inside information for the purposes of article 7 of EU Regulation 596/2014.

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Chief Executive Officer's Review

Summary

This has been a challenging six months for Capita. We began 2020 with expectations of improving the business further, delivering modest growth (halting three years of revenue decline) and significantly increasing adjusted free cash flow, although with lower adjusted profit than 2019. The first quarter, up until the impact of COVID-19, was in line with our expectations.

However, since then we have had to respond to the impact of COVID-19. We reacted early and our strong programmatic response has enabled us to focus on our colleagues' wellbeing and client service delivery and reflects the resilience of much of the outsourced services work that we do. Robust cost and cash saving initiatives have partly mitigated the negative impact; these have only been possible due to the actions we have taken over the past two years to simplify and strengthen the organisation.

Whilst we have met our debt covenants at the half year, the pandemic has also amplified financial challenges, in particular to our balance sheet at a time when we were planning to reduce risk through improving cash from trading operations, an intended bond issuance and the disposal of a large part of our Specialist Services division. We repaid £163m to our noteholders in June and will repay another £56m in September.

We have scheduled debt repayments of around £500m between 1 July 2020 and 31 December 2022. Proceeds from non-core disposals, including standalone software products which do not align to our core digital BPO services, will be used to support these payments and to manage our pension liabilities. If market conditions allow, we will also look to push our maturities out by raising new debt.

We now expect the impact of COVID-19 to delay our inflection to the generation of sustainable free cash flow. But we will continue to work towards making this a simpler, more predictable and stable business, generating sustainable growth and free cash flow. Following the investment to date we are now better placed, with more tools and information for leadership to manage the business, in a better position to engage with more satisfied clients on the back of improved service delivery and having invested in our digital core competencies. Our ambition is to increase revenue in 2021 and beyond, at higher margins, and at the same time implement structural cost savings and further efficiencies in our core digital BPO and software businesses.

Financial outcome

Adjusted revenue[1] in the first half has declined by 9% to £1,652.2m (H1 2019 £1,815.5m). Around 4% of this (c.£80m) relates to revenue lost due to the impact of COVID-19, mainly in transactional businesses and those where client end-markets were severely affected. We managed to offset this partially with Government contracts to support the Department for Work and Pensions ('DWP') in particular and which benefited half-year revenue by £32m. The remainder of the decline was expected, representing the impact of contracts lost in the second half of 2019, specifically local government contracts.

Adjusted profit before tax[1] for the half year was £30.1m (H1 2019 £117.8m) on a post-IFRS 16 basis. The decline is due firstly to the net change in margin from revenue losses and wins from 2019, as we lost high contribution and margin contracts and renewed or won lower margin work, as well as the impact of revenue losses from COVID-19. We partially offset this with £129.5m of cost savings: £72.6m from our ongoing transformation programme and £56.9m in additional cost savings specifically as a result of COVID-19, such as lower travel and property costs and payroll savings, some of which are expected to continue into 2021. There is also a £42.6m non-cash charge for holiday pay accrual which is as a result of high levels of untaken holiday for our 60,000 colleagues; this is expected to reduce significantly in the second half. The loss relating to the start-up of the Defence Fire and Rescue Project ('DFRP') is £6m at the half year and is still expected to be around £20m on a full year basis. This contract is going well to date and over its lifetime is forecast to generate good profit and cash flow.

Adjusted cash from trading operations was £193.3m (H1 2019 £187.8m) as the improvement in underlying cash conversion along with cash preservation and profit protection measures offset the negative impact of COVID-19 and contract losses, as well as positive impact from contractual working capital. Adjusted free cash flow[1] during the first half year was £176.0m (H1 2019 £30.1m), which in addition to the above impacts reflects the expected year on year reduction in capital expenditure and £77m of advance customer receipts. Further cash benefits including £117m of deferred VAT and £33m from a receivables financing facility, put in place for additional risk management, have contributed to a positive movement in headline net debt of £256.6m. Net debt at 30 June 2020 was £1,096.6m (31 December 2019 £1,353.2m), helped by these cash preservation initiatives, with covenants compliant with gearing ratios at 1.5x for the US notes and 2.1x on the Euro notes. Liquidity at 30 June was £704.1m.

Continued progress in operational improvement

As part of our ongoing transformation, we have continued to focus on delivering better quality service to our clients. We are also focused on reducing the cash burn on underperforming contracts as well as making the whole contract base more efficient. Over time this leads to more sustainable revenue from satisfied clients and higher profit and cash margins.

Previously we have focused on three large contracts that have underperformed historically, both operationally and financially: the Army Recruiting Partnering Project ('RPP') contract, Primary Care Support England ('PCSE') and mobilcom-debitel. Operationally these are all now performing better, with RPP achieving 96% of its soldier recruitment targets in the year to March 2020 (and would have achieved 100% had basic training not been paused due to the pandemic) and key performance indicators ('KPIs') on the other two closer to targets. As a result of COVID-19-related restrictions we now expect profit across the three contracts to break even in 2021. We continue to target significant cash improvement on these and other cash-negative contracts, where poor execution in early transformation phases now results in cash-negative performance.

Our contract renewal rate for the Group is 70%, a reduction since 2019 as more regularly we have chosen not to bid for contracts where they do not align with strategy or we don't believe we can achieve acceptable margins. This renewal rate is partly a reflection of overall increases in customer satisfaction but in particular a positive result of our COVID-19 response and handling of the move to remote working and preserving service delivery wherever possible. There have also been pragmatic, short-term extensions during the pandemic as clients minimise change and disruption and we will continue to work with those clients to seek longer term renewals on better terms.

An example of Capita's better approach and execution of large-scale programmatic transformation contracts is the Defence Fire and Rescue Project (Capita Fire and Rescue) which we secured in July 2019. All three elements of the contract have now transferred to Capita (training, vehicles & equipment, service delivery). All KPIs have been met through the first quarter of full service. The programme milestones continue to be met on time, on budget and at the planned quality, including the first tranche of vehicles being delivered and the roll out of enabling IT systems.

Building for future revenue growth

Our ability to sustainably grow our revenue remains a fundamental part of our long-term success.

We have improved the way that we go to market. Every division except Specialist Services, now uses one single CRM, reducing from 34 different systems. This allows us to maximise opportunities and leverage our products, capabilities and relationships across Capita. It also allows us for the first time to access accurate, real time data which is a step up in our ability to manage the revenue outlook. Our investment in Capita Consulting has been affected by the impact of COVID-19, and we have had to take some difficult decisions on the short term future of that business, but it has already delivered contract work that we believe will result in significant associated pull-through revenue, for example through our work in local government or with the Ministry of Defence ('MoD'). The consulting practice is still expected to grow this year, against the tough market backdrop, albeit behind our original ambitions.

In the first half we won £1.5bn of Total Contract Value ('TCV') revenue, of which £770m was new order book revenue and the remainder comprises framework and transactional revenue. Major contract wins included the Ministry of Justice Electronic Monitoring Scheme ('EMS') (£114m over three years), a two year extension for a European telecoms client worth £114m, the renewal of the Teachers Pension Scheme (£60m over four years), the Civil Service Apprentices framework (estimated at £80m over ten years) and the new Irish Water customer support contract (£60m over five years). Subsequent to the 30 June we have secured a £355m contract extension for Transport for London's ('TfL') congestion charge and Ultra Low Emission Zone ('ULEZ') as well as implementing the ULEZ extension.

We have also lost a number of contracts which will negatively impact the remainder of 2020 and 2021. These include a competitive retender for a customer management contract for an automotive client and a Transport industry customer management, which is being taken in house.

At 30 June 2020 the orderbook was £6,273.8m, a decrease of £445.8m since December 2019. Around £400m of the decrease relates to two divisions, Government Services and Customer Management. As noted above, although we won £1.5bn of TCV in the first six months of the year, only £770m of this is included as wins in the orderbook, with the remainder mainly relating to transactional business or framework agreements which do not meet the definition. Whilst we are expecting some recovery in both divisions in the second half of 2020, as evidenced by the recent TfL win, the timing of contract awards is uncertain.

The improved quality of our customer relationship management ('CRM') has allowed us to capture and track our data better. During COVID-19 we have managed to maintain a stable pipeline of potential revenue, which at 30 June was £24.4bn on an unweighted basis. The largest opportunities included a £1bn bid for Royal Navy training, on which a decision is expected later this year, the £355m TfL contract noted above that we have now won and an extension of RPP.

We are continuing to invest in those areas of our business that we believe will be long term growth markets and where the shift to digital over the last few months, and the UK Government's investment plans, will be strong tailwinds. For example, the move into the Cloud has been a major factor of the COVID-19 crisis and cyber security is also a major focus for our clients. Our automation work has been growing this year and we are developing new services to leverage the Smart DCC network, Europe's largest 'Internet of Things' project.

Reducing cost and targeting margin increases

As part of the transformation, and to right-size the cost base for current revenue, we have continued to target and deliver significant sustainable cost reductions. By the end of 2019 we had delivered £160m of cumulative recurring cost savings. During the six months to 30 June we have realised further cost savings of £72.6m. These have been in the following main areas:

- Operational excellence - we are reducing cost through better contract management and reducing the cost of poor quality. We are implementing better reporting and business information tools that allow us to identify operational issues and cost inefficiency and then fix them. We are increasing the use of automation to deliver efficiencies both to client contracts and our own processes. We are also starting to leverage the Global Delivery Centre, consolidating fragmented operations into Group locations that offer the biggest cost advantages.
- Structural Optimisation - we are making changes to the way the divisions and Group are structured, reducing the number of business units and legal entities, taking out the associated layers of management, offshoring or relocating administration roles with cost arbitrage opportunities or that present shared service centre efficiencies.
- Technology - as a significant part of the cost base, technology is an area where we have an opportunity for both substantial cost savings but also increasing efficiency in our operations. We continue to build out the Digital Development Centre in India as well as in the UK. We continue to derive scale benefits from our partnerships with major suppliers such as Microsoft's Azure Cloud and Amazon Web Services Connect contact management solution.
- Group - savings in Group procurement benefits from volume-driven rebates and better contract management, particularly in professional services and agency fees. We are also seeing returns on our investment in systems, in particular with Workday and Salesforce.

Across the Group we see opportunities to continue to leverage these cost initiatives to drive further sustainable efficiency savings in contract delivery.

COVID-19 - our response to protect Capita

The investment in Capita's people, client service, governance and systems over the past two years has been fundamental to the way in which Capita has been able to respond to the COVID-19 crisis; and has resulted in a significant degree of resilience in the Group's revenue, alongside strong cost saving and cash preservation initiatives to mitigate its negative effects.

We started our planning for COVID-19 well before the lockdown, adopting a programmatic approach based on our improved operational competencies that allowed for a fast and effective implementation when required. This focused on:

- The welfare of our colleagues and their safety
- Protecting service delivery for our clients to safeguard and reassure their customers, for example in pensions administration
- Cost action to protect profit, including payroll costs and discretionary expenses
- Cash conservation to ensure liquidity and to comply with H1 covenants

We are proud of our colleagues' response to the need to continue to deliver operational services to our clients, including the rapid move to having around 85% of the workforce now working from home and the safeguarding of our workforce who are deemed key workers in the offices that have remained open. Around 5% of our workforce has not been working. In the UK we are using the UK government furlough scheme, and we are continuing to pay our colleagues in India and South Africa who are unable to work from home or in the office due to local circumstances.

We have worked collaboratively with a supportive client base, further improving the relationships we have with them. With our move to a remote working basis, we have been able to deliver on most of our contractual obligations where we are still able to provide a service and to sustain quality standards. We have secured additional work during the period worth £80m over the full year to support Government, including NHS contracts to send letters to vulnerable people and a contract to support the Department for Work and Pensions.

In addition to our planned cost and efficiency programme we have implemented a range of cost saving initiatives to mitigate the revenue impact of COVID-19, and we are on track to deliver significant cost savings in the full year. COVID-related savings in the first half year were £56.9m, including:

- Discretionary expenditure has been reduced to save £28m, specifically in areas such as travel, marketing, non-essential training and recruitment
- Staff related savings of £25m, including £13m of furlough savings as well as temporary salary reductions for higher paid staff and withdrawal of the main company 2020 bonus scheme
- We have secured variable cost savings of £4m from not running properties: out of 294 properties, 168 have been closed since early April (and we do not expect around 25 to reopen)

In addition, we have secured cash savings and timing benefits with initiatives such as moving rent payments from quarterly to a monthly basis, reducing 2019 discretionary bonus payments, reducing uncommitted capital expenditure and restructuring programmes and enhancing our focus on cash collection processes. We have also taken advantage of the Government VAT payment deferral measures which will benefit the Group by around £117m in 2020.

At the end of May we took additional steps to reduce the cost base in line with our revised expectations for the business over the next 12 months, primarily in central functions. There has been no material impact in the first half but this is expected to save an additional £25m in 2020 and around £50m on an annualised basis. Further cost reductions are being developed to respond if revenue reductions are greater than expected, or recovery is slower than expected.

We are now starting to look at longer term cost opportunities resulting from our experiences amid the COVID-19 crisis, with remote working practices meaning that we will not return to a number of our properties. The productivity gains and positive customer feedback in some of our contact centre business are also resulting in our working with some major customers to rework contract structures to mutual benefit.

Simplifying the portfolio and strengthening the balance sheet

The COVID-19 crisis and its impact on our cash generation has led us to accelerate some strategic decisions. This includes a decision to focus on software capabilities which are better aligned with and support our consulting, transformation and digital BPO services, and the vertical markets of the rest of the Group.

Software capability remains critical. We will retain software assets that are catalysts for growing our other services, providing microservices and client-centric solutions, built using flexible, scalable and reusable digital componentry. For example, Capita One, which provides local government administration software will be integrated into wider Government Services service offering. The Digital Delivery Centre, a core part of the strategy for agile, integrated software development also used the One platform to build the Standards and Testing Agency ('STA') solution.

We therefore plan to dispose of standalone software products that have little overlap or cross-sell with the rest of Capita. During the first half, we sold Eclipse, a standalone legal process software product, for £56.5m[2].

We have also announced our intention to dispose of Education Software Solutions ('ESS'). ESS is a standalone provider of management information system (MIS) software for the education sector. The process has now been launched and we will provide updates when appropriate.

Proceeds from disposals will be used to strengthen the company balance sheet by reducing net debt and pension liabilities. Further disposals will be announced in due course.

During the half year we have also continued to simplify the portfolios of other divisions either where Capita's strategy does not reflect the nature of those businesses or if they would do better under other ownership. In April we announced the sale of our Irish Life and Pensions Services business to SS&C technologies and since the end of the period, we have completed the disposal of Capita Workplace Technology.

Outlook

Precise forecasting is challenging in these uncertain times.

We expect the majority of our revenue to remain resilient, given the client base and the long-term nature of our contracts. Based on expectations of a slow economic recovery throughout the next six months and ongoing challenges to our ability to win transactional work, our current expectation is that revenue in the second half is flat to slightly down on H1.

We will continue our transformation cost savings programme to address revenue decline and target to increase margins. We expect these sustainable cost savings, alongside the short-term cost preservation action, to benefit the second half of 2020, alongside the reversal of the holiday pay accrual.

Net debt is expected to return towards 31 December 2019 levels, as some of the first half benefits reverse in the second half of 2020.

Strengthening the balance sheet remains a priority for Capita. We have disposed of Eclipse and have now launched a process to sell ESS. We have also identified a number of other assets that are not core to our long- term strategy. Proceeds will be used to reduce our debt and pension liabilities.

As a result of the COVID-19 crisis and its impact on the business we expect the inflection to sustainable free cash flow to be delayed by 1-2 years.

In the longer term we will continue to make this a more predictable and stable business that delivers increasing, sustainable free cash flow for our shareholders.

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[1] Refer to alternative performance measures in the appendix

[2] On a cash and debt free basis. Gross proceeds of £58.4m in cash with net proceeds of £53.2m following the repayment of an inter-company balance.

Divisional performance review

The following divisional financial performance is presented on an adjusted revenue[1] and adjusted operating profit[1] basis. Reported profit is not included, because the Board assesses divisional performance on adjusted results. The calculation of adjusted figures and KPIs are contained in the APMs in the appendix to this statement.

All the divisions have been impacted by the one-off COVID-related holiday pay accrual, and COVID-related savings were staff related and discretionary spend. This explanation has therefore not been repeated throughout this section.

Software

Divisional financial summary	2020	2019	% change
Adjusted revenue[1] (£m)	**173.4**	170.7	1.6%
Adjusted operating profit[1] (£m)	**38.2**	46.6	(18.0)%
Adjusted operating margin[1] (%)	**22.0%**	27.3%	
Adjusted cash from trading operations (£m)	**86.5**	90.9	(4.8)%
Order book (£m) (comparative at 31 December 2019)	**559.2**	578.4	(3.3)%

Adjusted revenue[1] increased by 1.6% to £173.4m, with resilience in Education, Capita One and AMT Sybex, whilst COVID-19 adversely impacted the volume-driven payments business. Contracts ending in Secure Solutions and Services and AMT Sybex, were more than offset by new go-lives and licence upgrades respectively in those two businesses.

Adjusted operating profit[1] fell by 18.0% to £38.2m, due to the COVID-related transactional decline, an increase in depreciation and amortisation, margin mix of trading churn and increased costs of the digital development centre.

Adjusted cash from trading operations fell by 4.8% to £86.5m, reflecting the decline in profitability, partially offset by working capital improvements.

Strategy and growth

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

We have invested in new product development, with rapidly reducing development cycles, and increasing the move to microservices and digital componentry as a catalyst for pan-Capita digital services. The investment in our cloud platforms has benefited sales in Capita One, where we have assisted local authorities in transitioning from legacy systems.

At 30 June 2020, the total unweighted pipeline was £696m a decrease of £89m since February, with £221m of TCV won in H1. The order book at 30 June was £559m, a decrease of £19m since 31 December 2019; however, when Eclipse is excluded from the opening position (£29m), the order book has grown. This is due to benefits of the recent sales transformation and improved deal execution, with increases in Capita One and Healthcare Decisions. Our renewals rate was 65% as we reduced the number of contracts that we chose not to rebid.

Notable wins and renewals include: a £6m, five year contract with a city council in Capita One; a £19m, seven year, regional NHS contract in Healthcare Decisions and a renewal worth £4m, over two years, with a major UK police force in Secure Solutions.

Cost and operational excellence

Swift action was taken to protect the business from the impact of COVID-19 and we have sustained delivery on 97% of our service level agreements ('SLAs'). Our rapid response strengthened customer relationships, with very positive feedback from local government and ambulance services.

The new streamlined division is improving collaboration and standardisation; and we are leveraging the Digital Development Centre's common tools and best practice processes for faster, better, pan-Capita development capability, for example: AXELOS, Capita One Housing, and Pay 360. Margin pressure from cost increases and the impact of investment has compounded the effect of a high fixed cost base. We continue to progress well with generating savings to offset this, particularly in deploying technology and operational excellence.

People Solutions

Divisional financial summary	2020	2019	% change
Adjusted revenue[1] (£m)	**245.7**	271.6	(9.5)%
Adjusted operating profit[1] (£m)	**17.8**	28.5	(37.5)%
Adjusted operating margin[1] (%)	**7.2%**	10.5%	
Adjusted cash from trading operations (£m)	**8.5**	21.9	(61.2)%
Order book (£m) (comparative at 31 December 2019)	**455.5**	497.2	(8.4)%

Adjusted revenue[1] decreased by 9.5% to £245.7m, with resilience in HR Solutions, Pensions Administration and RPP, whilst COVID-19 adversely impacted our ability to deliver services in Learning and Resourcing. Public sector contract losses in the resourcing business and a decline in transactional revenue, were not offset by contract wins, however the revenue has benefited from renewals and improved account management.

Adjusted operating profit[1] fell by 37.5% to £17.8m, due to COVID-related transactional decline which was partially offset by savings. Cost containment became the focus as the transactional nature of learning and resourcing business mean there is a higher stranded cost base. Contract losses and investments in the pensions business adversely impacted profit.

Adjusted cash from trading operations fell 61.2% to £8.5m, reflecting the decline in profit and contractual working capital movements in Learning Services, Resourcing and Pensions.

Strategy and growth

The HR outsourcing market is expected to continue to grow in the UK and we are expecting more growth in the demand for pensions consulting, digital learning and the Government skills and youth employment agenda. The key market growth drivers are: (i) our clients' needs for financial sustainability; (ii) a better employee experience to execute on their strategy; and (iii) the necessity to have access to skills to enable them to be fit for a digital future. Our strategy focuses on a client management model that aims to retain and grow existing accounts, while driving profitable growth.

We have invested in the development of our products, mainly the completion of product development for vetting and onboarding, a digital platform for learning, and a CRM system to improve employee experience in HR Solutions.

At 30 June 2020, the total unweighted pipeline was £2,480m an increase of £1,100m since February, with £242m of TCV won in H1. The order book at 30 June was £456m, a decrease of £41m since 31 December 2019. RPP continues to reduce as we move towards the end of the initial contract term, however Pensions and Benefits were able to grow their order book. Less than 30% of the wins in the first half of 2020 met the order book definition, as they are mainly framework agreements. We secured around £40m of the TCV in H1 through the benefit of our account management model and an improved renewal rate of 71%.

Notable wins and renewals include: COVID-related wins of £3m, a renewal worth around £8m over two years with a major Financial Services organisation, a renewal worth £29m over two years with the Crown Commercial Services ('CCS'), the renewal of around £80m, over 10 years, CCS Apprenticeships Framework and an expansion and renewal worth £60m, over four years, with the Teachers' Pension Scheme.

Cost and operational excellence

We delivered a fast and effective response to COVID-19, with around 80% of the division working from home within two weeks. The associated goodwill generated has created an opportunity to ensure that any short-term contract extensions are agreed on better terms.

The division has made significant progress in stabilising the business, including the appointment of new leadership in key roles, improving the renewal rate and significantly reducing service credits.

Despite the intervention of COVID-19, we achieved 96% of the recruitment target on RPP in the recruiting year 19/20 and would have achieved 100% had basic training not been paused due to the pandemic.

Improved governance and division-wide optimisation of resources has reduced the cost base. Initiatives that will continue throughout the year include: further simplification of the structure and product offerings; productivity gains; commercial remediation of loss making contracts; supplier renegotiations; and digitisation. We are expecting structural changes to be completed in 2021.

Customer Management

Divisional financial summary	2020	2019	change %
Adjusted revenue[1] (£m)	**561.8**	569.5	(1.4)%
Adjusted operating profit[1] (£m)	**41.6**	53.9	(22.8)%
Adjusted operating margin[1] (%)	**7.4%**	9.5%	
Adjusted cash from trading operations (£m)	**42.3**	11.7	261.5%
Order book (£m) (comparative at 31 December 2019)	**2,522.5**	2,760.5	(8.6)%

Adjusted revenue[1] decreased by 1.4% to £561.8m, whilst COVID-19 adversely impacted scope and volume on contracts with challenged end markets, these were almost offset by COVID-related projects. Scope and volume reductions on telecommunications and the Life and Pensions business (newly included in the Customer Management division) and a contract that was lost, were offset by wins.

Adjusted operating profit[1] fell by 22.8% to £41.6m, due to the overall fall in revenue which was partly offset by COVID-related savings and the on-going cost efficiency programme. Salary inflation, including the impact of the Real Living Wage in the UK, has adversely impacted profit, as well as the impairment of contract assets on our mobilcom-debitel contract.

Adjusted cash from trading operations improved by 261.5% to £42.3m, because the decline in profit was offset by contractual working capital upsides reflecting £28m deferred income and £9m accrued income inflows largely caused by timing of payments (on the O2 contract and life and pensions business), timing of contract milestones and an impairment of contract assets on mobilcom-debitel.

Strategy and growth

Capita competes with a range of local and global players for transactional contracts which are typically priced on a price per full-time equivalent (FTE) hour basis, and a smaller number of strategic players for outcome-based contracts which help our clients transform their customer experience capability.

Our approach is to build partnerships, based on shared outcomes and value, while continuing to deliver transactional supply where this helps our clients meet customer demands. The value we bring to our clients is increasingly built around transforming the customer experience through the application of digital services underpinned by data insight and analytics. These enable us to manage complex, high-value interactions, automate repetitive tasks and use technology and capability to drive quality improvement. A function of the market shift is a move in both engagement and commercial models to focus on 'outcomes' leveraging a hybrid mix of people and technology.

At 30 June 2020, the total unweighted pipeline was £9,219m an increase of £3,502m since February, with £417m of TCV won in H1. Due to COVID-19, we have seen a number of opportunities shift right. The order book at 30 June was £2,523m, a decrease of £238m since 31 December 2019. Our order book has decreased because new wins did not offset revenue recognised and terminated. The largest renewal in the period does not meet the order book definition. Whilst we are expecting some recovery in the second half of 2020, the timing of contract awards is uncertain, as mentioned previously. Our renewal rate was 52% and to date in 2020 we have renewed all the contracts we planned to.

Notable wins and renewals include: COVID-related wins of £33m, £33m over three years with a UK retail bank, £60m over five years with Irish Water and a renewal worth £114m over two years with a major European telecoms provider.

Cost and operational excellence

Operational delivery has been challenging for the business due to the significant change in operating model and due to local lockdowns impacting the global delivery centre, but we have managed to maintain a high service level to clients. Accelerated investment in computer equipment, customer experience and digital platforms, such as chatbots and cloud technologies, has allowed 70% of the division to work from home, alongside a number of critical services operating with key workers in our offices. Home working efficiencies have not come at the cost of quality customer experience and we have actually seen significant uplifts across all accounts analysed where customer satisfaction data is available. We responded quickly to take out as much cost associated with volume reductions as possible. UK divisional attrition levels are currently at their lowest level in many years, leading to recruitment and training cost savings and customer service benefits.

Our customer services contract with mobilcom-debitel has been impacted by initiatives not achieving the benefits anticipated. We now expect to reach the inflection point and break even on this contract in 2021. The inability to achieve this key milestone in 2020 led to the impairment of the associated contract assets of £6.2m.

Whilst the legacy contract base continues to cause challenges, as part of the transformation we have strengthened the sales process. This now brings a more consistent go-to-market focus across the division. We will leverage the opportunity presented to accelerate customer experience transformation with large segments of the market as well as the major programme review process, and benefits have been seen in project management from the Evolve training. This has allowed us to mobilise large pieces of work in short time scales with no material failures, such as in our DWP and NHS support work, and we have had no significant issues on recent wins.

Progress on cost improvement continued in 2020, with further operating model initiatives, technology changes and property closures.

Government Services

Divisional financial summary	2020	2019	% change
Adjusted revenue[1] (£m)	**364.8**	424.2	(14.0)%
Adjusted operating profit[1] (£m)	**14.3**	20.0	(28.5)%
Adjusted operating margin[1] (%)	**3.9%**	4.7%	
Adjusted cash from trading operations (£m)	**18.5**	(5.4)	442.6%
Order book (£m) (comparative at 31 December 2019)	**2,019.1**	2,176.7	(7.2)%

Adjusted revenue[1] decreased by 14% to £364.8m, mainly as a result of prior year contract losses in Local Government and Defence Infrastructure Organisation ('DIO'), with some offset from new business such as DFRP. The overall COVID-19 impact has been broadly neutral. Revenue has been resilient in many verticals: Health, Transport, Defence, and Justice, but there has been a negative impact on local government, Entrust and Fera. This was partially offset by COVID-related projects.

Adjusted operating profit[1] fell by 28.5% to £14.3m. The impact of COVID-19 was offset by one-time savings from reductions in discretionary spend, voluntary pay cuts, and making use of the Government's furlough scheme. The initial loss on DFRP had a one off impact on profit. The impact of the above-mentioned contract losses was successfully offset by the scope and volume increases above.

Adjusted cash from trading operations significantly improved to £18.5m, mainly reflecting deferred income inflows across a number of contracts, including DFRP £31m, offset by contract fulfilment asset ('CFA') recognition of £20m on the DFRP transformation, with accrued income inflows driven by invoice phasing, particularly within Local Government.

Strategy and growth
Capita is one of the largest providers to government, within this we have top-three leadership positions in six sectors where we have deep, proven experience and expertise: education, health, transport, defence, central and local government.

Our strategy is to focus our business around the aforementioned sectors; offer a refined set of value propositions developed on top of a defined and controlled stack of underlying replicable digital products and capabilities; extend out consulting and strategic advisory positions, further develop our full-lifecycle digital transformation capability; and maintain excellence in operational service delivery performance.

We expect a significant increase in central government spending over the next few years, particularly in infrastructure and digital delivery, while local government is more likely to need more cost-effective service delivery due to shortfalls in their sources of income.

We have invested in our infrastructure, including an on-line platform for customer care services and a new platform with reduced hosting charges.

At 30 June 2020, the total unweighted pipeline was £9,246m an increase of £2,473m since February, with £296m of TCV won in H1. Pipeline growth has been generated by TCV increases on existing opportunities, such as from changes in contractual arrangements, and a number of large FY21 onwards opportunities, including current contract extensions. The order book at 30 June was £2,019m, a decrease of £158m since 31 December 2019, however we have recently won an extension and expansion with TfL ending October 2026 worth £355m. Our renewal rate was 90%, as we see the benefits of the investment in fixing contracts and the rebuilding of trust with clients. This investment has also led to a willingness to discuss commercial terms on contracts that are currently cash-negative.

Notable wins and renewals include: COVID-related work of £30m (with service delivery often being provided across Capita), a renewal of Electronic Monitoring worth £114m over three years, and an extension of a local authority contract worth £13m over four years.

Cost and operational excellence
We have continued to execute the vast majority of client delivery across government, despite the external challenges, receiving positive feedback from clients in all verticals. 75% of the division are servicing contracts from home. Contractual performance has continued to improve throughout 2020 with a significant reduction in risk to scheduled delivery and cost of our major contracts. As a result, we have seen a material reduction in service credits and the cost of poor quality and are becoming a trusted partner to Government.

Operational excellence continues to be the driving force for savings in the division and we continue to reduce overhead cost. We are now planning the next stage of our cost transformation with an operational strategy to work towards a more agile service structure based on leveraging best practice between our chosen verticals.

A significant example of the progress we have made is in the transformation and service delivery of DFRP which is going to plan, despite the COVID-19 pandemic. This demonstrates our new resilience, dedication to partnership and industry expertise to deal with client requirements. Our agility has allowed us to overcome any challenges faced and we are avoiding the issues we have seen on many legacy contracts. Whilst the legacy issues have been overcome on PCSE, COVID-19 has delayed the roll-out of the new ophthalmic solution. Progress on the roll-out continues to go well though with the profit inflection point now forecast at the start of 2021. The majority of the transformation milestones have been delivered and operational service delivery remains stable. On another contract, while underlying operational service delivery continued to perform well, with a limited impact of COVID-19, the delivery of transformation has been delayed. Go-live has been deferred from August to December 2020 and a provision has been recognised at the half year as a consequence. Any further delays and/or inability to reach key milestones on either of these projects could lead to reduced contract profitability and a risk of impairment of the associated contract assets.

Technology Solutions

Divisional financial summary	2020	2019	% change
Adjusted revenue[1] (£m)	**190.5**	224.2	(15.0)%
Adjusted operating profit[1] (£m)	**14.9**	28.7	(48.1)%
Adjusted operating margin[1] (%)	**7.8%**	12.8%	
Adjusted cash from trading operations (£m)	**37.9**	44.9	(15.6)%
Order book (£m) (comparative at 31 December 2019)	**417.1**	389.7	7.0%

Adjusted revenue[1] decreased by 15% to £190.5m, with a significant negative impact of COVID-19 on our transactional and volume-based businesses. These were partially offset by COVID-19 wins in IT Services and a strong performance in our public sector clients in Trustmarque. Revenue was also impacted by known contract exits, including BAE Systems (which we chose not to bid for) and reduced demand for our professional services, partially offset by increased scope across TfL.

Adjusted operating profit[1] decreased by 48.1% to £14.9m, of which a small amount related to COVID-19. In line with the overall market, profit was adversely impacted by the exit of historic higher margin contracts, volume reduction and increased depreciation from our infrastructure investments. These were partially offset by cost savings.

Adjusted cash from trading operations decreased by 15.6% to £37.9m, reflecting a decline in profit, partially offset by improvements in accrued and deferred income inflows, partially offset by an outflow from increased CFAs, largely on TfL Networks.

Strategy and growth

Our strategy is to create innovative technology solutions, underpinned by a comprehensive range of services which address the needs of our enterprise clients; such as how to benefit from robotic process automation technologies.

We are developing repeatable propositions to meet our client's needs with a focus on creating improved customer experience and expanding our client base. Our expertise in business process improvement, complemented by consulting, allows us to address emerging opportunities. This combination of expertise in technology with a robust and integrated product offering helps clients extract value out of their legacy systems, while adopting and gaining benefit from the latest digital, cloud-enabled technologies.

Longer term our core digital offering: cloud; cyber security; hybrid working; Internet-of-Things; and robotics process automation, are increasingly in demand as the market adapts to new ways of working.

At 30 June 2020, the total unweighted pipeline was £2,095m an increase of £132m since February, with £192m of TCV won in H1. The order book at 30 June was £417m, an increase of £27m since 31 December 2019, due to upselling across our networks business. Our renewal rate was 54% where we are renewals with core clients who are tending to renew during the pandemic instead of switching to a new supplier. While this is beneficial, it means there is less new business coming to market.

Notable wins and renewals include: a £24m one-year Emergency Services Network ('ESN') deal with TfL; £8m over five years with Cheshire East Council; and an annual rolling contract worth £4m with AEGIS London, which is expected to last a further three years.

We have invested in our ongoing data centre consolidation and cloud migration programme. We are also continuing to invest in our capabilities, including data, cloud and security, to build on improving external perception.

Cost and operational excellence

In recent Whitelane research, we received the highest percentage improvement for customer satisfaction against UK end user computing competitors. This rewards a multiple year continuous improvement programme to deliver high quality and resilient solutions to our customers. We were also awarded, for the fourth year in a row, the DELL Client Solutions Group Partner of the year. As a Titanium partner, this award showcases our ability to continue to deliver value to our customers.

We provided an agile response to client demands and enabled them to continue operating successfully with very positive feedback from both private and public sector. Customer satisfaction remained high and services levels were not impacted by a move to remote working. We were responsible for Capita's successful move to remote working for 35,000 colleagues. This was made possible by the investment to date as part of the transformation.

COVID-19 has accelerated the transformation of our working practices. Currently over 80% of the division are working remotely with no detriment to our operational KPIs. This has led to a reassessment of our property footprint and a programme of consolidation and closure is now under way.

Margins on our larger key contracts remain stable. We continue to work hard to reduce our fixed cost base and cross sell existing service lines to existing clients. We expect to generate further savings from further consolidation, technology and operational improvement initiatives.

Specialist Services

Divisional financial summary	2020	2019	% change
Adjusted revenue[1] (£m)	**102.4**	143.2	(28.5)%
Adjusted operating profit[1] (£m)	**(4.1)**	20.1	(120.4)%
Adjusted operating margin[1] (%)	**(4.0)%**	14.0%	
Adjusted cash from trading operations (£m)	**5.4**	25.0	(78.4)%
Order book (£m) (comparative at 31 December 2019)	**287.1**	306.6	(6.4)%

Adjusted revenue[1] decreased by 28.5% to £102.4m, as COVID-19 severely affected end markets such as Travel and Enforcement. Due to the transactional nature of the division, most businesses have seen a downturn in revenue except for Insurance Services, which has seen an extension to the FloodRe contract, and PageOne, which has seen an increase in transactional sales for pagers.

Adjusted operating profit[1] became a loss of £4.1m, due to the fall in transactional revenue caused by COVID-19, partially offset by furlough and discretionary spend savings.

Adjusted cash from trading operations has decreased by 78.4% to £5.4m, reflecting the loss in the first six months of the year.

Strategy and growth

Specialist Services includes a range of businesses serving public and private clients across multiple vertical sectors, which are generally mature. Due to the varied nature of the activities in the division, each Specialist Services business has its own strategy uniquely tailored to their service offerings and the needs of their clients.

The strategy remains to prepare earmarked businesses for disposal, albeit the timeline has been impacted by COVID-19.

At 30 June 2020, the total unweighted pipeline was £487m a decrease of £157m since February, with £99m of TCV won in H1. The order book at 30 June was £287m, a decrease of £20m since 31 December 2019. Due to the transactional nature of the division, the order book is not considered a suitable metric for growth.

Notable wins and renewals include: Multiple contracts with Highways England in Real Estate & Infrastructure with a TCV of £12m; a local authority renewal in Enforcement with a £3m TCV; and a FloodRE extension in Insurance worth £2m.

Cost and operational excellence

We have maintained service levels where possible throughout the crisis, with around 65% of staff working from home. However, we have furloughed large numbers of colleagues and reduced services to a minimum in those businesses whose end markets were most affected by COVID-19, including Travel and Events, and Enforcement in particular.

Whilst we took decisive action to cut costs as part of the pandemic, we were unable to cut too deeply into the fixed cost base in order to ensure a timely recovery. However, this has encouraged us to review the long-term operating model of several business units, particularly those that are expected to see long term impact from COVID-19.

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[1] Refer to alternative performance measures in the appendix

Financial review

Overview

These are unusual and uncertain times and they provide a very particular backdrop to our half year results. 2020 was always going to be a key proving year for Capita. In March we explained that the Transformation of Capita was going to take longer and cost more than had been expected at the outset. Since 2018, we have invested heavily in our growth capability and were ready for the year ahead - and we were expecting revenue growth for the first time in several years. In March, we knew that our balance sheet was in need of attention and our plans for asset disposals and a public markets bond issue were well advanced, and then COVID-19 struck.

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

Adjusted profit before tax[1] was impacted by the decline in revenue and lower margins on contract renewals, increase in depreciation from completed functional investments, and other cost increases, including an increase in holiday pay accruals due to delays in colleagues taking holidays, the additional holiday offered to senior management in return for salary reductions as part of our response to COVID-19, and a more accurate assessment of the level of holiday pay across Capita following the investment in a new HR system, partially off-set by cost saving initiatives.

Cash from trading operations was improved by contractual working capital movements more than off-setting the decline in adjusted EBITDA.

Adjusted free cash flow[1] was underpinned by improvement in cash from trading operations, better working capital management, accelerated customer receipts, lower capital expenditure and lower spend on certain transformation projects.

As part of our drive for simplification, we continue to seek to dispose of a number of non-core businesses. In June 2020, we completed the disposal of Eclipse Legal Services for net cash proceeds of £50.0m, realising a gain of £42.1m, and we are progressing the recently announced disposal of ESS with strong expressions of interest already received. Proceeds from both of these disposals will be used to strengthen the Group's balance sheet by reducing net debt and pension liabilities. Further disposals will be considered in due course in accordance with our previously announced disposal programme.

Liquidity at 30 June 2020 was £704.1m, made up of £375.5m representing the undrawn part of committed credit facilities and £328.6m of unrestricted cash and cash equivalents net of overdrafts. The Group was in compliance with its financial covenants at 30 June 2020.

Performance in the second half of 2020 is dependent on the pace of economic recovery and continued cost reduction across the Group.

Summary of financial performance

Financial highlights

	Adjusted[1] results – continuing operations			**Reported results – continuing operations**		
	Adjusted[1] 30 June 2020	Adjusted[1] 30 June 2019	Adjusted[1] POP change	Reported 30 June 2020	Reported 30 June 2019	Reported POP change
Revenue	**£1,652.2m**	£1,815.5m	(9)%	**£1,682.7m**	£1,852.0m	(9)%
Operating profit/(loss)	**£57.6m**	£146.1m	(61)%	**(£34.6m)**	£60.8m	(157)%
Profit/(loss) before tax	**£30.1m**	£117.8m	(74)%	**(£28.5m)**	£31.2m	(191)%
Earnings per share	**3.38p**	5.43p	(38)%	**0.38p**	1.36p	(72)%
Cash from trading operations	**£193.3m**	£187.8m	3%			
Free cash flow	**£176.0m**	£30.1m	485%	**£277.7m**	(£85.9m)	423%
Net debt	**(£1,096.6m)**	(£1,215.1m)	10%	**(£1,096.6m)**	(£1,215.1m)	10%

Adjusted results

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

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

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

Adjusted revenue[1] bridge by key driver	£m
Six months ended 30 June 2019	**1,815.5**
Losses	(128.5)
Scope and volume	(20.7)
Transactional	(4.3)
Wins	66.5
Six months ended 30 June 2020 - pre-COVID-19	**1,728.5**
COVID-19 - Scope and volume	(29.8)
COVID-19 - Transactional	(78.1)
COVID-19 - Wins	31.6
Six months ended 30 June 2020	**1,652.2**

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

- contract losses, mainly the impact of 2019 local government hand backs in Government Services such as Birmingham and Southampton Councils;
- contract wins which include the first full year of DFRP revenue, projects performed for the BBC, and a number of smaller wins within Software; and
- net reduction of £76.3m (4%) attributed to COVID-19, largely due to lower transactional revenues in our businesses heavily impacted by COVID-19 in Specialist Services, Government Services and People Solutions, including a number of our framework agreements which are driven by volumes, offset by additional revenue won, predominantly within Government Services, to assist with the UK's response to COVID-19, including contracts with DWP and various NHS schemes.

Adjusted profit before tax[1] bridge by key driver	£m
Six months ended 30 June 2019	**117.8**
Contract wins	18.8
Contract losses	(42.6)
Scope & volume	(46.5)
Transactional	(66.9)
COVID-19 cost actions	56.9
Transformation savings	72.6
Other cost	(37.4)
	72.7
Increase in the accrual for untaken holiday by colleagues	(42.6)
Six months ended 30 June 2020	**30.1**

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

- the net impact of the contract wins (which includes the £6m loss on the DFRP contract), contract losses, reduced transactional revenue (mostly attributable to COVID-19), scope and volume reductions described earlier, and margin erosion on contract renewals;
- mitigated by cost saving initiatives, including £56.9m from actions taken to off-set the financial impact of COVID-19;
- increased functional investments relates to the additional depreciation on completed transformation programmes;
- other cost increases, which includes inflation (including the commitment to the Real Living Wage), additional depreciation, amortisation and running costs on completed transformation programmes, and increase in bad debt provision; and
- an increase in holiday pay accruals due to delays in colleagues taking holidays, the additional holiday offered to senior management in return for salary reductions as part of our response to COVID-19 and a more accurate assessment of the level of holiday pay across Capita following the investment in a new HR system.

Additional cost savings are expected in the second half of 2020 as cost reduction and cash preservation programmes continue.

Adjusted operating profit to adjusted free cash flow[1]	30 June 2020 £m	30 June 2019 £m
Adjusted operating profit[1]	**57.6**	146.1
Add: depreciation/amortisation and impairment of property, plant and equipment and intangible assets	93.2	95.2
Adjusted EBITDA	**150.8**	241.3
Contractual working capital movement (deferred income, contract fulfilment assets and accrued income)	42.5	(53.5)
Cash from trading operations*	**193.3**	187.8
Net capital expenditure	(49.0)	(64.4)
Other	31.7	(93.3)
Adjusted free cash flow[1]	**176.0**	30.1

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

Adjusted free cash flow[1] in the six months ended 30 June 2020 was an inflow of £176.0m (2019: inflow £30.1m).

Adjusted free cash flow[1] benefited from the adoption of IFRS 16, as rental payments previously included in free cash flow were reclassified as financing cash flows, being repayment of the lease liability and interest. The 2019 adjusted free cash flow[1] was restated in 2020 to include IFRS 16 to enable a like-for-like comparison.

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

Cash from trading operations was affected by the decline in adjusted profit before tax[1] explained above, but this was more than offset by the movement in contractual working capital, being an outflow of £53.5m in the first half of 2019, but an inflow of £42.5m in the first half of 2020. This swing of £96.0m arises from:

- an accrued income inflow of £54m, mostly arising from invoice phasing on contracts in Government Services and Customer Management, higher accrued revenue in 2019 in Technology Solutions due to timing of contract milestones, and write-offs in Customer Management and Software;
- a deferred income inflow of £63m, largely from contracts in Government Services, including £31m on DFRP where cash has been received in 2020 in respect of transformation compared an outflow in 2019 from the ending of local government contracts, and in Customer Management phasing of invoices year on year; offset by
- a contract fulfilment asset outflow of £21m, driven by additions on Government Services contracts, the most significant being £20m on DRFP, offset by an impairment of assets on mobilcom-debitel.

Capital investment reduced following planned reductions to reflect the changing mix in IT from capital to operating expenditure. Further reductions in response to the COVID-19 pandemic will take effect in the second half of 2020.

Other includes the benefit of advanced receipts from customers, in particular public sector, planned improvements in working capital management, and the release of the 2019 bonus accrual which was not paid.

Reported results

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

Reported to adjusted profit bridge	Operating (loss)/profit		(Loss)/profit before tax	
	30 June 2020 £m	30 June 2019 £m	30 June 2020 £m	30 June 2019 £m
Reported	**(34.6)**	60.8	**(28.5)**	31.2
Amortisation and impairment of acquired intangibles	**20.2**	28.7	**20.2**	28.7
Business exit - trading and non-trading	**21.3**	(0.7)	**21.3**	(0.7)
Business exit – gain on disposals	**—**	—	**(42.1)**	—
Business exit – on hold disposal costs	**7.0**	—	**7.0**	—
Significant restructuring	**40.0**	56.5	**40.0**	56.5
Other	**3.7**	0.8	**12.2**	2.1
Adjusted	**57.6**	146.1	**30.1**	117.8

Business exits are businesses that have been disposed of or exited during the period or are in the process of being disposed of or exited. At 30 June 2020 these comprised:

- the Eclipse business whose disposal completed on 30 June 2020, realising a profit of £42.1m;
- two businesses in the process of being exited and which met the held-for-sale criteria. Accordingly, these businesses were treated as disposal groups held-for-sale at this date;
- one business in the process of being exited but which did not meet the held-for-sale criteria at 30 June 2020; and
- the exit costs relating to further planned disposals, including professional fees and separation planning costs.

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

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

Further disposals are planned in the second half of 2020, including the announced disposal of ESS. Since these disposals did not meet the definition of business exits and assets held-for-sale at 30 June 2020, their trading results were included within adjusted results.

In 2018, the Board launched a multi-year transformation plan to support the objectives of simplifying and strengthening Capita. The plan has extended to property rationalisation, procurement centralisation, transformation of support functions, including investment in growth, and transformation of finance, and operational excellence, including investment in automation. These activities are designed to improve the cost competitiveness of the Group and secure Capita's position in the markets it serves and strengthen governance and control. In response to the varied impacts of COVID-19 we have had to adapt and reassess our restructuring activities that will now extend through 2020 and into 2021. The bottom up exercise by the businesses is capturing the restructuring costs expected to arise across this period. This will be subject to challenge by the Board who will set appropriate boundaries and approve the restructuring budget, and we shall update the market once this is set.

The costs of the transformation plan, including redundancy costs, are excluded from adjusted operating profit[1] as significant restructuring. We plan that any major transformation activities post 2021 and any costs incurred will not be presented separately as adjusting items.

Further detail of the specific items charged in arriving at reported operating profit for 2020 is provided in note 3.

Reported to adjusted free cash flow	30 June 2020 £m	30 June 2019 £m
Reported	**277.7**	(85.9)
Pension deficit contributions	**14.1**	57.1
Significant restructuring	**28.1**	57.7
Business exits - on hold disposal costs	**2.0**	—
Business exits	**4.2**	(0.2)
Non-recourse trade receivables financing	**(32.8)**	—
VAT deferral	**(117.3)**	—
Other	**—**	1.4
Adjusted	**176.0**	30.1

Reported free cash flow was higher than adjusted free cash flow[1] reflecting spend in relation to known commitments, including pension deficit contributions (which the directors consider to be debt-like in nature) and restructuring cost.

In 2020, the benefit from the Government VAT deferral measures and utilisation of a non-recourse trade receivables financing facility were also excluded from adjusted free cash flow[1]. A non-recourse trade receivables financing facility was put in place to mitigate the risk of customer receipts slippage.

Impact on net debt

Net debt at 30 June 2020 was £1,096.6m (31 December 2019: £1,353.2m), reflecting the above cash inflow in the year.

Net debt	30 June 2020 £m	30 June 2019 £m
Opening net debt	**(1,353.2)**	(466.1)
Cash movement in net debt	307.5	(98.3)
Non-cash movements	(50.9)	(6.8)
Adoption of IFRS 16	—	(643.9)
Closing net debt	**(1,096.6)**	(1,215.1)
Remove closing IFRS 16 impact	528.7	591.6
Headline net debt (pre-IFRS 16)	**(567.9)**	(623.5)
Cash and cash equivalents net of overdrafts	370.2	376.9
Debt net of swaps	(938.1)	(1,000.4)
Headline net debt (pre-IFRS 16)/adjusted EBITDA[1]	**1.9x**	1.5x
Headline net debt (post-IFRS 16)/adjusted EBITDA[1]	**2.7x**	

The Board's view, prior to the adoption of IFRS 16, was that the appropriate headline leverage ratio for Capita over the medium term should be between 1.0 and 2.0 times headline net debt to adjusted EBITDA[1]. At 30 June 2020, this ratio was 1.9 times (30 June 2019: 1.5 times; 31 December 2019: 2.1 times).

The Board has not formally reviewed the target range, but taking account of the adoption of IFRS 16, the range would increase arithmetically to be between 1.7 and 2.7 times headline net debt to adjusted EBITDA[1]. At the 30 June 2020, this ratio was 2.7 times (31 December 2019: 2.7 times). We will keep our leverage target under review as the economic circumstances develop and our balance sheet strengthens following asset disposals.

We were compliant with all debt covenants at 30 June 2020.

The impact of IFRS 16 adoption on the Group's adjusted net debt to adjusted EBITDA[1] debt covenant ratio is neutral, as the Group covenants are on frozen generally accepted accounting principles ('GAAP'), with the exception of the US Private Placement Loan Notes. The US Private Placement Loan Notes covenant test includes the income statement impact of IFRS 16 but not the balance sheet impact, and therefore adoption of IFRS 16 is favourable on this covenant measure. At 30 June 2020, the US Private Placement Loan Notes ratio was 1.5 times (30 June 2019: 1.4 times, 31 December 2019: 1.7 times). The ratio was 2.1 times for all other financing agreements (30 June 2019: 1.7 times, 31 December 2019: 2.2 times).

Interest cover[1] was 8.1 times for the US Private Placement Loan Notes and 7.6 times for other financing arrangements (30 June 2019: 7.2 times and 9.3 times, and 31 December 2019: 11.2 times and 10.8 times respectively).

Capital and financial risk management

Liquidity remains a key area of focus for the Group. Financial instruments used to fund operations, including the transformation plan, and to manage liquidity comprise US Private Placement Loan Notes, Euro fixed-rate bearer notes, a Schuldschein loan, a revolving credit facility ('RCF'), a backstop liquidity facility, leases and overdrafts.

We have been very focused on conserving cash and maximising liquidity and this has resulted in an improved liquidity as we enter the second half of 2020.

Liquidity	**30 June 2020 £m**	31 December 2019 £m
RCF	**452.0**	414.0
Backstop liquidity facilities	93.5	—
Less: drawing on RCF	(170.0)	—
Undrawn committed facilities	375.5	414.0
Net cash, cash equivalents and overdrafts	370.2	122.8
Less: restricted cash[1]	(41.6)	(42.1)
Liquidity	704.1	494.7

The Group's RCF of £452.0m at 30 June 2020 (31 December 2019: £414.0m) provides flexible liquidity available to fund operations and a reasonable liquidity buffer allowing for contingencies. The facility is available until 31 August 2022, extendable for a further year to 31 August 2023 with the consent of the lenders by 31 August 2021. At 30 June 2020, £170.0m of the Group's £452.0m committed RCF was drawn (31 December 2019: £nil drawn).

Additionally, the Group secured a committed backstop liquidity facility in February 2020 which was undrawn at 30 June 2020. The committed value of the backstop facility at 30 June was £93.5m. The backstop liquidity facility has an initial maturity in February 2021 and is extendable at the option of the Group to a final maturity in August 2022. In August 2020, the Group secured an additional backstop liquidity facility which is also extendable at the option of the Group with a final maturity in April 2022 bringing the combined value of the two facilities to £150m. The expectation is that the backstop liquidity facilities will remain undrawn and will ultimately be cancelled following receipt of the ESS disposal proceeds.

As part of the Group's mitigation of the impact of COVID-19, in June 2020 a non-recourse invoice discounting facility was executed. The value of invoices sold under the facility at 30 June 2020 was £32.8m. The Group's intention is that the facility will be used only while COVID-19 continues to impact the business.

At 30 June 2020, the Group had £370.2m of cash and cash equivalents net of overdrafts, and £870.0m of private placement loan notes, fixed-rate bearer notes, and Schuldschein loan. These debt instruments mature over the period to 2027, with repayment of £55.7m, £209.9m and £232.5m, in the second half of 2020, and in 2021 and 2022 respectively. The Group intends to extend the average term to maturity of its debt, and thereby reduce refinancing risk, by issuing new long-term debt instruments in 2021, market conditions permitting.

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

Going concern

In determining the appropriate basis of preparation for the six months ended 30 June 2020, the Board is required to consider whether the Group will be able to operate within the level of available facilities and cash for the foreseeable future.

In concluding that it is appropriate to adopt the going concern basis for the interim financial statements, the Board has undertaken a rigorous assessment of the financial forecasts, key uncertainties and sensitivities. The Board is required to review a number of severe but plausible downside scenarios, which have included potential impacts of COVID-19.

There are scheduled debt repayments totalling £265.6m over the period to 31 December 2021, with a further repayment of £67.1m due in the first half of 2022.

Financial projections across a range of severe but plausible scenarios, in which downside risks are partially offset by appropriate mitigations, indicate that there is potentially limited liquidity headroom and a risk of insufficient headroom when assessing the Group's future compliance with the financial covenants.

In considering the potential impacts of these projections, the Board has modelled the additional funds expected to be received from the disposal of ESS which is planned for 2020. It is the Board's expectation that these funds will provide the necessary liquidity headroom to address any potential shortfalls arising in the downside scenarios evaluated. It is also the Board's expectation that these funds will provide for compliance with all covenants although in certain circumstances this headroom is potentially limited at June 2021. The Board has confidence in the robustness of its primary mitigation (the ESS disposal) against these downside scenarios. The Group has several other options which are being actively pursued to provide further resilience in the event of a downside scenario. These include additional disposals and a refinancing of short-term maturities, which are discussed further below.

Medium term resilience

In addition to the previously announced disposal programme for businesses that do not align with the longer-term strategy for the Group and which will provide funds to support the medium term resilience for the Group, the Board is also exploring covenant relaxations and amendments from the Group's lenders, and a refinancing of short-term debt maturities. Together these will cover future debt repayments and support the ongoing transformation programme. The Board announced in June 2020 the completed disposal of Eclipse Legal Services raising proceeds of £50m, and in June also announced the planned disposal of the ESS business in line with this strategy. These disposals, once completed, will introduce considerable funds to the Group.

An important consideration for the Board is the successful track record of delivering planned disposals. This includes the Asset Services business in 2017 that delivered net proceeds of c.£865m, the disposals of ParkingEye and Constructionline in 2018 that delivered total net proceeds of c.£390m and the successful disposal of Eclipse in 2020.

For this reason, the Board is confident that the Group can deliver the 2020 disposals as planned given the strength of the underlying businesses and the value they deliver, and have considered the disposal programme in maintaining the medium-term financial resilience of the Group.

Material uncertainty

The disposal of ESS is subject to shareholder and lender approval, both of which are outside the control of the Company. Accordingly, this gives rise to material uncertainty, as defined in auditing and accounting standards, relating to events and circumstances which may cast significant doubt about the Group's ability to continue as a going concern.

The Board is confident that the ESS disposal will be approved by shareholders and lenders, and based on this expectation believes that, even in a plausible but severe downside scenario, the Group will continue to have adequate financial resources to realise its assets and discharge its liabilities as they fall due over the period to 31 December 2021. Consequently, these interim financial statements do not include any adjustments which would be required if the going concern basis of preparation is inappropriate.

The Board's assessment is set out in more detail in note 2 of the interim financial statements.

Pensions

As a result of the last triennial valuation as at 31 March 2017, deficit repair contributions totalling £176.0m, were agreed and these will be fully paid by early 2021. It was expected that the combination of the deficit contributions and the schemes hedging strategy would largely eliminate the deficit. Looking to the valuation at March 2020, we will need to take into account the impact of COVID-19 and the planned delivery of the transformation of the group. The Company and Trustees will continue their commitment to an open dialogue between them, ensuring the financial health of the scheme is maintained in a proportionate way with all other stakeholders.

Balance sheet

Consolidated net liabilities were £87.1m at 30 June 2020 (31 December 2019: net liabilities £64.0m).

The increase in net liabilities is predominantly driven by the increase in the deficit of the Group's defined benefit pension schemes. The deficit has increased due to an increase in the liabilities arising from the material fall in the yields available on good quality, long term corporate bonds, which are used to derive the discount rate for valuing the liabilities. This was partially offset by an increase in scheme assets due to employer contributions and higher than expected returns which were partly due to the material level of hedging in Capita's main defined benefit scheme.

Contingent liabilities

The Group has been notified under a supplier contract of a potential liability relating to past services received. The quantum of the liability and method of settlement is yet to be agreed, but the Directors' expectation, based on discussions with the supplier, is that an element will be settled in cash, and the remainder settled by a commitment to future purchases. This is expected to lead to a significant commitment to future purchases over many years, but at a level which is supported by the group's forecast need for such products. The future purchases are expected to be at the usual discounted price available to the Group. Accordingly, the Group has made a provision for the expected cash settlement, but not made any provision for the outflow of funds for future purchases. We expect negotiations on this matter to be concluded in 2020.

Refer to note 18 of the interim financial statements for the contingent liability disclosure note.

Forward planning assumptions

There are many reasons to be positive about the future. However, the economic landscape remains uncertain with the potential of the return of lockdown restrictions as a result of a second wave. We are therefore not providing detailed guidance. However, based on the modelling we have done, before the impact of the ESS disposal, we expect:

- revenue to be flat to slightly down in H2 on H1 and 10% down for the full year;
- further cost savings and the non-recurrence and partial reversal of the holiday pay accrual will be tailwinds to H2 profit; and,
- the unwind of some H1 cash management actions will return Net Debt towards December 2019 levels, pending the impact of any further mitigations.

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[1] Refer to alternative performance measures in the appendix

Forward looking statements

This half year results statement is prepared for and addressed only to the Company's shareholders as a whole and to no other person. The Company, its Directors, employees, agents and advisers accept and assume no liability to any person in respect of this trading update save as would arise under English law. Statements contained in this trading update are based on the knowledge and information available to Capita's Directors at the date it was prepared and therefore facts stated and views expressed may change after that date.

This document and any materials distributed in connection with it may include forward-looking statements, beliefs, opinions or statements concerning risks and uncertainties, including statements with respect to Capita's business, financial condition and results of operations. Those statements and statements which contain the words "anticipate", "believe", "intend", "estimate", "expect" and words of similar meaning, reflect Capita's Directors' beliefs and expectations and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future and which may cause results and developments to differ materially from those expressed or implied by those statements and forecasts.

No representation is made that any of those statements or forecasts will come to pass or that any forecast results will be achieved. You are cautioned not to place any reliance on such statements or forecasts. Those forward-looking and other statements speak only as at the date of this trading update. Capita undertakes no obligation to release any update of, or revisions to, any forward-looking statements, opinions (which are subject to change without notice) or any other information or statement contained in this trading update. Furthermore, past performance cannot be relied on as a guide to future performance.

No statement in this document is intended as a profit forecast or a profit estimate and no statement in this document should be interpreted to mean that earnings per Capita share for the current or future financial years would necessarily match or exceed the historical published earnings per Capita share.

Nothing in this document is intended to constitute an invitation or inducement to engage in investment activity. This document does not constitute or form part of any offer for sale or subscription of, or any solicitation of any offer to purchase or subscribe for, any securities nor shall it or any part of it nor the fact of its distribution form the basis of, or be relied on in connection with, any contract, commitment or investment decision in relation thereto. This document does not constitute a recommendation regarding any securities.

Principal risks and uncertainties

The principal risks and uncertainties faced by the Group are reported annually within the Annual Report and Accounts and are summarised below. Consideration of Brexit risks has been incorporated into the Group's principal risks as appropriate.

Since late March 2020, the Group has faced challenges and uncertainties due to the COVID-19 pandemic, which has slowed the progress of the transformation programme. The Group has considered the impact of the pandemic and associated economic effects on its business and reassessed its risk factors accordingly.

The Board expects revenue over the rest of the year to remain resilient, given the client base and the long-term nature of the Group's contracts. Nevertheless, to enable a robust assessment of the medium term forecast financial performance the Board commissioned an exercise in June 2020 to revisit the outlook to the end of 2021 ahead of the normal business plan process. The high level of uncertainty as to how the COVID-19 pandemic might evolve over the remainder of 2020 and into 2021, including whether or not there will be a second wave and what impact this may have on the operation of each of the Group's businesses, makes precise forecasting challenging. There is a higher degree of uncertainty than would usually be the case in making the key judgements and assumptions that underpin the Group's financial forecasts.

Our priority throughout the pandemic has been to ensure a safe working environment for all Capita colleagues. As in previous economic downturns we acted quickly to reduce costs, optimise cash flow, protect liquidity, and make changes to how we operate. We had planned to dispose of certain businesses in Specialist Services, which were adversely affected by the downturn as a result of COVID-19. However, we successfully executed the sale of a standalone software business - Eclipse and have announced the sale of another, ESS.

Capita management, together with the Board, performed a detailed assessment of the principal risks faced specifically in relation to COVID-19, and defined strategies for mitigating these risks and the specific actions for achieving these are already underway.

Given the ongoing level of uncertainty around the possible duration and impact of COVID-19, the Group's financial guidance for the year ending 31 December 2020 was suspended on 27 March 2020 and the Group's outlook for the year ending 31 December 2020 included in the 2019 Annual Report and Accounts should no longer be considered current.

The Group's response is detailed in the Chief Executive Officer's Review. COVID-19 impacts almost all principal risks below with a summary for each risk.

Principal risk	Impact of COVID-19	Mitigating actions	Long term potential impact
1. Failure to live our purpose and failure to change stakeholder perception so we are seen to live our purpose	The pandemic has put clients, customers and our service delivery under huge pressure. While that has presented challenges for all our people it has provided a unique opportunity for us to demonstrate the resilience of our commitment to our purpose and values.	We continued the implementation the real living wage for c.9,000 colleagues in the UK. We have also had a range of very short notice requests from clients to which we have responded in a flexible and agile way.	The overall net impact is likely to be positive since we have developed deeper relationships with our clients and showed them, and other stakeholders, that we are capable and trustworthy in difficult times.
2. Failure to refine and resource the right medium-term strategy	We have had to take tactical actions in response to an uncertain and fast moving financial situation.	Tough decisions and actions have been taken to ensure the survival of the business during the crisis. We are redefining our strategy considering the future financial, government and geo-political climate.	Some of the action taken may delay the transformation of Capita as we review our strategy and redouble our efforts to strengthen our balance sheet.
3. Failure to innovate and develop new value propositions for clients and customers to drive sustainable growth	The pandemic has thrown up a myriad of challenges and opportunities for new propositions for clients. Some clients are under pressure and will want to spend less. In addition, we have had to scale back the resources and investments in this area.	Our agility in delivering to clients has improved. We are considering the level of investment needed in this area to position the Group for growth.	The long-term impact is likely to be a delay in the return to growth.
4. Failure to attract, develop, engage and retain the right people for current and future client propositions	We have lost some key people as a result of the cost reductions needed to bridge to the future and the tough operating and financial environment at Capita.	We have reduced our reliance on contractors and developed new techniques to redeploy people with relevant skills, For example, Consulting into other roles so that we retain their expertise. We continue to recruit with correct approval in critical areas.	The financial position and the cuts in current remuneration packages may make Capita less attracting to new people and make it harder to retain key people. However overall levels of colleagues leaving voluntarily are very low.

Principal risk	Impact of COVID-19	Mitigating actions	Long term potential impact
5. Failure to change the culture and practices of Capita in line with our responsible business agenda	Collaboration and teamwork have improved during this period. With a continued need to take tough decisions to bridge to the future and the change in work styles, there may be less focus, engagement and communication in this area, which could slow down the culture change.	We have enhanced our technology to allow people to stay in touch and collaborate remotely. We have regular communications from CEO, Ex Com and Business Leaders.	The reduction in central oversight and support may lead to the Divisions becoming more focused on their own agendas and less engaged in the corporate agenda.
6. Failure to protect data, information and IT systems	Within weeks of the lockdown we made provision for c.35,000 staff (55% of our workforce) in UK, India and South Africa to be able to work from home. This, as with other businesses has increased the risk in this area.	We have increased our focus on cyber security particularly on new aspects of the risk arising from the increasing levels of home working these have included: ● Staff education and awareness; ● IT security controls; ● Cyber security at home and work guide; ● Infrastructure security; and ● End user security.	The learnings from this time will be put into designing the workplace security environment of the future to be flexible and more secure.
7. Inability to secure contracts with an acceptable risk and reward balance (including meeting societal changes)	We have seen some clients hit hard and want to pay less for services. On the other hand, we have had some increased demand from government. We have responded with greater speed to client's requirements with appropriate governance.	We have enhanced and streamlined our commercial governance process to fast track urgent propositions through the process, with a focus on maintaining margins.	Given the on-going uncertainty we are aware that clients may push for lower margins and will continue to monitor this contract by contact.
8. Failure to delight clients and customers with software performance or projects and service delivery	Most projects are either continuing or have been change controlled. We have continued to deliver at normal levels or adjusted levels during the crisis.	We have engaged with all clients and in many cases have managed to agree to revised service delivery KPI's.	We expect to be able to continue to deliver to the revised expectations.
9. An inadequate risk-based system of internal control	Planned changes to improve our financial processes and controls have been delayed. Staff have been working from home but with no impact to key finance processes, for example: accounts payable, billing, etc	We have continued to monitor the performance of our controls.	As the COVID-19 pandemic passes, we plan to accelerate the planned improvements.
10. Failure to deliver the Transformation Programme in line with 2020 commitments	The operational and financial pressures have slowed down our transformation programme.	The cost out programme has continued as planned and has provided the base for further cost out in response to COVID-19. A range of other programmes have been reviewed and adjusted in the light of the new financial reality.	As we prepare our Business Plan for 2021, we will look to rebase our transformation activities in line with emerging strategic requirements.
11. Failure to plan for, influence and respond to potential change in the political climate	The Government's absolute priority has been COVID-19 and will then be recovery. There may be increased volatility in government spending as a result of an improved opposition.	Existing mitigations of engaging with the Government continue.	We will continue to work and engage with the Government.
12. Failure to maintain financial stability, viability and achieve financial targets / results	COVID-19 has had a particular impact on growth plans and on some of our transactional businesses. The impact and mitigations are covered in detail in note 2 of the half year consolidated financial statements.		

Statement of Directors' responsibilities

The Directors confirm, to the best of their knowledge, that this condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union and that the Half Year Management Report includes a fair review of the information required by Rules 4.2.7 and 4.2.8 of the Disclosure Guidance and Transparency Rules of the United Kingdom Financial Conduct Authority.

The names and functions of the Directors of Capita plc are listed on the Group website, www.capita.com/about-us/about-the-board.

By order of the Board

J Lewis

Chief Executive Officer

17 August 2020

P Butcher

Chief Financial Officer

17 August 2020

Half year condensed consolidated income statement

For the six months ended 30 June 2020

		Notes	**30 June 2020 £m**	30 June 2019 £m
Continuing operations:				
Revenue		6	**1,682.7**	1,852.0
Cost of sales			**(1,350.6)**	(1,392.4)
Gross profit			**332.1**	459.6
Administrative expenses			**(366.7)**	(398.8)
Operating (loss)/profit		6	**(34.6)**	60.8
Share of results in associates			**(0.4)**	(0.6)
Net finance costs		7	**(35.6)**	(29.0)
Gain on business disposal		4	**42.1**	—
(Loss)/profit before tax			**(28.5)**	31.2
Income tax credit/(expense)		8	**34.3**	(5.6)
Profit for the period from continuing operations			**5.8**	25.6
Discontinued operations:				
Profit for the period		4	**9.0**	3.7
Total profit for the period			**14.8**	29.3
Attributable to:				
Owners of the Company			**15.3**	26.3
Non-controlling interests			**(0.5)**	3.0
			14.8	29.3
Earnings per share		9		
Continuing:	– basic		**0.38p**	1.36p
	– diluted		**0.38p**	1.35p
Total operations:	– basic		**0.92p**	1.59p
	– diluted		**0.91p**	1.57p

	Notes	**30 June 2020 £m**	30 June 2019 £m
Adjusted operating profit	3	**57.6**	146.1
Adjusted profit before tax	3	**30.1**	117.8
Adjusted earnings per share	9	**3.38p**	5.43p
Adjusted and diluted earnings per share	9	**3.33p**	5.38p

Half year condensed consolidated statement of comprehensive income

For the six months ended 30 June 2020

	Notes	**30 June 2020 £m**	30 June 2019 £m
Total profit for the period		**14.8**	29.3
Other comprehensive income/(expense)			
Items that will not be reclassified subsequently to the income statement			
Actuarial loss on defined benefit pension schemes		**(63.0)**	(52.5)
Deferred tax effect on defined benefit pension schemes		**17.0**	8.9
Items that will or may be reclassified subsequently to the income statement			
Exchange differences on translation of foreign operations		**(4.5)**	1.5
Gain on cash flow hedges		**6.9**	2.3
Cash flow hedges recycled to the income statement		**(2.1)**	(1.7)
Loss on fair value of investment		**(0.9)**	—
Deferred tax effect on cash flow hedges		**(0.9)**	(0.1)
Other comprehensive expense for the period net of tax		**(47.5)**	(41.6)
Total comprehensive expense for the period net of tax		**(32.7)**	(12.3)
Attributable to:			
Owners of the Company		**(32.2)**	(15.3)
Non-controlling interests		**(0.5)**	3.0
		(32.7)	(12.3)

The accompanying notes are an integral part of the condensed consolidated financial statements.

Half year condensed consolidated balance sheet

At 30 June 2020

	Notes	30 June 2020 £m	31 December 2019 £m
Non-current assets			
Property, plant and equipment		**182.2**	194.3
Intangible assets		**339.8**	354.2
Goodwill	10	**1,174.4**	1,177.8
Right-of-use assets		**452.6**	480.9
Investments in associates and joint ventures		**5.4**	3.8
Contract fulfilment assets	11	**288.3**	275.8
Financial assets	14	**119.2**	82.2
Deferred taxation		**223.7**	181.6
Trade and other receivables		**22.3**	26.4
		2,807.9	2,777.0
Current assets			
Financial assets	14	**11.3**	25.1
Disposal group assets held for sale	4	**17.2**	12.4
Trade and other receivables		**649.5**	748.4
Cash	14	**756.2**	409.1
Income tax receivable		**6.1**	4.5
		1,440.3	1,199.5
Total assets		**4,248.2**	3,976.5
Current liabilities			
Trade and other payables		**719.1**	619.8
Deferred income		**932.9**	884.5
Overdrafts	14	**396.6**	286.3
Lease liabilities	14	**78.9**	81.9
Disposal group liabilities held for sale	4	**6.6**	7.9
Financial liabilities	14	**159.9**	351.8
Provisions	12	**87.6**	71.3
		2,381.6	2,303.5
Non-current liabilities			
Trade and other payables		**5.3**	6.0
Deferred income		**176.8**	176.5
Lease liabilities	14	**449.8**	480.7
Financial liabilities	14	**1,009.8**	795.7
Deferred taxation		**7.7**	16.3
Provisions	12	**4.9**	9.3
Employee benefits		**299.4**	252.5
		1,953.7	1,737.0
Total liabilities		**4,335.3**	4,040.5
Net liabilities		**(87.1)**	(64.0)
Capital and reserves			
Share capital	15	**34.5**	34.5
Share premium	15	**1,143.3**	1,143.3
Employee benefit trust and treasury shares	15	**(11.2)**	(11.2)
Capital redemption reserve		**1.8**	1.8
Other reserves		**—**	0.6
Retained deficit		**(1,307.2)**	(1,295.8)
Deficit attributable to owners of the Company		**(138.8)**	(126.8)
Non-controlling interests		**51.7**	62.8
Total deficit		**(87.1)**	(64.0)

The accompanying notes are an integral part of the condensed consolidated financial statements.

Half year condensed consolidated statement of changes in equity

For the six months ended 30 June 2020

	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 equity/ (deficit) £m
At 1 January 2019	34.5	1,143.3	(11.2)	1.8	(1,135.3)	3.1	36.2	67.1	103.3
Impact of change in accounting standards - IFRS 16[1]	—	—	—	—	(26.8)	—	(26.8)	—	(26.8)
Impact of change in accounting standards - IFRIC 23[2]	—	—	—	—	6.2	—	6.2	—	6.2
At 1 January 2019, after adoption of IFRS 16[1] and IFRC 23[2]	34.5	1,143.3	(11.2)	1.8	(1,155.9)	3.1	15.6	67.1	82.7
Profit for the period	—	—	—	—	26.3	—	26.3	3.0	29.3
Other comprehensive expense	—	—	—	—	(43.6)	2.0	(41.6)	—	(41.6)
Total comprehensive (expense)/income for the period	—	—	—	—	(17.3)	2.0	(15.3)	3.0	(12.3)
Share based payment net of deferred tax effect	—	—	—	—	3.5	—	3.5	—	3.5
Movement in put-options held by non-controlling interests	—	—	—	—	(2.0)	—	(2.0)	—	(2.0)
At 30 June 2019	34.5	1,143.3	(11.2)	1.8	(1,171.7)	5.1	1.8	70.1	71.9
At 1 January 2020	**34.5**	**1,143.3**	**(11.2)**	**1.8**	**(1,295.8)**	**0.6**	**(126.8)**	**62.8**	**(64.0)**
Profit for the period	**—**	**—**	**—**	**—**	**15.3**	**—**	**15.3**	**(0.5)**	**14.8**
Other comprehensive expense	**—**	**—**	**—**	**—**	**(46.9)**	**(0.6)**	**(47.5)**	**—**	**(47.5)**
Total comprehensive expense for the period	**—**	**—**	**—**	**—**	**(31.6)**	**(0.6)**	**(32.2)**	**(0.5)**	**(32.7)**
Share based payment net of deferred tax effect	**—**	**—**	**—**	**—**	**3.7**	**—**	**3.7**	**—**	**3.7**
Dividends paid[3]	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(10.6)**	**(10.6)**
Movement in put-options held by non-controlling interests	**—**	**—**	**—**	**—**	**16.5**	**—**	**16.5**	**—**	**16.5**
At 30 June 2020	**34.5**	**1,143.3**	**(11.2)**	**1.8**	**(1,307.2)**	**—**	**(138.8)**	**51.7**	**(87.1)**

1 The Group initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application.

2 The Group initially applied IFRIC 23 Uncertainty over Income Tax Treatments at 1 January 2019. The cumulative effect of initially applying IFRIC 23 has been recognised in retained earnings at the date of initial application.

3 Dividends paid and proposed: £10.6m (30 June 2019: £nil) relates to dividends paid to non-controlling interests.

Share capital – The balance classified as share capital is the nominal proceeds on issue of the Company's equity share capital, comprising 2 1/15p ordinary shares.

Share premium – The amount paid to the Company by shareholders, in cash or other consideration, over and above the nominal value of shares issued to them less issuance costs.

Employee benefit trust and treasury shares – Shares that have been bought back by the Company which are available for retirement or resale; shares held in the employee benefit trust have no voting rights and do not have an entitlement to dividends.

Capital redemption reserve – The Company can redeem shares by repaying the market value to the shareholder, whereupon the shares are cancelled. Redemption must be from distributable profits. The Capital redemption reserve represents the nominal value of the shares redeemed.

Retained deficit – Net (losses)/profits accumulated in the Group after dividends are paid.

Other reserves – This consists of foreign currency translation reserve deficit of £4.7m (30 June 2019: £3.1m surplus) and cash flow hedging reserve surplus of £4.7m (30 June 2019: £2.0m surplus).

Non-controlling interests (NCI) – This represents equity in subsidiaries that is not attributable directly or indirectly to the Parent Company.

The accompanying notes are an integral part of the condensed consolidated financial statements.

Half year condensed consolidated cash flow statement

For the six months ended 30 June 2020

	Notes	**30 June 2020 £m**	30 June 2019 £m
Cash generated from operations	13	**355.7**	6.9
Cash generated from discontinued operations		**9.0**	3.1
Income tax paid		**(4.6)**	(2.2)
Net interest paid		**(24.1)**	(26.3)
Net cash inflow/(outflow) from operating activities		**336.0**	(18.5)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(20.9)**	(22.3)
Purchase of intangible assets		**(28.4)**	(42.1)
Proceeds from sale of property, plant and equipment/intangible assets		**—**	0.1
Additions to investments in associates		**(0.6)**	(0.4)
Prior year disposal costs recognised in subsequent years		**—**	(8.0)
Deferred consideration paid		**—**	(0.3)
Contingent consideration paid	14	**(4.9)**	(2.4)
Subsidiary partnership payment	14	**(4.7)**	(4.7)
Net proceeds on disposal of subsidiary undertakings	4	**45.1**	—
Net cash outflow from investing activities		**(14.4)**	(80.1)
Cash flows from financing activities			
Dividends paid to non-controlling interest		**(10.6)**	—
Capital element of lease rental payments		**(61.4)**	(56.0)
Repayment of loan notes		**(162.7)**	(11.1)
Proceeds from revolving credit facility		**170.0**	—
Repayment of term loan		**—**	(100.0)
Net cash outflow from financing activities		**(64.7)**	(167.1)
Increase/(decrease) in cash and cash equivalents		**256.9**	(265.7)
Cash and cash equivalents at the beginning of the period		**119.3**	642.7
Movement in exchange rates		**(6.0)**	(0.1)
Cash and cash equivalents at 30 June		**370.2**	376.9
Cash and cash equivalents comprise:			
Cash		**756.2**	716.5
Overdrafts		**(396.6)**	(339.6)
Cash included in disposal group assets held for sale	4	**10.6**	—
Total		**370.2**	376.9

Adjusted cash generated from operations	13	**253.7**	123.0
Adjusted free cash flows	13	**176.0**	30.1

The accompanying notes are an integral part of the condensed consolidated financial statements.

Notes to the half year condensed consolidated financial statements

For the six months ended 30 June 2020

1 Corporate information

Capita plc (the 'Company' or the 'Parent Company') is a public limited liability company incorporated in England and Wales whose shares are publicly traded.

The half year condensed consolidated financial statements of the Company and its subsidiaries (the 'Group') for the six months ended 30 June 2020 were authorised for issue in accordance with a resolution of the Directors on 17 August 2020.

2 Basis of preparation, judgements and estimates, and going concern

(a) Basis of preparation

These half year condensed consolidated financial statements for the six months ended 30 June 2020 have been prepared in accordance with the Disclosure Guidance and Transparency Rules (DTR) of the Financial Conduct Authority ('FCA') and IAS 34 Interim Financial Reporting.

These half year condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2019, which have been prepared in accordance with IFRSs as adopted by the European Union.

These half year condensed consolidated financial statements do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2019 were approved by the Board of Directors on 4 March 2020 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph, and did not contain any statement under Section 498 of the Companies Act 2006.

These half year condensed consolidated financial statements for the six months ended 30 June 2020 have been reviewed by the Group's auditors pursuant to the Auditing Practices Board guidance on Review of Interim Financial Information.

(b) Adjusted profit

IAS 1 permits an entity to present additional information for specific items to enable users to better assess the entity's financial performance.

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

(c) Judgements and estimates

These half year condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles which require 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 amounts, events or actions, actual results may differ.

The potential impact of COVID-19 on the Group has been considered in the preparation of these half year condensed consolidated financial statements, including management's evaluation of critical accounting estimates and judgements. The impact on the Group has varied by business and has triggered the need for a full goodwill impairment review as at 30 June 2020 (see note 10).

COVID-19 has introduced unprecedented economic uncertainties and has led to increased judgement particularly in forecasting future financial performance. There have also been direct impacts during the first six months including revenue and costs arising from: new contracts in helping customers respond to the pandemic; a higher holiday pay accrual due to holidays not being taken in the first six months of the year; costs of setting up colleagues to work remotely; the release of the 2019 bonus accruals; and the utilisation of the Government's furlough scheme. The Board has not reported these items separately, but where there is an impact this is captured in the Divisional performance reviews.

The Board has continued with a policy to separately identify items such as restructuring, where the plans have been advanced and adapted in response to COVID-19 and these are set out in note 3. The Board has also considered the impact on the provisions recorded as at 30 June 2020, with no significant adjustment recorded, and the valuation of the defined benefit pension plans.

As detailed in note 5, 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. This risk is increased further by the uncertainty COVID-19 brings to forecasting.

(d) Going concern

In determining the appropriate basis of preparation for the six months ended 30 June 2020, the Board is required to consider whether the Group will be able to operate within the level of available facilities and cash for the foreseeable future. The Board has concluded that it is appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts, key uncertainties and sensitivities, including the potential impact of COVID-19 as set out below.

Since late March 2020, the Group has faced challenges and uncertainties due to the COVID-19 pandemic, which has slowed the progress of the transformation programme. The Board expects revenue over the rest of the year to remain resilient, given the client base and the long-term nature of our contracts. Nevertheless, to enable a robust assessment of the medium term forecast financial performance the Board commissioned an exercise in June 2020 to revisit the outlook to the end of 2021 ahead of the normal business plan process. The high level of uncertainty as to how the COVID-19 pandemic might evolve over the remainder of 2020 and into 2021, including whether or not there will be a second wave and what impact this may have on the operation of each of the Group's businesses, makes precise forecasting challenging. There is a higher degree of uncertainty than would usually be the case in making the key judgements and assumptions that underpin the Group's financial forecasts.

The bottom-up forecasts have been subject to review and challenge by executive management and the Board. The forecasts include overlays for additional financial benefits that are expected to be driven by the transformation programme. These include sales growth together with margin improvements and further cost out targets. The Board has approved the 2021 outlook which, on the assumption that the overlays are successfully delivered, supports the base case and time period assessed as part of the going concern review for these interim statements.

In addition to the base case, the Board considered severe but plausible downside scenarios, recognising there is execution risk associated with a transformation programme of such magnitude that has been impacted by the broader political and economic uncertainty introduced by COVID-19. Offsetting these risks the Board has considered available mitigations within the direct control of the Group, including additional restructuring and limiting variable rewards should the transformation benefits not be realised.

Finally, the assessment has considered the Group's existing debt levels, committed funding and liquidity positions and covenant compliance. The Group's committed revolving credit facility, backstop liquidity facilities and private placement notes are subject to compliance with covenant requirements including maximum ratios of adjusted net debt to adjusted EBITDA. The Group's covenanted maximum ratio is 3.0 to 3.5 times depending on the debt instrument in question. They are tested semi-annually.

The Group has adjusted net debt of £609.5m at 30 June 2020. The components of adjusted net debt and adjusted EBITDA are set out in the alternative performance measures in the appendix.

The Group's calculation of adjusted net debt to adjusted EBITDA at 30 June 2020 was 1.5 times for the US Private Placement Loan Notes ratio and 2.1 times for other financing agreements and were compliant with the relevant ratios.

The Group's revolving credit facility (£452m) matures in August 2022; and the Group's backstop facilities (£150m) have an initial maturity in February 2021 and are extendable at the option of the Group to a final maturity in April 2022 (£56.5m) and August 2022 (£93.5m). There are scheduled debt repayments totalling £265.6m over the period to 31 December 2021, with a further repayment of £67.1m due in the first half of 2022.

Financial projections across a range of severe but plausible scenarios, in which downside risks are partially offset by appropriate mitigations, indicate that there is potentially limited liquidity headroom and a risk of insufficient headroom when assessing the Group's future compliance with the financial covenants.

In considering the potential impacts of these projections, the Board has modelled the additional funds expected to be received from the disposal of Education Software Solutions ('ESS') which is planned for 2020. It is the Board's expectation that these funds will provide the necessary liquidity headroom to address any potential shortfalls arising in the downside scenarios evaluated, albeit with very limited covenant headroom as at 30 June 2021. It is also the Board's expectation that these funds will provide for compliance with all covenants although in certain circumstances this headroom is potentially limited at June 2021. The Board has confidence in the robustness of its primary mitigation (the ESS disposal) against these downside scenarios. The Group has several other options which are being actively pursued to provide further resilience in the event of a downside scenario. These include additional disposals and a refinancing of short-term maturities, which are discussed further below.

Medium term resilience

In addition to the previously announced disposal programme for businesses that do not align with the longer-term strategy for the Group and which will provide funds to support the medium term resilience for the Group, the Board is also exploring covenant relaxations and amendments from the Group's lenders, and a refinancing of short-term debt maturities. Together these will cover future debt repayments and support the ongoing transformation programme. The Board announced in June 2020 the completed disposal of Eclipse Legal Services raising net cash proceeds of £50m, and in June also announced the planned disposal of the ESS business in line with this strategy. These disposals, once completed, will introduce considerable funds to the Group.

An important consideration for the Board is the successful track record of delivering planned disposals. This includes the Asset Services business in 2017 that delivered net cash proceeds of c.£865m, the disposals of ParkingEye and Constructionline in 2018 that delivered total net proceeds of c.£390m and the successful disposal of Eclipse Legal Services in 2020.

For that reason, the Board is confident that the Group can deliver the 2020 disposals as planned given the strength of the underlying businesses and the value they deliver and have considered the disposal programme in maintaining the medium-term financial resilience of the Group.

Material uncertainty

The disposal of ESS is subject to shareholder and lender approval, both of which are outside the control of the Company. Accordingly, this gives rise to material uncertainty, as defined in auditing and accounting standards, relating to events and circumstances which may cast significant doubt about the Group's ability to continue as a going concern.

The Board is confident that the ESS disposal will be approved by shareholders and lenders, and based on this expectation believes that, even in a plausible but severe downside scenario, the Group will continue to have adequate financial resources to realise its assets and discharge their liabilities as they fall due over the period to 31 December 2021. Consequently, these interim financial statements do not include any adjustments which would be required if the going concern basis of preparation is inappropriate.

3 Adjusted operating profit and adjusted profit before tax

The items below are excluded from the adjusted results because the Board has concluded that it is appropriate to do so. These amounts are (or have been) material and require 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 are discussed further below:

		Operating (loss)/profit		(Loss)/profit before tax	
	Notes	**30 June 2020 £m**	30 June 2019 £m	**30 June 2020 £m**	30 June 2019 £m
Reported		**(34.6)**	60.8	**(28.5)**	31.2
Amortisation and impairment of acquired intangibles		**20.2**	28.7	**20.2**	28.7
Litigation and claims		**3.8**	0.8	**3.8**	0.8
Net finance costs	7	**—**	—	**8.5**	1.3
Contingent consideration movements		**(0.1)**	—	**(0.1)**	—
Business exit – trading	4	**1.4**	(0.7)	**1.4**	(0.7)
Business exit – non-trading expenses	4	**19.9**	—	**19.9**	—
Business exit – gain on disposals	4	**—**	—	**(42.1)**	—
Business exit – on hold disposal costs		**7.0**	—	**7.0**	—
Significant restructuring		**40.0**	56.5	**40.0**	56.5
Adjusted		**57.6**	146.1	**30.1**	117.8

1. Adjusted operating profit decreased by 60.6% (30 June 2019: 4.7%) and adjusted profit before tax decreased by 74.4% (30 June 2019: 6.3%). Adjusted operating profit of £57.6m (30 June 2019: £146.1m) was generated on adjusted revenue of £1,652.2m (30 June 2019: £1,815.5m) resulting in an adjusted operating profit margin of 3.5% (30 June 2019: 8.1%).
2. The tax impact of the operating profit/(loss) adjusting items is a £13.0m credit (30 June 2019: £16.3m credit). The tax impact of the profit/(loss) before tax adjusting items is a £14.6m credit (30 June 2019: £16.5m credit).
3. The adjusted operating profit and adjusted profit before tax at 30 June 2019 has been restated for the impact of IFRS16 and business exits in the second half of 2019 and first half of 2020. This has resulted in adjusted operating profit increasing from £142.1m to £146.1m and adjusted profit before tax decreasing from £126.1m to £117.8m.

Amortisation and impairment of acquired intangible assets: the Group recognised acquired intangible amortisation of £18.6m (30 June 2019: £28.7m) and impairment of £1.6m (30 June 2019: £nil).

Litigation and claims: the Group has been notified under a supplier contract of a potential liability relating to past services received. The Group has made a provision of £5m for the expected cash element of the settlement and excluded this from adjusted results since it relates to services received in prior periods and is not reflective of current year trading. Refer to note 18 for further details. This is offset by a gain of £1.2m from net movements in historical provisions for litigation and claims.

Net finance costs: net finance costs excluded from adjusted profits includes movements in the mark-to-market valuation of certain financial instruments.

Business exits: the trading result of businesses exited, or in the process of being exited, and the gain or loss on disposals, are excluded from the Group's adjusted results. Refer to note 4 for further details.

Business exits - on hold disposal costs: the costs incurred in respect of business exit activities where the anticipated disposal was primarily put on hold due to the impact the COVID-19 pandemic had on the underlying businesses, are excluded from the Group's adjusted results but disclosed separately from other business exits given their materiality. These costs include professional fees in respect of legal and financial due diligence, and separation planning costs.

Significant restructuring: in January 2018, the Group announced a multi-year transformation plan. For the six months ended 30 June 2020, a charge of £40.0m (30 June 2019: £56.5m) was recognised in relation to the cost of the transformation plan. The costs include the following:

- **Cost to realise savings and efficiencies from the transformation plan £25.7m (30 June 2019: £35.0m):** including significant reductions in overheads, the elimination of duplicate roles and management layers, and the Group's operational excellence programme which will improve the consistency of the Group's operations, reduce spans and layers, increasing the use of off-shoring and automation, adopting lean methodologies and working smarter. These costs also include rationalisation and increased utilisation of the Group’s property estate in metro centres and regionally. As the Group continues to rationalise its property estate, costs associated with onerous property commitments and dilapidation liabilities, and impairment of property right of use assets, will be captured and presented as part of the transformation adjustments.
- **Professional fees £1.5m (30 June 2019: £11.5m):** incurred to support reigniting sales growth, increasing the proportion of centrally controlled spend, and a refinancing which due to the impact COVID-19 had on the debt markets in the latter part of the half year had to be aborted.
- **Transformation of central Group functions £10.3m (30 June 2019: £10.0m):** investment in programmes to improve the Group’s central functions, including: finance; sales; human resources; and information technology. All costs associated with these programmes are recorded separately, excluding any costs capitalised as part of the investment and the ongoing depreciation and amortisation of such assets.
- **Costs of accelerating savings to mitigate the financial impact of COVID-19 £2.5m (30 June 2019: nil):** these are incremental to those planned to be incurred as part of the transformation plan in 2020.

4 Business exits, assets held-for-sale and discontinued operations

Business exits are businesses that have been disposed of or exited during the period or are in the process of being disposed of or exited. None of these business exits meet the definition of 'discontinued operations' as stipulated by IFRS 5, which requires disclosure and comparatives to be restated where the relative size of a disposal or business closure is significant, which is normally understood to mean a reported segment.

However, the trading result of these businesses, 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 30 June 2019 comparatives have been restated to exclude businesses classified as business exits in the second half of 2019 and the first half of 2020.

The Group classifies a non-current asset (or disposal group) as held-for-sale if its carrying amount will be recovered principally through a sale transaction rather than continued use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Business exits at 30 June 2020 comprised:

- the Eclipse business whose disposal completed on 30 June 2020;
- two businesses in the process of being exited and which met the held-for-sale criteria. Accordingly, these businesses were treated as disposal groups held-for-sale at this date;
- one business in the process of being exited but which did not meet the held-for-sale criteria at 30 June 2020; and
- the exit costs relating to further planned disposals, including professional fees and separation planning costs.

Further disposals are planned in the second half of 2020, including ESS. Since these disposals did not meet the definition of business exits and assets held-for-sale at 30 June 2020, their trading results were included within adjusted results.

		Non-trading disposal			30 June 2020		Non-trading disposal			30 June 2019
Income statement impact	**Trading £m**	**Cash £m**	**Non-cash £m**	**Total £m**	**Total £m**	Trading £m	Cash £m	Non-cash £m	Total £m	Total £m
Revenue	**30.5**	**—**	**—**	**—**	**30.5**	36.5	—	—	—	36.5
Cost of sales	**(23.5)**	**—**	**—**	**—**	**(23.5)**	(24.3)	—	—	—	(24.3)
Gross profit	**7.0**	**—**	**—**	**—**	**7.0**	12.2	—	—	—	12.2
Administrative expenses	**(8.4)**	**(1.1)**	**(18.8)**	**(19.9)**	**(28.3)**	(11.5)	(0.1)	0.1	—	(11.5)
Operating (loss)/profit	**(1.4)**	**(1.1)**	**(18.8)**	**(19.9)**	**(21.3)**	0.7	(0.1)	0.1	—	0.7
Gain on business disposal	**—**	**45.1**	**(3.0)**	**42.1**	**42.1**	—	—	—	—	—
(Loss)/profit before tax	**(1.4)**	**44.0**	**(21.8)**	**22.2**	**20.8**	0.7	(0.1)	0.1	—	0.7
Income tax credit	**0.3**	**0.1**	**2.5**	**2.6**	**2.9**	—	—	—	—	—
Profit/(loss) after tax	**(1.1)**	**44.1**	**(19.3)**	**24.8**	**23.7**	0.7	(0.1)	0.1	—	0.7

Trading revenue and costs represent the current period trading performance of those businesses up to the point of being disposed or exited. Trading administrative expenses primarily comprise of payroll costs of £4.3m (30 June 2019: £6.6m) and information technology costs of £1.9m (30 June 2019: £2.5m).

Non-trading administrative expenses comprise closure costs of £1.1m (30 June 2019: £0.1m), goodwill impairment of £2.8m (30 June 2019: £nil) accruals of £2.1m and other asset impairments of £14.7m (30 June 2019: £nil), offset by releases of provisions of £0.8m (30 June 2019: £0.1m).

2020 disposal

In 2020 the gain arising on the disposal of the Eclipse Legal Services business of £42.1m comprised the disposal of net assets of £6.2m for £53.2m consideration and disposal costs of £4.9m. The net cash proceeds of £50.0m comprised the cash purchase consideration of £53.2m less £3.2m of cash disposed of.

	30 June 2020		
Gain on business disposal	Cash £m	Non-cash £m	Total £m
Property, plant and equipment	—	0.6	0.6
Intangible assets	—	3.2	3.2
Goodwill	—	3.8	3.8
Trade and other receivables	—	2.3	2.3
Trade and other payables	—	(6.5)	(6.5)
Deferred income	—	(0.4)	(0.4)
Cash disposed of	3.2	—	3.2
Total net assets disposed of	3.2	3.0	6.2
Cash purchase consideration received	53.2	—	53.2
Costs of disposal – paid and accrued	(4.9)	—	(4.9)
Proceeds, less costs, on disposal	48.3	—	48.3
Gain on business disposal	45.1	(3.0)	42.1

Balance Sheet – disposal group	30 June 2020 £m	31 December 2019 £m
Property, plant and equipment	**0.3**	0.2
Intangibles	**—**	2.9
Contract fulfillment assets	**0.9**	—
Trade and other receivables[1]	**5.4**	9.3
Cash	**10.6**	—
Assets held for sale	**17.2**	12.4
Trade and other payables[2]	**6.2**	4.4
Overdraft	**—**	3.5
Provisions	**0.4**	—
Liabilities held for sale	**6.6**	7.9

1. Trade and other receivables includes £1.1m of income tax receivable and deferred taxation (31 December 2019: £0.1m).
2. Trade and other payables includes £nil of income tax payable and deferred taxation (31 December 2019: £0.4m).

Business exit cash flows

Businesses exited and being exited generated net operating cash outflows of £1.0m (30 June 2019: cash inflows of £3.8m).

Discontinued operations

On 3 November 2017, the Group completed the disposal of its Asset Services businesses, including Capita Financial Managers Ltd (CFM), to the Link Group. The disposal met the definition of a discontinued operation as stipulated by IFRS 5.

The income of £9.0m in the period ended 30 June 2020, relates to additional payments received in connection with the sale of the Asset Services businesses (30 June 2019: £3.7m income) arising from the return of redress payments made to the FCA regarding the Connaught Income Series 1 Fund.

5 Contract accounting

At 30 June 2020, the Group had the following results and balance sheet items relating to long-term contracts:

	Notes	30 June 2020 £m	30 June 2019 £m	31 December 2019 £m
Long-term contractual adjusted revenue	6	**1,213.9**	1,301.6	
Deferred income		**1,109.7**		1,061.0
Contract fulfilment assets	11	**288.3**		275.8
Onerous contract provisions	12	**5.7**		6.1

Background

The Group operates a number of diverse businesses. The majority of the Group's revenue is from contracts greater than two years in duration (long-term contractual), 73% of Group adjusted revenue at 30 June 2020 (30 June 2019: 72%).

These long-term contracts can be complex in nature because of 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 and the utilisation of these assets is recognised over the contract term. The cash received from customers reflects when the costs are incurred to transform, restructure and run the service. This results in income being deferred and released as the Group continues to deliver against its obligation to provide services and solutions to its customers.

Assessing contract profitability

In assessing a contract's future lifetime profitability, management must estimate forecast revenue and costs to both transform and run the service over the remaining contract term. The ability to accurately forecast the outcomes involves estimates in respect of: costs to be incurred; cost savings to be achieved; future performance against any contract-specific 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 signing off that the new process or the new technical solution designed by Capita meets their specific requirements; and
- the assumptions made to forecast expected savings in the target operating model.

Those contracts which are post-inflection and in the BAU stage tend to have a much lower level of uncertainty in estimating the contract's future profitability.

Recoverability of contract fulfilment assets and completeness of onerous contract provisions
Management first assesses whether the contract assets are impaired and then further considers whether an onerous contract exists. The Audit and Risk Committee specifically reviews the material judgements and estimates and the overall approach in respect of the Group's major contracts for each reporting period, including comparison against previous forecasts. Major contracts include those that are material in size or risk to the Group's results. Other contracts are reported to the Audit and Risk Committee as deemed appropriate. These contracts are collectively referred to as 'major contracts' in the remainder of this note.

The major contracts contributed £0.7billion at 30 June 2020 (30 June 2019: £0.8billion) or 44% (30 June 2019: 42%) of the Group's adjusted revenue. Non-current contract fulfilment assets as at 30 June 2020 were £288.3m, of which £125.5m (31 December 2019: £80.7m) related to major contracts with on-going transformational activities. The remainder relates to contracts post transformation and includes non-major contracts.

The major contracts, both pre- and post-transformation, are rated according to their financial risk profile, which is linked to the level of uncertainty over future assumptions. For those that are in the high and medium rated risk categories the associated non-current contract fulfilment assets in aggregate were £63.8m at 30 June 2020 (31 December 2019: £52.4m). The recoverability of these assets is dependent on no significant adverse change in the key contract assumptions arising in the next financial year. The deferred income associated with these contracts was £296.4m at 30 June 2020 (31 December 2019: £243.6m) and is forecast to be recognised as performance obligations continue to be delivered over the life of the respective contracts.

Following these reviews, contract fulfilment asset impairment provisions of £4.4m at 30 June 2020 (31 December 2019: £9.6m) were identified and recognised within adjusted cost of sales, of which, at 30 June 2020, £0.7m (31 December 2019: £2.2m) related to contract fulfilment assets added during the period. There were no material onerous contract provisions recognised in the period.

Given the quantum of the relevant contract assets and liabilities, 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, £125.5m of non-current contract fulfilment assets relates to major contracts with on-going transformational activities and £63.8m of non-contract fulfilment assets relates to the highest and medium rated risk category. Due to the level of uncertainty, combination of variables and timing across numerous contracts, it is not practical to provide a quantitative analysis of the aggregated judgements that are applied, and management do not believe that disclosing a potential range of outcomes on a consolidated basis would provide meaningful information to a user of the financial statements. Due to commercial sensitivities, the Group does not specifically disclose the amounts involved in any individual contract. Additional information, which does not form part of the financial statements, on the results and performance of the underlying divisions including the outlook on certain contracts is set out in the divisional performance review.

6 Revenue and 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.

The tables below present revenue for the Group's business segments for the six months ended 30 June 2020 and 2019. During 2020, there were a number of transfers of businesses between the segments due to changes in the structure. Comparative information has been restated accordingly. For segmental reporting, Consulting is aggregated within the 'Group trading and central services' segment.

Adjusted revenue, excluding results from businesses exited in both half years (adjusting items), was £1,652.2m (30 June 2019: £1,815.5m), an organic decline of 9.0% (30 June 2019: 8.0% decline).

Six months to 30 June 2020	Note	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central services £m	Total adjusted £m	Adjusting items £m	Total reported £m
Continuing operations											
Long-term contractual		**166.5**	**143.3**	**444.6**	**296.0**	**133.4**	**22.4**	**7.7**	**1,213.9**	**21.0**	**1,234.9**
Short-term contractual		**4.7**	**38.7**	**116.4**	**3.7**	**10.5**	**56.6**	**2.5**	**233.1**	**6.9**	**240.0**
Transactional (point-in-time)		**2.2**	**63.7**	**0.8**	**65.1**	**46.6**	**23.4**	**3.4**	**205.2**	**2.6**	**207.8**
Total segment revenue		**173.4**	**245.7**	**561.8**	**364.8**	**190.5**	**102.4**	**13.6**	**1,652.2**	**30.5**	**1,682.7**
Trading revenue		**199.4**	**316.2**	**631.8**	**379.3**	**308.3**	**107.9**	**37.6**	**1,980.5**	**—**	**1,980.5**
Inter-segment revenue		**(26.0)**	**(70.5)**	**(70.0)**	**(14.5)**	**(117.8)**	**(5.5)**	**(24.0)**	**(328.3)**	**—**	**(328.3)**
Total adjusted segment revenue		**173.4**	**245.7**	**561.8**	**364.8**	**190.5**	**102.4**	**13.6**	**1,652.2**	**—**	**1,652.2**
Business exits – trading	4	**6.9**	**2.6**	**16.2**	**—**	**—**	**4.8**	**—**	**—**	**30.5**	**30.5**
Total segment revenue		**180.3**	**248.3**	**578.0**	**364.8**	**190.5**	**107.2**	**13.6**	**—**	**—**	**1,682.7**

Six months to 30 June 2019		Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central services £m	Total adjusted £m	Adjusting items £m	Total reported £m
Continuing operations											
Long-term contractual		163.0	156.1	445.4	343.1	157.7	26.5	9.8	1,301.6	24.2	1,325.8
Short-term contractual		4.9	39.9	123.2	14.3	20.1	71.3	0.9	274.6	7.7	282.3
Transactional (point-in-time)		2.8	75.6	0.9	66.8	46.4	45.4	1.4	239.3	4.6	243.9
Total segment revenue		170.7	271.6	569.5	424.2	224.2	143.2	12.1	1,815.5	36.5	1,852.0
Trading revenue		197.4	360.4	633.0	441.0	354.5	154.4	36.1	2,176.8	—	2,176.8
Inter-segment revenue		(26.7)	(88.8)	(63.5)	(16.8)	(130.3)	(11.2)	(24.0)	(361.3)	—	(361.3)
Total adjusted segment revenue		170.7	271.6	569.5	424.2	224.2	143.2	12.1	1,815.5	—	1,815.5
Business exits – trading	4	7.3	2.9	15.7	—	—	10.6	—	—	36.5	36.5
Total segment revenue		178.0	274.5	585.2	424.2	224.2	153.8	12.1	—	—	1,852.0

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 the currently contracted transaction price allocated to the performance obligations that are unsatisfied or partially unsatisfied. The current environment has contributed to the Group's order book declining with contract wins not offsetting revenue recognised in the period. Revenue expected to be recognised upon satisfaction of these performance obligations is as follows:

Order book 30 June 2020	**Software £m**	**People Solutions £m**	**Customer Management £m**	**Government Services £m**	**Technology Solutions £m**	**Specialist Services £m**	**Group trading and central functions £m**	**Total £m**
Long-term contractual	**531.1**	**453.6**	**2,470.7**	**1,988.1**	**368.5**	**235.4**	**4.9**	**6,052.3**
Short-term contractual	**28.1**	**1.9**	**51.8**	**31.0**	**48.6**	**51.7**	**8.4**	**221.5**
Total	**559.2**	**455.5**	**2,522.5**	**2,019.1**	**417.1**	**287.1**	**13.3**	**6,273.8**

Order book 31 December 2019	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central functions £m	Total £m
Long-term contractual	496.7	497.2	2,734.0	2,140.6	344.0	259.0	2.9	6,474.4
Short-term contractual	81.7	—	26.5	36.1	45.7	47.6	7.6	245.2
Total	578.4	497.2	2,760.5	2,176.7	389.7	306.6	10.5	6,719.6

The table below shows the expected timing of revenue to be recognised from long-term contractual orders at 30 June 2020:

Time bands of expected revenue recognition from long-term contractual orders	**Software £m**	**People Solutions £m**	**Customer Management £m**	**Government Services £m**	**Technology Solutions £m**	**Specialist Services £m**	**Group trading and central functions £m**	**Total £m**
Within one year	**215.6**	**190.4**	**722.3**	**405.0**	**129.1**	**36.2**	**1.7**	**1,700.3**
Between one and five years	**276.9**	**254.3**	**1,425.9**	**1,147.0**	**196.3**	**67.7**	**3.2**	**3,371.3**
More than five years	**38.6**	**8.9**	**322.5**	**436.1**	**43.1**	**131.5**	**—**	**980.7**
Total	**531.1**	**453.6**	**2,470.7**	**1,988.1**	**368.5**	**235.4**	**4.9**	**6,052.3**

The order book represents the consideration to which the Group will be entitled to receive from the customers when the Group satisfies the remaining performance obligations in the contracts. However, the total revenue that will be earned by the Group will also include non-contracted volumetric revenue, new wins, scope changes and anticipated contract extensions. These elements have been excluded from the figures in the tables above because they are not contracted. In addition, revenue from contract extensions is also excluded from the order book unless they are pre-priced extensions whereby the Group has a legally binding obligation to deliver the performance obligations during the extension period. The total revenue related to pre-priced extensions that has been included in the tables above amounted to £648.2m (31 December 2019: £605.4m). The amounts presented do not include orders for which neither party has performed, and each party has the unilateral right to terminate a wholly unperformed contract without compensating the other party.

Of the £6.0billion (31 December 2019: £6.5billion) revenue to be earned on long-term contractual orders, £4.0billion (31 December 2019: £4.4billion) 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 expected to contribute an additional £1.9billion (31 December 2019: £1.8billion) of revenue to the Group over the life of these contracts.

No single customer makes up more than 10% of the Group's revenues.

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 £643.3m (30 June 2019: £693.8m; 31 December 2019: £1,119.3m).

Segmental profit

The Group adopted IFRS 16 on 1 January 2019 using the modified retrospective approach. Leases across the Group are centrally managed and controlled. As a result, the Group's right-of-use lease assets and lease liabilities are held in the Group trading and central services segment, and the related depreciation included in the Group trading and central services income statement. The IFRS 16 interest charges are included on a total group basis only, similar to other finance costs. The divisions continue to recognise rental costs on an IAS 17 basis because they do not control the use of the asset, this is reversed in the Group trading and central services segment and replaced with IFRS 16 depreciation and interest expense. Comparative information has been restated to include the impact of IFRS16 on adjusted results.

The table below presents profit/(loss) by segment.

Period ended 30 June 2020	Notes	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central services £m	Total adjusted £m	Adjusting items £m	Total reported £m
Adjusted operating profit/(loss)	3	**38.2**	**17.8**	**41.6**	**14.3**	**14.9**	**(4.1)**	**(65.1)**	**57.6**	**—**	**57.6**
Restructuring	3	**(0.6)**	**(4.3)**	**(1.4)**	**(0.6)**	**(1.6)**	**(0.1)**	**(31.4)**	**—**	**(40.0)**	**(40.0)**
Business exits – trading	4	**1.9**	**(3.3)**	**2.0**	**—**	**—**	**(2.0)**	**—**	**—**	**(1.4)**	**(1.4)**
Total trading result		**39.5**	**10.2**	**42.2**	**13.7**	**13.3**	**(6.2)**	**(96.5)**	**57.6**	**(41.4)**	**16.2**
Non-trading items:											
Business exits – non-trading	4								**—**	**(19.9)**	**(19.9)**
Other adjusting items	3								**—**	**(30.9)**	**(30.9)**
Operating profit/(loss)									**57.6**	**(92.2)**	**(34.6)**

Period ended 30 June 2019	Notes	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central services £m	Total adjusted £m	Adjusting items £m	Total reported £m
Adjusted operating profit/(loss)	3	46.6	28.5	53.9	20.0	28.7	20.1	(51.7)	146.1	—	146.1
Restructuring	3	(2.4)	(15.2)	(1.8)	(0.4)	(2.7)	(3.9)	(30.1)	—	(56.5)	(56.5)
Business exits – trading	4	2.3	(2.7)	2.5	—	—	(1.3)	(0.1)	—	0.7	0.7
Total trading result		46.5	10.6	54.6	19.6	26.0	14.9	(81.9)	146.1	(55.8)	90.3
Non-trading items:											
Business exits – non-trading	4								—	—	—
Other adjusting items	3								—	(29.5)	(29.5)
Operating profit/(loss)									146.1	(85.3)	60.8

7 Net finance costs

The table below shows the composition of net finance costs, including those excluded from adjusted profit:

	30 June 2020 £m	30 June 2019 £m
Interest receivable	**(0.7)**	(2.7)
Private Placement Loan Notes[1]	**12.7**	15.3
Cash flow hedges recycled to the income statement	**(2.1)**	(1.7)
Bank loans and overdrafts	**2.6**	2.0
Interest on lease liabilities	**12.8**	12.3
Net interest cost on defined benefit pension schemes	**1.8**	2.5
Interest payable	**27.8**	30.4
Net finance costs included in adjusted profit	**27.1**	27.7
Discount unwind on public sector subsidiary partnership payment	**0.5**	0.7
Non-designated foreign exchange forward contracts – mark-to-market	**6.5**	(2.4)
Fair value hedge ineffectiveness[2]	**1.5**	3.0
Net finance costs excluded from adjusted profit	**8.5**	1.3
Total net finance costs	**35.6**	29.0

1. Private Placement Loan Notes comprise US private placement loan notes, Euro fixed rate bearer notes, and a Schuldschein loan
2. Fair value hedge ineffectiveness includes ineffectiveness from changes in currency basis, and the movement in mark-to-market valuations on hedge derivatives from the perceived change in the credit worthiness of the counterparties to those instruments.

8 Income tax

The reported income tax credit for the half year of £34.3m resulted in a reported tax rate of 119.9% (30 June 2019: reported income tax charge of £5.6m and tax rate of 17.9%) while the adjusted income tax credit for the half year of £19.7m resulted in an adjusted tax rate of -65.6% (30 June 2019: adjusted income tax charge of £22.1m and adjusted tax rate of 18.7%).

The income tax credits have arisen as a result of: (i) a deferred tax rate change impact of £15.6m relating to the UK tax rate remaining at 19% (instead of the previously announced reduction to 17%); and (ii) a one-off reduction of £8.6m in withholding tax applicable to unremitted earnings. Both one-off income tax credits were due to tax legislation changes enacted during the period.

Please refer to note 3 for tax impact of adjusting items.

The recognition 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. A forecasting exercise has been undertaken for 2020 and 2021, factoring in what is seen to be the most likely impact of COVID-19 on the Group as a whole (refer to Goodwill note 10 for further details). These forecasts provide support that it is probable that there will be sufficient future taxable profits to enable the utilisation of the recognised deferred tax assets within five years.

Capita continues with its commitment to prompt disclosure and transparency in all dealings with HMRC and overseas tax authorities. It does not have a complex tax structure, nor does it pursue any aggressive tax avoidance activities.

Further detail regarding the tax strategy can be found in the Policies and Principles section of the Capita website (capita.com/about-us/policies-and-principles).

9 Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the period attributable to ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the net profit for the period attributable to ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the period 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.

		30 June 2020		30 June 2019	
		Continuing operations p	**Total operations p**	Continuing operations p	Total operations p
Basic earnings per share	– adjusted	**3.38**	**3.38**	5.43	5.43
	– reported	**0.38**	**0.92**	1.36	1.59
Diluted earnings per share	– adjusted	**3.33**	**3.33**	5.38	5.38
	– reported	**0.38**	**0.91**	1.35	1.57

The following tables show the earnings and share data used in the basic and diluted earnings per share calculations:

	30 June 2020		30 June 2019	
	Continuing operations £m	**Total operations £m**	Continuing operations £m	Total operations £m
Adjusted profit for the period	**57.5**	**57.5**	95.3	95.3
Less: Non-controlling interest	**(1.6)**	**(1.6)**	(5.3)	(5.3)
Adjusted profit attributable to shareholders	**55.9**	**55.9**	90.0	90.0
Reported profit for the period	**5.8**	**14.8**	25.6	29.3
Less: Non-controlling interest	**0.5**	**0.5**	(3.0)	(3.0)
Total profit attributable to shareholders	**6.3**	**15.3**	22.6	26.3

	30 June 2020 m	30 June 2019 m
Weighted average number of ordinary shares (excluding trust and treasury shares) for basic earnings per share	**1,656.0**	1,656.3
Dilutive potential ordinary shares:		
Employee share options	**23.5**	17.7
Weighted average number of ordinary shares (excluding trust and treasury shares) adjusted for the effect of dilution	**1,679.5**	1,674.0

The earnings per share figures are calculated based on earnings attributable to ordinary shareholders of the Parent Company, and therefore excludes non-controlling interest. Earnings per share are calculated on an adjusted and a total reported basis. Earnings per share for business exits and specific items are bridging items between adjusted and total reported earnings per share.

10 Goodwill

In preparing these interim condensed consolidated financial statements, the Group undertook a review to identify indicators of impairment of goodwill. The impact of COVID-19 on the business is deemed to be a sufficiently strong indicator of potential impairment and a full impairment test has been performed. This is in comparison to the approach taken at half year 2019 where consideration was given to post-year end performance against forecasts used in the year end impairment testing, when no indicators of potential impairment were found.

	£m
Cost	
At 1 January 2020	2,016.1
Business disposal	**(8.8)**
Exchange movement	**0.4**
At 30 June 2020	**2,007.7**
Accumulated impairment	
At 1 January 2020	838.3
Business disposal	**(5.0)**
At 30 June 2020	**833.3**
Carrying amount	
At 1 January 2020	1,177.8
At 30 June 2020	**1,174.4**

Cash-generating units ('CGU')

Cash-generating units reflect the way management exercises oversight and monitors the Group's performance. The lowest level at which goodwill is monitored is at the divisional level for four divisions (Software, People Solutions, Consulting, and Specialist Services (see below)), and at a sub-divisional level for the other three divisions (Government Services, Technology Solutions, and Customer Management (see below). Goodwill is allocated to these CGUs or groups of CGUs. At 30 June 2020, the Group has nine CGUs or groups of CGUs for the purpose of impairment testing.

During the first half of 2020, Capita's Regulated Services business was transferred from Specialist Services to Customer Management. For goodwill testing purposes the Regulated Services business will continue to be treated as a separate group of CGUs, although as there is no goodwill attributable to this grouping, it has been excluded from the disclosures below. The remaining businesses in the Specialist Services division will also continue to be treated as one group of CGUs, which now encompasses the whole division.

There has been additional internal restructuring in the six months ended 30 June 2020. This included the transfer of businesses both into Specialist Services (from Government Services and Software) and out of Specialist Services (to People Solutions, Government Services, and Technology Solutions). The relevant goodwill balances were reallocated to reflect these transfers.

In accordance with the divisional strategy to further align and consolidate management and oversight of the Technology Solutions division, for impairment testing at 30 June 2020 the previously separate IT Services and Network Services groups of CGUs were merged into one combined Technology Solutions group of CGUs.

The Board will continue to assess the level at which management exercise oversight and monitors the Group's performance to ensure the allocation to CGUs remains appropriate.

The carrying amount of goodwill allocated to groups of CGUs is as follows:

CGU	Software £m	People Solutions £m	Customer Management £m	Central Government £m	Technology Solutions £m	Specialist Services £m	Consulting £m	Total £m
1 January 2020	254.9	199.7	137.0	8.7	276.3	280.5	20.7	**1,177.8**
Restructuring transfers	**(19.6)**	**86.8**	**(12.6)**	**9.1**	**8.3**	**(72.0)**	**—**	**—**
Business disposal	**(3.8)**	**—**	**—**	**—**	**—**	**—**	**—**	**(3.8)**
Exchange movement	**—**	**—**	**0.4**	**—**	**—**	**—**	**—**	**0.4**
30 June 2020	**231.5**	**286.5**	**124.8**	**17.8**	**284.6**	**208.5**	**20.7**	**1,174.4**

Capita Regulated Services and Local Government CGUs are not included in the table above because their related goodwill was fully impaired in prior periods.

Business exits

As set out in note 4, one business within Software was fully disposed of during the period, with goodwill relating to it written off as part of business disposals.

Two businesses (within Specialist Services and Regulated Services) that the Group intends to dispose of in 2020 met the criteria to be treated as held-for-sale at 30 June 2020. The business in Specialist Services also met the criteria to be treated as held-for-sale at 31 December 2019, at which point the goodwill relating to it was reclassified to assets held-for-sale (where it was subsequently impaired to business exits as at 30 June 2020). There was no goodwill relating to the business in Regulated Services as at 30 June 2020.

The impairment test

The Group's impairment test compares the carrying value of each CGU with its recoverable amount. The recoverable amount of a CGU is the higher of its fair value less costs of disposal, and its value in use. As the Group continues to implement the Group-wide transformation plan it has been determined that for 30 June 2020, fair value less costs of disposal will generate the higher recoverable amount. The valuation of CGUs under fair value less costs of disposal also assumes that a third-party acquirer would undertake a similar transformation plan to derive similar benefits in the business going forward. Fair value less costs of disposal have been estimated using discounted cash flows. The fair value measurement was categorised as a Level-3 fair value based on the inputs for the valuation technique used.

In undertaking the impairment review, the Directors considered both external and internal sources of information, and any observable indications that may suggest that the carrying value of goodwill may be impaired.

The enterprise value of each CGU is dependent on the successful implementation of the transformation plan. If the transformation plan fails to drive improved returns and sustainable free cash flow in one or more of the CGU's, then this may give rise to an impairment of goodwill in future periods.

No impairment has arisen from the impairment test performed.

The key inputs to the calculations are described below, including changes in market conditions.

Forecast cash flows

As set out in the Annual Report 2019, the Group's annual bottom-up business planning process was completed in early 2020 and the resulting three-year business plan for 2020, 2021 and 2022 was approved by the Board.

As a result of the COVID-19 pandemic, an updated forecasting exercise has been undertaken for 2020 and 2021, factoring in what is seen to be the most likely impact of COVID-19 on the individual businesses and on the Group as a whole.

These updated forecasts were used to derive cash flows for the purpose of the impairment test. Other than for movements in deferred income and contract fulfilment assets, cash flows are adjusted to exclude working capital movements because the corresponding balances are not included in the CGU carrying amount. The cash flows include forecast capital and restructuring expenditure, as well as an allocation of central function costs.

The Board have considered an appropriate methodology to apply when allocating central function costs, which is a key sensitivity. In accordance with impairment testing performed at 31 December 2019, forecast CGU EBITDA measures for 2021 were used for this purpose because these represent a steady state forecast for the Group, and an appropriate approximation of the attention and focus of the Group's central functions. As the transformation plan delivers, and there is more certainty over the impact of COVID-19 on the Group and the wider economy as a whole, the Board will assess any changes required to ensure the allocation methodology continues to reflect the efforts of the central functions.

In the absence of a Board approved business plan for 2022, cash flows for year three (2022) are based on those of 2021, applying CGU specific growth rate assumptions obtained from external market research reports from Nelson Hall and TechMarketView (2019: 2022 cash flows were set out as part of the Board approved Business Plan).

These growth rates for 2022 are set out in the table below.

	Software	People Solutions	Customer Management	Central Government	Technology Solutions	Specialist Services	Consulting
30 June 2020	**2.3%**	**3.3%**	**3.1%**	**3.2%**	**2.1%**	**2.9%**	**2.9%**

The long-term growth rate is based on inflation forecasts by recognised bodies and this has been applied to forecast cash flows for years four and five (2023 and 2024) and for the terminal period. The long-term growth rate is 1.5% (2019: 1.6%).

Additional bottom-up re-forecasting and business plan work is expected to be undertaken by the Group over the coming months, and the impact of this will be factored into impairment testing to be performed at 31 December 2020.

Discount rates

Management estimates discount rates using pre-tax rates that reflect the latest market assumptions for the risk-free rate, the equity risk premium and the net cost of debt, which are all based on publicly available external sources.

The table below shows the pre-tax discount rates used on the cash flows.

	Software	People Solutions	Customer Management	Central Government	Technology Solutions	Specialist Services	Consulting
30 June 2020	**11.8%**	**11.2%**	**11.0%**	**10.5%**	**10.2%**	**10.9%**	**10.9%**
30 December 2019	11.5%	10.9%	10.7%	10.2%	9.9%	10.6%	10.6%

As set out above, discount rates used are 0.3% higher than those for 2019. The key drivers for this increase are changes in market assumptions for market risk premiums and the levered beta of peer group comparators, off-set by decreases in UK corporate bond yields and risk-free rates.

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. In order to gauge the sensitivity of the result to a change in any one, or combination of the assumptions that underlie the model, a number of scenarios 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. This sensitivity analysis is only applicable to the CGUs that have goodwill.

The table below shows how the enterprise value would be impacted (with all other variables being equal) by: an increase in discount rate of 1%, or a decrease of 1% in the long-term growth rate (of the terminal period) for the Group in total and each of the CGUs; or, if the severe but plausible downsides became applicable to the base-case projections for assessing going concern and viability. These include trading downside risks which assume an ongoing revenue impact from COVID-19 and that cost reductions to mitigate the impact are not successful. The downside scenario also incorporated potential adverse financial impacts that could arise from incidents such as data breaches, cyber-attacks, controls failures and an assessment of the potential fines and penalties for any non-compliance with laws and regulations, but excludes the proposed disposal of the Education Software Solutions business in 2020.

The impact of all of the scenarios together was considered, and the impact on impairment is disclosed in the final column.

	1% increase in discount rate £m	Long-term growth rate decrease by 1% £m	Severe but plausible downside £m	Combination sensitivity £m	Increase in 30 June 2020 impairment using combination scenario £m
Software	(66.5)	(51.7)	(64.3)	(165.1)	—
People Solutions	(79.1)	(60.5)	(87.6)	(203.6)	—
Customer Management	(65.0)	(51.8)	(150.8)	(236.1)	—
Central Government	(65.4)	(53.5)	(97.4)	(191.4)	—
Technology Solutions	(62.5)	(49.3)	(66.7)	(158.3)	—
Specialist Services	(26.6)	(20.9)	(23.3)	(64.1)	(41.9)
Consulting	(7.5)	(5.8)	(3.2)	(14.9)	—
Total	**(372.6)**	**(293.5)**	**(493.3)**	**(1,033.5)**	**(41.9)**

Management continue to closely monitor the performance of all CGUs and consider the impact of any changes to the key assumptions. Given the Group is in the middle of a multi-year transformation, in addition to trading being affected by the impact of COVID-19, there is a greater range of potential future outcomes. A number of these downsides would give rise to an impairment.

11 Contract fulfilment assets

	Total £m
At 1 January 2020	275.8
Additions	**59.2**
Impairment	**(4.4)**
Derecognition	**(0.3)**
Utilised during the period	**(41.6)**
Transfer to assets held-for-sale	**(0.9)**
Exchange rate movement	**0.5**
At 30 June 2020	**288.3**

Impairment: During the period, the Group recognised an impairment of £4.4m (30 June 2019: £9.0m; 31 December 2019: £9.6m) within adjusted cost of sales, of which, £0.7m (30 June 2019: £3.1m; 31 December 2019: £2.2m) relates to contract fulfilment assets added during the period.

12 Provisions

	Restructuring provision £m	Business exit provision £m	Claim and litigation provision £m	Property provision £m	Other £m	Total £m
At 1 January 2020	6.1	10.5	41.2	8.3	14.5	80.6
Provisions provided in the period	9.7	1.7	10.0	0.6	9.6	31.6
Provisions released in the period	(0.6)	(0.8)	(1.8)	(1.8)	(1.3)	(6.3)
Utilisation	(6.5)	(2.0)	(2.6)	(0.5)	(1.4)	(13.0)
Transfer to assets held-for-sale	—	—	—	—	(0.4)	(0.4)
At 30 June 2020	**8.7**	**9.4**	**46.8**	**6.6**	**21.0**	**92.5**

The provisions above are shown as current or non-current on the balance sheet in accordance with the Group's expected timing of the matters in question reaching conclusion.

Restructuring provision: The provision represents the cost of reducing role count where communication to affected employees has crystallised a valid expectation that the roles are at risk and is likely to unwind over a period of one to two years. Additionally, it reflects the onerous nature of leasehold property costs where properties are exited as a result of the transformation plan, these provisions are likely to unwind over periods of up to 25 years.

Business exit provision: The provision relates to the cost of exiting businesses through disposal or closure including professional fees related to business exits and the costs of separating the businesses being disposed. These are likely to unwind over a period of one to five 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 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 seven years.

Other provisions: Relate to provisions in respect of other potential exposures arising due to the nature of some of the operations that the Group provides, the most significant of which are in respect of claims/obligations associated with missed milestones in contractual obligations £6.2m (30 June 2019: £nil; 31 December 2019: £nil) and immaterial onerous contracts of £5.7m (30 June 2019: £7.3m; 31 December 2019: £6.1m). These are likely to unwind over periods of up to ten years.

13 Cash flow information

	Note	30 June 2020 Adjusted £m	30 June 2020 Reported £m	30 June 2019 Adjusted[1] £m	30 June 2019 Reported £m
Cash flows from operating activities:					
Operating profit/(loss)	3	**57.6**	**(34.6)**	146.1	60.8
Adjustments for non-cash items:					
Depreciation		**72.5**	**73.4**	80.7	82.5
Amortisation of intangible assets		**19.4**	**38.3**	14.5	43.4
Share based payment expense		**5.1**	**5.1**	3.5	3.5
Employee benefits		**5.3**	**5.3**	5.1	5.1
Loss on disposal of property, plant and equipment / intangible assets		**2.0**	**2.0**	0.6	0.6
Impairment of disposal group assets		**—**	**17.9**	—	—
Impairment of non-current assets		**1.3**	**12.2**	—	—
Other adjustments:					
Movement in provisions		**6.8**	**12.1**	5.0	1.0
Pension deficit contribution		**—**	**(14.1)**	—	(57.1)
Other contributions into pension schemes		**(9.8)**	**(9.8)**	(8.9)	(8.9)
Movements in working capital:					
Trade and other receivables		**57.0**	**58.6**	(145.1)	(140.5)
Non-recourse trade receivables financing	14	**—**	**32.8**	—	—
Trade and other payables		**(3.4)**	**0.7**	23.2	18.7
VAT deferral		**—**	**117.3**	—	—
Deferred income		**53.3**	**51.9**	(9.2)	(10.6)
Contract fulfillment assets (non-current)		**(13.4)**	**(13.4)**	7.5	8.4
Cash generated by operations		**253.7**	**355.7**	123.0	6.9
Adjustments for free cash flows:					
Income tax paid		**(4.6)**	**(4.6)**	(2.2)	(2.2)
Net interest paid		**(24.1)**	**(24.1)**	(26.3)	(26.3)
Purchase of property, plant and equipment		**(20.6)**	**(20.9)**	(22.4)	(22.3)
Purchase of intangible assets		**(28.4)**	**(28.4)**	(42.1)	(42.1)
Proceeds from sale of property, plant and equipment / intangible assets		**—**	**—**	0.1	0.1
Free cash flow		**176.0**	**277.7**	30.1	(85.9)

1 The 2019 adjusted cash flow has been restated for business exits in 2020 and also for the inclusion of IFRS 16. This has resulted in adjusted cash generated by operations increasing from £59.9m to £123.0m and adjusted free cash outflow increasing from £(20.2)m to £30.1m inflow.

Adjusted free cash flow and cash generated from operations

	Free cash flow 2020 £m	Free cash flow 2019 £m	Cash generated from operations 2020 £m	Cash generated from operations 2019 £m
Reported	**277.7**	(85.9)	**355.7**	6.9
Pension deficit contributions	**14.1**	57.1	**14.1**	57.1
Significant restructuring	**28.1**	57.7	**28.1**	57.7
Business exits - on hold disposal costs	**2.0**	—	**2.0**	—
Business exits	**4.2**	(0.2)	**3.9**	(0.1)
Non-recourse trade receivables financing	**(32.8)**	—	**(32.8)**	—
VAT deferral	**(117.3)**	—	**(117.3)**	—
Other	**—**	1.4	**—**	1.4
Adjusted	**176.0**	30.1	**253.7**	123.0

Pension deficit contributions: in November 2018, the Group agreed a deficit recovery plan with the Trustees of the Capita Pension and Life Assurance Scheme (the 'Scheme'). The payments under the agreed deficit recovery plan total £176.0m, of which £14.1m was paid in the period ended 30 June 2020 (2019: £57.1m). A payment of £31.7m due in June 2020 was deferred into the second half of 2020 in agreement with the Trustees. These payments have been excluded from adjusted cash flows because the Group treats them like debt.

Significant restructuring: in April 2018, the Group announced a multi-year transformation plan. In the period to 30 June 2020, a cash outflow of £28.1m (2019: £57.7m) was incurred in relation to the cost of the transformation plan and restructuring costs relating to the Group's previously announced cost reduction plan.

Business exits - on hold disposal costs: these are costs incurred in respect of business exit activities where the anticipated disposal was put on hold due to the impact that the COVID-19 pandemic had on the underlying businesses. They are excluded from the Group's adjusted results but disclosed separately given their materiality.

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 2019 results have been restated for those businesses exited, or in the process of being exited, during the second half of 2019 and first half of 2020 to enable comparability of the adjusted results.

Non-recourse trade receivables financing: a non-recourse receivables financing facility was put in place to mitigate the risk of customer receipts slippage.

VAT deferral: utilisation of the Government's VAT deferral scheme. This VAT will be paid in March 2021.

Other: includes the cash flows related to other items excluded from adjusted profit in prior periods.

Reconciliation of net cash flow to movement in net debt

	Net debt at 1 January 2020 £m	Cash flow movements £m	Non-cash movement[2] £m	Net debt at 30 June 2020 £m
Cash, cash equivalents and overdrafts	**122.8**	**253.4**	**(6.0)**	**370.2**
Other loan notes	**(0.3)**	**—**	**—**	**(0.3)**
Private Placement Loan Notes[1]	**(990.7)**	**187.2**	**(66.5)**	**(870.0)**
Cross-currency interest rate swaps[1]	**77.3**	**(24.5)**	**49.2**	**102.0**
Interest rate swaps[1]	**1.0**	**—**	**(0.1)**	**0.9**
Revolving credit facility	**—**	**(170.0)**	**—**	**(170.0)**
Lease liabilities	**(562.6)**	**61.4**	**(27.5)**	**(528.7)**
Total net liabilities from financing activities	**(1,475.3)**	**54.1**	**(44.9)**	**(1,466.1)**
Deferred consideration	**(0.7)**	**—**	**—**	**(0.7)**
Net debt	**(1,353.2)**	**307.5**	**(50.9)**	**(1,096.6)**

1 The sum of these items equates to the fair value of the Group's Private Placement Loan Note debt: £767.1m (2019: £912.4m).

2 Non-cash movement relates to: the effect of changes in foreign exchange rates on cash; fair value changes on the swaps; amortisation of loan notes issue costs; amortisation of the discount on the Euro debt; and additions, terminations; and. foreign exchange rate effects on the Group's leases.

Overdrafts comprise the aggregate value of bank account debit balances within the Group's notional interest pooling arrangements.

At 30 June 2020, £170.0m of the Group's £452.0m committed revolving credit facility was drawn (31 December 2019: £nil drawn). Additionally, the Group executed a committed backstop bank facility in February 2020 which was undrawn at 30 June 2020. The committed value of the backstop facility at 30 June 2020 was £93.5m. Both committed facilities expire in August 2022.

	Net debt at 1 January 2019 £m	Lease liability adjustment £m	Cash flow movements £m	Non-cash movement £m	Net debt at 30 June 2019 £m
Cash, cash equivalents and overdrafts	642.7	—	(265.7)	(0.1)	376.9
Other loan notes	(0.3)	—	—	—	(0.3)
Private Placement Loan Notes	(1,108.0)	—	11.1	(19.1)	(1,116.0)
Cross-currency interest rate swaps	99.6	—	—	16.7	116.3
Interest rate swaps	1.9	—	—	(0.6)	1.3
Term loan	(100.0)	—	100.0	—	—
Lease liabilities[1]	—	(643.9)	56.0	(3.7)	(591.6)
Total net liabilities from financing activities	(1,106.8)	(643.9)	167.1	(6.7)	(1,590.3)
Deferred consideration	(2.0)	—	0.3	—	(1.7)
Net debt	(466.1)	(643.9)	(98.3)	(6.8)	(1,215.1)

1 The Group first adopted IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of adopting IFRS 16 is recognised in retained earnings at the date of initial application.

14 Financial Instruments

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 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 which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Other financial instruments where observable market data is not available have been held at either amortised cost or cost (undiscounted cash flows) as a reasonable approximation of fair value.

During the period ended 30 June 2020, there were no assets or liabilities transferred between the fair value levels.

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 30 June 2020	Note	Fair value hierarchy	At fair value through P&L £m	At fair value through OCI £m	Derivatives used for hedging £m	Amortised cost £m	Total £m	Current £m	Non-current £m
Financial assets									
Lease receivables		Level-2	—	—	—	13.7	13.7	2.7	11.0
Cash flow hedges		Level-2	—	—	7.7	—	7.7	4.2	3.5
Non-designated foreign exchange forwards and swaps		Level-2	2.4	—	—	—	2.4	2.3	0.1
Interest rate swaps	a	Level-2	—	—	0.9	—	0.9	0.9	—
Cross-currency interest rate swaps	a	Level-2	—	—	102.0	—	102.0	—	102.0
Investments		Level-3	1.5	—	—	—	1.5	—	1.5
Other investments		Level-3	—	2.3	—	—	2.3	1.2	1.1
			3.9	2.3	110.6	13.7	130.5	11.3	119.2
Other financial assets									
Cash		Level-1	—	—	—	756.2	756.2	756.2	—
Total financial assets			3.9	2.3	110.6	769.9	886.7	767.5	119.2

At 30 June 2020	Note	Fair value hierarchy	At fair value through P&L £m	At fair value through OCI £m	Derivatives used for hedging £m	Amortised cost £m	Total £m	Current £m	Non-current £m
Financial liabilities									
Private Placement Loan Notes	a	Level-2	—	—	—	870.0	870.0	55.7	814.3
Other loan notes		Level-2	—	—	—	0.3	0.3	0.3	—
Revolving credit facility	b	Level 2	—	—	—	170.0	170.0	—	170.0
Non-designated foreign exchange forwards and swaps		Level-2	5.2	—	—	—	5.2	2.3	2.9
Public sector subsidiary partnership payment	c	Level-3	—	—	—	31.3	31.3	9.4	21.9
Deferred consideration		Level-2	—	—	—	0.7	0.7	—	0.7
Put options of non-controlling interests	d	Level-3	—	92.2	—	—	92.2	92.2	—
			5.2	92.2	—	1,072.3	1,169.7	159.9	1,009.8
Other financial liabilities									
Overdrafts		Level-1	—	—	—	396.6	396.6	396.6	—
Lease liabilities		Level-2	—	—	—	528.7	528.7	78.9	449.8
Total financial liabilities			5.2	92.2	—	1,997.6	2,095.0	635.4	1,459.6

Financial assets measured at amortised cost consist of cash, insurance assets recoverable, lease receivables and other investments. The carrying values of these financial assets are a reasonable approximation of their fair value due to the short-term nature of the instruments. Included in other investments are £2.3m (31 December 2019: £2.4m) 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.

Financial liabilities measured at amortised cost consist of overdrafts, lease liabilities and loan notes. With the exception of certain series within the fixed rate Private Placement Loan Notes, the carrying value of financial liabilities are a reasonable approximation of their fair value. This is because either the interest payable is close to market rates or the liability is short-term in nature. The Private Placement Loan Note series that remain subject to fixed rate interest have an underlying carrying value of £428.1m and a fair value of £426.1m. Lease liabilities are measured at amortised cost using the effective interest rate method.

The Group's key financial liabilities are set out below:

a. Private Placement Loan Notes

Private Placement Loan Notes are issued at fixed rates of interest. Some of the series have been swapped into floating rates of interest.

To mitigate exposure to currency fluctuations the Group has entered into currency and interest rate swaps which effectively hedge movements in the loan notes' fair value arising from changes in foreign exchange and interest rates. The underlying carrying value of £768.2m (31 December 2019: £915.5m) attributable to aggregate Private Placement Loan Notes is calculated before considering: (i) the carrying value of currency and interest rate swaps of £102.9m (31 December 2019: £81.9m) included in financial assets and £nil (31 December 2019: £3.6m) included in financial liabilities; and (ii) £1.1m (31 December 2019: £3.1m) of hedging ineffectiveness.

b. Revolving credit facility

The total drawn of under the Group's revolving credit facility at 30 June 2020 was £170.0m (31 December 2019: £nil). The facility is available until 31 August 2022, extendable for a further year to 31 August 2023 with the consent of the lenders by 31 August 2021.

c. Public sector subsidiary partnership payment

The public sector subsidiary partnership payment liability represents the annual deferred payments to be made by AXELOS Ltd. Since the payment conditions have been reached and the liability cap met, sensitivity to changes in either the discount rate or projected cash flows have no impact.

d. Put options of non-controlling interests

The liability represents the present value of the cost to acquire non-controlling interests in AXELOS Ltd and Fera Science Ltd. The cost to acquire the non-controlling interest in AXELOS Ltd is based on a set multiple of earnings before interest and tax specified in the put-option agreement. The put-option held by the non-controlling shareholder of AXELOS Ltd is currently exercisable, and as a consequence the liability has been classified as current. The option held by the non-controlling shareholder of Fera Science Ltd is exercisable from April 2021 and has been classified as current (31 December 2019: non-current). A sensitivity analysis assuming a 10% increase/decrease in the earnings potential of the business results in a £9.8m increase/decrease in the valuation.

At 31 December 2019	Note	Fair value hierarchy	At fair value through P&L £m	At fair value through OCI £m	Derivatives used for hedging £m	Amortised cost £m	Total £m	Current £m	Non-current £m
Financial assets									
Lease receivables		Level-2	—	—	—	14.9	14.9	3.6	11.3
Cash flow hedges		Level-2	—	—	3.4	—	3.4	2.9	0.5
Non-designated foreign exchange forwards and swaps		Level-2	3.2	—	—	—	3.2	3.1	0.1
Interest rate swaps	a	Level-2	—	—	1.0	—	1.0	—	1.0
Cross-currency interest rate swaps	a	Level-2	—	—	80.9	—	80.9	15.5	65.4
Investments		Level-3	1.5	—	—	—	1.5	—	1.5
Other investments		Level-3	—	2.4	—	—	2.4	—	2.4
			4.7	2.4	85.3	14.9	107.3	25.1	82.2
Other financial assets									
Cash		Level-1	—	—	—	409.1	409.1	409.1	—
Total financial assets			4.7	2.4	85.3	424.0	516.4	434.2	82.2

At 31 December 2019	Note	Fair value hierarchy	At fair value through P&L £m	At fair value through OCI £m	Derivatives used for hedging £m	Amortised cost £m	Total £m	Current £m	Non-current £m
Financial liabilities									
Private Placement Loan Notes	a	Level-2	—	—	—	990.7	990.7	232.5	758.2
Other loan notes		Level-2	—	—	—	0.3	0.3	0.3	—
Cash flow hedges		Level-2	—	—	0.5	—	0.5	—	0.5
Non-designated foreign exchange forwards and swaps		Level-2	2.6	—	—	—	2.6	1.6	1.0
Cross-currency interest rate swaps	a	Level-2	—	—	3.6	—	3.6	—	3.6
Public sector subsidiary partnership payment	c	Level-3	—	—	—	35.4	35.4	9.4	26.0
Contingent consideration		Level-3	5.0	—	—	—	5.0	5.0	—
Deferred consideration		Level-2	—	—	—	0.7	0.7	—	0.7
Put options of non-controlling interests	d	Level-3	—	108.7	—	—	108.7	103.0	5.7
			7.6	108.7	4.1	1,027.1	1,147.5	351.8	795.7
Other financial liabilities									
Overdrafts		Level-1	—	—	—	286.3	286.3	286.3	—
Lease liabilities		Level-2	—	—	—	562.6	562.6	81.9	480.7
Total financial liabilities			7.6	108.7	4.1	1,876.0	1,996.4	720.0	1,276.4

The following table shows the changes from the opening to closing balances for Level-3 fair value financial instruments.

	Contingent consideration £m	Subsidiary partnership payment £m	Put options of non-controlling interests £m	Investments and other investments £m
At 1 January 2020	5.0	35.4	108.7	3.9
Gain on final settlement recognised in the income statement	**(0.1)**	**—**	**—**	**—**
Payments made	**(4.9)**	**(4.7)**	**—**	**—**
Change in put-options recognised in equity	**—**	**—**	**(16.5)**	**—**
Additions	**—**	**—**	**—**	**0.8**
Loss on fair value recognised through other comprehensive income	**—**	**—**	**—**	**(0.9)**
Discount unwind	**—**	**0.6**	**—**	**—**
At 30 June 2020	**—**	**31.3**	**92.2**	**3.8**

Non-recourse sale of receivables

In June 2020 a non-recourse receivables purchase facility was executed. The value of outstanding invoices sold under the facility as at 30 June 2020 was £32.8m. The costs of the sale (£0.1m) were charged to the consolidated income statement.

15 Issued share capital and share premium

Allotted, called up and fully paid	Share capital m	Share capital £m	Share premium £m	Employee benefit trust and treasury shares m	Employee benefit trust and treasury shares £m
Ordinary shares of 2 1/15p					
At 1 January 2020	1,671.1	34.5	1,143.3	15.2	(11.2)
Shares allotted in the period	—	—	—	(0.3)	—
At 30 June 2020	**1,671.1**	**34.5**	**1,143.3**	**14.9**	**(11.2)**

In the six months to 30 June 2020, the Group did not purchase any treasury shares and allotted and issued 276,614 (30 June 2019: 182,232) treasury shares with an aggregate nominal value of £5,718 (30 June 2019: £3,767) 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 (30 June 2019: £nil).

The Group will use shares held in the Employee Benefit Trust ('EBT') and treasury shares to satisfy future requirements for shares under the Group's share option and long-term incentive plans. During the period, the EBT allotted nil (30 June 2019: nil) ordinary 2 1/15p shares with an aggregate nominal value of £nil (30 June 2019: £nil) 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 (30 June 2019: £nil).

The Group has an unexpired authority to repurchase up to 10% of its issued share capital.

16 Capital commitments

At 30 June 2020, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £9.4m (31 December 2019: £6.7m).

17 Related-party transactions

Compensation of key management personnel

	30 June 2020 £m	30 June 2019 £m
Short-term employment benefits	**3.4**	4.2
Pension	**0.1**	0.1
Share based payments	**1.1**	1.5
	4.6	5.8

Gains on share options exercised in the period by Capita plc Executive Directors were £0.1m (30 June 2019: £nil) and by key management personnel £nil (30 June 2019: £0.2m).

During the period, the Group rendered administrative services to Smart DCC Ltd, a wholly-owned subsidiary which is not consolidated. The Group received £71.2m (30 June 2019: £42.3m) of revenue for these services. The services are procured by Smart DCC Ltd on an arm's length basis under the DCC licence. The services are subject to review by Ofgem to ensure that all costs are economically and efficiently incurred by Smart DCC Ltd.

Capita Pension and Life Assurance Scheme is a related party of the Group.

18 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 £54.7m (31 December 2019: £58.1m).

The Group has been notified under a supplier contract of a potential liability relating to past services received. The quantum of the liability and method of settlement is yet to be agreed, but the Directors' expectation, based on discussions with the supplier, is that an element will be settled in cash, and the remainder settled by a commitment to future purchases. This is expected to lead to a significant commitment to future purchases over many years, but at a level which is supported by the group's forecast need for such products. The future purchases are expected to be at the usual discounted price available to the Group. Accordingly, the Group has made a provision for the expected cash settlement, but not made any provision for the outflow of funds for future purchases. We expect negotiations on this matter to be concluded in 2020.

The Group is in discussions with a number of its life insurance clients, the outcomes and timings of which are uncertain, that could result in the continuation of contracts with amended terms or the termination of contracts. If an operation is terminated, the Group may incur associated costs, accelerate the recognition of deferred income or the impairment of contract assets. As the outcome of these discussions is uncertain, the Group has not made any provision for a future outflow of funds that might result from the eventual outcome of the discussions.

The Group completed the disposal of its Capita Asset Services businesses, including CFM, to the Link Group on 3 November 2017. Capita plc, as part of the sale of the Capita Asset Services businesses, provided an indemnity against certain legacy claims.

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. Under the transformation plan, the central support functions including commercial and legal have been strengthened and a Chief General Counsel has been appointed. This enhances the processes to assess the likelihood of historical claims arising.

19 Post balance sheet events

There are no post balance sheet events that have an adjusting effect on the financial statements.

INDEPENDENT REVIEW REPORT TO CAPITA PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated balance sheet, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Material uncertainty related to going concern

We draw attention to note 2(d) to the condensed set of financial statements which indicates that under a severe but plausible downside scenario the group may require completion of the disposal programme, which requires shareholder approval and approval from the Company's lenders. These agreements with third parties represent material uncertainties which may cast significant doubt about the group's ability to continue as a going concern. Note 2(d) sets out the Board's considerations.

Our conclusion is not modified in respect of this matter.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 2(a), the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report 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 for our review work, for this report, or for the conclusions we have reached.

Robert J Brent

for and on behalf of KPMG LLP

Chartered Accountants

15 Canada Square

London

E14 5GL

17 August 2020

Appendix - alternative performance measures

The Group presents various alternative performance measures (APMs) because the Directors believe that these are useful for users of the financial statements by providing a balanced view of, and relevant information on, the Group's financial performance, position and cash flows. This includes key performance indicators (KPIs) such as the return on capital employed, interest cover and gearing ratios by which the Directors monitor performance.

	30 June 2020	30 June 2019	Source
Revenue – continuing operations			
Reported revenue	**£1,682.7m**	£1,852.0m	Line item in income statement
Deduct: business exit	**£30.5m**	£36.5m	Line item in note 6
1. Adjusted revenue	**£1,652.2m**	£1,815.5m	
Operating profit – continuing operations			
Reported operating (loss)/profit	**(£34.6m)**	£60.8m	Line item in income statement
Adjusting items in note 3	**£92.2m**	£85.3m	
2. Adjusted operating profit[1]	**£57.6m**	£146.1m	
Adjusted operating profit margin	**3.5%**	8.0%	Adjusted operating profit/adjusted revenue

1 Adjusted operating profit excludes items that are separately disclosed and considered to be outside the underlying operating results for the particular period under review and against which the Group's performance is assessed.

		Post IFRS 16[2]		Pre IFRS 16			
		30 June 2020	31 December 2019	30 June 2020	31 December 2019	30 June 2019	Source
ROCE							
Adjusted operating profit[1]	a	**£220.2m**	£308.6m	**£207.6m**	£296.9m	£312.0m	Adjusted operating profit (rolling 12-months)
Adjusted tax rate[3]	b	**14.4%**	15.5%	**14.7%**	15.8%	13.7%	
Tax	c = a * b	**£31.7m**	£47.8m	**£30.5m**	£46.9m	£42.7m	Adjusted operating profit multiplied by tax rate
Adjusted operating profit after tax	d = a – c	**£188.5m**	£260.8m	**£177.1m**	£250.0m	£269.3m	Adjusted operating profit less tax
Current period net assets/(liabilities)	e	**(£87.1m)**	(£64.0m)	**(£50.0m)**	(£23.2m)	£104.6m	Line information in balance sheet
Current period net debt	f	**£1,095.9m**	£1,352.5m	**£567.2m**	£789.9m	£621.8m	Line item in note 13: net debt excluding the impact of deferred consideration
Adjustments to capital employed	g	**£1,410.7m**	£1,262.0m	**£1,406.1m**	£1,262.0m	£1,274.9m	Includes post-tax impact of accumulated acquired intangible amortisation, fixed rate swaps, put options and pensions
Current period capital employed	h = e+f+g	**£2,419.5m**	£2,550.5m	**£1,923.3m**	£2,028.7m	£2,001.3m	Used as current period capital employed balance in average capital employed 'm'
Prior period net assets/(liabilities)	i	**£71.9m**	£76.5m	**£104.6m**	£103.3m	(£128.6m)	Line information in balance sheet
Prior period adjusted net debt	j	**£1,213.4m**	£1,108.0m	**£621.8m**	£464.1m	£727.5m	Line item in note 13: net debt excluding the impact of deferred consideration
Comparative prior period adjustments	k	**£1,274.9m**	£1,276.5m	**£1,274.9m**	£1,276.5m	£1,298.5m	Includes post-tax impact of accumulated acquired intangible amortisation, fixed rate swaps, put options and pensions
Prior period capital employed	l = i+j+k	**£2,560.2m**	£2,461.0m	**£2,001.3m**	£1,843.9m	£1,897.4m	Used as prior period capital employed balance in average capital employed 'm'
Average capital employed	m=(h+l)/2	**£2,489.9m**	£2,505.8m	**£1,962.3m**	£1,936.3m	£1,949.4m	
3. ROCE [KPI]	q = d/m	**7.6%**	10.4%	**9.0%**	12.9%	13.8%	

1 Adjusted operating profit excludes items that are separately disclosed and considered to be outside the underlying operating results for the particular period under review and against which the Group's performance is assessed.

2 The Group applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Accordingly, no post IFRS 16 values for 30 June 2019 are presented.

3 The effective tax rate for 30 June 2020 has been calculated after excluding the one-off gains described in note 8 that resulted in a 65.6% overall effective tax benefit on adjusted profits for the period.

		Post IFRS 16		Pre IFRS 16			
		30 June 2020	31 December 2019	**30 June 2020**	31 December 2019	30 June 2019	
Headline gearing (based on rolling 12-months)							
Adjusted profit before tax[1]		**£164.1m**	£251.8m	**£177.7m**	£265.8m	£270.6m	
Add back: adjusted net finance costs		**£55.7m**	£56.1m	**£29.4m**	£30.5m	£41.1m	
Add back: adjusted depreciation and impairment on property, plant and equipment		**£55.2m**	£58.1m	**£55.2m**	£58.1m	£66.6m	
Add back: depreciation on right of use assets		**£93.0m**	£99.2m	**£—m**	£—m	£—m	
Add back: adjusted amortisation		**£35.6m**	£30.9m	**£35.6m**	£30.9m	£29.7m	
Adjusted EBITDA	a	**£403.6m**	£496.1m	**£297.9m**	£385.3m	£408.0m	
Headline net debt		**£1,096.6m**	£1,353.2m	**£1,096.6m**	£1,353.2m	£1,215.1m	
Remove IFRS 16 impact		**£—m**	£—m	**(£528.7m)**	(£562.6m)	(£591.6m)	
Net debt	b	**£1,096.6m**	£1,353.2m	**£567.9m**	£790.6m	£623.5m	
4. Headline net debt to adjusted EBITDA ratio [KPI]	b/a	**2.7x**	2.7x	**1.9x**	2.1x	1.5x	Net debt/adjusted EBITDA

1 Adjusted operating profit excludes items that are separately disclosed and considered to be outside the underlying operating results for the particular period under review and against which the Group's performance is assessed.

		30 June 2020	31 December 2019	30 June 2019	Source
Covenants (based on rolling 12 months)					
Adjusted operating profit[1]		**£207.6m**	£306.1m	£319.0m	
Add: business exit – trading		**(£9.4m)**	(£16.7m)	£4.6m	
Add: share of earnings in associates		**(£0.4m)**	(£0.6m)	(£0.6m)	Line information in income statement
Deduct: non-controlling interest ('NCI')		**(£14.7m)**	(£18.1m)	(£10.2m)	Adjusted EBIT attributable to NCI
Add back: share-based payment charge		**£4.6m**	£3.0m	£2.9m	
Add back: non-current service pension charge		**£3.9m**	£4.2m	£9.7m	
Add back: amortisation and impairment on purchased intangibles		**£36.2m**	£31.1m	£29.6m	
Adjusted EBITA	a1	**£227.8m**	£309.0m	£355.0m	
Add: IFRS 16 impact		**£12.6m**	£11.7m	£6.4m	
Adjusted EBITA (including IFRS 16)	a2	**£240.4m**	£320.7m	£361.4m	
Adjusted EBITA		**£227.8m**	£309.0m	£355.0m	Line item above
Deduct business exit – trading sold		**(£3.4m)**	£—m	(£17.8m)	Trading profit for businesses sold
Add back: depreciation and impairment on property, plant and equipment		**£72.1m**	£75.0m	£65.6m	
Covenant calculation – adjusted EBITDA	b1	**£296.5m**	£384.0m	£402.8m	
Add: IFRS 16 impact		**£105.6m**	£110.9m	£59.0m	
Covenant calculation – adjusted EBITDA (including IFRS 16)	b2	**£402.1m**	£494.9m	£461.8m	
Adjusted interest charge		**(£30.5m)**	(£30.5m)	(£41.0m)	
Interest cost attributable to pensions		**£3.7m**	£4.4m	£7.1m	
Cash flow hedges recycled to the income statement		**(£3.0m)**	(£2.6m)	(£4.2m)	
Borrowing costs	c1	**(£29.8m)**	(£28.7m)	(£38.1m)	
Add: IFRS 16 impact[2]		**£—m**	£—m	(£12.3m)	
Borrowing costs (including IFRS 16)	c2	**(£29.8m)**	(£28.7m)	(£50.4m)	
5.1 Interest cover (US PP covenant)	a2/c2	**8.1x**	11.2x	7.2x	Adjusted EBITA/Borrowing cost including the impact of IFRS 16
5.2 Interest cover (other financing agreements)	a1/c1	**7.6x**	10.8x	9.3x	Adjusted EBITA/Borrowing costs with both variables excluding IFRS 16
Net debt		**£1,096.6m**	£1,353.2m	£1,215.1m	
Restricted cash[3]		**£41.6m**	£42.1m	£42.5m	Cash that may not be applied against net debt for covenant calculation purposes
Remove IFRS 16 impact		**(£528.7m)**	(£562.6m)	(£591.6m)	
Adjusted net debt (excluding IFRS 16)	d1	**£609.5m**	£832.7m	£666.0m	
6.1 Adjusted net debt to post IFRS 16 adjusted EBITDA ratio (US PP covenant)	d1/b2	**1.5x**	1.7x	1.4x	Adjusted net debt/adjusted EBITDA with adjusted net debt excluding the impact of IFRS 16 and adjusted EBITDA including the impact of IFRS 16
6.2 Adjusted net debt to adjusted EBITDA ratio [KPI] (other financing agreements)	d1/b1	**2.1x**	2.2x	1.7x	Adjusted net debt/adjusted EBITDA with both variables excluding IFRS 16

1 Adjusted operating profit excludes items that are separately disclosed and considered to be outside the underlying operating results for the particular period under review and against which the Group's performance is assessed. Since the comparatives have not been restated adjusted operating profit continues to exclude IFRS16 for the covenant calculation purpose.

2 A review of the covenant provision was conducted in the second half of 2019 resulting in the impact of IFRS16 no longer being included in borrowing costs. The June 2019 result has not been restated for this.

3 Restricted cash includes cash required to be held under FCA regulations, cash held in foreign bank accounts and cash represented by non-controlling interests and joint ventures.

4 To enable the user of the financial statements to understand the covenant information submitted to the Group's external lenders, the 31 December 2019 and 30 June 2019 comparatives have not been restated.