Capita plc

Half-Year Results 2019

Summary

2019 half-year results in line with our expectations

- Revenue[1] £1,851.6m; profit before tax[1] £126.1m
- Order intake £830m; order book £6,650.6m.

2019 full-year guidance maintained

- Profit before tax[1] expected to be between £265m and £295m[2]
- On plan to deliver cumulative cost competitiveness savings of £175m by end 2019
- £525m Defence Fire & Rescue Project and £145m DWP PIP extension wins in Q3.

2020 targets reiterated

- Achieve double-digit operating profit margins[1]
- At least £200m of sustainable free cash flow[3].

Capita's transformation is on track

- Second year of multi-year transformation
- Investment in people yielding benefits - reduced employee turnover and higher employee satisfaction
- Corporate governance strengthened, with two employee directors appointed to the Board
- Strengthened client relationships
- Further progress made on improving the performance of contracts
- Increased investment in growth, systems and digital capability
- Foundations for growth now in place.

Jon Lewis, Chief Executive Officer, said:

"Capita is now in the second year of a multi-year transformation and we remain on track to hit the targets we set in 2018.

Having addressed the balance sheet and made disposals last year, we have continued to strengthen the business in 2019. We are beginning to see the benefits from: strengthening our functions; changing the culture and enhancing governance; improving relationships with our clients; recruiting significant talent to key roles; and investing in people and new client propositions.

We have made significant progress in a short period of time. There is still much work to do but the foundations we are laying now will put us in a position to succeed and grow. There is huge potential for our business as companies invest more in digital transformation. With Capita's credentials and client-base, the long-term opportunity for growth is significant."

Financial outlook

Capita's financial outlook remains unchanged.

Capita is in the second year of a multi-year transformation and the successful delivery of this programme remains a key focus area for the Group. We continue to expect profit before tax[1] to be between £265m and £295m and net finance costs to be in the region of £40m in 2019, before the adoption of IFRS 16[2]. We expect our net debt to EBITDA ratio to be in the top half of our stated range of 1.0 times to 2.0 times before adoption of IFRS 16.

We are on track to deliver our 2020 targets of £175m cost savings, double-digit operating profit margins[1] and at least £200m of sustainable annual free cash flow, before exceptional and restructuring charges, additional pension contributions and the adoption of IFRS 16.

1 Adjusted - refer to alternative performance measures in Appendix 1.

2 Before the adoption of IFRS 16, which is expected to result in a £26.0m to £28.0m increase in net finance costs and a £12.0m to £14.0m decrease in profit before tax in the full-year to 31 December 2019. Refer to note 21 to the condensed consolidated interim financial statements for details.

3 Before exceptional and restructuring charges, additional actuarial pension deficit contributions and the adoption of IFRS 16 (refer to Financial Review).

Financial highlights

Capita reports profits on an adjusted basis to aid understanding of business performance. In 2019, IFRS 16, which has a material impact, has been adopted. However, to aid comparison with the prior year, the primary adjusted measures used by the Board for evaluating performance are before the impact of IFRS 16.

Six months ended 30 June 2019

Financial highlights - continuing	**Reported**	Reported	**Adjusted[1]**	Adjusted[1]	Adjusted[1]
	2019	2018	**2019**	2018	YOY change
Revenue	**£1,852.0m**	£2,012.6m	**£1,851.6m**	£1,976.8m	(6.3)%
Operating profit	**£60.8m**	£66.7m	**£142.1m**	£158.4m	(10.3)%
Profit before tax	**£31.2m**	£42.3m	**£126.1m**	£130.8m	(3.6)%
Earnings per share	**1.36p**	4.86p	**5.86p**	10.22p	(42.7)%
Free cash flow	**£(85.9)m**	£(173.4)m	**£(20.2)m**	£(109.0)m	(81.5)%

The following table sets out the main differences between reported and adjusted profit for half-year 2019:

Six months ended 30 June 2019

Profit bridges	**Operating profit**		**Profit before tax**	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Adjusted profit[1]	**142.1**	158.4	**126.1**	130.8
Amortisation and impairment of acquired intangibles	**(28.7)**	(47.8)	**(28.7)**	(47.8)
Business exit	**(1.7)**	8.8	**(1.7)**	21.4
Significant restructuring	**(56.5)**	(49.1)	**(56.5)**	(49.1)
Impact of IFRS 16	**6.4**	—	**(5.9)**	—
Other	**(0.8)**	(3.6)	**(2.1)**	**(13.0)**
Reported profit	**60.8**	66.7	**31.2**	42.3

1 Refer to alternative performance measures in Appendix 1.

2 IFRS 16 is expected to result in a £26.0m to £28.0m increase in net finance costs and a £12.0m to £14.0m decrease in profit before tax in the full-year to 31 December 2019. Refer to note 21 to the condensed consolidated interim financial statements for details.

Investor presentation

A presentation for institutional investors and analysts hosted by Jon Lewis, CEO, and Patrick Butcher, CFO, will be held today, starting at 09.30 UK time. There will be a live audio webcast of the presentation on our website www.capita.com/investors and subsequently available on demand. A dial-in facility is also available. The presentation slides will be published on our web site at 10.00am and a full transcript will be available by midday tomorrow.

Webcast link (Live and On-demand):

https://webcast.openbriefing.com/capita-half2019/

Conference call

Participant dial-in numbers:

United Kingdom 0800 640 6441

United Kingdom (Local) 020 3059 5841

United States 1 646 787 9445

All other locations +44 20 3059 5841

Access code 199714

Conference Call Viewer (to see attendees and moderate questions asked):

https://www.incommglobalevents.com/viewer/2618/capita-announcement-of-half-year-results-2019/

Enter your name and access code **1087873**

For further information

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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

Executing our strategy

Capita is in the second year of a multi-year transformation. Our mission is to become 'One Capita', an integrated and refocused business, successful and sustainable, with stronger client relationships which makes a positive, responsible contribution to society and is more predictable, profitable and sustainably cash-generative. We are continuing to execute our strategy – to simplify, strengthen and succeed – in line with our plan, delivering better outcomes for all stakeholders – our people, shareholders, clients, suppliers and the communities we serve.

Responsible business

Capita places a high degree of emphasis on good corporate responsibility, reflected in our actions to reduce our pension deficit, put employees on the Board, develop a culture of openness, transparency and accountability and deliver on our purpose of 'we create better outcomes' for all stakeholders.

Capita values the business relationships it has with suppliers and seeks to build lasting relationships, treating our suppliers and partners fairly and paying promptly. We have produced our first ever 'supplier charter', outlining how we operate and work together with our 35,000 suppliers, laying out the core principles by which the company does business and what Capita expects from its suppliers in return. The charter covers a range of business and operational areas from health and safety to human rights, diversity and inclusion, cyber security, and how any non-compliance with the charter principles are addressed.

We have met the requirements of the Government prompt payment code, paying over 95% of our suppliers within 60 days in aggregate over the last year, and have set ourselves more challenging targets. We have made a further scheduled payment to reduce our pension deficit and are seeking accreditation from the Fair Tax Mark this year.

Investment in our people

Capita is a people-focused business and the leadership team is committed to putting our people at the very centre of how we operate, and to respecting and valuing all of them. This will change the way we attract, develop, reward and retain our talented employees and they will start to experience the positive changes taking place within the business. We want our people to feel part of the company's success, and to be excited and motivated to work hard to help achieve it. There is tangible evidence that our employee value proposition is improving, in that the average tenure of our people is increasing and that they are more satisfied as measured by our own employee net promoter score and external Glassdoor rating.

We have appointed two employees as non-executive directors, becoming the first FTSE 250 company since the late 1980s to appoint employees to its Board. In their new non-executive roles, they provide an employee's perspective and expertise, and input into strategic decision-making with the same level of authority as other directors. At a leadership level, we have further strengthened the executive committee to support the next phase of delivering our strategy, with the appointment of new heads of Government Services, Customer Management and People Solutions.

We remain very focused on increasing diversity and inclusion at Capita, and for the second year in a row, have submitted improved gender diversity statistics to the Hampton-Alexander review.

Managing our contracts

We have made further encouraging progress fixing the performance of challenging contracts and improved the delivery of their key performance indicators.

Having rebuilt Capita's relationship with the British Army, we have continued to work in partnership with them to improve our Recruiting Partnering Project (RPP) contract. In the first half of 2019, we organised a highly successful advertising campaign and, with further operational and partnership changes, subsequently delivered the highest level of regular soldier training starts for recruits since we took responsibility for the contract in 2012.

Operational service delivery on our Primary Care Support England (PCSE) contract with NHS England continues to be stable. The administration of cervical screening, a small proportion of the contract, is to be transferred to NHS England in August 2019. We expect to commence the roll out of our transformed solutions for Ophthalmic Payments, Pharmacy Market Entry and Performer List in the second half of 2019.

The transformation of our customer services contract with mobilcom-debitel continues to progress well. We have continued to enhance customer experience, through the introduction of new WhatsApp and web-based chat channels and web/app-based customer journeys, and reduced average customer waiting time by one third in the half-year. We are also automating processes to reduce our cost to serve.

We continue to plan to generate a small profit in aggregate on these contracts in 2020, including reaching break even on PCSE and mobilcom-debitel by the end of 2020.

Cost competitiveness

Capita is on track to improve cost competitiveness, making us more efficient and productive and realising £175m of cumulative savings by the end of 2019, including:

- Reductions in general and administration, IT and property expenses.
- Centralising more of our procurement and driving value from our ~£1bn external spend with suppliers.
- Operational excellence, improving the consistency of our operations, increasing the use of offshoring and automation, adopting lean methodologies and being smarter in terms of how we work.

We have continued to increase the use of our offshore delivery centres in India and South Africa and have made a good start in our ambition to increase the pace of automation across the company into 2020 and beyond. During the half year, we have entered into a partnership with UiPath, a global leader, and established an automation centre of excellence to provide the expertise and infrastructure to identify and deliver on robotic process automation projects across Capita. We have recently automated processes in our PCSE and Transport for London (TfL) contracts and are nearing the end of the development cycle for processes in Capita Travel and Events.

The cost of achieving the savings is still expected to be £95m in 2019, included as part of the total restructuring costs.

We are investing some of these savings in building our corporate functions, such as Human Resources, and in the resources and propositions needed to drive growth.

Sales and growth

We increased investment in sales capacity and capability through the re-igniting growth programme by £5m in the first half. This is an area where we need to make significant progress in 2019 to deliver an acceptable level of revenue growth.

Capita is building its consulting capability, as a means of generating more pull through revenue for the rest of the business. We are pleased with the progress that we have made in the half year: we have created a consulting team by re-organising existing capability in data analytics and digital experience consulting and the recruitment of talented professionals with industry knowledge across sectors such as financial services, defence, government, telecommunications and utilities.

We intend to increase the amount of work we win through consultative selling by bringing industry segment expertise and solutions to our clients. Key to this model is the development of service propositions that address the challenges faced by our clients. Work on these is well underway and discussed below.

We have invested in an account management structure, initially for our most strategic clients. Experienced partner level individuals are engaging with these clients, to build stronger, long-term partnerships and provide the best of Capita to create better outcomes for them and realise growth opportunities.

A good example of us doing more for an existing client is Southern Water, for which Capita has recently further expanded the scope of its customer services, billing and correspondence contract to include handling of clean water and waste water calls, home moves, social media interaction, early stage collections and complaints, almost doubling the size of the contract.

We are investing in sales capability and training, to ensure that we have the right competencies across our growth function to best serve our clients, and 650 front line sales people undertook training in the half year.

Order intake in the half year was £830m, including the extension and/or expansion of our Customer Management contracts with Carphone Warehouse and Southern Water and a number of notable wins in Software, which increased the size of its order book by 6.5%. Capita's order book at 30 June 2019 stood at £6.7bn, compared with £7.1bn at 31 December 2018, reflecting that order intake was lower than revenue recognised in the half year.

Since the end of the half year, we have won:

- A £525m contract to modernise and support improvement to the operational effectiveness of the Ministry of Defence’s fire and rescue service. This is a measure of the confidence and trust government has in Capita’s ability to deliver critical public services.
- An extension of our contracts with the Department for Work and Pensions and the Department of Communities in Northern Ireland to deliver Personal Independence Payment (PIP) assessments, which is expected to be worth £145m. PIP is not included in our order book, as each assessment is treated as its own contract.

Getting back onto a growth trajectory is part of our multi-year transformation and Capita continues to plan for a return to year-on-year organic growth in 2020, driven by consulting, digitally-enabled services and software.

Digital capabilities

The lion’s share of the contracts we have today involve a deep understanding of the business processes of a client and the use of technology to provide insight, reduce risk, drive productivity and produce a superior experience for clients’ customers. Digitally-enabled transformation is an increasingly common thread running through all this and the Capita of the future will be based increasingly around our digital capabilities.

We have continued to increase the capacity of our Digital Development Centre in Pune, India, which now employs more than 1,300 people developing standardised software, alongside more than 500 colleagues in IT & Networks.

We are investing in repeatable digital products and services, including:

- People Solutions
  - Two new digital products are due to go live in the second half of 2019.
  - Security Watchdog - we have invested in a next generation, digital version of our market leading provider of pre-employment screening services which will significantly reduce candidate assessment times and improve candidate experience.

    - Digital onboarding - we have developed a new onboarding product to improve a new employee's experience when they join an organisation, helping new starters to become productive more quickly and increasing retention. This is an adjacent market solution that complements Security Watchdog and our broader 'hire to retire' suite of services.
- Software
    - Continued investment in new generations of our software products including the next version of SIMS (School Information Management System), a multi-agency version of our emergency services products, a cloud based SaaS version of our One Housing product for housing associations and a lite version of our Retain resource management product.
- Customer Management
    - A new digital, multi-channel contact platform, initially a like-for-like chat operation based in Pune and Mumbai, followed by the introduction of messaging, in-chat payments and automated services.

The way ahead

Capita is now in the second year of a multi-year transformation and we remain on track to hit the targets we set in 2018.

Having addressed the balance sheet and made disposals last year, we have continued to strengthen the business in 2019. We are beginning to see the benefits from: strengthening our functions, culture and governance; improving relationships with our clients; recruiting significant talent to key roles; and investing in people and new client propositions.

We have made significant progress in a short period of time. There is still much work to do but the foundations we are laying now will put us in a position to succeed and grow. There is huge potential for our business as companies invest in digital transformation. With Capita's credentials and client-base, the long-term opportunity for growth is significant.

Divisional performance review

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

Software

Our specialist enterprise software products serve sector specific and cross-sector markets in the UK and overseas. We develop and deliver application software and wider solutions for education, local government, public safety, utilities and transport, consulting and legal, and payments. As a software products provider, our deep industry expertise and functional IP supports critical public services and business processes. Our software and technology expertise forms a differentiating component of Capita's wider digitally-enabled services offering.

Strategy and markets

We are a top-five provider of enterprise software products in the UK, a market with circa £17bn of revenues per annum, within which we address sub-markets of around £3bn, which are expected to grow at around 4-5% CAGR to 2020 (source: 3rd party data and internal estimates). We have market-leading positions in sectors such as education and emergency services and are a top 3 provider in local government, typically competing against other specialist product software providers.

The division is transforming what was once a grouping of 29 siloed businesses into a single software business. Our strategic priorities are to invest in our core products with distinctive offerings, using reusable components and standard architectures, supported by scaled, integrated, shared service functions and our best-in-class Digital Delivery Centre in India. We are investing in both our existing and new products and markets to defend and grow the business, with the aim of achieving mid to high single digit revenue growth in 2020 whilst at least maintaining margins.

Sales and operational performance

Our order book increased by 6.5% to £595.7m in the half year. There were a number of notable contract wins, including the provision of new Secure Solutions software and services to the Metropolitan Police, Police Scotland, West Sussex Fire and Rescue Services, South Wales Police, Gwent Police and a customer in North Africa. We extended our contract to support UK ambulance radio terminals, communication and mobile data solutions from 2020 for a period of three years and had a number of successful go-lives for our ControlWorks Emergency Control Room product. AMT Sybex renewed its contract with Network Rail for enterprise asset management and affinity mobile software and won a new contract with SSE Business Energy to support the delivery of the next generation of smart meters. Our marketing and sales operation in the US has built an encouraging pipeline of opportunities, particularly for AMT Sybex and Retain, and 6 police forces have gone live on 911eye.

We have continued to invest in our Digital Development Centre in India, which now employs more than 1,300 people. This will enable us to accelerate product development cycles, critical to supporting our future sales pipeline. It also undertakes development and supports the rest of Capita. For example, the development of our digital solution for the Department for Education's Standards and Testing Agency (STA) contract, which is due to go live in the second half of the year, has been done in Pune.

Financial performance

Adjusted revenue fell by 4.1%. Growth in our cross sector products, including Payments and financial services, was outweighed by a decline in AMT-Sybex, a function of lower orders in 2018 and a large active licence in the energy sector coming to an end, and modest declines in Secure Solutions and Education Software. AMT Sybex license sales have already improved and we expect to grow division revenue in the second half of this year, with a further acceleration in 2020.

Adjusted operating profit was flat, due to the aforementioned changes in revenue, investments in sales and cost benefits from transformation actions.

Software financial summary	2019	2018	YOY change
Adjusted revenue	**£192.3m**	£200.5m	(4.1)%
Adjusted operating profit	**£49.2m**	£48.8m	0.8%
Margin	**25.6%**	24.3%	
Order book (comparative at 31 December 2018)	**£595.7m**	£559.6m	6.5%

People Solutions

People Solutions provides a full suite of HR offerings across the employment life cycle.

They include leading market positions in recruitment process outsourcing (RPO), learning process outsourcing, HR service (including payroll), and pensions and benefits administration, which are supported by our proprietary digital platforms, Orbit, Hartlink and Tessello.

We also provide attraction, screening and performance management services, and best-in-class fire prevention and protection training facilities from the Fire Service College.

Strategy and markets

The UK market for people services was £6bn revenue in 2018 and is expected to grow at an annual growth rate of 5% through to 2022. The market is being driven by a customer propensity to buy digital self-service and a move away from large-scale contracts to modular product buying, where customers require expert advisory support as they transition to digitally-enabled operating models.

People Solutions was formed in April 2018. This brought together our existing HR businesses together under a single leadership team for the first time. We have made steady progress on the integration of these businesses over the past 15 months, although it is taking us longer than we first thought and we have had to invest more in service delivery in the first half. The proportion of our existing clients taking more than one service has increased in the last year but there remains a significant opportunity for us to sell more of our services to them. We remain confident that we will derive benefits from the new structure over time.

We are investing in our core products and platforms and developing a suite of new digital solutions, which are scalable and repeatable, lever our unique data and analytics and differentiate us from our competitors.

Sales and operational performance

We signed a number of new contracts in the half year, including the provision of resourcing services for the Home Office, learning services for Network Rail, the department of HM Revenue and Customs and Barclays, pensions administration for a leading pensions insurer, screening services for Nestle and employer branding services for Atkins.

We have also invested in the development of our services and products. We created a unique data and analytics platform in the cloud to collect, process and store data from multiple sources and allow models and algorithms to be created and used within our applications. This supports the modernisation of existing and launch of new digital solutions, including our new pre employment screening and onboarding services which are due to be rolled out in the second half of 2019.

Having rebuilt Capita's relationship with the British Army, we have continued to work in partnership with them to improve our Recruitment Partnering Project (RPP) contract. In the first half of 2019, we organised a highly successful advertising campaign and, with further operational and partnership changes, subsequently delivered the highest level of regular soldier training starts for recruits since we took responsibility for the contract in 2012.

Financial performance

Adjusted revenue was flat. There was good growth in Learning Services, which has benefited from a significant increase in volume and less competition in our apprenticeships business. This was offset by a decline in Capita Resourcing, due to the transfer of the Contingent Labour One (CL1) public sector resourcing contract to a new provider in the second half of the prior year. Pensions and benefits was flat.

Adjusted operating profit decreased, reflecting the loss of CL1 and increased short term investment in client service to meet our service level agreements, which took priority over actions to reduce costs in the half year. The benefit of cost reduction actions are expected to be weighted to the second half of the year.

People Solutions financial summary	**2019**	2018	YOY change
Adjusted revenue	**£253.4m**	£252.5m	0.4%
Adjusted operating profit	**£12.5m**	£16.4m	(23.8)%
Margin	**4.9%**	6.5%	
Order book (comparative at 31 December 2018)	**£609.9m**	£715.3m	(14.7)%

Customer Management

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

Strategy and markets

We are the largest provider of customer management services in the UK with a 14% market share. The UK market is estimated to be worth £4bn a year and is expected to grow at approximately 4% per annum through 2022 (source: Nelson Hall). The German and Swiss customer management markets are estimated to be valued at £4bn per annum and are expected to grow at around 5% per annum through to 2022.

Capita has a differentiated strategy in our markets; our approach is to build shared outcome partnerships, increasingly based on partnering for value, not transactional supply, and our core value proposition is that we 'make great customer experience happen'. The value we bring to our clients is increasingly built around transforming the customer experience through the application of data insight and analytics. These enable us to manage complex, high-value interactions, drive positive quality improvement, and improve financial benefits for clients. Our commercial model increasingly includes a commitment to client outcomes such as improvements in the net promoter score, revenue generation, customer acquisition and cost-to-serve, deploying a range of operational, technology and process capabilities from within both Customer Management and the wider Capita group.

Sales and operational performance

Our growth remains dependent upon the retention of existing clients and award of new work. We extended and expanded a number of new contracts to deliver high-quality services for a number of leading clients, including:

- Expanded end-to-end customer services contract with Southern Water to include handling of clean water and waste water calls, home moves, social media interaction, early stage collections and complaints. This increases the value of the contract by £25m to £55m over five years from July 2018.

- Extension of our contract with Carphone Warehouse to provide multi-channel customer support, sales and customer acquisition, debt collection, customer retention and revenue growth, and technical support, worth £92m over five years to 2028.
- Extension of our contract with British Gas, worth £19m to November 2020.

The market for customer management in the UK retail sector remained challenging.

The transformation of our customer services contract with mobilcom-debitel continues to progress well. We have continued to enhance customer experience, through the introduction of new WhatsApp and web based chat channels and web/app based customer journeys, and reduced average customer waiting time by one third in the half year. We are also automating processes to reduce our cost to serve.

Our people are fundamental to our success and our culture change and management training programmes have contributed to a significant improvement in employee retention year-on-year. We continue to invest in customer experience and our new messaging platform is due to be rolled out to clients from the second half of 2019, initially a like-for-like chat operation based in Pune and Mumbai, followed by the introduction of messaging, in-chat payments and automated services.

Financial performance

Adjusted revenue fell by 1.3%, due to contract scope changes and lower volume in the UK retail and energy sectors and a negative impact from foreign exchange movements, which were partially offset by the expansion of our contract with Germany's largest telecommunications provider (won in the second half of 2018). Adjusted operating profit increased due to cost savings from operational excellence, automation and offshoring and the improvement in performance and reduced losses on our contract with mobilcom-debitel.

Customer Management financial summary	**2019**	2018	YOY change
Adjusted revenue	**£399.2m**	£404.6m	(1.3)%
Adjusted operating profit	**£26.0m**	£17.2m	51.2%
Margin	**6.5%**	4.3%	
Order book (comparative at 31 December 2018)	**£1,879.4m**	£2,027.4m	(7.3)%

Government Services

Capita is a trusted strategic partner to central government for the delivery and transformation of technology-enabled business services. It includes the operation of large, complex contracts that underpin the achievement of policy outcomes.

We are also a leading provider of support services such as revenues, benefits and back-office processing, IT, HR, and finance to local authorities, and education and health organisations.

Strategy and markets

Capita is one of the largest providers to government in the UK. Our strategy is to focus on the quality of our partnerships and to develop repeatable solutions in areas where Capita has core expertise, including collections, funds disbursement, regulatory and planning services, customer and digital services. We are also investing in our transformation, technology and operational capabilities, driving operational excellence and improving the performance of challenging contracts, packaging more of our services making them simpler to procure and implementing structured client account management.

The UK market for central and local government services is valued at £7bn a year and estimated to be growing at approximately 3% per annum (source: Nelson Hall). Brexit is still affecting the volume of new policy initiatives by Government departments, but may present new opportunities for private sector contractors in the long term.

The local government market for large outsourced contracts is declining and some existing clients are choosing to end contracts early and take services back in-house.

Sales and operational performance

We have won, renewed and extended a number of contracts in the year to date, including:

- In July, a £525m contract to modernise and support improvement to the operational effectiveness of the Ministry of Defence's fire and rescue service. This is a measure of the confidence and trust government has in Capita's ability to deliver critical public services.
- In July, a £145m extension of our contracts with the Department for Work and Pensions and the Department of Communities in Northern Ireland to deliver Personal Independence Payment (PIP) assessments.
- A number of smaller contracts with Charnwood, Bexley, Rossendale and the Ministry of Justice Technology Transition Programme.

Service delivery has improved across the division, with >95% key performance indicators green, and we improved our relationship with the Cabinet Office.

We introduced the Ultra Low Emissions Zone for TfL, including vehicular image capture and processing, billing and a mobile payments app, data management, printing/scanning/archiving, enforcement and customer call centre operations, and set up the help desk to support Key Stage 1 and 2 on our STA contract.

Operational service delivery on our Primary Care Support England (PCSE) contract with NHS England continues to be stable. The administration of cervical screening, a small proportion of the contract, is to be transferred to NHS England in August 2019. We expect to commence the roll out of our transformed solutions for Ophthalmic Payments, Pharmacy Market Entry and Performer List in the second half of 2019.

We have separated local government into growth and legacy/transition businesses and we are working closely with some of our council partners to agree and manage a smooth transfer of services back to local authority management where appropriate. Future growth will come from scalable and repeatable solutions.

Financial performance

Adjusted revenue increased by 1.4%. Good growth from Smart DCC smart metering and our expanded contract with TfL was largely offset by a decline in central government services, due to our Escorting and Detention and Defence Infrastructure Organisation contracts which ended in the prior year. Local government was flat but is expected to decline in the second half of 2019. Adjusted operating profit increased due to the aforementioned changes in revenue and a small reduction in loss on Primary Care Support England (PCSE).

Government Services financial summary	**2019**	2018	YOY change
Adjusted revenue	**£413.6m**	£407.9m	1.4%
Adjusted operating profit	**£20.4m**	£18.6m	9.7%
Margin	**4.9%**	4.6%	
Order book (comparative at 31 December 2018)	**£1,971.1m**	£2,187.5m	(9.9)%

IT & Networks

Capita is one of the top 10 suppliers of IT Services and networks in the UK, focused on the mid-sized market and critical national infrastructure.

Our IT services business acts as a technology enabler across all of Capita's services both internally and externally. We provide enterprise IT services focused around four key areas: digital transformation and innovation; core platforms – cloud, hosted and on-premise and services; networks - LAN and WAN connectivity solutions; and professional services – advising and running IT solutions for our customers, testing, data consulting and cybersecurity.

We operate across the UK and from our operations in India, supporting clients at a local and national level. We have strategic partnerships with leading global IT vendors, have invested in our own portfolio of hosted platforms and operate our own UK-wide network and data centres.

Strategy and markets

The IT infrastructure services (IT&N) market in the UK was estimated to be worth £28bn in 2018. The overall market is expected to grow at 2% a year to 2021 (source: TechMarketView). However, this is highly polarised with good growth in cloud services and shrinking client device support.

Our strategy is to simplify our organisational structure and optimize the operating model, managing our division as one business with shared service centres and common processes, to be a technology enabler for our customers, improving customer experience for them, and to modernise our offering, providing relevant scalable products to the IT&N market. We also aim to be the partner of choice for IT elements of Capita business process outsourcing contracts.

Sales and operational performance

IT & Networks has made good progress in bringing together the separate operating businesses, consolidating service desks and making further investments in our data centre network to simplify and consolidate the existing environment and improve performance and consistency. We are now beginning to pivot toward growth, building our sales capability, developing new products and becoming more innovative. Since the end of last year, we have begun to see the first evidence of improving sales trajectory in our pipeline.

We have begun to transform TfL's network estate. We won additional work to design, build and operate a pilot mobile service on the Jubilee Line, to deploy a cellular infrastructure in London Underground stations and tunnels and to facilitate the delivery of dedicated mobile connectivity to the emergency services as part of the Emergency Services Mobile Communication Project.

Other contracts won and extended in the year to date include:

Extensions of our managed network services contract with the Education Authority Northern Ireland, worth £53m over two years, and our managed desktop and hosting services contract with Liberata, worth £30m over five years.

A new seven year contract to provide managed IT services to energia worth £21m.

We have been also appointed to a four year framework for the supply of IT services to the Northern Ireland health sector.

Financial performance

Adjusted revenue was flat, reflecting that the benefit of new work with TfL and growth at Trustmarque was offset by a decline in LAN and voice networking solutions. IT services stabilised, after being impacted by lower volumes and contract losses last year. Adjusted operating profit fell slightly, due to lower margins in networking solutions.

IT & Networks financial summary	**2019**	2018	YOY change
Adjusted revenue	**£213.5m**	£213.4m	—%
Adjusted operating profit	**£23.8m**	£25.5m	(6.7)%
Margin	**11.1%**	11.9%	
Order book (comparative at 31 December 2018)	**£389.2m**	£390.4m	(0.3)%

Specialist Services

Our Specialist Services division comprises a portfolio of 16 businesses, delivering a range of service offerings through joint ventures, trading businesses and traditional IT-enabled BPO contracts. These businesses are mostly stand-alone operations and are actively managed on a portfolio basis in order to maximise value and include Life Insurance, Insurance Services, Mortgage Services & Collections, Optima, Travel & Events, Evolvi, Real Estate & Infrastructure, AXELOS, Fera, Managed Print, and Enforcement.

Strategy and markets

We have strong positions in generally mature markets, with strong brands and positive client perception of our services. The focus across the portfolio is on operational excellence, cost-optimisation and leveraging Capita-wide infrastructure, clients and capabilities where possible.

Due to the varied nature of the activities in the division, each business has its own strategy uniquely tailored to their service offerings and the needs of their clients which has been defined through an ongoing 'optimisation' programme which identifies strategic and tactical opportunities to improve value generation from them.

Sales and operational performance

Capita is committed to serving the financial services sector and, in Life Insurance, we have implemented material transformations that have driven efficiency and improved customer outcomes. In the half year, we further developed our partnership with Zurich by bringing all of their UK customer service operations together with Capita and taking responsibility for administering their new Life Protection proposition, a market leading set of products and digital services platform, which is key to Zurich UKs growth plans.

Some of our closed book contracts, where we are responsible for expensive legacy IT systems, are generating negative cash flow. Where this is the case, we are exploring options with clients to seek better long term solutions for both parties, including actions to turn around the contract's performance and handing them back to the customer or an alternative provider. This may result in associated costs, acceleration in the recognition of deferred income and/or the impairment of contract related assets. We expect these actions to improve our cash flow between 2019 and 2021.

Capita Translation & Interpreting extended its reach securing a new contract with JCB to provide a global translation service and announcing it will be opening an office in New York. Capita Workplace Technology won a new contract with Taylor Wimpey to provide multi functional devices across the UK.

Financial performance

Adjusted revenue decreased by 23.7%, reflecting the end of our contracts with Prudential UK (life) and Marsh (general insurance) last year and more modest declines in Real Estate & Infrastructure, Travel & Events and Enforcement.

Adjusted operating profit fell by 16.5%, as a result of the aforementioned contract losses, including the dropping out of a £9m one-off benefit from the prior year on the end of Marsh, which were partly offset by cost actions, resulting in a modest increase in our operating margin.

Specialist Services financial summary	**2019**	2018	YOY change
Adjusted revenue	**£376.1m**	£493.2m	(23.7)%
Adjusted operating profit	**£67.7m**	£81.1m	(16.5)%
Margin	**18.0%**	16.4%	
Order book (comparative at 31 December 2018)	**£1,205.3m**	£1,215.8m	(0.9)%

Financial review

Non-statutory reporting

Capita reports profits on an adjusted basis to aid understanding of business performance. In 2019, IFRS 16, which has a material impact, has been adopted. However, to aid comparison with the prior year, the primary adjusted measures used by the Board for evaluating performance are before the impact of IFRS 16.

Revenue

Adjusted revenue[1], excluding results from businesses exited in both years, was £1,851.6m (2018: £1,976.8m), a decline of 6.3%. We continue to face headwinds from structurally challenged contracts in local government and life insurance but revenue from digitally-enabled services and software has stabilised.

The benefit from contract wins, including TfL and a number of smaller gains, was outweighed by contract losses, many of which occurred in 2018, including Prudential and Marsh in Specialist Services and Home Office escorting in Government Services, which we chose not to re-bid. There was also a decline in the scope and volume of contracts and transactional revenue in Specialist Services and IT & Networks, which was partly off-set by growth in Government Services from the Smart Metering contract.

Adjusted revenue[1] year-on-year	£m
2018	1,976.8
Contract wins	50.6
Contract losses	(137.9)
Scope and volume changes	(26.5)
Transactional business	(11.4)
2019	**1,851.6**

Reported revenue decreased by 8.0% to £1,852.0m (2018: £2,012.6m).

Operating profit

Adjusted operating profit[1] decreased by 10.3% to £142.1m (2018: £158.4m), as a consequence of the revenue decline year-on-year explained above. The cost competitiveness programme delivered £38m of savings, which were used to increase investment in strengthening corporate functions (£23m) and build platforms for growth (£5m) and to partially off-set the decline in revenue.

During 2018, Capita implemented a more disciplined approach to evaluating bids for contracts. This has led to some contracts, such as the Home Office escorting contract, not being bid for, and has focused on a more appropriate risk and reward balance, which is driving operating profit margins towards double digits on new work.

Adjusted operating margin[1] was 7.7% (2018: 8.0%).

Adjusted operating profit[1] is before charging a number of specific items detailed further below. The table below provides a reconciliation for 2019 and 2018 between adjusted profit[1] and reported profit.

	Operating profit		**Profit before tax**	
Adjusted[1] to reported profit bridge	**30 June 2019 £m**	30 June 2018 £m	**30 June 2019 £m**	30 June 2018 £m
Adjusted[1]	**142.1**	158.4	**126.1**	130.8
Amortisation and impairment of acquired intangibles	**(28.7)**	(47.8)	**(28.7)**	(47.8)
Business exit	**(1.7)**	8.8	**(1.7)**	21.4
Significant restructuring	**(56.5)**	(49.1)	**(56.5)**	(49.1)
Impact of IFRS 16	**6.4**	—	**(5.9)**	—
Other	**(0.8)**	(3.6)	**(2.1)**	(13.0)
Reported	**60.8**	66.7	**31.2**	42.3

Reported operating profit for the half year was £60.8m (2018: £66.7m). Further detail of the specific items charged in arriving at reported operating profit for 2019 is provided in note 3 to the condensed consolidated interim financial statements.

The Group's policy is to exclude significant restructuring costs from adjusted operating profit so users of the financial statements can more clearly understand the financial performance of the business. As announced in 2018, the Board has launched a multi-year transformation plan to support the objectives of simplifying and strengthening Capita. The plan includes restructuring, property rationalisation, procurement centralisation, transformation of support functions and operational excellence. 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.

This policy will remain under review by the Audit and Risk Committee and the costs will be reported over the life of the plan. The costs incurred in 2019 so far totalled £56.5m.

The amortisation of acquired intangibles amounted to £28.7m (2018: £47.8m). The amortisation of acquired intangibles are reported separately, due to the size of the annual charges and because the performance of the acquired businesses is assessed through the adjusted operating profit[1] which, for internal purposes, excludes any amounts associated with the acquired intangible assets.

The Board has considered the appropriate guidance and FRC thematic review on alternative performance measures and concluded that it is appropriate to exclude the above items in arriving at adjusted profit before tax[1].

Finance costs

The adjusted interest charge[1] in 2019, excluding the fair value movement on mark-to-market fixed rate swaps, was £15.4m (2018: £27.6m), reflecting the benefit from the repayment of debt following the rights issue and disposals in 2018.

Profit before tax

Adjusted profit before tax[1] decreased by 3.6% to £126.1m (2018: £130.8m). Reported profit before tax decreased by 26.2% to £31.2m (2018: £42.3m).

Taxation

The income tax charge of £23.7m on adjusted profit before tax[1] resulted in an adjusted tax rate of 18.8% (2018: income tax credit of £4.8m and negative adjusted tax rate 3.7%).

The income tax charge of £5.6m on reported profit before tax resulted in a tax rate of 17.9% (2018: income tax credit of £23.8m and negative tax rate 56.3%). The reported tax rate will generally vary from the adjusted tax rate year-on-year due to the items excluded from adjusted profit[1] in a period, for example non-taxable profits/losses on disposals or non-deductible impairment of certain acquired intangible assets.

Earnings per share

Adjusted basic earnings per share[1] for continuing operations decreased by 42.7% to 5.86p (2018: 10.22p) as a result of the performance explained above.

The reported basic earnings per share for continuing operations was 1.36p (2018: 4.86p).

Dividend

The Board is not recommending the payment of an interim dividend (2018: £nil). However, the Board recognises the importance of regular dividend payments to investors in forming part of their total shareholder return and will consider the payment of dividends when the Group is generating sufficient sustainable free cash flow.

Cash flow

Adjusted free cash flow[1] for continuing operations was an outflow of £20.2m (2018: outflow £109.0m).

The Group's adjusted free cash flow[1] was affected by a decline in EBITDA, which has been explained above. The net outflow of working capital of £129.8m was significantly (£127.6m) lower than the prior year, following investment in 2018 of £146.0m to normalise period end cash management. This is off-set by an increased outflow in deferred and accrued income and trade receivables reflecting the net impact of advanced billing in Software and IT & Networks, off-set by reduced deferred income on Local and Central Government contracts due to timing of milestone payments on transformation contracts and customer hand-backs. Additionally, there was an increased outflow in trade payables reflecting the investment made in improving supplier payment terms as well as payment timing differences at period end.

Net capital expenditure on continuing operations was £64.3m (2018: £55.5m), mainly attributable to an increase in investments in IT systems and infrastructure.

Adjusted operating profit to adjusted free cash flow[1,2]	**30 June 2019 £m**	30 June 2018 £m
Adjusted operating profit[1]	**142.1**	158.4
Add back: Depreciation	29.9	28.5
Add back: Amortisation of intangible assets	14.7	12.9
Adjusted EBITDA	**186.7**	199.8
Working capital:	**(129.8)**	(257.4)
Normalisation of period-end cash management (including non-recourse receivables financing)	—	(146.0)
Deferred and accrued income, and trade receivables	(100.8)	(92.5)
Trade payables, accruals and prepayments	(19.9)	17.7
Other movements in working capital	(9.1)	(36.6)
Interest	**(13.6)**	(16.7)
Taxation	**(2.2)**	14.8
Capital expenditure	**(64.3)**	(55.5)
Provision movements and non-cash items	**3.0**	6.0
Adjusted free cash flow[1,2]	**(20.2)**	(109.0)

We continue to expect to deliver at least £200m of sustainable free cash flow in 2020, before exceptional and restructuring charges, the pension deficit recovery payments set out below and the adoption of IFRS 16.

Reported free cash flow was an outflow of £85.9m (2018: outflow £173.4m). This reflected spend in relation to known commitments, including pension contributions (which the Directors consider to be debt like in nature), restructuring costs, professional fees, contingent and deferred consideration, litigation and other items. In 2019, this is off-set by the adoption of IFRS 16 as detailed below.

Adjusted[2] to reported free cash flow	30 June 2019 £m	30 June 2018 £m
Adjusted free cash flow[2]	**(20.2)**	(109.0)
Pension deficit contributions	**(57.1)**	(4.5)
Significant restructuring	**(57.7)**	(37.3)
Business exits	**(5.5)**	(6.0)
Impact of IFRS 16	**56.0**	—
Other	**(1.4)**	(16.6)
Reported free cash flow	**(85.9)**	(173.4)

Net debt

Net debt at 30 June 2019 was £1,215.1m (31 December 2018: £466.1m), reflecting the cash outflow in the six months and the lease liabilities recognised on adoption of IFRS 16 (30 June 2019: £591.6m; 1 January 2019: £643.9m).

At 30 June 2019, the Group had £376.9m of cash and cash equivalents net of overdrafts, and £1,116.0m of private placement loan notes which mature over the period up to 2027. In addition, the Group has an undrawn £600m revolving credit facility of which £81m matures in August 2020 and £519m in August 2021.

The Board's view is that the appropriate leverage ratio for Capita over the medium term should be between 1.0 and 2.0 times adjusted net debt to adjusted EBITDA[1] (prior to the adoption of IFRS 16). At 30 June 2019, the ratio was 1.7 times (31 December 2018: 1.2 times).

The impact of IFRS 16 adoption on the Group's adjusted net debt to adjusted EBITDA[1] debt covenant ratio is neutral, as the Group covenants are on frozen GAAP, with the exception of the US private placement loan notes. The US private placement loan notes covenant test includes the income statement impact of IFRS 16 but not the balance sheet impact, and therefore adoption of IFRS 16 is favourable on this covenant measure. At 30 June 2019, the US private placement loan notes ratio was 1.4 times.

Interest cover[1] covenant was 7.2 times for the US private placement loan notes and 9.3 times for other financing arrangements (31 December 2018: 8.2 times).

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

At each reporting date, the calculation of the Group's debt covenants is assessed, both for that period and subsequent ones. These covenants are calculated based on the adjusted performance of the Group, in that they exclude exceptional items. The Group has been consistent with previous years in its treatments of these items.

Capital management

The Group's policy is to hold cash and undrawn committed facilities at a level sufficient to fund the Group's operations and its medium-term plans. The Group holds cash and undrawn committed facilities to enable the Group to manage its liquidity risk. At 30 June 2019, the Group held cash and cash equivalents net of overdrafts of £376.9m and had available to it a committed Revolving Credit Facility of £600m.

IFRS 16 Leases

Replacing IAS 17 Leases (IAS 17), the Group adopted IFRS 16 Leases (IFRS 16) from 1 January 2019. The standard has had a material impact for Group, introducing a single lessee accounting model which required assets and liabilities to be recognised for all leases. Rental costs previously recognised in operating profit have been replaced by depreciation of the assets and net finance costs on the liability. The total cash outflow for lease payments has not changed, however payments related to the principal liability have been presented as cash outflows from financing activities, as opposed to cash outflow from operating activities under IAS 17.

The Group holds a significant number of operating leases and therefore adopting IFRS 16 has had a material impact to the Group's financial statements. The main changes of adopting IFRS 16 are as follows:

- Total assets increased with the recognition of right-of-use assets (1 January 2019: £568.2m);
- Total liabilities increased with the recognition of additional lease liabilities (1 January 2019: £643.9m);
- Recognition of a deferred tax asset, lease receivable assets and reclassifications of other lease related balance sheet items (1 January 2019: £48.9m);
- Net assets reduced, resulting in an increase in retained deficit (1 January 2019: £26.8m);
- Operating profit/EBITDA improved as rental costs removed are only partially replaced by depreciation of lease assets (six months ended 30 June 2019: EBITDA £59.0m; operating profit £6.4m);
- Profit before tax decreased due to the combination of depreciation and interest being higher than the rental costs they replace (six months ended 30 June 2019: £5.9m); and
- Cash outflows from financing activities increased (six months ended 30 June 2019: £56.0m) while cash outflows from operating activities have decreased (six months ended 30 June 2019: £56.0m), as a recognition of rental costs, previously recognised solely as cash outflows from operations are now apportioned between finance charges and reduction of the of the lease liability.

Due to the Group's ongoing transformation plan, which includes a rationalisation of Capita's properties, the Group's lease portfolio is expected to change over the next few years. These changes will be accounted for as and when they happen.

Balance sheet

Non-current assets

Non-current assets have increased in the six months by £523.6m to £2,869.0m, the most significant increase being £513.6m of right-of-use assets from the adoption of IFRS 16 explained above. Of the remaining non-current assets of £2,355.4m at 30 June 2019, £1,356.8m relates to goodwill and acquired intangibles, £231.7m relates to purchased intangibles, £208.7m relates to plant, property and equipment and £255.8m relates to our contract fulfilment assets.

As discussed in the analysis of adjusted free cash flow, net capital expenditure was £64.3m, mainly attributable to an increase in investments in IT systems and infrastructure. There was also investment of £47.2m in contract fulfilment assets across a number of contracts as we continue to transform the service we provide for those clients.

The Group undertook a review to identify indicators of impairment of goodwill and acquired intangible assets. While no impairments were identified as at 30 June 2019, the assessment is dependent on the successful implementation of the Group's transformation plan, in particular reigniting growth, which as noted in the strategic review, is an area where we need to make significant progress in 2019. This is particularly the case for People Solutions and Customer management.

Current assets

Current assets have decreased in the six months by £86.1m to £1,662.2m, with cash decreasing by £241.0m reflecting the cash outflow in the period, off-set by an increase in trade and other receivables of £122.1m.

Current liabilities

Current liabilities have increased in the six months by £252.9m to £2,616.6m, the most significant increase being £87.9m of lease liabilities from the adoption of IFRS 16 explained above, the reclassification of £182.0m of private placement loan notes from non-current liabilities, and an increase in deferred income of £55.5m, off-set by repayment of the £100m bank loan.

Non-current liabilities

Non-current liabilities have increased in the six months by £216.0m to £1,842.7m, the most significant increase being £503.7m of lease liabilities from the adoption of IFRS 16 explained above, off-set by the reclassification of £182.0m private placement loan notes to current, and £64.6m reduction in deferred income.

Financial outlook

Capita's financial outlook remains unchanged.

Capita is in the second year of a multi-year transformation and the successful delivery of this programme remains a key focus area for the Group. We continue to expect profit before tax[1] to be between £265m and £295m and net finance costs to be in the region of £40m in 2019, before the adoption of IFRS 16[3]. We expect our net debt to EBITDA ratio to be in the top half of our stated range of 1.0 times to 2.0 times before adoption of IFRS 16.

Our 2020 targets of £175m initial cost savings, double-digit adjusted[1] operating profit margins and at least £200m of sustainable annual free cash flow, before exceptional and restructuring charges, additional pension contributions and the impact of IFRS 16, remain unchanged.

1 Refer to alternative performance measures in Appendix 1.
2 Refer to note 14 to the condensed consolidated interim financial statements.
3 Before the adoption of IFRS 16, which is expected to result in a £26.0m to £28.0m increase in net finance costs and a £12.0m to £14.0m decrease in profit before tax in the full year to 31 December 2019. Refer to note 21 to the condensed consolidated interim financial statements for details.

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.

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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 Directors have considered the principal risks and uncertainties affecting the Group's financial position and prospects. As described on pages 44 to 51 of the Group's annual report 2018, the Group continues to be exposed to a number of risks and has well established systems and procedures in place to identify, assess and mitigate those risks, and is seeking to materially enhance them as part of its transformation plan.

The principal risks include those arising from: failure of internal systems of control; failure in information security controls; increased business complexity; disruption to operational IT; failure to effectively manage our people; weakness in acquisition and contracting; legal/regulatory actions; failure to meet financial expectations; lack of corporate financial stability; failure to innovate; adverse changes in political landscape; reputation; and a failure to deliver the transformation plan.

The impacts from these risks include reputational damage, financial loss and adverse outcomes for clients and customers.

As a technology-driven services company, Capita must operate a resilient technical infrastructure. In recognition of a historic underinvestment in the resilience of the IT systems, the Board, in 2018, established two major remediation programmes. One focussed on the resilience of core IT systems and one on identifying and remediating cyber risk. Both programmes have been and will remain a key area of focus for the Board. The Board expects the programmes to have delivered the necessary further risk controls over the next 18 months.

The risk of data breaches has been a particular focus for the Board. As an organisation that processes a great deal of personal information, we recognise the risks that a failure in privacy controls would bring, and the impact and harm that could be caused to the business both financially and reputationally. We take steps through the company-wide privacy programme to manage and mitigate those risks to the business (for example, incident reporting and investigation, root cause analysis, remedial actions and learning).

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

An evaluation of financial controls has been undertaken by the senior finance team to review the material financial controls that are in place and to identify areas where these might only be partially effective or be inefficient in achievement of their purpose. Any material issues have been dealt with through mitigating activities. Again, the Board expects the transformation plan will deliver the necessary improvements over the next 18 months.

The Directors continue to review the principal risks on an ongoing basis and confirm that no further principal risks have been identified since 13 March 2019. A comprehensive review of the principal risks and the framework for managing them has commenced and will be reported on at year end.

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	P Butcher
Chief Executive Officer	Chief Financial Officer
31 July 2019	31 July 2019

Half year condensed consolidated income statement

for the six months ended 30 June 2019

	Notes	30 June 2019 Total reported £m	30 June 2018[1] Total reported £m
Continuing operations:			
Revenue	5	**1,852.0**	2,012.6
Cost of sales		**(1,392.4)**	(1,530.1)
Gross profit		**459.6**	482.5
Administrative expenses		**(398.8)**	(415.8)
Operating profit	5	**60.8**	66.7
Share of results in associates		**(0.6)**	—
Net finance costs	6	**(29.0)**	(37.0)
Gain on business disposal	3	**—**	12.6
Profit before tax		**31.2**	42.3
Income tax (expense)/credit	7	**(5.6)**	23.8
Profit for the period from continuing operations		**25.6**	66.1
Discontinued operations:			
Profit for the period	4	**3.7**	4.4
Total profit for the period		**29.3**	70.5
Attributable to:			
Owners of the Company		**26.3**	65.5
Non-controlling interests		**3.0**	5.0
		29.3	70.5
Earnings per share	8		
Continuing:			
– basic		**1.36p**	4.86p
– diluted		**1.35p**	4.82p
Total operations:			
– basic		**1.59p**	5.21p
– diluted		**1.57p**	5.17p

Adjusted operating profit	3	**142.1**	158.4
Adjusted profit before tax	3	**126.1**	130.8
Adjusted earnings per share	8	**5.86p**	10.22p
Adjusted and diluted earnings per share	8	**5.80p**	10.13p

1. The Group has initially applied IFRS 16 Leases (IFRS 16) at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Refer to note 21 for further details.

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

Half year condensed consolidated statement of comprehensive income

for the six months ended 30 June 2019

	Notes	30 June 2019 £m	30 June 2019 £m	30 June 2018[1] £m	30 June 2018[1] £m
Profit for the period			**29.3**		70.5
Other comprehensive (expense)/income:					
Items that will not be reclassified subsequently to profit or loss					
Actuarial (loss)/gain on defined benefit pension schemes		**(52.5)**		98.4	
Income tax effect		**8.9**		(16.7)	
			(43.6)		81.7
			(43.6)		81.7
Items that will or may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations			**1.5**		(2.6)
Gain/(loss) on cash flow hedges		**2.3**		(4.0)	
Reclassification adjustments for expenses/(income) included in the income statement	6	**(1.7)**		0.4	
Income tax effect		**(0.1)**		0.7	
			0.5		(2.9)
			2.0		(5.5)
Other comprehensive (expense)/income for the period net of tax			**(41.6)**		76.2
Total comprehensive (expense)/income for the period net of tax			**(12.3)**		146.7
Attributable to:					
Owners of the Company			**(15.3)**		141.7
Non-controlling interests			**3.0**		5.0
			(12.3)		146.7

1. The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Refer to note 21 for further details.

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

Half year condensed consolidated balance sheet

at 30 June 2019

	Notes	30 June 2019 £m	31 Dec 2018[1] £m
Non-current assets			
Property, plant and equipment		**208.7**	213.6
Intangible assets	10	**1,588.5**	1,587.7
Right-of-use assets [1]		**513.6**	—
Investments in associates		**5.9**	—
Contract fulfilment assets	11	**255.8**	264.2
Financial assets [1]	15	**106.7**	109.1
Deferred taxation [1]		**159.4**	144.6
Trade and other receivables		**30.4**	26.2
		2,869.0	2,345.4
Current assets			
Financial assets [1]	15	**49.3**	18.2
Trade and other receivables [1]		**893.8**	771.7
Cash		**716.5**	957.5
Income tax receivable[2]		**2.6**	0.9
		1,662.2	1,748.3
Total assets		**4,531.2**	4,093.7
Current liabilities			
Trade and other payables [1,2]		**652.1**	668.7
Deferred income	12	**1,035.8**	980.3
Overdrafts		**339.6**	314.8
Lease liabilities [1]	15	**87.9**	—
Financial liabilities	15	**404.9**	303.1
Provisions [1]	13	**96.3**	96.8
		2,616.6	2,363.7
Non-current liabilities			
Trade and other payables		**10.2**	11.6
Deferred income	12	**212.7**	277.3
Lease liabilities [1]	15	**503.7**	—
Financial liabilities	15	**882.0**	1,084.2
Deferred taxation		**15.2**	15.2
Provisions [1]	13	**5.7**	19.4
Employee benefits		**213.2**	219.0
		1,842.7	1,626.7
Total liabilities		**4,459.3**	3,990.4
Net assets		**71.9**	103.3
Capital and reserves			
Issued share capital	16	**34.5**	34.5
Share premium	16	**1,143.3**	1,143.3
Employee benefit trust and treasury shares	16	**(11.2)**	(11.2)
Capital redemption reserve		**1.8**	1.8
Foreign currency translation reserve		**3.1**	1.6
Cash flow hedging reserve		**2.0**	1.5
Retained deficit [1,2]		**(1,171.7)**	(1,135.3)
Surplus attributable to owners of the Company		**1.8**	36.2
Non-controlling interests		**70.1**	67.1
Total equity		**71.9**	103.3

1. The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Refer to note 21 for further details.
2. The Group has initially applied IFRIC 23 Uncertainty over Income Tax Treatments at 1 January 2019. The cumulative effect of initially applying IFRIC 23 has been recognised in retained earnings at the date of initial application. Comparative information is not restated. Refer to note 7 for further details.

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 2019

	Share capital £m	Share premium £m	Employee benefit trust and treasury shares £m	Capital redemption reserve £m	Retained earnings/ (deficit) £m	Foreign currency translation reserve £m	Cash flow hedging reserve £m	Total £m	Non-controlling interests £m	Total equity/ (deficit) £m
At 1 January 2018	13.8	501.3	(0.2)	1.8	(1,517.2)	(0.4)	1.9	(999.0)	69.2	(929.8)
Profit for the period	—	—	—	—	65.5	—	—	65.5	5.0	70.5
Other comprehensive income/(expense)	—	—	—	—	81.7	(2.6)	(2.9)	76.2	—	76.2
Total comprehensive income/(expense) for the period	—	—	—	—	147.2	(2.6)	(2.9)	141.7	5.0	146.7
Share based payment	—	—	—	—	4.0	—	—	4.0	—	4.0
Shares issued/(purchased)	20.7	642.0	(11.0)	—	—	—	—	651.7	—	651.7
Movement in put options held by non-controlling interests	—	—	—	—	(1.2)	—	—	(1.2)	—	(1.2)
At 30 June 2018	34.5	1,143.3	(11.2)	1.8	(1,367.2)	(3.0)	(1.0)	(202.8)	74.2	(128.6)
At 1 January 2019	**34.5**	**1,143.3**	**(11.2)**	**1.8**	**(1,135.3)**	**1.6**	**1.5**	**36.2**	**67.1**	**103.3**
Impact of change in accounting standards - IFRS 16[1]	**—**	**—**	**—**	**—**	**(26.8)**	**—**	**—**	**(26.8)**	**—**	**(26.8)**
Impact of change in accounting standards - IFRIC 23[2]	**—**	**—**	**—**	**—**	**6.2**	**—**	**—**	**6.2**		**6.2**
At 1 January 2019, on adoption of IFRS 16[1] and IFRC 23[2]	**34.5**	**1,143.3**	**(11.2)**	**1.8**	**(1,155.9)**	**1.6**	**1.5**	**15.6**	**67.1**	**82.7**
Profit for the period	**—**	**—**	**—**	**—**	**26.3**	**—**	**—**	**26.3**	**3.0**	**29.3**
Other comprehensive expense	**—**	**—**	**—**	**—**	**(43.6)**	**1.5**	**0.5**	**(41.6)**	**—**	**(41.6)**
Total comprehensive (expense)/income for the period	**—**	**—**	**—**	**—**	**(17.3)**	**1.5**	**0.5**	**(15.3)**	**3.0**	**(12.3)**
Share based payment	**—**	**—**	**—**	**—**	**3.5**	**—**	**—**	**3.5**	**—**	**3.5**
Movement in put options held by non-controlling interests	**—**	**—**	**—**	**—**	**(2.0)**	**—**	**—**	**(2.0)**	**—**	**(2.0)**
As at 30 June 2019	**34.5**	**1,143.3**	**(11.2)**	**1.8**	**(1,171.7)**	**3.1**	**2.0**	**1.8**	**70.1**	**71.9**

1. The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Refer to note 21 for further details.
2. The Group has initially applied IFRIC 23 Uncertainty over Income Tax Treatments at 1 January 2019. The cumulative effect of initially applying IFRIC 23 has been recognised in retained earnings at the date of initial application. Comparative information is not restated. Refer to note 7 for further details.

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

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

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

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

Foreign currency translation reserve – Gains or losses resulting from the process of expressing amounts denominated or measured in one currency in terms of another currency by use of the exchange rate between the two currencies. This process is required to consolidate the financial statements of foreign affiliates into the total Group financial statements and to recognise the conversion of foreign currency or the settlement of a receivable or payable denominated in foreign currency at a rate different from that at which the item is recorded.

Cash flow hedging reserve – This reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

Retained earnings – Net profits kept to accumulate in the Group after dividends are paid and retained in the business as working capital.

Non-controlling interests (NCI) – This represents the equity in a subsidiary that is not attributable directly or indirectly to the parent company.

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

Half year condensed consolidated cash flow statement

for the six months ended 30 June 2019

	Notes	30 June 2019 £m	30 June 2018[1] £m
Cash generated from/(used by) operations[1]	14	**6.9**	(94.4)
Cash generated from/(used by) discontinued operations	4	**3.1**	(97.4)
Income tax (paid)/received	7	**(2.2)**	14.8
Net interest paid[1]		**(26.3)**	(24.3)
Net cash outflow from operating activities		**(18.5)**	(201.3)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(22.3)**	(48.7)
Purchase of intangible assets		**(42.1)**	(20.8)
Proceeds from sale of property, plant and equipment/intangible assets		**0.1**	—
Additions to investments in associates		**(0.4)**	—
Prior year disposal costs		**(8.0)**	—
Deferred consideration received		**—**	1.7
Cancellation of put options		**—**	(6.8)
Deferred consideration paid	15	**(0.3)**	(11.1)
Contingent consideration paid		**(7.1)**	(15.1)
Net proceeds on disposal of subsidiary undertakings		**—**	16.7
Net cash outflow from investing activities		**(80.1)**	(84.1)
Cash flows from financing activities			
Repayment of term loan		**(100.0)**	—
Purchase of shares	16	**—**	(11.0)
Capital element of lease rental payments[1]		**(56.0)**	—
Issue of share capital net of issue costs	16	**—**	671.1
Repayment of loan notes		**(11.1)**	(307.5)
Proceeds of fixed rate swaps		**—**	61.1
Financing arrangement costs		**—**	(0.2)
Net cash (outflow)/inflow from financing activities		**(167.1)**	413.5
(Decrease)/increase in cash and cash equivalents		**(265.7)**	128.1
Cash and cash equivalents at the beginning of the period		**642.7**	478.4
Movement in exchange rates		**(0.1)**	(1.4)
Cash and cash equivalents as at 30 June		**376.9**	605.1
Cash and cash equivalents comprise:			
Cash at bank and in hand		**716.5**	945.9
Cash held by disposal group held for sale and discontinued operations		**—**	21.7
Overdrafts		**(339.6)**	(362.5)
Total		**376.9**	605.1

Adjusted cash generated from/(used by) operations	14	**59.9**	(51.6)
Adjusted free cash flows	14	**(20.2)**	(109.0)

1. The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Refer to note 21 for further details.

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 2019

1 Corporate information

Capita plc is a public limited 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 2019 were authorised for issue in accordance with a resolution of the Directors on 31 July 2019.

2 Basis of preparation, judgements and estimates, significant accounting policies and going concern

(a) Basis of preparation

The half year condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with the Disclosure Guidance and Transparency Rules (DTR) of the Financial Conduct Authority and with IAS 34 Interim Financial Reporting.

The 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 2018, which have been prepared in accordance with IFRSs as adopted by the European Union.

The 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 2018 were approved by the Board of Directors on 13 March 2019 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.

The half year condensed consolidated financial statements for the six months ended 30 June 2019 have been reviewed by the Group's auditors pursuant to the Auditing Practices Board guidance on Review of Interim Financial Information.

(b) Judgements and estimates

In preparing these half year condensed consolidated financial statements, management make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at the year ended 31 December 2018, other than those additional areas which have arisen as a consequence of the adoption of IFRS 16 Leases - see note 21 where these are explained.

(c) Significant accounting policies

The accounting policies adopted in preparation of the half year condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018, except for adoption of IFRS 16 Leases and IFRIC 23 Uncertainty over Income Tax Treatments detailed below.

Initial adoption of IFRS 16 Leases

IFRS 16 (effective 1 January 2019) replaces IAS 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated - i.e. it is presented, as previously reported, under IAS 17 and related interpretations. However to improve the understandability of the Group's results we have excluded the impact of adopting IFRS 16 in the six months ended 30 June 2019 adjusted operating profit[1], adjusted profit before tax[1] and adjusted free cash flow[1] to make them comparable to 2018.

On adoption of IFRS 16, the Group immediately recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Adoption of IFRS 16 has had a significant impact on the Group's financial statements. Details of the change in the Group's accounting policy in respect of lease accounting and an analysis of the impact of adopting IFRS 16 are set out in note 21.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 (effective 1 January 2019) addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes.

The Group has initially applied IFRIC 23 Uncertainty over Income Tax Treatments at 1 January 2019. The Group applies judgement in quantifying uncertainties over income tax treatments and has considered whether it should adjust its uncertain tax provisions in line with this new criteria. The Group has recognised the cumulative impact of the adjustment arising on transition within retained earnings on the initial date of application. Comparative information is not restated.

Adoption of IFRIC 23 has not had a significant impact on the Group's financial statements. Details of the change are set out in note 7.

(d) Going concern

The Directors have formed the judgement that it is appropriate to prepare the half year condensed consolidated financial statements on the going concern basis. Therefore, the condensed consolidated financial statements do not include any adjustments which would be required if the going concern basis of preparation is inappropriate.

The Directors have undertaken a rigorous assessment of going concern and liquidity, taking into accounting financial forecasts. Having taken decisive action to strengthen the balance sheet through the raising of new equity and the disposal of non-core businesses, the Board are satisfied that the Group will continue to have adequate financial resources to realise their assets and discharge its liabilities as they fall due.

1 Refer to alternative performance measures in Appendix 1.

3 Adjusted operating profit and adjusted profit before tax

The items below are excluded from the adjusted results as the Board has concluded that it is appropriate to do so. These amounts are (or have been) material, and require separate disclosure in order for the users of the financial statements to obtain a proper understanding of the financial information and the underlying performance of the business. The tax impact of the operating profit adjusting items is a £15.4m credit (30 June 2018: £17.2m credit). The tax impact of the profit before tax adjusting items is a £18.1m credit (30 June 2018: £19.0m credit). These items are discussed further below:

		Operating profit		Profit before tax	
	Notes	**30 June 2019 £m**	30 June 2018 £m	**30 June 2019 £m**	30 June 2018 £m
Reported		**60.8**	66.7	**31.2**	42.3
Amortisation and impairment of acquired intangibles		**28.7**	47.8	**28.7**	47.8
Litigation and claims		**0.8**	3.7	**0.8**	3.7
Net finance costs	6	**—**	—	**1.3**	9.4
Contingent consideration movements		**—**	(0.1)	**—**	(0.1)
Business exit – trading		**1.7**	(10.5)	**1.7**	(10.5)
Business exit – non-trading expenses		**—**	1.7	**—**	1.7
Business exit – gain on disposals		**—**	—	**—**	(12.6)
Significant restructuring		**56.5**	49.1	**56.5**	49.1
Impact of IFRS 16	21	**(6.4)**	—	**5.9**	—
Adjusted		**142.1**	158.4	**126.1**	130.8

Amortisation and impairment of acquired intangible assets: the Group carries on its balance sheet significant balances related to acquired intangible assets. The amortisation of these assets, and any impairment charges, are reported separately as they distort the in-year trading results, and performance of the acquired businesses is assessed through the underlying operational results. No impairments were recognised in the six months ended 30 June 2019.

Litigation and claims: the charge of £0.8m at 30 June 2019 is the net movement in historical provisions for litigation and claims which were excluded from adjusted profit when originally recognised due to their age and size. The charge at 30 June 2018 arose from the derecognition of an insurance asset of £3.7m. The original claim to which the asset related was excluded from adjusted profit due to its nature and size.

Net finance costs: net finance costs excluded from adjusted profits includes the movements in the mark to market valuation of certain financial instruments, and in 2018, the make-whole costs paid to noteholders on early repayment of principal on the private placement loan notes from the proceeds of the rights issue and disposals. Refer to note 6 for further details.

Contingent consideration movements: in accordance with IFRS 3, movements in the fair value of contingent consideration on acquisitions go through the Group income statement. These are reported separately because performance of the acquired businesses is assessed through the underlying operational results and such a charge/credit movement would distort underlying results.

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.

In the six months ended 30 June 2019 there have been no new business exits. Business exit cost for the period includes an operating loss of £1.7m primarily due to the REI Health business which was exited in the second half of 2018.

In the six months ended 30 June 2018, the Group disposed of three small businesses - Capita Specialist Insurance Solutions, Projen and Medicals Direct Group - and treated two businesses as disposal groups held for sale - Supplier Assessment Services (including Constructionline) and ParkingEye. In addition the 2018 half year results have been restated for the trading of the REI Health business exited in the second half of 2018 to enable comparability of adjusted results. The impact of the restatement for REI Health was to exclude an operating loss of £1.2m from adjusted profit.

Significant restructuring: in January 2018, the Group announced a multi-year transformation plan. In the period to 30 June 2019, a charge of £56.5m (30 June 2018: £49.1m) was recognised in relation to the cost of the transformation plan, and restructuring costs relating to Capita's previously announced cost reduction plan. The costs include the following:

- Cost to realise cost savings and efficiencies from the transformation plan (£35.0m): including significant reductions in overheads via support function restructuring and the elimination of duplicate roles, and the Group's operational excellence programme which will improve the consistency of our operations, reduce spans and layers, increasing the use of off-shoring and automation, adopting lean methodologies and being smarter in terms of how we work. These costs also include engaging the Group's property expertise to rationalise and increase the utilisation of Capita's property estate, in metro centres and regionally. As the Group continues to rationalise the property estate cost associated with onerous lease commitments and dilapidation liabilities will be captured and presented as part of the transformation adjustments.
- Professional fees (£11.5m): incurred to support re-igniting sales growth and increasing the proportion of centrally controlled spend, consolidating the supplier base and leveraging the Group's scale.
- Transformation of central group functions (£10.0m): investment in programmes to improve the Group's central functions, including finance, sales, HR and IT. All costs associated with these programmes are recorded separately, excluding any costs capitalised as part of the investment and the ongoing depreciation and amortisation of such assets.

Impact of IFRS 16: the adoption of IFRS 16 has had a significant impact on the Group's financial statements and this has been excluded from adjusted profit to enable comparability of adjusted results. Details of the change in the Group's accounting policy in respect of lease accounting and an analysis of the impact of adopting IFRS 16 are set out in note 21.

4 Discontinued operations

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

The credit of £3.7m for the six months ended 30 June 2019, primarily relates to a £3.1m return of redress payments made to the Financial Conduct Authority (FCA) regarding the Connaught Income Series 1 Fund (30 June 2018: £4.4m credit in relation to provision releases).

CFM was the Operator of the Connaught Income Series 1 Fund (the Fund) until September 2009, when it was replaced by an unrelated company as Operator, following which CFM had no further involvement with the Fund. The Fund went into liquidation in 2012 and its liquidator brought a claim against both former Operators, which for its part, Capita settled in 2016 for a sum of £18.5m. The FCA undertook a formal review of the activities of both Operators and announced that its conclusion was that CFM did not meet all of its regulatory requirements in the period April 2008 to September 2009. To ensure that investors receive appropriate redress and to bring this matter to a close enabling the smooth disposal of CFM, CFM and Capita agreed a full and final settlement with the FCA. In reaching this settlement, the full cooperation which CFM gave to the FCA during the course of its investigation was acknowledged.

In 2018, the Group agreed a redress payment with the FCA such that the final amount of the redress payment would not exceed £61.5m. The redress payment was based off third-party calculations and the final quantum of the redress payments. The final quantum of the redress payments was determined in the first half of 2019, and a cumulative £7.5m was returned to Capita by the FCA during 2018 and 2019. The FCA have now closed the review of the fund and there are no further redress payments that will be made.

Cash flows from other operating activities of £3.1m relates to the above return of redress payments made to the FCA and £nil (2018: £19.0m) separation costs incurred in relation to the disposal.

5 Segmental information

The Group's operations are managed separately according to the nature of the services provided, with each segment representing a strategic business division offering a different package of client outcomes across the markets the Group serves. These divisions are supported by a common set of Group capabilities and functions which are reported separately as 'Group trading and central services'.

Before eliminating sales between business units on consolidation, the Group accounts for sales between business units as if they were to a third party at market rates.

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, in line with other finance costs. The divisions continue to recognise rental costs on an IAS 17 basis as they do not control the use of the asset, and this is reversed in the Group trading and central services segment and replaced with the above IFRS 16 depreciation and interest cost. Under the modified retrospective approach, comparative information is not restated.

Comparative information for the six months ended 30 June 2018 has been restated for the impact of the closure of the REI Health business with total adjusted revenue reduced by £1.9m and adjusted profit before tax increased by £1.2m.

Six months to 30 June 2019	Notes	Software £m	People Solutions £m	Customer Management £m	Government Services £m	IT & Networks £m	Specialist Services £m	Group trading and central services £m	Total adjusted £m	Adjusting items £m	Total reported £m
Continuing operations											
Long-term contractual		**171.8**	**157.3**	**275.1**	**352.8**	**147.0**	**220.5**	**1.3**	**1,325.8**	**—**	**1,325.8**
Short-term contractual		**17.3**	**17.5**	**123.2**	**12.5**	**20.1**	**90.4**	**0.9**	**281.9**	**0.4**	**282.3**
Transactional (point in time)		**3.2**	**78.6**	**0.9**	**48.3**	**46.4**	**65.2**	**1.3**	**243.9**	**—**	**243.9**
Total segment revenue		**192.3**	**253.4**	**399.2**	**413.6**	**213.5**	**376.1**	**3.5**	**1,851.6**	**0.4**	**1,852.0**
Trading revenue		**222.9**	**345.1**	**455.3**	**429.3**	**320.0**	**421.2**	**21.8**	**2,215.6**	**—**	**2,215.6**
Inter-segment revenue		**(30.6)**	**(91.7)**	**(56.1)**	**(15.7)**	**(106.5)**	**(45.1)**	**(18.3)**	**(364.0)**	**—**	**(364.0)**
Total adjusted segment revenue		**192.3**	**253.4**	**399.2**	**413.6**	**213.5**	**376.1**	**3.5**	**1,851.6**	**—**	**1,851.6**
Business exits – trading		**—**	**—**	**—**	**—**	**—**	**0.4**	**—**	**—**	**0.4**	**0.4**
Total segment revenue		**192.3**	**253.4**	**399.2**	**413.6**	**213.5**	**376.5**	**3.5**	**—**	**—**	**1,852.0**
Adjusted operating	3	**49.2**	**12.5**	**26.0**	**20.4**	**23.8**	**67.7**	**(57.5)**	**142.1**	**—**	
Restructuring	3	**(2.5)**	**(15.1)**	**(2.6)**	**(0.3)**	**(2.7)**	**(3.2)**	**(30.1)**	**—**	**(56.5)**	
Business exits – trading	3	**—**	**—**	**—**	**—**	**—**	**(1.7)**	**—**	**—**	**(1.7)**	
Total trading result		**46.7**	**(2.6)**	**23.4**	**20.1**	**21.1**	**62.8**	**(87.6)**	**142.1**	**(58.2)**	**83.9**
Non-trading items:											
Other adjusting items	3								**—**	**(23.1)**	**(23.1)**
Operating profit									**142.1**	**(81.3)**	**60.8**
Share of results in associates									**(0.6)**	**—**	**(0.6)**
Net finance costs	6								**(15.4)**	**(13.6)**	**(29.0)**
Profit before tax									**126.1**	**(94.9)**	**31.2**
Income tax (expense)/credit	7								**(23.7)**	**18.1**	**(5.6)**
Profit/(loss) for the period – continuing operations									**102.4**	**(76.8)**	**25.6**
Profit for the period – discontinued operations									**—**	**3.7**	**3.7**
Profit/(loss) for the period – total									**102.4**	**(73.1)**	**29.3**

Six months to 30 June 2018	Notes	Software £m	People Solutions £m	Customer Management £m	Government Services £m	IT & Networks £m	Specialist Services £m	Group trading and central services £m	Total adjusted £m	Adjusting items £m	Total reported £m
Continuing operations											
Long-term contractual		179.2	151.0	287.2	345.6	138.7	315.3	4.7	1,421.7	—	1,421.7
Short-term contractual		17.2	18.8	116.5	14.9	32.8	100.2	—	300.4	35.8	336.2
Transactional (point in time)		4.1	82.7	0.9	47.4	41.9	77.7	—	254.7	—	254.7
Total segment revenue		200.5	252.5	404.6	407.9	213.4	493.2	4.7	1,976.8	35.8	2,012.6
Trading revenue		225.3	325.4	459.2	423.5	340.6	521.3	26.1	2,321.4	—	2,321.4
Inter-segment revenue		(24.8)	(72.9)	(54.6)	(15.6)	(127.2)	(28.1)	(21.4)	(344.6)	—	(344.6)
Total adjusted segment revenue		200.5	252.5	404.6	407.9	213.4	493.2	4.7	1,976.8	—	1,976.8
Business exits – trading		—	—	—	—	—	35.8	—	—	35.8	35.8
Total segment revenue		200.5	252.5	404.6	407.9	213.4	529.0	4.7	—	—	2,012.6
Adjusted operating profit/(loss)	3	48.8	16.4	17.2	18.6	25.5	81.1	(49.2)	158.4	—	
Restructuring	3	(3.0)	(4.8)	(5.1)	(2.1)	(0.6)	(13.3)	(20.2)	—	(49.1)	
Business exits – trading	3	—	(0.3)	—	—	—	10.8	—	—	10.5	
Total trading result		45.8	11.3	12.1	16.5	24.9	78.6	(69.4)	158.4	(38.6)	119.8
Non-trading items:											
Business exits – non-trading	3								—	(1.7)	(1.7)
Other adjusting items	3								—	(51.4)	(51.4)
Operating profit/(loss)									158.4	(91.7)	66.7
Net finance costs	6								(27.6)	(9.4)	(37.0)
Gain on business disposal	3								—	12.6	12.6
Profit/(loss) before tax									130.8	(88.5)	42.3
Income tax credit	7								4.8	19.0	23.8
Profit/(loss) for the period – continuing operations									135.6	(69.5)	66.1
Profit for the period – discontinued operations	4								—	4.4	4.4
Profit/(loss) for the period – total									135.6	(65.1)	70.5

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 or equal to two years). The length of the contract is calculated from the start of the service commencement date. The figures represent the aggregate amount of currently contracted transaction price allocated to the performance obligations that are unsatisfied or partially unsatisfied. Revenue expected to be recognised upon satisfaction of these performance obligations is as follows:

Order book 30 June 2019	**Software £m**	**People Solutions £m**	**Customer Management £m**	**Government Services £m**	**IT & Networks £m**	**Specialist Services £m**	**Group trading and central functions £m**	**Total £m**
Long-term contractual	**577.3**	**609.9**	**1,851.4**	**1,968.9**	**344.6**	**1,146.7**	**—**	**6,498.8**
Short-term contractual	**18.4**	**—**	**28.0**	**2.2**	**44.6**	**58.6**	**—**	**151.8**
Total	**595.7**	**609.9**	**1,879.4**	**1,971.1**	**389.2**	**1,205.3**	**—**	**6,650.6**

Order book 31 December 2018	Software £m	People Solutions £m	Customer Management £m	Government Services £m	IT & Networks £m	Specialist Services £m	Group trading and central functions £m	Total £m
Long-term contractual	559.6	715.3	2,027.4	2,187.5	390.4	1,213.5	—	7,093.7
Short-term contractual	—	—	—	—	—	2.3	—	2.3
Total	559.6	715.3	2,027.4	2,187.5	390.4	1,215.8	—	7,096.0

The table below shows the time bands of the expected timing of revenue to be recognised on long-term contractual at 30 June 2019:

Time bands of long-term contractual in order book	Software £m	People Solutions £m	Customer Management £m	Government Services £m	IT & Networks £m	Specialist Services £m	Group trading and central functions £m	Total £m
< 1 year	**234.3**	**207.5**	**519.2**	**372.8**	**128.3**	**284.3**	**—**	**1,746.4**
1–5 years	**318.6**	**375.9**	**1,267.8**	**1,323.0**	**185.0**	**647.9**	**—**	**4,118.2**
> 5 years	**24.4**	**26.5**	**64.4**	**273.1**	**31.3**	**214.5**	**—**	**634.2**
Total	**577.3**	**609.9**	**1,851.4**	**1,968.9**	**344.6**	**1,146.7**	**—**	**6,498.8**

The order book represents the consideration to which the Group will be entitled to receive from the customers when the Group satisfies the remaining performance obligations in the contracts. However, the total revenue that will be earned by the Group will also include non-contracted volumetric revenue, new wins, scope changes and anticipated contract extensions. These elements have been excluded from the figures in the tables above as they are not contracted. In addition, revenue from contract extensions is also excluded in the order book unless they are pre-priced extensions whereby the Group has a legal binding obligation to deliver the performance obligations during the extension period. The total revenue related to pre-priced extensions that has been included in the tables above amounted to £427.2m (31 December 2018: £508.0m). The amounts presented do not include orders for which neither party has performed and each party has the unilateral right to terminate a wholly unperformed contract without compensating the other party.

Of the £6.5bn (31 December 2018: £7.1bn) revenue to be earned on long-term contractual, £3.9bn (31 December 2018: £4.2bn) relates to material contracts to the Group. This amount excludes revenue that will be derived from frameworks (transactional (point in time) contracts), non-contracted volumetric revenue, non-contracted scope changes and future unforeseen volume changes from these material contracts, which together are expected to contribute an additional £2.0bn (31 December 2018: £2.2bn) of revenue to the Group over the life of these contracts.

6 Net finance costs

	Notes	Six months to 30 June 2019 £m	Six months to 30 June 2018 £m
Interest receivable		**(2.7)**	(0.6)
Private placement loan notes		**15.3**	20.0
Cash flow hedges recycled to the income statement		**(1.7)**	—
Bank loans and overdrafts		**2.0**	3.4
Net interest cost on defined benefit pension schemes		**2.5**	4.8
Interest payable		**18.1**	28.2
Net finance costs included in adjusted profit		**15.4**	27.6
Discount unwind on public sector subsidiary partnership payment		**0.7**	0.8
Non-designated foreign exchange forward contracts – mark-to-market		**(2.4)**	3.6
Interest on lease liabilities	21	**12.3**	—
Fair value hedge ineffectiveness[1]		**3.0**	(3.7)
Private placement loan notes prepayment[2]		**—**	8.7
Net finance costs excluded from adjusted profit		**13.6**	9.4
Total net finance costs		**29.0**	37.0

1. Fair value hedge ineffectiveness includes the costs of the early termination of fair value hedges related to the early repayment of private placement loan notes, 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.

2. Private placement loan notes prepayment costs includes make-whole costs paid to noteholders on early repayment of principal in 2018.

7 Income tax

The reported income tax charge for the half year of £5.6m resulted in a reported tax rate of 17.9% (30 June 2018: reported income tax credit of £23.8m and negative tax rate of 56.3%) while the adjusted income tax charge for the half year of £23.7m resulted in an adjusted tax rate of 18.8% (30 June 2018: adjusted income tax credit of £4.8m and negative tax rate of 3.7%). Please refer to note 3 for tax impact of adjusting items.

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 on the Policies and Principles area of the Capita website (capita.com/about-us/policies-and-principles).

Adoption of IFRIC 23 Uncertainty over Income Tax Treatments

The Group has initially applied IFRIC 23 at 1 January 2019. IFRIC 23 addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. The Group applies judgement in quantifying uncertainties over income tax treatments and has considered whether it should adjust its uncertain tax provisions in line with this new criteria. The Group has recognised the cumulative impact arising on transition within retained earnings on the initial date of application.

The effect on the Group of adopting IFRIC 23 as at 1 January 2019 is an increase in income tax receivable of £5.4m and a decrease in trade and other payables of £0.8m, resulting in an increase in net assets of £6.2m and a decrease in retained deficit of £6.2m.

8 Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the period attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the net profit for the period attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding during the 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.

The earnings per share figures are calculated based on earnings attributable to ordinary equity holders of the parent company, and therefore excludes non-controlling interest. The earnings per share is calculated on an adjusted and total reported basis. The earnings per share for business exits, specific items and the impact of IFRS 16 are bridging items to adjusted and total reported earnings per share.

The following reflects the earnings and share data used in the basic and diluted earnings per share computations:

	Note	**30 June 2019**		30 June 2018	
		Continuing operations £m	**Total operations £m**	Continuing operations £m	Total operations £m
Adjusted profit for the period	5	**102.4**	**102.4**	135.6	135.6
Less: Non-controlling interest		**(5.3)**	**(5.3)**	(7.2)	(7.2)
Adjusted profit attributable to shareholders		**97.1**	**97.1**	128.4	128.4
Profit for the period	5	**25.6**	**29.3**	66.1	70.5
Less: Non-controlling interest		**(3.0)**	**(3.0)**	(5.0)	(5.0)
Total profit attributable to shareholders		**22.6**	**26.3**	61.1	65.5

	30 June 2019 m	30 June 2018 m
Weighted average number of ordinary shares (excluding trust and treasury shares) for basic earnings per share	**1,656.3**	1,256.1
Diluted potential ordinary shares:		
Employee share options	**17.7**	11.7
Weighted average number of ordinary shares (excluding trust and treasury shares) adjusted for the effect of	**1,674.0**	1,267.8

		30 June 2019		30 June 2018	
		Continuing operations p	**Total operations p**	Continuing operations p	Total operations p
Basic earnings per share	- adjusted	**5.86**	**5.86**	10.22	10.22
	- reported	**1.36**	**1.59**	4.86	5.21
Diluted earnings per share	- adjusted	**5.80**	**5.80**	10.13	10.13
	- reported	**1.35**	**1.57**	4.82	5.17

9 Dividends

The Board does not recommend the payment of an interim dividend.

10 Goodwill

In preparing these interim condensed consolidated financial statements, the Group undertook a review to identify indicators of impairment of goodwill. Consideration was given to performance against forecasts used in the year end impairment testing and where this gave rise to an indicator of potential impairment, further review was performed. No impairments were identified as at 30 June 2019.

11 Contract fulfilment assets

	Total £m
At 1 January 2019	264.2
Additions	**47.2**
Transfers from current contract fulfilment assets	**0.2**
Impairment	**(9.0)**
Utilised during the period	**(46.8)**
At 30 June 2019	**255.8**

Impairment

In preparing these half year condensed consolidated financial statements, management undertook a review to identify indicators of impairment of contract fulfilment assets. Management determined whether or not the contract fulfilment assets were impaired by comparing the carrying amount of the asset to the remaining amount of consideration that the Group expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, the Group uses the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price will be removed for the impairment test.

If a contract exhibited marginal profitability or other indicators of impairment, judgement was applied to ascertain whether or not the future economic benefits from these contracts were sufficient to recover these assets. In performing this impairment assessment, management is required to make an assessment of the costs to complete the contract. The ability to accurately forecast such costs involves estimates around cost savings to be achieved over

time, anticipated profitability of the contract, as well as future performance against any contract-specific Key Performance Indicators (KPIs) that could trigger variable consideration or service credits.

Following this review, contract fulfilment asset provisions for impairment of £9.0m (30 June 2018: £13.8m, 31 December 2018: £22.2m) were identified and recognised within adjusted cost of sales, of which, £3.1m relates to contract fulfilment assets added during the period.

12 Deferred income

Current	30 June 2019 £m	31 December 2018 £m
Current	**1,035.8**	980.3
	1,035.8	980.3

Non-current	30 June 2019 £m	31 December 2018 £m
Non-current	**212.7**	277.3
	212.7	277.3

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 £693.8m (30 June 2018: £787.7m, 31 December 2018: £1,220.8m).

13 Provisions

	Restructuring provision £m	Business exit provision £m	Asset services indemnity provision £m	Claim and litigation provision £m	Property provision £m	Other £m	Total £m
As at 1 January 2019	12.0	17.5	3.0	46.4	19.9	17.4	116.2
IFRS 16 adoption reclassification to right-of-use assets [1]	**(3.5)**	—	—	—	**(11.7)**	—	**(15.2)**
Provisions provided for in the period	**7.5**	**0.5**	—	**18.9**	**5.0**	**3.1**	**35.0**
Provisions released in the period	**(1.8)**	**(0.1)**	—	**(11.1)**	**(0.2)**	**(0.5)**	**(13.7)**
Utilisation	**(5.4)**	**(4.2)**	—	**(4.7)**	**(2.1)**	**(3.9)**	**(20.3)**
Reclassification between categories	**(0.2)**	**3.2**	**(3.0)**	—	—	—	—
At 30 June 2019	**8.6**	**16.9**	—	**49.5**	**10.9**	**16.1**	**102.0**

1. On adoption of IFRS 16 (effective 1 January 2019), all leases within the scope of the standard were recognised as right-of-use assets and lease liabilities on the Group's balance sheet. This resulted in the reclassification of restructuring and property provisions of £15.2m against these right-of-use assets. Refer to note 21 for further details.

The provisions made above have been shown as current or non-current on the balance sheet to indicate the Group's expected timing of the matters reaching conclusion.

Judgement is required in measuring and recognising provisions related to pending litigation or other outstanding claims subject to negotiated settlement, mediation and arbitration, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the financial settlement. Because of the inherent uncertainty in this evaluation process, actual losses may be different from the originally estimated provision. Where no reliable basis of estimation can be made, no provision is recorded. However, contingent liabilities disclosures are given when there is a greater than remote probability of outflow of economic benefits.

Restructuring provision: The provision represents the cost of reducing role count where there is a constructive obligation created through communication to affected employees which has crystallised a valid expectation that roles are at risk. Additionally, it reflects leasehold property costs as described below in property provisions where properties are exited as a result of the transformation plan. During the period, additional provision has been made for costs as further restructuring opportunities related to the transformation plan have been identified.

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 previously disposed.

Asset Services indemnity provision: Capita completed the disposal of its Asset Services businesses to the Link Group on 3 November 2017. Capita plc, as part of the sale of the Capita Asset Services businesses, has provided an indemnity against certain legacy claims. The provisions held includes provisions for Arch Cru and other legacy claims, and have therefore been retained within the Group. Giving due consideration to these claims, the Group holds a provision of £3.0m. The remaining provision has been transferred to business exit provisions. Due to the nature of these claims, the Group cannot give an estimate of the period over which this provision will unwind.

Claims and litigation provision: In addition to the Capita Asset Services indemnity provision, the Group is exposed to other claims and litigation. The Group makes a provision when a claim has been made where it is more probable than not that a loss might occur. These provisions are reassessed regularly to ensure that the level of provisioning is consistent with the claims that have been reported. The range of values attached to these claims, can be significant and, where obligations are probable and estimable, provisions are made representing the Group's best estimate of the expenditure to be incurred. The Group robustly defends its position on each claim and they are often settled for amounts significantly smaller than the initial claim and may result in no transfer of economic benefits. Therefore, we do not disclose a range of possible outcomes for these claims.

Due to the nature of these claims, the Group cannot give an estimate of the period over which this provision will unwind.

Property provision: The property provisions remaining after the IFRS 16 adoption reclassification to right-of-use assets are for the related running cost of leasehold property (net of estimated sub-lease income) where the space is vacant or currently not planned to be used for ongoing operations. The expectation is that this expenditure will be incurred over the remaining periods of the leases which range from 1 to 26 years.

Other provisions: Relates to provisions in respect of other potential exposures arising due to the nature of some of the operations that the Group provides, the most significant of which are in respect of immaterial onerous contracts. These are likely to unwind over a period of 1 to 10 years.

14 Additional cash flow information

	Note	30 June 2019 Adjusted £m	30 June 2019 Reported £m	30 June 2018[1] Adjusted £m	30 June 2018[1] Reported £m
Cash flows from operating activities:					
Operating profit[1]	3	**142.1**	**60.8**	158.4	66.7
Adjustments for non-cash items:					
Depreciation[1]		**29.9**	**82.5**	28.5	29.5
Amortisation of intangible assets		**14.7**	**43.4**	12.9	60.7
Share based payment expense		**3.5**	**3.5**	4.0	4.0
Employee benefits		**5.1**	**5.1**	6.9	6.9
Other		**0.6**	**0.6**	1.3	4.9
Other adjustments:					
Movement in provisions		**2.7**	**1.0**	1.3	(0.6)
Other adjustments:					
Pension deficit contribution		**—**	**(57.1)**	—	(4.5)
Other contributions into pension schemes		**(8.9)**	**(8.9)**	(7.5)	(7.5)
Movements in working capital:					
Trade and other receivables[1]		**(147.2)**	**(140.5)**	(58.0)	(59.0)
Non-recourse receivables financing		**—**	**—**	(16.0)	(16.0)
Trade and other payables[1]		**19.6**	**18.7**	(88.6)	(84.7)
Deferred income		**(10.6)**	**(10.6)**	(75.1)	(75.1)
Contract fulfilment assets (non current)		**8.4**	**8.4**	(19.7)	(19.7)
Cash generated from operations		**59.9**	**6.9**	(51.6)	(94.4)
Adjustments for free cash flows:					
Income tax (paid)/received		**(2.2)**	**(2.2)**	14.8	14.8
Interest paid		**(13.6)**	**(26.3)**	(16.7)	(24.3)
Purchase of property, plant and equipment		**(22.3)**	**(22.3)**	(37.1)	(48.7)
Purchase of intangible assets		**(42.1)**	**(42.1)**	(18.4)	(20.8)
Proceeds from sale of property, plant and equipment/intangible assets		**0.1**	**0.1**	—	—
Free cash flow		**(20.2)**	**(85.9)**	(109.0)	(173.4)

1. Capita has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Refer to note 21 for further details.

Adjusted free cash flow and cash generated from operations

	Free cash flow 30 June 2019 £m	Free cash flow 30 June 2018 £m	Cash generated from operations 30 June 2019 £m	Cash generated from operations 30 June 2018 £m
Reported	**(85.9)**	(173.4)	**6.9**	(94.4)
Pension deficit contributions	**57.1**	4.5	**57.1**	4.5
Significant restructuring	**57.7**	37.3	**57.7**	37.3
Business exits	**5.5**	6.0	**5.5**	(8.0)
Impact of IFRS 16	**(56.0)**	—	**(68.7)**	—
Other	**1.4**	16.6	**1.4**	9.0
Adjusted	**(20.2)**	(109.0)	**59.9**	(51.6)

Pension deficit contributions: in November 2018, we 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 £176m, of which £57.1m was paid in the six months ended 30 June 2019. In the six months to 30 June 2018 contributions of £4.5m were made following closure of the Scheme to future accrual for the majority of members of the Scheme. These payments have been excluded from adjusted cash flows as they are treated as a debt like item.

Significant restructuring: in April 2018, we announced a multi-year transformation plan. In the period to 30 June 2019, a cash outflow of £57.7m (2018: £37.3m) was incurred in relation to the cost of the transformation plan, and restructuring costs relating to our previously announced cost reduction plan. Refer to note 3.

Business exits: the cash flows of businesses exited, or in the process of being exited, and the proceeds on disposals, are disclosed outside the adjusted results. The 2018 results have been restated for those businesses exited, or in the process of being exited, in the second half of 2018 to enable comparability of the adjusted results.

Impact of IFRS 16: at 1 January 2019 the Group has initially applied IFRS 16, using the modified retrospective approach. 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. To improve the comparability of the Group's cash flow statement, cash flows from IFRS 16 have been excluded from the adjusted results.

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

Reconciliation of net cash flow to movement in net debt

	Net debt at 1 January 2019 £m	Lease liability adjustment[2] £m	Cash flow movements £m	Non-cash movement[3] £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 notes1	**(1,108.0)**	**—**	**11.1**	**(19.1)**	**(1,116.0)**
Currency swaps in relation to USD denominated private placement loan notes[1]	**99.6**	**—**	**—**	**16.7**	**116.3**
Interest rate swaps in relation to GBP denominated private placement loan notes[1]	**1.9**	**—**	**—**	**(0.6)**	**1.3**
Term loan	**(100.0)**	**—**	**100.0**	**—**	**—**
Lease liabilities [2]	**—**	**(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 sum of these items held at fair value equates to the underlying value of the private placement loan note debt of £998.4m (31 December 2018: £1,006.5m).
2. The lease liabilities relate to amounts due by Capita where the Group is a Lessee. Refer to note 21 for further details on the impact of IFRS 16.
3. Non-cash movement relates to foreign exchange on cash, fair value changes on the swaps, amortisation of loan notes issue costs, amortisation of the discount on the Euro debt issue and the IFRS 16 modifications, additions and terminations to our leases.

		Cash flow movements			
	Net debt at 1 January 2018 £m	Rights issue £m	Cash flow movements £m	Non-cash movement £m	Net debt at 30 June 2018 £m
Cash, cash equivalents and overdrafts	478.4	671.1	(543.0)	(1.4)	605.1
Other loan notes	(0.3)	—	—	—	(0.3)
Private placement loan notes	(1,664.0)	—	307.5	0.1	(1,356.4)
Currency swaps in relation to USD denominated private placement loan notes	176.8	—	(60.6)	4.4	120.6
Interest rate swaps in relation to GBP denominated private placement loan notes	5.4	—	(0.5)	(1.4)	3.5
Term loan	(100.0)	—	—	—	(100.0)
Finance leases [1]	(0.2)	—	0.2	—	—
Adjusted net debt	(1,103.9)	671.1	(296.4)	1.7	(727.5)
Deferred consideration	(13.1)	—	11.1	—	(2.0)
Net debt	(1,117.0)	671.1	(285.3)	1.7	(729.5)

1. Capita has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Refer to note 21 for further details.

15 Financial instruments

Carrying values and fair values of financial instruments

The financial instruments included in the Group's financial statements have been measured at either fair value or amortised cost.

The financial instruments measured at amortised cost consist of cash and overdrafts, insurance asset recoverable, lease receivables and lease liabilities and loan notes subject to fixed rate interest. With the exception of 12 fixed rate private placement loan notes, the carrying amount of these instruments are a reasonable approximation of their fair value because the interest receivable/payable is close to current market rate or the instruments are short term in nature. Lease receivables and lease liabilities have been measured at amortised cost using the effective interest rate method (refer to note 21).

Financial instruments measured at fair value have been classified by levels of the following financial hierarchy:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

The fair value of financial instruments has been calculated by discounting the expected future cash flows at prevailing interest rates, except for held for trading assets (which are unlisted equity securities). The valuation models incorporate various inputs including foreign exchange spot and forward rates and interest rate curves.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Unlisted equity securities and other financial instruments where observable market data is not readily available have been held at either amortised cost or cost (undiscounted cash flows), as a reasonable approximation of fair value.

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 instruments carried at fair value:

As at 30 June 2019	Fair value hierarchy	At fair value through the P&L £m	At fair value through equity £m	Derivatives used for hedging £m	Amortised cost £m	Total £m	Current £m	Non-current £m
Financial assets								
Cash	Level 1	—	—	—	716.5	716.5	716.5	—
Insurance asset recoverable	Level 2	—	—	—	1.3	1.3	1.3	—
Lease receivables[1]	Level 2	—	—	—	16.5	16.5	3.0	13.5
Cash flow hedges	Level 2	—	—	9.7	—	9.7	5.7	4.0
Non-designated foreign exchange forwards and swaps	Level 2	5.0	—	—	—	5.0	3.2	1.8
Interest rate swaps in relation to GBP denominated loan notes	Level 2	—	—	1.3	—	1.3	—	1.3
Currency swaps in relation to USD denominated loan notes	Level 2	—	—	118.0	—	118.0	36.1	81.9
Investments	Level 3	1.5	—	—	—	1.5	—	1.5
Held for trading assets	Level 3	—	2.7	—	—	2.7	—	2.7
		6.5	2.7	129.0	734.3	872.5	765.8	106.7

	Fair value hierarchy	At fair value through the P&L £m	At fair value through equity £m	Derivatives used for hedging £m	Other financial liabilities £m	Total £m	Current £m	Non-current £m
Financial liabilities								
Overdrafts	Level 1	—	—	—	339.6	339.6	339.6	—
Private placement loan notes[2]	Level 2	—	—	—	1,116.0	1,116.0	272.2	843.8
Other loan notes	Level 2	—	—	—	0.3	0.3	0.3	—
Lease liabilities[1]	Level 2	—	—	—	591.6	591.6	87.9	503.7
Cash flow hedges	Level 2	—	—	0.3	—	0.3	0.3	—
Non-designated foreign exchange forwards and swaps	Level 2	0.4	—	—	—	0.4	0.4	—
Currency swaps in relation to USD denominated loan notes	Level 2	—	—	1.7	—	1.7	—	1.7
Contingent consideration	Level 3	6.4	—	—	—	6.4	6.2	0.2
Deferred consideration	Level 2	—	—	—	1.7	1.7	1.0	0.7
Public sector subsidiary partnership payment	Level 3	—	—	—	39.6	39.6	9.4	30.2
Put options of non-controlling interests	Level 3	—	120.5	—	—	120.5	115.1	5.4
		6.8	120.5	2.0	2,088.8	2,218.1	832.4	1,385.7

1. Lease receivables relates to amounts due to be received for finance subleases where the Group is a Lessor and lease liabilities relates to amounts due by the Group where the Group is a Lessee. Refer to note 21 for further details on the impact of IFRS 16 on the Group.

2. Private placement loan notes include US private placement loan notes, Euro fixed rate bearer notes and a Schuldschein loan.

The Group's private placement loan notes of £1,116.0m consist of floating and fixed rate loan notes. The fair value of the private placement loan notes have been calculated by discounting the expected future cash flows at prevailing foreign exchange spot and forward rate, and interest rate curves. The fair value of floating rate borrowings approximates to the carrying value because interest rates are at floating rates where payments are reset to market values at intervals of less than one year. The floating rate private placement loan notes which have a carrying value and a fair value of £654.3m, including the GBP equivalent of the US Dollar denominated loan notes at 30 June 2019. The 12 private placement loan notes that remain subject to fixed rate interest have a carrying value of £461.7m and a fair value of £471.5m.

The private placement loan notes include the GBP carrying value of the USD denominated loan notes at 30 June 2019. To mitigate exposure to currency fluctuations the Group has entered into currency swaps which effectively hedge movements in the loan notes' fair value arising from changes in foreign exchange and interest rates. Interest rate swaps hedge exposure to changes in the fair value of GBP denominated loan notes. The Group enters into derivative financial instruments with multiple counterparties, all of which are financial institutions with investment grade credit ratings.

As at 31 December 2018	Fair value hierarchy	At fair value through the P&L £m	At fair value through equity £m	Derivatives used for hedging £m	Amortised cost £m	Total £m	Current £m	Non-current £m
Financial assets								
Cash	Level 1	—	—	—	957.5	957.5	957.5	—
Insurance asset recoverable	Level 2	—	—	—	1.3	1.3	1.3	—
Cash flow hedges	Level 2	—	—	8.3	—	8.3	5.0	3.3
Non-designated foreign exchange forwards and swaps	Level 2	3.9	—	—	—	3.9	2.1	1.8
Interest rate swaps in relation to GBP denominated loan notes	Level 2	—	—	1.9	—	1.9	0.5	1.4
Currency swaps in relation to USD denominated loan notes	Level 2	—	—	103.1	—	103.1	9.3	93.8
Investments	Level 3	—	6.1	—	—	6.1	—	6.1
Held for trading assets	Level 3	—	2.7	—	—	2.7	—	2.7
		3.9	8.8	113.3	958.8	1,084.8	975.7	109.1

	Fair value hierarchy	At fair value through the P&L £m	At fair value through equity £m	Derivatives used for hedging £m	Other financial liabilities £m	Total £m	Current £m	Non-current £m
Financial liabilities								
Overdrafts	Level 1	—	—	—	314.8	314.8	314.8	—
Private placement loan notes[1]	Level 2	—	—	—	1,108.0	1,108.0	82.2	1,025.8
Other loan notes	Level 2	—	—	—	0.3	0.3	0.3	—
Term loan	Level 2	—	—	—	100.0	100.0	100.0	—
Cash flow hedges	Level 2	—	—	1.2	—	1.2	1.2	—
Non-designated foreign exchange forwards and swaps	Level 2	1.4	—	—	—	1.4	1.4	—
Currency swaps in relation to USD denominated loan notes	Level 2	—	—	3.5	—	3.5	—	3.5
Contingent consideration	Level 3	8.9	—	—	—	8.9	—	8.9
Deferred consideration	Level 2	—	—	—	2.0	2.0	1.3	0.7
Public sector subsidiary partnership payment	Level 3	—	—	—	43.5	43.5	9.4	34.1
Put options of non-controlling interests	Level 3	—	118.5	—	—	118.5	107.3	11.2
		10.3	118.5	4.7	1,568.6	1,702.1	617.9	1,084.2

1. Private placement loan notes include US private placement loan notes, Euro fixed rate bearer notes and a Schuldschein loan.

During the period ended 30 June 2019, there were no transfers between Level 2 and Level 3 fair value measurements and no transfers into or out of Level 1 fair value measurements.

During the period ended 30 June 2019, there were no transfers between Level 2 and Level 3 fair value measurements and no transfers into or out of Level 1 fair value measurements.

The public sector subsidiary partnership payment liability is an estimate of the aggregate of annual payments to the Cabinet Office in the years 2019 to 2023 to be made by AXELOS Limited (the partnership formed with the Cabinet Office). This payment is funded by AXELOS Limited and the carrying value of £39.6m has been derived by discounting the expected payment at an annualised rate of 2.8% to present value.

The carrying value of the liability is sensitive to movements in the profitability of AXELOS and is subject to a cap. Under all reasonably plausible scenarios, the cap has been reached and therefore the sensitivity to changes in both the discount rate and the cash flows that have been used to calculate it is £nil.

The put options of non-controlling interest are in respect of AXELOS and Fera. These are measured at fair value which has been calculated based on the amounts that will be paid in cash by the Group to purchase the shares of the non-controlling interests in the event the options are exercised, which has then been discounted at an annualised rate of 2.7% to arrive at its present value. The Group is unaware of any intention for the options to be exercised.

The sensitivity of the valuation of the put options of the non-controlling interests to movements in both the discount rate and the cash flows that have been used to calculate it are as follows: a 10% increase or decrease in the earnings potential of the businesses results in an increase or decrease in the valuation of £11.0m. A 1% increase or decrease in the discount rate applied to the valuation results in an increase or decrease in the valuation of £0.1m.

A sensitivity analysis has been performed on the expected contingent consideration of £6.4m. The analysis adjusts the probability of payment of the contingent amounts. A 10% increase or decrease in the probability of contingent consideration being paid results in an increase or decrease in potential contingent consideration of £0.5m.

The following table shows the reconciliation from the opening balances to the closing balances for Level 3 fair value:

	Contingent consideration £m	Subsidiary partnership payment £m	Put options of non-controlling interests £m	Investments £m	Held for trading assets £m
At 1 January 2019	8.9	43.5	118.5	6.1	2.7
Reclassification as investment in associates	—	—	—	**(6.1)**	—
Utilised	**(2.5)**	**(4.6)**	—	—	—
Movement of put options recognised in equity	—	—	**2.0**	—	—
Additions	—	—	—	**1.5**	—
Discount unwind	—	**0.7**	—	—	—
As at 30 June 2019	**6.4**	**39.6**	**120.5**	**1.5**	**2.7**

16 Issued share capital and share premium

	Share capital		Share premium	Treasury shares		Employee benefit trust shares	
Allotted, called up and fully	m	£m	£m	m	£m	m	£m
Ordinary shares of 2 1/15p							
At 1 January 2019	**1,671.1**	**34.5**	**1,143.3**	**2.9**	**(0.1)**	**12.0**	**(11.1)**
Shares allotted in the period	—	—	—	**(0.2)**	—	—	—
At 30 June 2019	**1,671.1**	**34.5**	**1,143.3**	**2.7**	**(0.1)**	**12.0**	**(11.1)**

In the six months to 30 June 2019, the Group did not purchase any Treasury shares and allotted and issued 182,232 (30 June 2018: nil) treasury shares with an aggregate nominal value of £3,767 (30 June 2018: £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 2018: £nil).

The Group will use shares held in the employee benefit trust ("EBT") and treasury shares in order 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 2018: 32,367) ordinary 2 1/15p shares with an aggregate nominal value of £nil (30 June 2018: £669) to satisfy exercises under the Group's share option and long-term incentive plans. The total consideration received in respect of these shares was £nil (30 June 2018: £nil).

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

17 Capital commitments

At 30 June 2019, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £12.6m (31 December 2018: £10.7m).

18 Related party transactions

Compensation of key management personnel:

	30 June 2019 £m	30 June 2018 £m
Short-term employment benefits	**4.2**	3.7
Pension	**0.1**	0.1
Share-based payments	**1.5**	0.3
	5.8	4.1

Gains on share options exercised in the period by Capita plc Executive Directors were £nil (30 June 2018: £nil) and by key management personnel £0.2m (30 June 2018: £nil).

During the period, the Group rendered administrative services to Smart DCC Ltd, a wholly-owned subsidiary which is not consolidated. The Group received £42.3m (30 June 2018: £28.1m) of revenue for these services. The services are procured by Smart DCC on an arm's length basis under the DCC licence. The services are subject to review by Ofgem to ensure that all costs are economically and efficiently incurred by Smart DCC.

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

The following companies are substantial shareholders in the Company and therefore a related party of the Company (in each case, for the purposes of the Listing Rules of the UK Listing Authority). The number of shares held on 25 July 2019 was as below:

Shareholder	No. of shares	% of voting rights
Veritas Asset Management LLP[1]	**192,533,863**	**11.54**
Invesco Ltd	**191,409,106**	**11.47**
Investec Asset Management Ltd	**153,805,729**	**9.22**
RWC Asset Management LLP	**127,012,876**	**7.61**
Schroders Investment Management Ltd	**101,030,829**	**6.05**
Coltrane Asset Management, L.P	**83,888,589**	**5.03**
BlackRock, Inc.	**74,230,358**	**4.45**
Marathon Asset Management LLP	**64,756,810**	**3.88**
St. James' Place plc	**60,297,710**	**3.61**
Veritas Funds PLC	**55,009,900**	**3.30**
Vanguard Group, Inc.	**54,711,874**	**3.28**
Jupiter Asset Management Limited	**53,573,060**	**3.21**
Norges Bank Investment Management	**52,121,121**	**3.12**

1. This includes the holding of Veritas Funds PLC.

19 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 £79.0m (31 December 2018: £84.0m).

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

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

The Group is in discussions with a customer in respect of the operational, financial and contractual impacts of the delays to the planned transformation. The outcomes and timings of these discussions are uncertain, but may result in the Group incurring additional costs, the quantum of which are unable to be reliably estimated. 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.

The Group has been notified under a supplier contract of a potential liability relating to past services received. As the basis of any liability is currently being assessed and the method of any settlement is yet to be agreed, there is no reliable estimate of the eventual outcome and accordingly the Group has not made any provision for a future outflow of funds that might result.

The Group entities are parties to legal actions and claims which arise in the normal course of business. The Group throughout the period needs to apply judgement in determining the merit of litigation against it and the chances of a claim successfully being made. It needs to determine the likelihood of an outflow of economic benefits occurring and whether there is a need to disclose a contingent liability or whether a provision might be required due to the probability assessment.

At any time there are a number of claims or notifications that need to be assessed across the Group. The disparate nature of the Group entities heightens the risk that not all potential claims are known at any point in time. Under the transformation plan, the support functions including commercial and legal are being strengthened and a Chief General Counsel has been appointed. This enhances the current processes in place to assess the likelihood of historical claims arising.

20 Post balance sheet events

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

21 Adoption of IFRS 16 Leases

Adoption method

On adoption of IFRS 16 (effective 1 January 2019) the Group has elected to grandfather the assessment of which arrangements are leases. Contracts not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16.

Under the transition rules, the Group has applied IFRS 16 using the modified retrospective approach, with the cumulative effect of applying the standard recognised in retained earnings on 1 January 2019. Comparative information presented for 2018 has not been restated.

At transition

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for all the leases on its balance sheet.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases:

- applied the exemption not to recognise right-of-use assets and liabilities for leases of low value or for which the lease term ends within 12 months of the date of initial application, on a lease-by-lease basis
- relied on previous assessments on whether leases are onerous for impairment of right-of-use assets
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease
- applied the exemption not to separate non-lease components such as service charges from lease rental charges

Under transition rules for leases classified as operating leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019.

Right-of-use assets are measured at cost, which comprised the initial amount of the lease liability adjusted for any lease payments made at or before the adoption date, less any lease incentives received at or before the adoption date and less any onerous lease provisions (reclassified on the opening balance sheet).

For a selection of material long-term leases, the Group has applied the modified retrospective method one approach, as if IFRS 16 had always been applied using the incremental borrowing rate at the date of initial application. Under this method, the difference between the right-of-use asset and lease liability was recorded in retained earnings.

At 1 January 2019 the Group had no lease commitments previously classified as finance leases under IAS 17.

The Group is not required to make any adjustments on transition to IFRS 16 for which it acts as a lessor, except for subleases. Under IFRS 16, the Group assessed the classification of subleases with reference to the right-of-use asset, not the underlying asset. This resulted in certain leases being classified as finance leases under IFRS 16 and recognition of a finance lease receivable (recorded within line item financial assets on the consolidated balance sheet).

Accounting policies

The Group leases various assets, comprising land and buildings, equipment and motor vehicles.

The determination whether an arrangement is, or contains, a lease is based on whether the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The following sets out the Group's lease accounting policy for all leases with the exception of leases with a low value and term of 12 months or less which we have taken the exemption under the standard. These are expensed to the income statement as incurred.

At the inception of the lease, the Group recognises a right-of-use asset and a lease liability. A right-of-use asset is capitalised in the balance sheet at cost, which comprises the present value of minimum lease payments determined at the inception of the lease. A lease liability of equivalent value is also recognised. Right-of-use assets are depreciated using the straight-line method over the shorter of estimated life or the lease term. Depreciation is included within the line item administrative expenses in the consolidated income statement.

Under IFRS 16 the right-of-use assets will be tested for impairment in accordance with IAS 36 'Impairment of Assets'. This will replace the previous requirement to recognise a provision for an onerous lease. As noted above, the Group has elected to apply the exemption to treat existing onerous leases as impairments on adoption.

The corresponding lease liability is included on the balance sheet as a lease liability. The lease liability is measured at amortised cost using the effective interest rate method. Lease payments are apportioned between a finance charge and a reduction of the lease liability based on the constant interest rate applied to the remaining balance of the liability. Interest expense is included within the line item net finance costs in the consolidated income statement.

The lease payments comprise fixed payments, including in-substance fixed payments such as service charges and variable lease payments that depend on an index or a rate, initially measured using the minimum index or rate at inception date. The payments also include any lease incentives and any penalty payments for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease term determined comprises the non-cancellable period of the lease contract. Periods covered by an option to extend the lease are included if the Group has reasonable certainty that the option will be exercised and periods covered by the option to terminate are included if it is reasonably certain that this will not be exercised.

The lease liability is subsequently remeasured (with a corresponding adjustment to the related right-of-use asset) when there is a change in future lease payments due to a renegotiation or market rent review, a change of an index or rate or a reassessment of the lease term.

The Group acts a lessor or intermediate lessor. When the Group acts as a lessor, it determines at lease commencement whether the lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership in relation to the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. The Group recognises lessor payments under operating leases as income on a straight-line basis over the lease term. The Group accounts for finance leases as finance lease receivables, using the effective interest rate method.

The Group has made judgements in adopting IFRS 16 such as; determining contracts in scope for IFRS 16, determining the interest rate used for discounting of future cash flows, and the lease term. The lease liability at 30 June 2019 includes £23.3m of future lease payments (undiscounted) for leases with termination options that could be exercised but are recognised at full term at this time.

At 30 June 2019, potential future cash outflows of £51.3m (undiscounted) have not been included in the lease liability because the Group is reasonably certain that the leases will not be extended (or not terminated) at this time. The assessment of the lease term is reviewed if a significant event or change in circumstance occurs which effects this assessment and that is within the Group's control to change.

Impact of adopting IFRS 16

On adoption:

A summary of the impact on the Group of adopting IFRS 16 is as follows:

	Footnote	As reported 31 Dec 2018 £m	**IFRS 16 impact £m**	**At adoption 1 January 2019 £m**
Non-current assets				
Property, plant and equipment		213.6	—	213.6
Intangible assets		1,587.7	—	1,587.7
Right-of-use assets	a	—	568.2	568.2
Contract fulfilment assets		264.2	—	264.2
Financial assets	b	109.1	14.1	123.2
Deferred taxation	c	144.6	5.4	150.0
Trade and other receivables		26.2	—	26.2
		2,345.4	587.7	2,933.1
Current assets				
Financial assets	b	18.2	3.0	21.2
Trade and other receivables	d	771.7	(14.9)	756.8
Cash		957.5	—	957.5
Income tax receivable		0.9	—	0.9
		1,748.3	(11.9)	1,736.4
Total assets		4,093.7	575.8	4,669.5
Current liabilities				
Trade and other payables	d	668.7	(26.1)	642.6
Deferred income		980.3	—	980.3
Overdrafts		314.8	—	314.8
Lease liabilities	e	—	95.3	95.3
Financial liabilities		303.1	—	303.1
Provisions	d	96.8	(6.4)	90.4
		2,363.7	62.8	2,426.5
Non-current liabilities				
Trade and other payables		11.6	—	11.6
Deferred income		277.3	—	277.3
Lease liabilities	e	—	548.6	548.6
Financial liabilities		1,084.2	—	1,084.2
Deferred taxation		15.2	—	15.2
Provisions	d	19.4	(8.8)	10.6
Employee benefits		219.0	—	219.0
		1,626.7	539.8	2,166.5
Total liabilities		3,990.4	602.6	4,593.0
Net assets		103.3	(26.8)	76.5
Capital and reserves				
Issued share capital		34.5	—	34.5
Share premium		1,143.3	—	1,143.3
Employee benefit trust and treasury shares		(11.2)	—	(11.2)
Capital redemption reserve		1.8	—	1.8
Foreign currency translation reserve		1.6	—	1.6
Cash flow hedging reserve		1.5	—	1.5
Retained deficit	f	(1,135.3)	(26.8)	(1,162.1)
Surplus/(deficit) attributable to owners of the Company		36.2	(26.8)	9.4
Non-controlling interests		67.1	—	67.1
Total equity		103.3	(26.8)	76.5

Footnotes:

a. **Right-of-use assets:** non-current assets have been impacted due to recognition of right-of-use assets on 1 January 2019. The right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the adoption date less any lease incentives received at or before the adoption date (reclassified on the opening balance sheet).

b. **Finance lease receivable:** Financial assets have been impacted by recognition of finance lease receivables where the Group acts as an intermediate lessor and has classified the sub lease as a finance lease because the sub-lease is for a substantial amount of the remaining term of the head lease. The finance lease receivables have been classified between current and non-current.

c. **Deferred tax asset:** Under IFRS 16, a lease liability was recognised on the balance sheet from 1 January 2019, which will be recognised through the income statement in subsequent periods. Right-of-use assets were also recognised on the balance sheet from 1 January 2019, which will be

charged to the income statement in subsequent periods. Under IAS 12, the tax base of the net liability is the amount that will be deductible for tax purposes. A temporary difference is therefore created in relation to the net liability.
The impact of these changes is recognised for tax purposes via a tax adjustment which spreads over the weighted average lease period at 1 January 2019. Under the principles of IAS 12, a net movement of £5.4m is reflected as a transitional adjustment, arising from an increase in deferred tax assets as a result of the transition to IFRS 16.

d. **Reclassification of balance sheet items:** As noted above in a, the right-of-use asset is initially measured at cost plus lease payments made at or before the adoption date (prepayments), less any lease incentives received (rent free accruals) and less onerous provisions existing at the adoption date. These balances have been reclassified to right-of-use asset on adoption.

e. **Lease liabilities:** Financial liabilities have been impacted due to the recognition of lease liabilities. This liability is initially measured at the present value of the lease payments that are not paid at the adoption date, discounted using the Group's incremental borrowing rate. The lease payments comprise fixed payments, including in-substance fixed payments such as service charges and variable lease payments that depend on an index or a rate, initially measured using the minimum index or rate at commencement date. The lease liabilities have been classified between current and non-current.

f. **Retained deficit:** For a selection of material long-term leases, the Group applied the modified retrospective method one approach, where the right-of-use asset is calculated from the lease inception and depreciated - resulting in a charge to retained deficit representing the different between the right-of-use asset and the finance lease liability.

In calculating the lease liability to be recognised on adoption, the Group used a weighted average incremental borrowing rate at 1 January 2019 of 4.6%. The below outlines the difference between the Group's operating lease commitment as at 31 December 2018 and the lease liability recognised on adoption:

	1 January 2019
Lease liabilities recognised	
Operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial statements	**736.0**
Discounted using the incremental borrowing rate at 1 January 2019	**(113.5)**
Extension and termination options reasonably certain to be exercised	**21.4**
	643.9
of which:	
Current	**95.3**
Non-current	**548.6**

In the period:

As at 30 June 2019, the Group has £513.6m of right-of-use assets and £591.6m of lease liabilities.
The impact to the income statement for the period to 30 June 2019 and the forecast for the 12 months ending 31 December 2019 is as follows:

Consolidated income statement	Six months to 30 June 2019 £m	Expected adoption impact for the year ending 31 December 2019* £m	Revised expected adoption impact for the year ending 31 December 2019 £m
EBITDA	**59.0**	**130 - 135**	**112 - 117**
Depreciation expense	**(52.6)**	**111 - 114**	**99 - 104**
Operating profit	**6.4**	**19 - 21**	**12 - 14**
Net finance costs on lease liabilities	**(12.3)**	**(28) - (30)**	**(26) - (28)**
Profit before tax	**(5.9)**	**(8) - (10)**	**(12) - (14)**

*As per Capita plc Annual Report 2018

As a result of adopting IFRS 16, rental costs which were previously recognised in operating profit have been replaced by right-of-use asset depreciation and net finance costs on the finance lease liability. As the asset is depreciated on a straight line basis over the lease term and the interest is accrued using the effective interest rate method, while EBITDA has improved, profit is reduced in the earlier years as a result of applying IFRS 16.

Although IFRS 16 has no impact on the Group's total cash flow, outflows from financing activities increase while cash outflows from operating activities decrease, as recognition of rental costs, previously recognised solely as cash outflows from operations are now apportioned between finance charges and reduction of the lease obligation.

Due to the Group transformation plan, which includes a rationalisation of Capita's properties, the Group's lease portfolio is expected to change over the next few years. Any changes to the lease portfolio will be accounted for when transacted as required under IFRS 16 and our Group policy. Costs and impairments on the right-of-use assets arising from the property programme will be excluded from adjusted profit in line with the current Group policy.

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 2019 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 2019 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").

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 1, 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 Brent
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL

31 July 2019

Appendix - Alternative Performance Measures (APMs) used in the half yearly report for the six months to 30 June 2019

The Group presents various APMs as the Directors believe that these are useful for users of the financial statements in helping to provide a balanced view of, and relevant information on, the Group's financial performance, position and cash flows. These APMs are mainly measures which disclose the 'adjusted' performance of the Group excluding specific items which are regarded as adjustments. Those items which relate to the ordinary course of the Group's operating activities remain within adjusted profit. The following items are excluded from adjusted profit: the financial impact of adopting IFRS 16, intangible amortisation, impairment of goodwill and acquired intangibles, acquisition contingent consideration movements, the financial impact of business exits or businesses in the process of being exited, acquisition expenses (if material), movements in the mark-to-market valuation of certain financial instruments, the impact of significant new contracts and restructuring, and specific non-recurring items in the income statement. In the Directors' judgement, these need to be disclosed separately (see notes 3, 4, and 6) by virtue of their nature, size and/or incidence, in order for users of the financial statements to obtain a proper understanding of the financial information and the underlying performance of the business.

In addition, the Group presents other APMs including key performance indicators (KPIs) such as return on capital employed and interest cover by which we monitor our performance and others such as organic and acquisition revenue growth which provide useful information to users which is not otherwise readily available from the financial statements.

	30 June 2019	30 June 2018	% change	Source
Revenue - continuing operations				
Total revenue as reported	**1,852.0m**	2,012.6m	(8.0)%	Line item in income statement
Deduct: business exit	**(0.4m)**	(35.8m)		Line item in note 5
1. Adjusted revenue	**1,851.6m**	1,976.8m	(6.3)%	Line item in note 5
Operating profit - continuing operations				
Operating profit as reported	**60.8m**	66.7m	(8.8)%	Line item in income statement
Adjusting items	**81.3m**	91.7m		See note 3
2. Adjusted operating profit	**142.1m**	158.4m	(10.3)%	Line item in note 3
Adjusted operating profit margin	**7.7%**	8.0%		Adjusted operating profit/adjusted
Profit before tax - continuing operations				
Profit before tax as reported	**31.2m**	42.3m	(26.2)%	Line item in income statement
Adjusting items	**94.9m**	88.5m		See note 3
3. Adjusted profit before tax	**126.1m**	130.8m	(3.6)%	Line item in note 3
4. Adjusted basic earnings per share	**5.86p**	10.22p	(42.7)%	

		30 June 2019	31 December 2018	Restated[2] 30 June 2018	Source
Headline gearing (based on rolling 12 months)					
Adjusted profit before tax[1]		**£277.4m**	£282.1m	£318.9m	
Add back: adjusted net finance costs		**£41.0m**	£53.2m	£58.6m	
Add back: adjusted depreciation and impairment on property, plant and equipment.		**£66.6m**	£65.2m	£51.5m	
Add back: adjusted amortisation		**£29.7m**	£27.9m	£18.4m	
Adjusted EBITDA	a	**£414.7m**	£428.4m	£447.4m	
Net Debt		**£1,215.1m**	£466.1m	£729.5m	Line information in note 14
Remove IFRS 16 impact		**(£591.6m)**	£—m	£—m	Line information in note 14
Net debt (excluding IFRS 16)	b	**£623.5m**	£466.1m	£729.5m	
5 Net debt to adjusted EBITDA ratio [KPI]	b/a	**1.5x**	1.1x	1.6x	Headline 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.

2 This is effective from the 12-month period ended 30 June 2018, but for the Group's APMs, the comparatives have been restated to be presented on a consistent basis. In addition, the comparatives have been restated to include results of business exits during 2018.

		30 June 2019	31 December 2018	Restated[2] 30 June 2018	Source
Covenants (based on rolling 12 months)					
Adjusted operating profit [1]		**£319.0m**	£335.3m	£377.5m	
Add business exit – trading		**£4.6m**	£16.8m	£26.8m	
Add share of earnings in associates		**(£0.6m)**	£—m	£—m	
Deduct: acquisition costs		**£—m**	£—m	(£0.6m)	
Deduct: non-controlling interest		**(£10.2m)**	(£12.5m)	(£15.0m)	Adjusted EBIT attributable to NCI
Add back: share-based payment charge		**£2.9m**	£3.4m	£3.4m	
Add back: non-current service pension charge		**£9.7m**	£9.5m	£0.6m	
Add back: amortisation on purchased intangibles		**£29.6m**	£27.8m	£22.8m	
Adjusted EBITA	a1	**£355.0m**	£380.3m	£415.5m	
Add: IFRS 16 impact		**£6.4m**	£—m	£—m	See note 21
Adjusted EBITA (including IFRS 16)	a2	**£361.4m**	£380.3m	£415.5m	
Adjusted EBITA		**£355.0m**	£380.3m	£415.5m	Line item above
Add back: pre-acquisition adjusted profit		**£—m**	£—m	£0.3m	
Deduct business exit – trading sold		**(£17.8m)**	(£19.7m)	(£10.2m)	Trading profit for businesses sold
Add back: depreciation and impairment on property, plant and equipment.		**£65.6m**	£65.2m	£59.7m	
Covenant calculation - adjusted EBITDA	b1	**£402.8m**	£425.8m	£465.3m	
Add: IFRS 16 impact		**£59.0m**	£—m	£—m	See note 21
Covenant calculation - adjusted EBITDA (including IFRS 16)	b2	**£461.8m**	£425.8m	£465.3m	
Adjusted interest charge		**(£41.0m)**	(£53.2m)	(£67.3m)	
Interest cost attributable to pensions		**£7.1m**	£9.4m	£9.3m	
Cash flow hedges recycled to the income statement		**(£4.2m)**	(£2.5m)	£—m	
Borrowing costs	c1	**(£38.1m)**	(£46.3m)	(£58.0m)	Adjusted EBITA/Borrowing costs
Add: IFRS 16 impact		**(£12.3m)**	£—m	£—m	See note 21
Borrowing costs (including IFRS 16)	c2	**(£50.4m)**	(£46.3m)	(£58.0m)	
6.1 Interest cover (US PP covenant)	a2/c2	**7.2x**			Adjusted EBITA/Borrowing costs including the impact of IFRS 16
6.2 Interest cover (other financing agreements)	a1/c1	**9.3x**	8.2x	7.2x	Adjusted EBITA/Borrowing costs excluding the impact of IFRS 16
Net debt		**£1,215.1m**	£466.1m	£729.5m	Line information in note 14
Restricted cash [3]		**£42.5m**	£28.6m	£—m	Cash that may not be applied against net debt for covenant calculation
Adjusted net debt		**£1,257.6m**	£494.7m	£729.5m	
Remove IFRS 16 impact		**(£591.6m)**	£—m	£—m	Line information in note 14
Adjusted net debt (excluding IFRS 16)	d1	**£666.0m**	£494.7m	£729.5m	
7.1 Adjusted net debt to post IFRS 16 adjusted EBITDA ratio [KPI] (US PP covenant)[4]	d1/b2	**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
7.2 Adjusted net debt to adjusted EBITDA ratio [KPI] (other financing agreements)	d1/b1	**1.7x**	1.2x	1.6x	Adjusted net debt/adjusted EBITDA with both variables excluding IFRS 16

1 Adjusted operating profit excludes items that are separately disclosed and considered to be outside the underlying operating results for the particular period under review and against which the Group's performance is assessed.
2 For covenant test purposes, this is effective from the 12-month period ended 30 June 2018, but for the Group's APMs, the comparatives have been restated to be presented on a consistent basis. In addition, the comparatives have been restated to include results of business exits during 2018.
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 As noted in the Group's annual report 2018, on 20 April 2018, Capita agreed various amendments with the noteholders under its US private placement notes. This included the carve-out of up to £100m worth of bonds and guarantees from the definition of indebtedness.

		30 June 2019	31 December 2018	30 June 2018	Source
ROCE-Pre IFRS 16					
Adjusted operating profit	a	**£319.0m**	£335.3m	£377.5m	Adjusted operating profit - rolling 12 month
Tax rate	b	**13.7%**	9.7%	9.0%	2018 tax rate impacted by one-off deferred tax credit - rolling 12 month
Tax	c = a x b	**£43.7m**	£32.5m	£34.0m	Adjusted operating profit multiplied by tax rate
Adjusted operating profit after tax	d = a - c	**£275.3m**	£302.8m	£343.5m	Adjusted operating profit less tax
Current year net assets/(liabilities)	e	**£104.6m**	£103.3m	(£128.6m)	Line in balance sheet
Current year adjusted net debt before IFRS 16	f	**£621.8m**	£464.1m	£727.5m	Line item in note 14 – additional cash flow information, net debt excluding the impact of deferred consideration and finance leases that arose from the adoption of IFRS 16
Adjustments to capital employed	g	**£1,274.9m**	£1,276.5m	£1,298.5m	Includes post-tax impact of accumulated acquired intangible amortisation, fixed rate swaps, put options and pensions
	m^1 = e+f+g	**£2,001.3m**	£1,843.9m	£1,897.4m	Used as current period capital employed balance in average capital employed pre-acquisition 'n'
Less acquisition spend in year	h	**£—m**	£—m	(£1.2m)	Consideration paid - cash acquired + debt acquired - rolling 12 month
Current year capital employed	i = e+f+g+h	**£2,001.3m**	£1,843.9m	£1,896.2m	
Prior year net liabilities	j		(£929.8m)	(£668.3m)	
Prior year adjusted net debt	k		£1,103.9m	£1,590.5m	
Comparative prior year adjustments	l		£1,359.7m	£1,385.9m	Includes post-tax impact of accumulated acquired intangible amortisation, put options and pensions
Prior year capital employed	m^2 = j+k+l		£1,533.8m	£2,308.1m	Used as prior period capital employed balance in average capital employed pre-acquisition 'n'
Average capital employed pre-acquisitions	n = (i+m)/2	**£1,949.4m**	£1,688.9m	£2,102.2m	
Weighted average acquisition spend in year	o	**£—m**	£—m	£33.4m	Pro rata number of months post-acquisition (including contingent and deferred consideration payments)
Average capital employed	p = n+o	**£1,949.4m**	£1,688.9m	£2,135.6m	
8. ROCE [KPI]	q = d/p	**14.1%**	17.9%	16.1%	