

Capita plc

Full Year Results 2021

Summary

A year of significant change with the transformation of Capita now complete: we have established a platform to drive sustainable improving financial performance whilst continuing to strengthen the balance sheet

New, simpler structure

Delivering benefits from simplicity, focus and efficiency

- Two core divisions focused on public and private sector digital business process services
- More client-focused to drive revenue; new operating model to drive efficiency
- Third division of non-core businesses that will be mainly disposed of in 2022

Growth

- Continuing to see the benefits of strong operational delivery and improved reputation
 - Won £3.8bn of total contract value in 2021, a 31% increase vs 2020 (£2.9bn)
 - Renewal rate of 93%, including contracts with Ministry of Justice, two European telecoms clients and major UK financial services institution
 - Order book increase for the first time since 2017; book to bill at 1.2x (2020: 0.9x)
 - Secured £312m through extensions and incremental scopes of work with Transport for London, Defence Fire and Rescue, Department for Work and Pensions
- Strong unweighted pipeline of £9.4bn in 2022; year-to-date we have won almost £700m TCV
- Good start to 2022 in Experience with £456m five-year BBC TV licensing extension announced in February

Strengthening the balance sheet and reducing financial obligations

- Disposals programme has exceeded its £700m target, ahead of schedule
- Structurally lower debt: pre-IFRS 16 net debt £431m (2020: £569m); pre-IFRS 16 net debt: adjusted EBITDA 1.7x (2020: 2.4x)
- Planned material further reduction in debt in 2022

Financial results

- Delivered adjusted revenue¹ growth for the first time in six years. Revenue increased 0.4% to £3bn
 - Public Service division had a strong year and grew by 10.8%, Experience declined by 9.4% reflecting previous contract losses, Portfolio declined by 0.3%
 - Major contract wins and extensions in both core divisions: Royal Navy, Job Entry Targeted Support scheme, RSPCA
- £88m increase in adjusted profit before tax¹ from stable revenue and benefit of cost savings, offsetting contract losses and general cost increases
- Reported profit before tax of £286m (2020: loss of £49m) as profits on disposal offset systems write down and onerous contract provision
- Adjusted free cash flow¹ of £78m (2020: £170m); final year of major below-the-line cash commitments including £328m related deferred VAT, pension deficit contributions and restructuring costs
- £197m reduction in net debt to £880m (2020: £1,077m) funded by operating cash flow and disposals

Year ended 31 December 2021

Financial highlights - continuing operations	Reported 2021	Reported 2020	Reported YOY change	Adjusted ¹ 2021	Adjusted ¹ 2020	Adjusted ¹ YOY change
Revenue	£3,182.5m	£3,324.8m	(4.3%)	£3,008.5m	£2,995.5m	0.4%
Operating profit/(loss)	(£86.6m)	(£32.0m)	171%	£139.1m	£51.1m	172%
Profit/(loss) before tax	£285.6m	(£49.4m)	678%	£93.5m	£5.4m	1,631%
EBITDA	£222.3m	£225.6m	(1%)	£295.1m	£228.4m	29%
Cash generated from operations	(£121.3m)	£434.2m	(128%)	£185.4m	£295.2m	(37%)
Earnings/(loss) per share	13.33p	(0.41)p	3,351%	1.61p	2.41p	(33%)
Free cash flow	(£237.1m)	£303.8m	(178%)	£78.1m	£170.3m	(54%)
Net debt	(£879.8m)	(£1,077.1m)	£197.3m	(£879.8m)	(£1,077.1m)	£197.3m

Outlook

- In 2022 we expect revenue growth built on strong contract performance in 2021, a growing pipeline of new business in both Public Service and Experience and recovery in transactional businesses from Covid-19
- Profit margins expected to reduce slightly in 2022 reflecting impact of prior year contract losses and closed book Life & Pensions in Experience, evolution of Army recruitment contract in Public Service and investment in recruitment and training offset by profit from revenue growth and cost savings from the new structure
- Improving cash conversion, reduced one-off payments and recovery in transactional businesses to drive positive free cash flow; disposals continuing to strengthen the balance sheet and materially reduce net debt
- Medium term outlook for the core Group of mid-single digit revenue growth, high single digit EBITDA margins with cash conversion of 70% to 80% to drive positive sustainable free cash flow; strong balance sheet

Jon Lewis, Chief Executive Officer said:

“It was a year of significant change at Capita as we completed our transformation by establishing a platform for growth, while continuing to strengthen the balance sheet.

“We grew our revenue in 2021, reversing six years of declines, and expect this trend to continue to improve, while we also expect to deliver positive sustainable free cash flow in 2022.

“Capita now has the foundations in place to deliver sustainable improving financial performance; our new simplified divisional structure will deliver significant benefits.

“We also continue to prioritise being a purpose-led, responsible business. We have made good progress with diversity, will continue to focus on driving investment in our people, and have committed to a net zero emissions plan.

“None of this would have been possible without our people, whom I would like to thank for all their hard work, commitment and professionalism.”

¹ Refer to alternative performance measures (APMs) in the Appendix.

Investor presentation

A presentation for institutional investors and analysts hosted by Jon Lewis, CEO and Tim Weller, CFO, will be held at 65 Gresham Street, London EC2V 7NQ at 09:00am UK time, 10 March 2022. There will also be a live audio webcast (link below) which will subsequently be available on demand. The presentation slides will be published on our website at 07:00am and a full transcript will be available the following day.

Participant webcast:

<https://webcast.openbriefing.com/capita-march22/>

For further information:

Capita

Stuart Morgan, Investor Relations Director

T +44 (0) 7989 665 484

Capita press office

T +44 (0) 20 7654 2399

LEI no. CMIGEWPLHL4M7ZV0IZ8

Chief Executive Officer's review

Summary

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

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

In August, we established our new, simplified divisional structure which will deliver significant benefits in the future: two core divisions that focus on public and private sector digital transformation and technology outsourcing services; clarity of focus on our markets and clients; benefits expected from greater operational efficiency; and a third division of non-core businesses that will be disposed of. The proceeds from these disposals will be used to continue to strengthen our balance sheet.

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

Our ability to deliver sustainable revenue growth is fundamental to our long-term success. We delivered modest revenue growth in 2021, reversing six years of declines, and expect this trend to continue to improve. We have high retention rates, are winning incremental scopes of work with our existing clients and are starting to win business with new clients. Our weighted pipeline of opportunities for 2022 is substantial and broad based.

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

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

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

Financial results

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

Adjusted profit before tax¹ increased by £88.1m this year to £93.5m (2020: £5.4m). This principally reflected the benefit of transformation cost savings, new revenue and the unwind of the prior year holiday accrual, offsetting revenue losses and the reinstatement of the employee bonus scheme. Reported profit of £285.6m (2020 loss: £49.4m) benefited significantly from profits on disposal of Education Software Solutions (ESS) and AXELOS in particular, offsetting the write down of our historical finance systems asset as well as onerous contract provisions in our closed book Life & Pensions business.

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

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

Purpose

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

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

Our employee NPS declined this year by 22 points. While we expected some decline as a result of the scale of the transformation activity in the year, this was more pronounced than we had anticipated and, in an already challenging labour market, represents a key challenge in engagement and retention. While employees felt positive in their immediate surroundings and activities, there were strong views that we needed to focus more on the longer-term opportunities at

Capita. We are addressing this through plans for better communication and engagement, clearer investment in training and development and implementing a more attractive employee value proposition. This will be a significant area of focus in 2022.

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

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

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

Winning business and growing revenue

Our markets

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

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

Operational delivery supporting contract retention and new business

That our improvement in operational performance is once again a core strength of the business has been a fundamental part of the transformation, establishing our clients' trust and winning new revenue. We now have a reputation for strong delivery with key growth clients, such as Transport for London (TfL) for whom we delivered a significant cloud migration and additional scale of existing platforms.

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

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

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

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

Winning revenue

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

In 2021 we won £3.8bn of total contract value (TCV), an increase of 31% on 2020's £2.9bn. This included a small number of large contracts (Royal Navy, two European telecoms contracts and two financial services clients) but just under 60% of the TCV was won in contracts valued under £50m. The bulk of the TCV was won in the Public Service division which saw TCV growth of 54% year on year, while the Experience division was broadly flat. The Portfolio division grew strongly with an increase of 12% in TCV to £572m (2020: £512m). The in-year benefit of the total contract wins was £1,208m, 10% higher than 2020 with a comparative decline in Experience due to the one-off Covid work secured in 2020 offsetting new work in Public Service. Within the divisions, the Public Service book to bill was 1.7x (2020 1.3x) reflecting the balance of business won, while Experience was 0.7x (2020 0.7x) partly reflecting the delay of some major contracts like the BBC.

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

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

Building a pipeline for future revenue growth

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

We have continued to build our pipeline of new opportunities. The 2022 unweighted pipeline is £9.4bn, a 7% increase on 2021 when adjusted for the Royal Navy training contract, which was signed on 11th January 2021. The 2022 weighted TCV pipeline for the year is £2,501m, 42% higher than at the same point in 2021 (2020: £1,758m) excluding the Royal Navy training contract. This is split broadly equally between Experience (£1,320m) and Public Service (£1,130m), showing that significant opportunities exist in both divisions and, based on our conversion rate last year, gives us an encouraging outlook for 2022.

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

Operational excellence, efficiency and scale to drive margins

Reducing cost

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

Our operational excellence programme is focused on process and productivity improvement and will be enhanced by benefits derived from our new structure, including standardisation and best practice experience from around the Group, as well as deployment of digital services and robotic process automation.

We made procurement and IT savings of £28m through consolidation and benchmarking suppliers, negotiating improved terms, leveraging scale benefits and using more data-driven decision-making.

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

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

Managing inflation

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

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

As a contracting business we are used to dealing with inflation and two thirds of our client contracts include terms that allow us to pass on inflationary costs. Taking into account transactional revenue (c.12% of our group revenue, 66% of which will be disposed through the Portfolio division), as well as contracts that will end or be renegotiated in the next 18 months, the unhedged exposure to inflation remains relatively small.

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

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

Strengthening our balance sheet and delivering positive free cash flow

Reducing debt

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

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

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

We will continue our plan to reduce debt through the disposal of the non-core Portfolio division. Excluding the Technology pillar, the division now has around £338m of revenue, £27m of profit, before Group overhead allocation, and £30m of operating cash flow on a 2021 proforma basis. This includes the Agiito business that in 2021 was still loss-making and cash-negative as a result of the impact of Covid.

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

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

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

Targeting sustainable free cash flow

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

Cash conversion in the divisions is targeted to improve as deferred income balances on our legacy transformational contracts roll-off and we continue to improve our cash management processes.

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

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

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

Outlook

Year ending 31 December 2022

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

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

Notwithstanding the margin benefit from revenue growth and the flow through of the cost benefits from the divisional restructure implemented in 2021, we expect profit margins to reduce slightly in 2022. This reflects the full year impact of prior year contract losses and the structural decline in closed book Life & Pensions in Experience, operational changes in the Army recruitment contract in Public Service, as well as the cost of recruiting and training staff to support our growth.

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

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

Medium term

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

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

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

¹ Refer to alternative performance measures (APMs) in the Appendix.

Divisional performance review

The following divisional financial performance is presented on an adjusted revenue¹ and adjusted operating profit¹ 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.

Public Service

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

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

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

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

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

Our markets and growth drivers

Government spending in the UK with private sector organisations is c.£110bn² and it is estimated³ that the Software and IT Services market is valued at c.£13.3bn. Our current core addressable market is around c.£12.5bn. The BPS element of that, comprising both the business process outsourcing (BPO) and digital BPS sub-segments, is growing at c.5% per annum.

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

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

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

Public Service has a market share of around 15%² in software & IT Services (SITS) and around 30%² in the UK Government BPS.

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

Our strategy

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

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

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

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

Investing in growth

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

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

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

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

At 31 December 2021, the total unweighted pipeline was £8,149m, a decrease of £3,855m from December 2020, with £2,422m of TCW won, including the Royal Navy training contract, so the book to bill at year end was 1.7x (2020: 1.3x). Weighted pipeline was £1,305m (2020: £2,272m, £1,347m excluding the Royal Navy training contract). We renewed 89% of contracts that we bid for, while our win rate on new opportunities was 54%. The order book at the year-end was £3,286.3m an increase of £549.7m since 31 December 2020.

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

Cost and operational excellence

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

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

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

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

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

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

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

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

We have also exceeded on expectations with new major transformational contracts, with key service commencement dates met on the newly won Royal Navy training contract with no service credit deductions incurred. We continue to win additional expansions of our services on the DFRP contract due to our strong contract delivery. In addition, the ultra-low emission zone contract (ULEZ) with Transport for London (TfL) went live on schedule in October 2021.

Financial Performance

Divisional financial summary	2021	2020	% change
Adjusted revenue ¹ (£m)	1,410.4	1,273.0	10.8%
Adjusted operating profit ¹ (£m)	98.3	12.9	662.0%
Adjusted operating margin ¹ (%)	7.0%	1.0%	
Adjusted EBITDA ¹ (£m)	148.3	87.7	69.1%
Adjusted cash generated from operations ¹ (£m)	120.0	95.6	25.5%
Order book (£m)	3,286.3	2,736.6	20.1%

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

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

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

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

Outlook

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

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

¹ Refer to alternative performance measures (APMs) in the Appendix

² Tussell

³ TechMarketView

Experience

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

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

The value we bring to our clients is increasingly built around transforming the customer experience through the application of digital services underpinned by data insight and analytics.

Our markets and growth drivers

The global customer experience market is valued at more than £244bn² and is expected to grow at around 5% between 2020 and 2024. Around 27% of the customer experience market is currently outsourced, with half of that focused in Telecoms, Media & Technology and Financial Services. Growth opportunities still exist in these verticals, with further opportunities in other markets and segments that we serve.

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

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

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

Our strategy

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

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

We deliver our services on both an on-shore and near-shore basis, with delivery centres in the UK, Europe, the Middle East, India and South Africa. This gives us access to specific skills and expertise (such as in languages or IT skills) that can be delivered 24 hours a day at a competitive rate to our clients. Significant leverage is available from this cost base as we grow our revenues.

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

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

Investing in growth

The main focus of our investment continues to be in our consulting and technology capability, providing advanced data and insight to support our customer service agents, which we are starting to deploy for clients. We continue to invest to ensure that our platforms are reliable, cyber-secure and capable of flexing with surges in volume. We generated £100m of revenue from contact centre support during the Covid pandemic as a result of our reliability and scale.

Our strong day-to-day operational partnerships with our clients drove high retention rates on contract renewal of 97%. However, we are targeting new scopes of work with existing clients as well as working with new clients in new areas such as FinTech where we recently signed a contract with Trade Republic.

At 31 December 2021, the total unweighted pipeline was £5,510m, an increase of £761m since 31 December 2020, with £842m of TCV won. A significant part of the work won was for renewals and new scopes of work for existing clients. Weighted pipeline at 31 December 2021 was £1,582m (2020: £932m).

The order book at year end was £2,271.8m, a decrease of £156.9m since 31 December 2020 as some sizeable deals moved to 2022, such as TV Licensing. As noted above renewal rates remained strong at 97% on opportunities bid but conversion of new opportunities was low at 14%. Winning work from new scopes of work and new clients is a key area of focus.

Significant upcoming bids in 2022 are for a financial services motor financing opportunity, a telecoms renewal and an insurance client renewal. Since the year-end we have been awarded a renewal of the TV Licensing contract with the BBC worth up to £456m over five years.

Cost and operational excellence

With the divisional structure now in place, we have opportunities to drive the efficiencies that will make our offering more competitive in the market and increase profit and cash flow in the division.

In 2021 we secured cost savings of £43m. During the year, we opened a single shared service centre in the UK, which drove cost savings and efficiency improvements. As we extend this work under the new structure, we expect to derive additional benefits from consistency of planning processes and resourcing, which is driving high-quality delivery.

Our operational delivery remains strong and, across 2021, we focused on delivering a secure, stable and reliable service for our clients despite challenges around Covid and lockdown arrangements in key geographies.

The pandemic resulted in high staff sickness levels in some geographies where we had to develop robust plans to maintain service levels for the areas worst affected. In South Africa we expanded our geographical footprint, opening a new office in Durban to mitigate delivery challenges and strengthen new skill-sets. We are now exploring opportunities in our existing geographies to future-proof consistent delivery.

Financial performance

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

Adjusted revenue¹ declined by 9.4% to £1,184.7m as a result of attrition from contract expiries and losses including Tesco Bank, Phoenix, VW Group and First Group. There were continued planned volume decreases within the closed book Life & Pensions business, and reductions in revenue following completion of a number of Covid-19 and other projects. Wins in the period included successes with a major telecoms company in Germany and our first full year with Irish Water.

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

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

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

Outlook

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

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

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

¹ Refer to alternative performance measures (APMs) in the Appendix
² Everest

Portfolio

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

Our markets and growth drivers

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

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

Our strategy

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

We have organised the division into 'pillars' comprising businesses with similar characteristics which allows us to effect disposals more efficiently and makes it easier to manage them in the interim. These pillars are Technology, Property, People, Software, Business Solutions, Travel and the FERA joint venture.

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

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

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

Cost and operational excellence

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

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

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

Financial performance

Divisional financial summary	2021	2020	% change
Adjusted revenue ¹ (£m)	413.4	414.8	(0.3)%
Adjusted operating profit ¹ (£m)	23.8	14.2	67.6%
Adjusted operating margin ¹ (%)	5.8%	3.4%	
Adjusted EBITDA ¹ (£m)	56.0	51.3	9.2%
Adjusted cash generated from operations ¹ (£m)	59.8	104.2	(42.6)%
Order book (£m)	557.3	685.4	(18.7)%

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

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

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

Outlook

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

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

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

¹ Refer to alternative performance measures (APMs) in the Appendix.

Chief Financial Officer's review

This preliminary announcement is extracted from Capita's financial statements for the year ended 31 December 2021 and the basis of its preparation can be found in the notes to the financial statements in this announcement.

Overview

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

The increase in adjusted profit before tax¹ reflects the benefit of stable revenues, cost savings from our transformation programme and the reduction in the holiday pay accrual in 2021 compared with 2020, offset by other cost increases, including the impact of the reinstatement of the employee bonus scheme. The adjusted profit before tax¹ in 2021 excludes the financial impact of a closed book Life & Pensions contract termination, which by virtue of size has been excluded from adjusted results as later described in this report. The Group continued to participate in the job retention scheme made available by the Government to help ease the employment impact of Covid-19, and furlough related income of £4.9m (2020: £21.3m) was recorded in the period which was offset against the associated payroll costs.

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

Adjusted free cash flow¹ reduced by 54% in the period as the reduction in adjusted cash generated from operations¹ was partially offset by lower capital expenditure and interest payments.

As part of our drive for simplification of the business, and strengthening the balance sheet, we continue to seek to dispose of a number of non-core businesses. During 2021 we completed the disposal of the Education Software Solutions (ESS) business and of AXELOS realising cash proceeds of c.£343.5m and £182.2m respectively. We also announced the disposal of our Speciality Insurance business, subject to certain consents; the disposal of the AMT Sybex software business, for initial cash consideration of £23.0m, and potential additional consideration of up to £17.0m, subject to certain conditions; and the disposal of our Secure Solutions and Services (SSS) business for cash proceeds of £72.0m. The sale of both AMT Sybex and SSS completed in January 2022.

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

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

In the second half of 2021, the Group moved to a new, three division, organisation structure, creating a platform for revenue growth, increasing opportunities for savings from shared support services and a leaner Group overhead all of which is expected to drive a richer contract margin mix and further efficiency.

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

The 31 March 2020 triennial valuation of the Capita Pension and Life Assurance Scheme (the Scheme) was concluded during the year and identified a deficit for funding purposes of £182.2m which is expected to be recovered through agreed deficit contributions of £105m across 2022-2026 on top of the regular pension deficit contribution of £59m paid in 2021. The valuation of the Scheme liabilities for funding purposes differs to the valuation for accounting purposes mainly as a result of the different assumption principles required for funding and accounting purposes. At 31 December 2021, the Scheme showed a small surplus for accounting purposes of £7m on an accounting basis (2020: deficit £242m) which has been reflected in the Group's balance sheet as at that date. Management estimates that, at 31 December 2021 the net asset of the Scheme on a funding basis consistent with the 2020 triennial valuation was approximately £40m (2020: net liability £155m). The Trustee of the Scheme has also agreed a more prudent secondary funding target which will enable the Scheme to reduce its reliance the Scheme has on the covenant of the Group. On this basis, at 31 December 2021, the funding level was around 91% (or a net liability of £165m) which is expected to be met by a mixture of the remaining deficit contributions of £105m and asset outperformance.

Summary of financial performance

Financial highlights

	Reported results – continuing operations			Adjusted ¹ results – continuing operations		
	Reported 2021	Reported 2020	Reported YOY change	Adjusted ¹ 2021	Adjusted ¹ 2020	Adjusted ¹ YOY change
Revenue	£3,182.5m	£3,324.8m	(4)%	£3,008.5m	£2,995.5m	0.4%
Operating profit/(loss)	£(86.6)m	£(32.0)m	(171)%	£139.1m	£51.1m	172%
Profit/(loss) before tax	£285.6m	£(49.4)m	678%	£93.5m	£5.4m	1,631%
EBITDA	£222.3m	£225.6m	(1)%	£295.1m	£228.4m	29%
Cash generated from operations	£(121.3)m	£434.2m	(128)%	£185.4m	£295.2m	(37)%
Earnings/(loss) per share	13.33p	(0.41)p	3,351%	1.61p	2.41p	(33)%
Free cash flow	£(237.1)m	£303.8m	(178)%	£78.1m	£170.3m	(54)%
Net debt	£(879.8)m	£(1,077.1)m	£197.3m	£(879.8)m	£(1,077.1)m	£197.3m

Adjusted results

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

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

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

Adjusted revenue

Adjusted revenue¹ bridge by key driver

	£m
Year ended 31 December 2020	2,995.5
One-offs in 2020	(14.7)
Year ended 31 December 2020 rebased	2,980.8
Contract losses	(104.3)
Ongoing contract scope and volume changes	(66.6)
Transactional revenue growth*	25.3
Contract wins	139.1
One-offs in 2021	34.2
Year ended 31 December 2021	3,008.5

*Excludes DWP PIP contract modification from transactional to contractual

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

- one-off contract related items in 2020, including the release of deferred income and write-off of contract assets arising from contract terminations, settlements and modifications, provisions recognised on onerous contracts and contract related asset impairments;
- contract losses halving year-on-year reflecting sustained focus on retention and service delivery;
- ongoing contract scope and volume reduction reflecting pandemic related work in 2020 and projects in Experience which did not repeat in 2021;
- unplanned contractual one-offs in 2021, including the release of deferred income and termination gains arising from contract terminations and modifications, including on the Electronic Monitoring Services contract with the Ministry of Justice in Public Service and The Co-operative Bank contract and a contract with a telecoms client in Experience.
- transactional revenue growth mainly driven by Public Service and to a lesser extent Portfolio;
- the benefit of a number of notable contract wins including the commencement of the Royal Navy training contract and the JETS contract which commenced in February combined with the annualised impact of the DFRP contract in Public Service and smaller wins within Experience.

Order book

The Group's consolidated order book was £6,115m at 31 December 2021 (2020: £5,851m as additions from contract wins and extensions in 2021 (£2,901m), including the Royal Navy training contract and contract extensions with two major European telecoms providers, exceeded the reduction from revenue recognised in the year (£2,297m) and contract terminations, business disposals and scope changes (£339m).

Adjusted profit before tax

Adjusted profit before tax ¹ bridge by key driver	£m
Year ended 31 December 2020	5.4
One-offs in 2020 – contract-related	23.9
Year ended 31 December 2020 rebased	29.3
Contract losses	(44.4)
Ongoing contract scope and volume changes	(19.1)
Transactional revenue growth	8.5
Contract wins	28.1
One-offs in 2021 – contract-related	12.2
Cost savings	123.3
Other cost movements	(11.7)
Bonus	(47.7)
Holiday pay	15.0
Year ended 31 December 2021	93.5

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

- to ensure a like-with-like starting point, the 2020 one-offs, which included contract asset impairments and contract provisions, are adjusted for;
- the margin effect of contract losses, scope and volume, transactional changes and contract wins were a net £26.9m negative, with new wins not yet offsetting the impact of contract losses and scope and volume reductions;
- unplanned contractual one-offs in 2021, including the release of deferred income and write-off of contract assets arising from contract terminations, settlements and modifications, and provisions recognised on onerous contracts. These resulted in net gains of £7.5m in Public Service and £4.7m in Experience which have not been excluded from adjusted results because they are considered to be in the normal course of business;
- the transformation programme continued to deliver substantial savings in 2021 with a £123.3m year-on-year benefit;
- other cost movements primarily from general inflation; and
- the year-on-year impact of the reinstatement of the employee bonus scheme this year with £31.2m expensed during 2021 including £17.3m accrued at 31 December 2021 compared with the release of the 2019's £16.5m accrual in the first half of 2020, was partially off-set by a reduction in holiday pay accrual.

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

Adjusted profit before tax¹ excludes contract-related provisions and impairments of £43.1m in the closed book Life & Pensions business in Experience. These have been excluded from adjusted results due to their materiality and are detailed in the Reported results section.

Adjusted free cash flow

Adjusted operating profit to adjusted free cash flow ¹	2021 £m	2020 £m
Adjusted operating profit¹	139.1	51.1
Add: depreciation/amortisation and impairment property, plant and equipment and intangible assets	156.0	177.3
Adjusted EBITDA	295.1	228.4
Working capital	(123.5)	34.3
Other	13.8	32.5
Adjusted cash generated from operations¹	185.4	295.2
Net capital expenditure	(51.3)	(68.3)
Interest / tax paid	(56.0)	(56.6)
Adjusted free cash flow¹	78.1	170.3

Adjusted free cash flow¹ in the year ended 31 December 2021 was an inflow of £78.1m (2020: inflow £170.3m). The decrease compared with the prior period is driven by a reduction in adjusted cash generated from operations¹, capital expenditure and interest payments.

Adjusted cash generated from operations¹ benefited from the improvement in adjusted profit before tax¹ explained above, offset by a material working capital outflow compared with an inflow in 2020. In 2020, the Group's cash flow benefited from shorter public sector payment cycles as part of the Covid-19 response and advanced payments from a small number of major clients at 31 December 2020. As expected, 2021 has been impacted by the unwind of these advanced receipts together with the natural expansion in working capital as the Group transitions to growth.

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

Reported results

Adjusted to reported profit

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

Adjusted¹ to reported profit bridge

	Operating profit/(loss)		Profit/(loss) before tax	
	2021 £m	2020 £m	2021 £m	2020 £m
Adjusted¹	139.1	51.1	93.5	5.4
Amortisation and impairment of acquired intangibles	(12.0)	(26.4)	(12.0)	(26.4)
Impairment of goodwill	(11.5)	—	(11.5)	—
Litigation and claims	9.3	(0.7)	9.3	(0.7)
Net finance costs	—	—	(1.4)	(1.5)
Business exit	(20.1)	60.5	399.1	90.3
Business exit - on-hold disposal costs	—	(7.5)	—	(7.5)
Contract-related provisions and impairments	(43.1)	—	(43.1)	—
Significant restructuring	(148.3)	(109.0)	(148.3)	(109.0)
Reported	(86.6)	(32.0)	285.6	(49.4)

Impairment of goodwill

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

Refer to note 12 for further details.

Business exits

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

- the ESS business whose disposal was completed on 1 February 2021;
- the Life Insurance and Pensions Servicing business in Ireland whose disposal was completed on 1 March 2021;
- the AXELOS joint venture with the UK Government whose disposal was completed on 29 July 2021;
- the AMT Sybex software, SSS and Speciality Insurance businesses which were in the process of being sold and which met the held-for-sale criteria. Accordingly, these businesses were treated as disposal groups held-for-sale at this date. The disposal of the AMT Sybex software and SSS businesses completed subsequently in 2022 (refer to note 16 of the consolidated financial statements for further details);
- a software business in the Portfolio division that the Group has decided to exit; and
- the exit costs, including professional fees, salary costs and separation planning costs, relating to further planned disposals for which the held-for-sale and business exit criteria were not met at 31 December 2021.

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

Further businesses are planned for disposal as part of the Group's simplification strategy. However, given the status of the relevant disposal processes, the businesses did not meet the criteria to be classified as assets held-for-sale at 31 December 2021 and, accordingly their trading results are included within adjusted results. This includes the Trustmarque business whose disposal was announced on 28 January 2022 (refer to note 16 of the consolidated financial statements for further details).

Significant restructuring

In 2018, the Board launched a multi-year transformation programme to support the objectives of simplifying and strengthening Capita. The programme was extended to property rationalisation, procurement centralisation, transformation of support functions, including investment in growth, and operational excellence initiatives, including investment in automation. These activities were designed to improve the cost competitiveness of the Group and secure Capita's position in the markets it serves and strengthen governance and control.

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

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

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

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

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

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

The costs of the transformation programme, including redundancy costs, are excluded from adjusted operating profit¹ as significant restructuring. 2021 is the final year of major investments in the transformation programme where the costs are excluded from adjusted results. From 1 January 2022, any residual restructuring costs will be included within adjusted results.

Contract-related provisions and impairments

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

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

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

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

During 2021, the Group has continued to support a major customer on the transfer of services to another supplier. This is taking significantly longer than initially expected. Management has reassessed the lifetime estimate to include not only the onerous contract terms but also the period and likely costs to support the final handover of services. This assessment has extended across all contracts that contain evergreen clauses, including those where there are ongoing discussions regarding either termination or transfer of services. This reassessment, reflecting the development in the latter half of 2021, provides cover for contracts to extend out to 2026. This has resulted in an increase to the contract provision and impairment of contract assets totalling £43.1m which has been reported as an adjusting item (see note 4). In prior years the financial impacts of such contract judgements have not been shown as adjusting items because they were considered to be normal course of business, not material in the context of the Group's results and not associated with the transformation plan. However, due to the quantum of the charge arising from the 2021 reassessment, the Board consider it appropriate to separately disclose this as an adjusted item to highlight the impact on the results in the period.

Further detail of the specific items charged in arriving at reported operating profit for 2021 is provided in note 4.

Adjusted to reported free cash flow

Adjusted to reported free cash flow	2021 £m	2020 £m
Adjusted¹	78.1	170.3
Pension deficit contributions	(155.5)	(29.5)
Significant restructuring	(68.6)	(64.1)
Litigation and claims	(18.5)	—
Business exits	41.2	102.2
Business exits - on hold disposal costs	—	(7.5)
Non-recourse trade receivables financing	(9.7)	13.6
VAT deferral	(104.1)	118.8
Reported	(237.1)	303.8

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

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

Cash flow headwinds

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

Cash flow headwinds	Actual 2021 £m	Forecast 2022 £m
VAT deferral	104.1	16.0
Pension deficit contributions	155.5	30.0
Below-the-line restructuring	68.6	—
Total	328.2	46.0

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

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

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

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

Impact on net debt

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

Net debt	2021 £m	2020 £m
Opening net debt	(1,077.1)	(1,356.7)
Cash movement in net debt	208.5	344.1
Non-cash movements	(11.2)	(64.5)
Closing net debt	(879.8)	(1,077.1)
Remove closing IFRS 16 impact	448.4	508.1
Headline net debt (pre-IFRS 16)	(431.4)	(569.0)
Cash and cash equivalents net of overdrafts	101.5	141.1
Debt net of swaps	(532.9)	(710.1)
Headline net debt (pre-IFRS 16)/adjusted EBITDA¹	1.7x	2.4x
Headline net debt (post-IFRS 16)/adjusted EBITDA¹	2.7x	3.1x

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

The calculations of the net debt to adjusted EBITDA¹ and interest cover ratios for covenant purposes in respect to the Group's US private placement loan notes and other financing arrangements are set out in the APM appendix to the consolidated financial statements.¹

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

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

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

Capital and financial risk management

Liquidity remains a key area of focus for the Group. Financial instruments used to fund operations and to manage liquidity comprise US private placement loan notes, Euro fixed-rate bearer notes, a Schuldschein loan, RCFs, leases and overdrafts.

	2021 £m	2020 £m
Liquidity		
Revolving credit facility (RCF)	385.7	452.0
Backstop liquidity facilities	—	150.0
Less: drawing on facilities	(40.0)	—
Undrawn committed facilities	345.7	602.0
Net cash, cash equivalents net of overdrafts	101.5	141.1
Less: restricted cash ¹	(54.8)	(34.5)
Liquidity	392.4	708.6

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

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

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

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

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

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

Going concern assumption

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

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

Nevertheless, reflecting the Board's confidence in the benefits expected from completion of the transformation programme and execution of the approved disposal programme coupled with the potential to obtain further financing beyond its existing committed funding facilities, the Group and Parent Company continue to adopt the going concern basis in preparing these consolidated financial statements as set out in note 2.

Viability assessment

The Board's assessment of viability over the Group's three-year business planning time horizon is summarised in the viability statement later in this announcement.

Pensions

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

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

The total net defined benefit pension position for accounting purposes moved from a net liability at the start of the year (liability: £252.1m) to a small net asset by 31 December 2021 (asset: £5.8m). The main reasons for this movement were the £155.5m of deficit funding contributions (including the £5m held in escrow) paid into the Group's schemes, along with favourable market conditions (particularly the material increase in the yields available on good quality, long term corporate bonds offset to some degree by an increase in future inflationary expectations) that are used to derive the assumptions, and higher than expected asset returns. This was also partly offset by experience over the year (with actual inflation being higher than expected).

The valuation of the Scheme liabilities for funding purposes (the actuarial valuation) differs from the valuation for accounting purposes (which are shown in these financial statements) mainly due to different assumption principles being used based on the different regulatory requirements of the valuations. Management estimate that at 31 December 2021 the net asset of the Scheme on a funding basis (ie the funding assumption principles adopted for the full actuarial valuation at 31 March 2020 updated for market conditions at 31 December 2021) was approximately £40m (31 December 2020: net liability £155m). The Trustee of the Scheme has also agreed a secondary more prudent funding target to enable it to reduce the reliance the Scheme has on the covenant of the Group. On this basis, at 31 December 2021, the funding level was around 91% (or a net liability of £165m). The deficit of £165m, is expected to be met by a mixture of the remaining deficit contributions of £105m and asset outperformance. The Trustee of the Scheme has agreed with the Company to accelerate the payment of some of the deficit contributions on a £ for £ basis in the event of disposal proceeds being used to fund mandatory prepayments of debt.

Consolidated balance sheet

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

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

¹ Refer to the alternative performance measures (APMs) in the Appendix.

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

Viability statement

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

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

- The simplification and strengthening of the Group's organisation design establishing two core divisions focused on public and private sector markets providing a platform for a return to revenue growth and delivery of efficiency savings.
- A significant reduction in the Group's cost base, with continued in-year savings in 2021 of £123.3m which takes the cumulative savings during the transformation programme to £428m. This has successfully addressed the cost competitive objective which was a core element of the transformation programme.
- The ongoing successful execution of the Portfolio business disposal programme which has realised net cash proceeds totalling, c.£900m since 1 January 2018, used to repay maturing debt, to make further deficit reduction contributions to the Group's main defined pension scheme and to invest in driving growth in the remaining core businesses.
- The repayment of £1.4bn of debt, including lease liabilities, since 1 January 2018.
- The successful extension during 2021 of the Group's revolving credit facility (RCF) to 31 August 2023.
- The payment of c.£300m of deficit reduction contributions to the Group's main defined benefit pension scheme since 1 January 2018, and the commitment to a further £105m of deficit reduction contributions across 2022-2026, which should enable the scheme to reduce its reliance on the covenant of the Group.

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

- Return to organic revenue growth broadly in line with market trends in each of the two core divisions.
- Operating profit margin expansion over the business plan period reflecting the benefit of operating leverage coupled with ongoing efficiency delivery.
- Improving operating cash conversion as the structural working capital drag from a small number of large legacy transformation contracts diminishes.
- Completion of the portfolio disposal programme during 2022 and 2023.
- The refinancing of the Group's £300m RCF following its maturity in August 2023.

The most material assumptions from a viability assessment perspective, which are also identified as material uncertainties in the severe but plausible downside scenario in the going concern assessment provided in note 2 to the consolidated financial statements, relate to the completion of the portfolio disposal programme and the refinancing of the RCF. Capita has a strong track record of executing major planned disposals and has been successful in obtaining new and extended financing facilities over the last few years. As such, in concluding on viability the Board believes that it is reasonable to assume that the Group will be successful in executing the disposal programme and in refinancing the RCF in line with the assumptions underpinning the base case financial projections.

The three-year base case financial projections were used to assess covenant compliance and liquidity headroom under different scenarios. This analysis included assessing the sensitivity of the financial performance of the Group to changes in trading conditions including reduced rates of revenue growth and efficiency delivery. In addition, the viability stress tests considered severe but plausible downside impacts on covenant and liquidity headroom from the crystallisation of specific risks including those set out in the principal risks section of the 2021 Annual Report and Accounts. The stress tests covered potential contract claims and performance issues, data breaches, cyber-attacks and delays in execution of the disposal programme.

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

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

Forward looking statements

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

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

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

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

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

Consolidated income statement

For the year ended 31 December 2021

	Notes	2021 £m	2020 £m
Continuing operations:			
Revenue	7	3,182.5	3,324.8
Cost of sales		(2,506.7)	(2,640.6)
Gross profit		675.8	684.2
Administrative expenses		(762.4)	(716.2)
Operating loss	7	(86.6)	(32.0)
Share of results in associates and investment gains		(0.6)	0.8
Net finance expense	8	(46.9)	(49.6)
Gain on business disposal	5	419.7	31.4
Profit/(loss) before tax		285.6	(49.4)
Income tax (charge)/credit		(61.5)	47.6
Profit/(loss) for the year from continuing operations		224.1	(1.8)
Discontinued operations:			
Profit for the year	5	3.1	20.8
Total profit for the year		227.2	19.0
Attributable to:			
Owners of the Company		224.7	14.0
Non-controlling interests		2.5	5.0
		227.2	19.0
Earnings/(loss) per share			
	9		
Continuing:			
– basic		13.33p	(0.41)p
– diluted		13.15p	(0.41)p
Total operations:			
– basic		13.52p	0.85p
– diluted		13.33p	0.85p
Adjusted operating profit	4	139.1	51.1
Adjusted profit before tax	4	93.5	5.4
Adjusted earnings per share	9	1.61p	2.41p
Adjusted and diluted earnings per share	9	1.59p	2.41p

Consolidated statement of comprehensive income

For the year ended 31 December 2021

	2021 £m	2020 £m
Total profit for the year	227.2	19.0
Other comprehensive expense		
Items that will not be reclassified subsequently to the income statement		
Actuarial gain/(loss) on defined benefit pension schemes	109.4	(32.1)
Tax effect on defined benefit pension schemes	(18.1)	10.9
Gain/(loss) on fair value of investments	0.1	(0.7)
Items that will or may be reclassified subsequently to the income statement		
Exchange differences on translation of foreign operations	3.0	(9.0)
Exchange differences realised on business disposals	(2.8)	—
Gain/(loss) on cash flow hedges	1.3	(1.6)
Cash flow hedges recycled to the income statement	0.6	(4.5)
Tax effect on cash flow hedges	2.2	1.1
Other comprehensive income/(expense) for the year net of tax	95.7	(35.9)
Total comprehensive income/(expense) for the year net of tax	322.9	(16.9)
Attributable to:		
Owners of the Company	320.5	(21.9)
Non-controlling interests	2.4	5.0
	322.9	(16.9)

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

Consolidated balance sheet

At 31 December 2021

	Notes	2021 £m	2020 £m
Non-current assets			
Property, plant and equipment	10	129.0	157.2
Intangible assets	11	147.3	265.0
Goodwill	12	951.7	1,120.5
Right-of-use assets		287.9	342.1
Investments in associates and joint ventures		0.7	5.1
Contract fulfilment assets		286.7	294.8
Financial assets		107.2	117.0
Deferred tax assets		176.0	242.8
Employee benefits		13.3	3.1
Trade and other receivables		15.7	22.1
		2,115.5	2,569.7
Current assets			
Financial assets		17.5	32.1
Disposal group assets held-for-sale	5	138.8	114.6
Trade and other receivables		547.1	551.0
Cash		317.6	460.9
Income tax receivable		5.9	2.9
		1,026.9	1,161.5
		3,142.4	3,731.2
Total assets			
Current liabilities			
Trade and other payables		542.2	635.0
Deferred income		669.8	822.2
Overdrafts		231.9	332.7
Lease liabilities		61.6	77.5
Disposal group liabilities held-for-sale	5	81.1	53.9
Finance liabilities		286.3	347.8
Provisions	13	126.6	107.0
		1,999.5	2,376.1
Non-current liabilities			
Trade and other payables		15.4	23.6
Deferred income		124.9	153.0
Lease liabilities		386.8	426.0
Financial liabilities		291.9	554.3
Deferred tax liabilities		5.9	6.7
Provisions	13	14.0	17.4
Employee benefits		7.5	255.2
		846.4	1,436.2
		2,845.9	3,812.3
Total liabilities			
Net assets/(liabilities)			
		296.5	(81.1)
Capital and reserves			
Share capital		34.8	34.5
Share premium		1,145.5	1,143.3
Employee benefit trust and treasury shares		(8.0)	(11.2)
Capital redemption reserve		1.8	1.8
Other reserves		(9.0)	(13.4)
Retained deficit		(890.6)	(1,289.5)
		274.5	(134.5)
Equity/(deficit) attributable to owners of the Company			
Non-controlling interests		22.0	53.4
		296.5	(81.1)
Total equity/(deficit)			

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

Consolidated statement of changes in equity

For the year ended 31 December 2021

	Share capital £m	Share premium £m	Employee benefit trust and treasury shares £m	Capital redemption reserve £m	Retained deficit £m	Other reserves £m	Total attributable to the owners of the parent £m	Non-controlling interests £m	Total (deficit)/equity £m
At 1 January 2020	34.5	1,143.3	(11.2)	1.8	(1,295.8)	0.6	(126.8)	62.8	(64.0)
Profit for the year	—	—	—	—	14.0	—	14.0	5.0	19.0
Other comprehensive expense	—	—	—	—	(21.9)	(14.0)	(35.9)	—	(35.9)
Total comprehensive (expense)/income for the year	—	—	—	—	(7.9)	(14.0)	(21.9)	5.0	(16.9)
Share-based payment net of tax effects	—	—	—	—	5.2	—	5.2	—	5.2
Dividends paid ¹	—	—	—	—	—	—	—	(14.4)	(14.4)
Movement in put-options held by non-controlling interests	—	—	—	—	9.0	—	9.0	—	9.0
At 1 January 2021	34.5	1,143.3	(11.2)	1.8	(1,289.5)	(13.4)	(134.5)	53.4	(81.1)
Profit for the year	—	—	—	—	224.7	—	224.7	2.5	227.2
Other comprehensive income/(expense)	—	—	—	—	91.4	4.4	95.8	(0.1)	95.7
Total comprehensive (expense)/income for the year	—	—	—	—	316.1	4.4	320.5	2.4	322.9
Share-based payment net of tax effects	—	—	—	—	1.6	—	1.6	—	1.6
Reclassification	—	—	—	—	(6.4)	—	(6.4)	6.4	—
Elimination of non-controlling interest at disposal (note 5)	—	—	—	—	—	—	—	(3.4)	(3.4)
Exercise of share options under employee long term incentive plans	—	—	3.5	—	(3.5)	—	—	—	—
Shares issued	0.3	—	(0.3)	—	—	—	—	—	—
VAT refund on rights issue issuance costs	—	2.2	—	—	—	—	2.2	—	2.2
Dividends paid ¹	—	—	—	—	—	—	—	(36.8)	(36.8)
Movement in put-options held by non-controlling interests ²	—	—	—	—	91.1	—	91.1	—	91.1
At 31 December 2021	34.8	1,145.5	(8.0)	1.8	(890.6)	(9.0)	274.5	22.0	296.5

1. Of the dividends to non-controlling interests totalling £36.8m (2020: £14.4m), the majority were from AXELOS Limited (2021: £36.6m; 2020: £14.1m) who paid £10.7m (2020: £14.1m) in cash with the remainder settled by the purchaser when AXELOS Limited was sold (see note 5). No dividends were declared, paid or proposed in 2021 or 2020 on the Parent Company's ordinary shares.

2. The option to acquire the non-controlling interest in AXELOS Limited expired without being exercised on 28 February 2021, and the related liability of £96.5m was de-recognised.

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

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

Employee benefit trust and treasury shares – Shares that have been bought back by the Parent Company which are available for retirement or resale; shares held in the employee benefit trust have no voting rights and no entitlement to a dividend.

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

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

Other reserves – This consists of the foreign currency translation reserve deficit of £8.3m (2020: £8.6m deficit) and the cash flow hedging reserve deficit of £0.7m (2020: £4.8m deficit).

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

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

Consolidated cash flow statement

For the year ended 31 December 2021

	Notes	2021 £m	2020 £m
Cash generated from operations	14	(121.3)	434.2
Cash generated from discontinued operations		—	18.6
Income tax paid		(17.7)	(8.8)
Net interest paid		(40.1)	(47.7)
Net cash (outflow)/inflow from operating activities		(179.1)	396.3
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(25.6)	(40.8)
Purchase of intangible assets	11	(32.5)	(46.6)
Proceeds from sale of property, plant and equipment/intangible assets	10, 11	0.1	13.5
Additions to investments in associates		—	(0.6)
Additions to investments held at fair value through profit and loss		(0.1)	(0.3)
Capital repayment from investments at fair value through other comprehensive income		0.3	—
Proceeds from sale of investments held at fair value through profit and loss		—	3.9
Contingent consideration paid		—	(4.9)
Subsidiary partnership payment		(4.7)	(9.4)
Capital element of lease rental receipts		0.5	2.8
Net proceeds on disposal of subsidiary undertakings	5	483.1	51.3
Cash disposed of with subsidiary undertakings	5	(25.9)	(3.2)
Net cash inflow/(outflow) from investing activities		395.2	(34.3)
Cash flows from financing activities			
Dividends paid to non-controlling interests		(10.8)	(14.4)
Capital element of lease rental payments		(82.6)	(98.0)
Proceeds from issue of share capital (net of issuance costs)		2.2	—
Repayment of private placement loan notes		(232.3)	(242.9)
Proceeds from credit facilities		46.0	—
Proceeds from cross-currency interest rate swaps		19.7	24.5
Debt financing arrangement costs paid		(1.9)	(0.5)
Net cash outflow from financing activities		(259.7)	(331.3)
(Decrease)/increase in cash and cash equivalents		(43.6)	30.7
Cash and cash equivalents at the beginning of the period		141.1	119.3
Effect of exchange rates on cash and cash equivalents		4.0	(8.9)
Cash and cash equivalents at 31 December		101.5	141.1
Cash and cash equivalents comprise:			
Cash		317.6	460.9
Overdrafts		(231.9)	(332.7)
Cash, net of overdrafts, included in disposal group assets and liabilities held-for-sale	5	15.8	12.9
Total		101.5	141.1
Adjusted cash generated from operations	14	185.4	295.2
Adjusted free cash flows	14	78.1	170.3

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

Notes to the consolidated financial statements

for the year ended 31 December 2021

1 Corporate information

Capita plc is a public limited company incorporated in England and Wales whose shares are publicly traded.

These consolidated financial statements of Capita plc for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the directors on 9 March 2022

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

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and with UK-adopted International Financial Reporting Standards (IFRSs) and the Disclosure and Transparency Rules of the UK's Financial Conduct Authority.

These consolidated financial statements are presented in British pounds sterling and all values are rounded to the nearest tenth of a million (£m) except where otherwise indicated.

(b) Adjusted results

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

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

(c) Judgements and estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the directors to make judgements and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported income and expense during the presented periods. Although these judgements and assumptions are based on the directors' best knowledge of the amount, events or actions, actual results may differ.

The potential impact of Covid-19 on the Group has been considered in the preparation of these consolidated financial statements, including management's evaluation of critical accounting estimates and judgements. The impact on the Group has varied by business.

Covid-19 has introduced unprecedented economic uncertainties and has led to increased judgement particularly in forecasting future financial performance. There have also been direct impacts on revenue and costs arising from: new contracts helping customers respond to the pandemic; costs of setting up colleagues to work remotely; and, utilisation of the Government's Coronavirus Job Retention Scheme. The Board has not reported these items separately, but where there is an impact this is captured in the divisional performance reviews.

The Board has continued with a policy to separately identify items such as restructuring, where the plans were advanced and adapted in response to Covid-19. The Board has also considered the impact on the provisions recorded at 31 December 2021, with no significant adjustments recorded, and the valuation of the defined benefit pension scheme.

Given the level of judgement and estimation involved in assessing the future profitability of contracts, it is reasonably possible that outcomes within the next financial year may be different from management's assumptions and could require a material adjustment to the carrying amounts of contract assets and, customer and onerous contract provisions.

(d) Going concern

In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2021, the Board is required to consider whether the Group and Parent Company can continue in operational existence for the foreseeable future. The Board has concluded that it is appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts, key uncertainties and sensitivities, as set out below.

Accounting standards require that 'the foreseeable future' for going concern assessment covers a period of at least twelve months from the date of approval of these financial statements, although those standards do not specify how far beyond twelve months a Board should consider. In its going concern assessment, the Board has considered the period from the date of approval of these financial statements to 31 August 2023, which is just less than eighteen months from the date of approval of these financial statements ('the going concern period') and which aligns with the expiry of the revolving credit facility (RCF). The Board has also considered any material committed outflows beyond this period in forming their assessment, including the extension of the RCF which is a key consideration as set out below.

The base case financial forecasts used in the going concern assessment are derived from the 2022-2023 business plans as approved by the Board in February 2022.

The going concern assessment considers the Group's sources and uses of liquidity and covenant compliance throughout the period under review. The value of the Group's existing committed RCF was £385.7m at 31 December 2021 and it expires on 31 August 2022. In June 2021 the Group entered into a second RCF of £300m covering the period from 31 August 2022 to 31 August 2023 with certain lenders party to the existing RCF. The second RCF will replace the existing RCF when the latter expires. The two RCFs incorporate provisions such that they will partially reduce in quantum as a consequence of specified transactions, and subsequent to the year end, the first RCF reduced to £377.5m following the receipt of disposal proceeds. In March 2022, the Group executed with one of its relationship banks a committed backstop bridge facility. The facility provides £70m of additional liquidity and it incorporates provisions such that it will be cancelled or will partially reduce in quantum as a consequence of specified transactions, including completion of the disposal of Trustmarque announced on 28 January 2022. The committed facility has an expiry date of 31 August 2023 with an option, by the lender, for a further one year extension. The facility is subject to covenants, which are the same as the RCF.

Financial position at 31 December 2021

The Group had net debt of £879.8m at 31 December 2021 (2020: £1,077.1m) and adjusted net debt of £502.0m (2020: £616.4m). Adjusted EBITDA was £295.1m at 31 December 2021 (2020: £228.4m). The Group was in compliance with all debt covenants at 31 December 2021. The Group had liquidity of £392.4m at 31 December 2021 as detailed further in the Chief Financial Officer's review.

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

(d) Going concern continued

Board assessment

Base case scenario

Under the base case scenario, completion of the Group's transformation programme has simplified and strengthened the business and facilitates further efficiency savings enabling sustainable growth in revenue, profit and cash flow over the medium term. This enables the generation of positive free cash flows, and when combined with available committed facilities allows the Group to manage scheduled debt repayments. The base case financial forecasts demonstrate liquidity headroom and compliance with all covenant measures throughout the going concern period to 31 August 2023.

As previously announced, the Board's plan is to establish an optimal capital structure to support the execution of the Group's strategy and to dispose of businesses that do not align with that strategy. The disposal programme requires agreement from third parties, and major disposals may be subject to shareholder and lender approval. Such agreements and approvals, and also any refinancing, are outside the direct control of the Company and as such, the inclusion of the effect of any potential future disposals or uncommitted financing in the Group's projections is inappropriate for going concern assessment purposes in accordance with IAS 1 Presentation of Financial Statements.

The base case projections used for going concern assessment purposes reflect business disposals completed up to the date of approval of these financial statements but do not reflect the benefit of any further disposals that are in the pipeline. The liquidity headroom assessment in the base case projections reflects the Group's existing committed financing facilities and debt redemptions and does not reflect any potential future refinancing.

The base case assumes an improved financial position for the Group as a result of the realisation of the benefits from completion of the transformation plan. The key sensitivity to the base case is the execution associated with delivering revenue growth.

Severe but plausible downside

In considering severe but plausible downside scenarios, the Board has taken account of trading downside risks, which assume the Group is not successful in delivering the anticipated levels of revenue growth and sustainable free cash flows. The downside scenario used for the going concern assessment also includes potential adverse financial impacts due to additional inflationary pressure which cannot be passed on to customers, not achieving targeted margins on new or major contracts, unforeseen operational issues leading to contract losses and cash outflows, and unexpected potential financial penalties and losses linked to incidents such as data breaches and/or cyber-attacks.

Absent any mitigating actions, liquidity headroom shown in the Group's financial forecasts under this severe but plausible downside scenario over the going concern period reduces substantially such that there is a risk of insufficient liquidity.

There are mitigations, under the direct control of the Group, that could be implemented to address any immediate shortfalls. These include reductions in variable pay rises, setting aside any bonus payments and limiting discretionary spend. While these are available as possible short-term mitigations and would be actioned if required to ensure sufficient liquidity, the Board is mindful that such restrictions may be detrimental to the longer-term success of the Group. In addition, such actions would not necessarily address potential liquidity requirements beyond the going concern period should all the downside risks materialise. As noted earlier, a key consideration for the Board is the expiry of the RCF on 31 August 2023, immediately following the going concern period.

The principal mitigation to the possibility of insufficient liquidity is the continuation of the Board approved disposal programme which covers businesses that do not align with the Group's longer-term strategy. The Group has a strong track record of executing major disposals. In 2021, the Board targeted to achieve £700m of disposal proceeds by 30 June 2022 and will exceed this target on the completion of the announced disposal of Trustmarque and Speciality Insurance businesses. The disposal programme continues, with further disposal processes launched in early 2022. The Board is confident that the disposal programme will be delivered, thereby introducing substantial net cash proceeds to the Group, albeit with a corresponding removal of consolidated profits and cash flows associated with the disposal businesses.

In addition to the ongoing disposal programme, the Group may seek to mitigate the liquidity risks which might arise in the downside scenario by seeking further sources of financing beyond its existing committed funding facilities. The Board has been successful in obtaining new and extended financing facilities in recent years and an immediate mitigating action includes the extension of the current RCF which currently expires on 31 August 2023.

Material uncertainties

The Board recognises that the disposal programme requires agreement from third parties and that major disposals may be subject to shareholder and, potentially, lender approval. Similarly, any new refinancing, including the extension of the RCF, requires agreement with lenders. Such agreements and approvals are outside the direct control of the Company. Therefore, given that some of the mitigating actions which might be taken to strengthen the Group's liquidity position in the severe but plausible downside scenario are outside the control of the Group, this gives rise to material uncertainties, as defined in accounting standards, relating to events and circumstances which may cast significant doubt about the Group's ability to continue as a going concern and to realise its assets and discharge its liabilities in the normal course of business.

Adoption of going concern basis

Reflecting the Board's confidence in the benefits expected from the completion of the transformation programme and execution of the approved disposal programme coupled with the potential to obtain further financing beyond its existing committed funding facilities, the Group continues to adopt the going concern basis in preparing these financial statements. The Board has concluded that the Group and Parent Company will be able to continue in operation and meet their liabilities as they fall due over the period to 31 August 2023. Consequently, these financial statements do not include any adjustments that would be required if the going concern basis of preparation were to be inappropriate.

3 Preliminary announcement

A duly appointed and authorised committee of the Board of Directors approved the preliminary announcement on 9 March 2022.

The financial information set out above does not constitute the Group's consolidated financial statements for the years ended 31 December 2021 or 2020 but is derived from those accounts.

Statutory accounts for 2020 have been delivered to the Registrar of Companies and those for 2021 will be delivered in due course. The auditor has reported on those accounts: their reports were (i) unqualified, (ii) contained a material uncertainty in respect of going concern to which the auditor drew attention by way of emphasis without modifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Copies of this announcement can be obtained from the Company's registered office at 65 Gresham Street, London EC2V 7NQ, or on the Company's corporate website www.capita.com/Investors.

It is intended that the Annual Report and Accounts will be posted to shareholders early April 2022. It will be available to members of the public at the registered office and on the Company's Corporate website <https://www.capita.com/investors> from that date.

4 Adjusted operating profit and adjusted profit before tax

The items below are excluded from the adjusted results:

	Notes	Operating profit/(loss)		Profit/(loss) before tax	
		2021 £m	2020 £m	2021 £m	2020 £m
Reported		(86.6)	(32.0)	285.6	(49.4)
Amortisation and impairment of acquired intangibles	11	12.0	26.4	12.0	26.4
Impairment of goodwill	12	11.5	—	11.5	—
Litigation and claims		(9.3)	0.7	(9.3)	0.7
Net finance costs	8	—	—	1.4	1.5
Business exit	5	20.1	(60.5)	(399.1)	(90.3)
Business exit - on-hold disposal costs		—	7.5	—	7.5
Contract-related provisions and impairments		43.1	—	43.1	—
Significant restructuring		148.3	109.0	148.3	109.0
Adjusted		139.1	51.1	93.5	5.4

1. Adjusted operating profit increased by 172.2% (2020: decreased 56.4%) and adjusted profit before tax increased by 1,631.5% (2020: decreased 67.0%). Adjusted operating profit of £139.1m (2020: profit £51.1m) was generated on adjusted revenue of £3,008.5m (2020: £2,995.5m) resulting in an adjusted operating margin of 4.6% (2020: 1.7%).

2. The tax charge on adjusted profit before tax is £64.8m (2020: £25.3m credit) resulting in adjusted profit after tax of £28.7m (2020: £30.7m profit).

3. The adjusted operating profit and adjusted profit before tax for 2020 have been restated for the impact of business exits during 2021. This has resulted in adjusted operating profit decreasing from £111.0m to £51.1m and adjusted profit before tax decreasing from £65.2m to £5.4m.

Amortisation and impairment of acquired intangible assets: the Group recognised acquired intangible amortisation of £12.0m (2020: £26.4m and impairment of £nil (2020: £1.6m).

Impairment of goodwill: goodwill is subject to annual impairment testing and any impairment charges are reported separately.

Litigation and claims: The Group received an insurance settlement of £5.0m in respect of an historical legal claim that was settled in the period. The legal claim, which was fully provided at 31 December 2020, was excluded from adjusted results when provided due to its historical nature and size, and accordingly the insurance receipt has also been excluded from adjusted results. Further, the Group has recognised a gain of £3.2m from net movements in historical provisions that were excluded from adjusted results when provided.

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

Business exits: the trading result of businesses exited, or in the process of being exited, and the gain or loss on disposals are excluded from the Group's adjusted results. Individual businesses within the Portfolio Division will be treated as held-for-sale (and therefore a business exit) when the disposal is highly probable and expected to complete within twelve months of the balance sheet date. Refer to note 5 for further details.

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

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

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

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

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

During 2021, the Group has continued to support a major customer on the transfer of services to another supplier. This is taking significantly longer than initially expected. Management has reassessed the lifetime estimate to include not only the onerous contract terms but also the period and likely costs to support the final handover of services. This assessment has extended across all contracts that contain evergreen clauses, including those where there are ongoing discussions regarding either termination or transfer of services. This reassessment, reflecting by the developments in the latter half of 2021, provides cover for contracts to extend out to 2026. This has resulted in an increase to the contract provision and impairment of contract assets totalling £43.1m which has been reported as an adjusting item. In prior years the financial impacts of such contract judgements have not been shown as adjusting items they were considered to be normal course of business, not material in the context of the Group results and not associated with the transformation plan. However, due to the quantum of the charge arising from the 2021 reassessment, the Board consider it appropriate to separately disclose this as an adjusted item to highlight the impact on the results in the period.

4 Adjusted operating profit and adjusted profit before tax continued

Significant restructuring: in January 2018, the Group announced a multi-year transformation plan. In 2021 a charge of £148.3m (2020: £109.0m) was recognised in relation to the cost of the transformation plan. The costs include the following:

- **Cost to realise cost savings and efficiencies from the transformation plan £74m (2020: £65m):** including significant reductions in overheads, the elimination of duplicate roles and management layers, and the Group's operational excellence programme which will improve the consistency of the Group's operations, reduce spans and layers, increasing the use of off-shoring and automation, adopting lean methodologies and working smarter. As the Group continues to rationalise its property estate, costs associated with onerous property commitments and dilapidation liabilities, and impairment of property right-of-use assets and fixtures and fittings, are captured and presented as part of the transformation adjustments.
- **Professional fees £8m (2020: £3m):** including in 2021 fees paid to consultants in relation to the development and delivery of the corporate reorganisation.
- **Transformation of central Group functions £66m (2020: £15m):** investment in programmes to improve the Group's central functions, including: finance; sales; human resources; and information technology. All costs associated with these programmes are recorded separately, and exclude any costs capitalised as part of the investment and the ongoing depreciation and amortisation of such assets.

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

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

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

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

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

- **Cost of accelerating savings to mitigate the financial impact of Covid-19 £nil (2020: £26m):** these are incremental to those planned to be incurred as part of the transformation plan and include accelerated property estate rationalisation and severance costs.

The cumulative significant restructuring expense recognised since the commencement of the group-wide transformation in 2018 is £526.7m. 2021 is the final year of major investments in the transformation plan where the costs are excluded from adjusted results. From 1 January 2022, any residual restructuring will be recorded within adjusted results.

5 Business exits, assets held for sale and discontinued operations

Business exits

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

However, the trading result of these business exits, non-trading expenses, and any gain/loss on disposal, have been excluded from adjusted results. To enable a like-for-like comparison of adjusted results, the 2020 comparatives have been re-presented to exclude the business exits that occurred during 2021.

Assets held-for-sale

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

2021 business exits

Business exits during the year ended 31 December 2021 comprised:

- the ESS business whose disposal was completed on 1 February 2021;
- the Life Insurance and Pensions Servicing business in Ireland whose disposal was completed on 1 March 2021;
- the AXELOS joint venture with the UK Government whose disposal was completed on 29 July 2021;
- the AMT Sybex software, Secure Solutions and Services (SSS) and Speciality Insurance businesses which were in the process of being sold and which met the held-for-sale criteria. Accordingly, these businesses were treated as disposal groups held-for-sale at this date. The disposal of both the AMT Sybex software and SSS businesses completed subsequently in 2022 (refer to note 16 for further details);
- a software business in Capita Portfolio that the Group has decided to exit; and
- the exit costs relating to further planned disposals, including professional fees and separation planning costs.

Further disposals are planned as part of the simplification agenda. Since these disposals did not meet the definition of business exits or assets held-for-sale at 31 December 2021, their trading results were included within adjusted results. This includes the Trustmarque business whose disposal was announced on 28 January 2022 and is subject to certain consents (refer to note 16 for further details).

Income statement impact	2021			2020		
	Trading £m	Non-trading £m	Total £m	Trading £m	Non-trading £m	Total £m
Revenue	174.0	—	174.0	329.3	—	329.3
Cost of sales	(92.7)	—	(92.7)	(163.5)	—	(163.5)
Gross profit	81.3	—	81.3	165.8	—	165.8
Administrative expenses	(30.5)	(70.9)	(101.4)	(54.8)	(50.5)	(105.3)
Operating profit/(loss)	50.8	(70.9)	(20.1)	111.0	(50.5)	60.5
Net finance costs	(0.4)	(0.1)	(0.5)	(0.1)	(1.5)	(1.6)
Gain on business disposal	—	419.7	419.7	—	31.4	31.4
Profit/(loss) before tax	50.4	348.7	399.1	110.9	(20.6)	90.3
Taxation	(9.5)	(25.4)	(34.9)	(21.0)	17.7	(3.3)
Profit/(loss) after tax	40.9	323.3	364.2	89.9	(2.9)	87.0

Trading revenue and costs represent the current year trading performance of those businesses up to the point of being disposed or exited. Trading expenses primarily comprise payroll costs of £79.3m (2020: £139.6m) and IT costs of £24.9m (2020: £48.6m).

Included within non-trading administrative expenses is £4.9m (2020: £7.5m) of amortisation of acquired intangibles which, in accordance with the Group's policy, were excluded from the Group's adjusted results in both the current and prior periods and have been reclassified to Business exits because they relate to businesses disposed of or being exited. Other non-trading administrative expenses include: asset impairments of £53.1m (2020: £10.1m); disposal project costs of £8.9m (2020: £31.9m); and other costs of £4.1m (2020: £3.3m), which are offset by provision releases of £nil (2020: £2.3m).

5 Business exits, assets held for sale and discontinued operations continued

2021 disposals

During 2021 the Group disposed of three businesses: ESS; Life Insurance and Pensions Servicing in Ireland; and the AXELOS joint venture with the UK Government.

During 2020 the Group disposed of three businesses: Eclipse Legal Services; Capita Workplace Technology; and Employee Benefits.

The assets and liabilities disposed of and the related gain on disposal are as follows.

	2021 £m	2020 £m
Property, plant and equipment	0.2	0.6
Intangible assets	19.9	3.2
Goodwill	65.7	12.1
Contract fulfilment assets	0.1	—
Trade and other receivables	2.6	2.3
Prepayments	0.1	—
Cash and cash equivalents	8.2	3.2
Disposal group assets held-for-sale	120.2	4.3
Income and deferred tax	(4.3)	(0.3)
Trade and other payables	(28.8)	(6.5)
Accruals	(5.1)	—
Deferred income	(2.9)	(0.4)
Deferred consideration payable	(22.8)	—
Loans payable ²	(26.0)	—
Disposal group liabilities held-for-sale	(57.5)	(1.2)
Net identifiable assets/(liabilities) disposed of	69.6	17.3
Non-controlling interests	(3.4)	—
	66.2	17.3
Cash consideration received	508.6	58.1
Less: costs of disposal	(25.5)	(9.4)
Net proceeds	483.1	48.7
Realisation of cumulative currency translation difference	2.8	—
Gain on business disposals	419.7	31.4
Net cash inflow		
Net proceeds	483.1	48.7
less: (cash)/overdrafts disposed of ¹	(25.9)	(3.2)
Total net cash inflow	457.2	45.5

¹ (Cash)/overdrafts disposed of comprise (cash)/overdrafts in the balance sheet of £(8.2)m (2020: £(3.2)m), and (cash)/overdrafts within disposal group assets and liabilities held-for-sale of £(17.7)m (2020: £nil).

² The loan payable represents an interest bearing loan payable by AXELOS Limited to HM Government in connection with a dividend payable by this company. The loan is subject to interest at 6% and was settled on completion of the disposal on 29 July 2021.

Disposal costs of £21.2m, relating to businesses disposed of in the year, were recognised in prior years and are excluded from the above gain on business disposals.

5 Business exits, assets held for sale and discontinued operations continued

Disposal group assets and liabilities held-for-sale

	2021 £m	2020 £m
Property, plant and equipment	0.4	0.1
Intangible assets	14.4	44.4
Goodwill	44.2	45.3
Right-of-use assets	—	4.5
Contract fulfilment assets	32.6	3.1
Trade and other receivables	10.7	2.9
Accrued income	5.1	0.6
Prepayments	5.2	0.7
Cash and cash equivalents	15.8	12.9
Income tax receivable and deferred tax assets	10.4	0.1
Disposal group assets held-for-sale	138.8	114.6
Trade and other payables	1.6	1.5
Other taxes and social security	1.6	0.1
Accruals	3.4	3.5
Deferred income	69.8	40.3
Lease liabilities	—	4.6
Income tax payable and deferred tax liabilities	2.3	3.5
Provisions	2.4	0.4
Disposal group liabilities held-for-sale	81.1	53.9

Business exit cash flows

Businesses exited and being exited generated net operating cash inflows of £50.9m (2020: cash inflows of £123.2m).

Discontinued operations

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

In 2021 the income of £3.1m related to a reduction in provisions following reassessments of the likely future costs to be incurred by the Group.

In 2020 the credit of £20.8m related to additional payments received in connection with the sale of the Asset Services businesses arising from the return of redress payments made to the Financial Conduct Authority (FCA) regarding the Connaught Income Series 1 Fund. Cash flows generated from discontinuing operations in 2020 of £18.6m related to the above return of redress payments made to the FCA less previously accrued amounts paid in connection with the sale of the Asset Services business.

The earnings per share impact from discontinued operations is 0.19p (2020: 1.26p) on basic earnings per share and 0.18p (2020: 1.24p) on diluted earnings per share.

6 Contract accounting

At 31 December 2021, the Group had the following results and balance sheet items related to long-term contracts:

	Notes	2021 £m	2020 £m
Long-term contractual adjusted revenue	7	2,156.9	2,178.6
Non-current and current deferred income		794.7	975.2
Non-current contract fulfilment assets		286.7	294.8
Non-current and current onerous contract provision		45.8	16.5

Background

The Group operates diverse businesses. The majority of the Group's revenue is from contracts greater than two years in duration (long-term contractual), being 72% of Group adjusted revenue in 2021 (2020: 73%).

These long-term contracts can be complex in nature given the breadth of solutions the Group offers and the transformational activities involved. Typically, Capita takes a customer's process and transforms it into a more efficient and effective solution which is then operated for the customer. The outcome is a high quality solution that addresses a customer's needs and is delivered consistently over the life of the contract.

The Group recognises revenue on long-term contracts as the value is delivered to the customer, which is generally evenly over the contract term, regardless of any restructuring and transformation activity. Capita will often incur greater costs during the transformation phase with costs diminishing over time as the target operating model is implemented and efficiencies realised. This results in lower profits or losses in the early years of contracts and potentially higher profits in later years as the transformation activities are successfully completed and the target operating model fully implemented (the business as usual (BAU) phase). The inflection point is when the contract becomes profitable.

Contract fulfilment assets are recognised for those costs qualifying for capitalisation. The utilisation of these assets is recognised over the contract term. The timing of cash receipts from customers typically matches when the costs are incurred to transform, restructure and run the service. This results in income being deferred and released as the Group continues to deliver against its obligation to provide services and solutions to its customers.

Assessing contract profitability

In assessing a contract's future lifetime profitability, management must estimate forecast revenue and costs to both transform and run the service over the remaining contract term. The ability to accurately forecast the outcomes involves estimates in respect of: costs to be incurred; cost savings to be achieved; future performance against any contract-specific key performance indicators (KPIs) that could trigger variable consideration or service credits; and the outcome of any commercial negotiations.

The level of uncertainty in the estimated future profitability of a contract is directly related to the stage of the life-cycle of the contract and the complexity of the performance obligations. Contracts in the transformation stage and pre-inflection stages are considered to have a higher level of uncertainty because of:

- the ability to accurately estimate the costs to deliver the transformed process;
- the dependency on the customer to agree to the specifics of the transformation: for example, where they are involved in certifying that the new process or the new technical solution designed by Capita meets their specific requirements; and
- the assumptions made to forecast expected savings in the target operating model.

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

Recoverability of contract fulfilment assets and completeness of onerous contract provisions

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

The major contracts contributed £2.0 billion (2020: £1.5 billion) or 68% (2020: 47%) of Group adjusted revenue. Non-current contract fulfilment assets at 31 December 2021 were £286.7m, of which £184.1m (2020: £152.7m) relates to major contracts with on-going transformational activities. The remainder relates to contracts post transformation and includes non-major contracts.

The major contracts, both pre- and post-transformation, are rated according to their financial risk profile, which is linked to the level of uncertainty over future assumptions. For those that are in the high and medium rated risk categories the associated non-current contract fulfilment assets were, in aggregate, £6.6m at 31 December 2021 (2020: £44.5m). The recoverability of these assets is dependent on no significant adverse change in the key contract assumptions arising in the next financial year. The deferred income associated with these contracts was £89.5m at 31 December 2021 (2020: £232.3m) and is forecast to be recognised as performance obligations continue to be delivered over the life of the respective contracts. Onerous contract provisions associated with these contracts were £45.8m at 31 December 2021 (2020: £15.7m).

Following these reviews, and reviews of smaller contracts across the business, contract fulfilment asset impairment of £7.3m (2020: £17.5m) were identified and recognised within adjusted cost of sales, of which £nil (2020: £2.0m) relate to contract fulfilment assets added during the period, and net onerous contract provisions of £32.0m (2020: £10.4m) were identified out of which £3.3m was recognised within adjusted cost of sales.

Given the quantum of the relevant contract assets and liabilities, and the nature of the estimates noted above, management has concluded that it is reasonably possible, that outcomes within the next financial year may be different from management's current assumptions and could require a material adjustment to the carrying amounts of contract assets and onerous contract provisions. However, as noted above, £184.1m of non-current contract fulfilment assets relates to major contracts with on-going transformational activities and £6.6m of non-current contract fulfilment assets and £45.8m of onerous contract provisions relate to the highest and medium rated risk category. Due to the level of uncertainty, combination of variables and timing across numerous contracts, it is not practical to provide a quantitative analysis of the aggregated judgements that are applied, and management do not believe that disclosing a potential range of outcomes on a consolidated basis would provide meaningful information to a user of the financial statements. Due to commercial sensitivities, the Group does not specifically disclose the amounts involved in any individual contract.

Certain of the major transformation contracts have key milestones during the next twelve months and inability to meet these key milestones could lead to reduced profitability and a risk of impairment of the associated contract assets. These contracts include DFRP and Royal Navy training.

Additional information, which does not form part of these consolidated financial statements, on the results and performance of the underlying divisions including the outlook on certain contracts is set out in the divisional performance review.

7 Revenue and segmental information

The Group's operations are managed separately according to the nature of the services provided, with each segment representing a strategic business division offering a different package of client outcomes across the markets the Group serves. Capita plc is a reconciling item and not an operating segment. A description of the service provision for each segment can be found in the strategic report of the Annual Report.

The tables below present revenue for the Group's business segments. The new organisational structure, announced in March 2021, became operational in the second half of the year and the disclosures below represent the new structure as reported to the Chief Operating Decision Maker. Under the new structure, the Group comprises of two core trading divisions - Capita Public Service and Capita Experience - and a third division - Capita Portfolio - which comprises of non-core businesses that the Group intends to exit in due course. Comparative information has been re-presented accordingly.

Adjusted revenue, excluding results from businesses exited in both years (adjusting items), was £3,008.5m (2020: £2,995.5m), an increase of 0.4% (2020: decline 9.7%).

Year ended 31 December 2021	Notes	Capita Public Service £m	Capita Experience £m	Capita Portfolio £m	Capita plc £m	Total adjusted £m	Adjusting items £m	Total reported £m
Continuing operations								
Long-term contractual		1,223.9	894.3	38.7	—	2,156.9	146.3	2,303.2
Short-term contractual		122.2	236.7	143.5	—	502.4	27.6	530.0
Transactional (point-in-time)		64.3	53.7	231.2	—	349.2	0.1	349.3
Total segment revenue		1,410.4	1,184.7	413.4	—	3,008.5	174.0	3,182.5
Trading revenue		1,449.3	1,219.6	557.4	—	3,226.3	—	3,226.3
Inter-segment revenue		(38.9)	(34.9)	(144.0)	—	(217.8)	—	(217.8)
Total adjusted segment revenue		1,410.4	1,184.7	413.4	—	3,008.5	—	3,008.5
Business exits – trading	5	—	—	174.0	—	—	174.0	174.0
Total segment revenue		1,410.4	1,184.7	587.4	—	3,008.5	174.0	3,182.5
Year ended 31 December 2020								
Continuing operations								
Long-term contractual		1,084.4	1,019.9	74.3	—	2,178.6	264.7	2,443.3
Short-term contractual		29.9	239.2	155.3	—	424.4	65.1	489.5
Transactional (point-in-time)		158.7	48.6	185.2	—	392.5	(0.5)	392.0
Total segment revenue		1,273.0	1,307.7	414.8	—	2,995.5	329.3	3,324.8
Trading revenue		1,306.4	1,361.2	697.4	—	3,365.0	—	3,365.0
Inter-segment revenue		(33.4)	(53.5)	(282.6)	—	(369.5)	—	(369.5)
Total adjusted segment revenue		1,273.0	1,307.7	414.8	—	2,995.5	—	2,995.5
Business exits – trading	5	—	—	329.3	—	—	329.3	329.3
Total segment revenue		1,273.0	1,307.7	744.1	—	2,995.5	329.3	3,324.8

Geographical location

The table below presents revenue by geographical location.

	2021			2020		
	United Kingdom £m	Other £m	Total £m	United Kingdom £m	Other £m	Total £m
Revenue	2,882.4	300.1	3,182.5	3,011.0	313.8	3,324.8

7 Revenue and segmental information continued

Order book

The tables below show the order book for each division, categorised into long-term contractual (contracts with length greater than two years) and short-term contractual (contracts with length less than two years). The length of the contract is calculated from the start of the service commencement date. The figures represent the aggregate amount of currently contracted transaction price allocated to the performance obligations that are wholly or partially unsatisfied.

Order book 31 December 2021	Capita Public Service £m	Capita Experience £m	Capita Portfolio £m	Capita plc £m	Total £m
Long-term contractual	3,112.7	2,249.3	478.7	—	5,840.7
Short-term contractual	173.6	22.5	78.6	—	274.7
Total	3,286.3	2,271.8	557.3	—	6,115.4

Order book 31 December 2020	Capita Public Service £m	Capita Experience £m	Capita Portfolio £m	Capita plc £m	Total £m
Long-term contractual	2,665.3	2,399.4	589.7	—	5,654.4
Short-term contractual	71.3	29.3	95.7	—	196.3
Total	2,736.6	2,428.7	685.4	—	5,850.7

The table below shows the expected timing of revenue to be recognised on long-term contractual orders at 31 December 2021.

Time bands of expected revenue recognition from long-term contractual orders	Capita Public Service £m	Capita Experience £m	Capita Portfolio £m	Capita plc £m	Total £m
< 1 year	711.6	799.2	145.4	—	1,656.2
1–5 years	1,610.6	1,150.4	199.7	—	2,960.7
> 5 years	790.5	299.7	133.6	—	1,223.8
Total	3,112.7	2,249.3	478.7	—	5,840.7

Prior year comparative information is not presented for the expected timing of revenue recognition because it is a forward looking disclosure and therefore management does not believe that such disclosure provides meaningful information to a user of the financial statements.

The order book represents the consideration that the Group will be entitled to receive from customers when the Group satisfies its remaining performance obligations under the contracts. However, the total revenue that will be earned by the Group will also include non-contracted volumetric revenue, new wins, scope changes and anticipated contract extensions. These elements have been excluded from the above tables because they are not contracted. Additionally, revenue from contract extensions is excluded from the order book unless they are pre-priced extensions whereby the Group has a legally binding obligation to deliver the performance obligations during the extension period. The total revenue related to pre-priced extensions that has been included in the tables above amounted to £668.0m (2020: £800.7m). The amounts presented do not include orders for which neither party has performed, and each party has the unilateral right to terminate a wholly unperformed contract without compensating the other party.

Of the £5.8 billion (2020: £5.7 billion) revenue to be earned on long-term contracts, £4.3 billion (2020: £3.8 billion) relates to major contracts. This amount excludes revenue that will be derived from frameworks (transactional 'point-in-time' contracts), non-contracted volumetric revenue, non-contracted scope changes and future unforeseen volume changes from these major contracts, which together are anticipated to contribute an additional £2.3 billion (2020: £2.1 billion) of revenue to the Group over the life of these contracts.

The Group performs various services for a number of UK Government ministerial departments and considers these individual ministerial departments to be separate customers due to the limited economic integration between each ministerial department. No single customer makes up more than 10% of the Group's revenues.

Deferred Income

The Group's deferred income balances solely relate to revenue from contracts with customers. Revenue recognised in the reporting period that was included in the deferred income balance at the beginning of the period was £941.1m (2020: £998.7m).

Movements in the deferred income balances were driven by transactions entered into by the Group within the normal course of business in the year, other than the accelerated revenue recognised of £23.1m on early termination of contracts in Capita Experience and agreed reduction in scope on a contract in Capita Public Service (2020: £17.5m in Capita Experience).

7 Revenue and segmental information continued

Segmental profit

The table below presents profit by segment.

Year ended 31 December 2021	Notes	Capita Public Service £m	Capita Experience £m	Capita Portfolio £m	Capita plc £m	Total adjusted £m	Adjusting items £m	Total reported £m
Adjusted operating profit	4	98.3	69.1	23.8	(52.1)	139.1	—	139.1
Restructuring	4	(5.1)	(12.0)	(3.2)	(128.0)	—	(148.3)	(148.3)
Business exits – trading	5	—	—	50.8	—	—	50.8	50.8
Total trading result		93.2	57.1	71.4	(180.1)	139.1	(97.5)	41.6
Non-trading items:								
Business exits – non-trading	5					—	(70.9)	(70.9)
Other adjusting items	4					—	(57.3)	(57.3)
Operating profit/(loss)						139.1	(225.7)	(86.6)

Year ended 31 December 2020	Notes							
Adjusted operating profit	4	12.9	80.9	14.2	(56.9)	51.1	—	51.1
Restructuring	4	(8.6)	(11.6)	(4.4)	(84.4)	—	(109.0)	(109.0)
Business exits – trading	5	—	—	111.0	—	—	111.0	111.0
Total trading result		4.3	69.3	120.8	(141.3)	51.1	2.0	53.1
Non-trading items:								
Business exits – non-trading	5					—	(50.5)	(50.5)
Other adjusting items	4					—	(34.6)	(34.6)
Operating profit/(loss)						51.1	(83.1)	(32.0)

Geographical location

The table below presents the carrying amount of non-current assets (excluding deferred tax, financial assets and employee benefits) by the geographical location of those assets.

	2021			2020		
	United Kingdom £m	Other £m	Total £m	United Kingdom £m	Other £m	Total £m
Non-current assets	1,791.3	27.7	1,819.0	2,168.4	38.4	2,206.8

8 Net finance costs

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

	2021 £m	2020 £m
Interest income		
Interest on cash	(0.4)	(1.6)
Interest on finance lease assets	(4.3)	(1.2)
Total interest income	(4.7)	(2.8)
Interest expense		
Private placement loan notes ¹	17.9	20.6
Cash flow hedges recycled to the income statement	0.6	(4.5)
Bank loans and overdrafts	5.9	4.9
Interest on finance lease liabilities	23.8	25.1
Net interest cost on defined benefit pension schemes	1.5	3.2
Total interest expense	49.7	49.3
Net finance expense included in adjusted profit	45.0	46.5
Included within business exits		
Bank loans and overdrafts	0.4	0.1
Discount unwind on public sector subsidiary partnership payment	0.4	1.1
Other financial income	(0.3)	—
Fair value hedge ineffectiveness ²	—	0.4
Other items excluded from adjusted profits		
Non-designated foreign exchange forward contracts – mark-to-market	1.5	0.9
Fair value hedge ineffectiveness ²	(0.1)	0.6
Net finance expenses excluded from adjusted profit	1.9	3.1
Total net finance expense	46.9	49.6

1. Private placement loan notes comprise US private placement loan notes, euro fixed rate bearer notes, and a Schuldschein loan.

2. Fair value hedge ineffectiveness arises from changes in currency basis, and the movement in a provision for counterparty risk associated with the swaps.

9 Earnings/(loss) per share

Basic earnings/(loss) per share are calculated by dividing net profit for the period attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings/(loss) per share are calculated by dividing the net profit for the period attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

		2021		2020	
		Continuing operations p	Total operations p	Continuing operations p	Total operations p
Basic earnings/(loss) per share	– adjusted	1.61	1.61	2.41	2.41
	– reported	13.33	13.52	(0.41)	0.85
Diluted earnings/(loss) per share	– adjusted	1.59	1.59	2.41	2.37
	– reported	13.15	13.33	(0.41)	0.85

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

		2021		2020	
		Continuing operations £m	Total operations £m	Continuing operations £m	Total operations £m
Adjusted profit before tax for the period		93.5	93.5	5.4	5.4
Income tax credit/(charge)		(64.8)	(64.8)	25.3	25.3
Adjusted profit for the period		28.7	28.7	30.7	30.7
Less: Non-controlling interest		(1.9)	(1.9)	9.2	9.2
Adjusted profit attributable to shareholders		26.8	26.8	39.9	39.9
Reported profit/(loss) before tax for the period		285.6	288.7	(49.4)	(28.6)
Income tax credit/(charge)		(61.5)	(61.5)	47.6	47.6
Reported profit/(loss) for the period		224.1	227.2	(1.8)	19.0
Less: Non-controlling interest		(2.5)	(2.5)	(5.0)	(5.0)
Total profit/(loss) attributable to shareholders		221.6	224.7	(6.8)	14.0

		2021 m	2020 m
Weighted average number of ordinary shares (excluding trust and treasury shares) for basic earnings per share		1,661.9	1,656.1
Dilutive potential ordinary shares:			
Employee share options		23.9	27.4
Weighted average number of ordinary shares (excluding trust and treasury shares) adjusted for the effect of dilution		1,685.8	1,683.5

At 31 December 2021 nil (2020: 27,447,210) options were excluded from the diluted weighted average number of ordinary shares used in the reported continuing operations earnings per share calculation because their effect would have been anti-dilutive. Under IAS 33 *Earnings per Share*, potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

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

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date on which these consolidated financial statements were authorized for issue.

10 Property, plant and equipment

	2021			2020		
	Leasehold improvements, land and buildings £m	Plant and machinery £m	Total £m	Leasehold improvements, land and buildings £m	Plant and machinery £m	Total £m
Cost						
At 1 January	103.3	193.2	296.5	118.1	206.6	324.7
Additions	8.1	17.5	25.6	21.0	19.8	40.8
Disposal of business	—	(0.8)	(0.8)	(0.7)	(0.1)	(0.8)
Disposals – included in adjusted profit	(1.6)	(10.3)	(11.9)	(5.3)	(14.8)	(20.1)
Disposals – excluded from adjusted profit	(0.8)	(0.1)	(0.9)	(19.9)	(14.4)	(34.3)
Transfer to assets held-for-sale	(0.1)	(0.6)	(0.7)	(1.0)	(11.8)	(12.8)
Reclassifications	—	(1.9)	(1.9)	(1.1)	7.8	6.7
Asset retirements	(8.9)	(25.8)	(34.7)	(6.8)	(1.4)	(8.2)
Exchange movement	(0.4)	(2.1)	(2.5)	(1.0)	1.5	0.5
At 31 December	99.6	169.1	268.7	103.3	193.2	296.5
Depreciation and impairment						
At 1 January	41.6	97.7	139.3	47.3	83.1	130.4
Depreciation charged in the year - included in adjusted profit	9.4	38.7	48.1	9.0	39.8	48.8
Depreciation charged in the year - included in business exits	—	0.5	0.5	—	2.1	2.1
Disposal of business	—	(0.6)	(0.6)	(0.2)	(0.1)	(0.3)
Disposals – included in adjusted profit	(1.3)	(10.1)	(11.4)	(4.6)	(12.3)	(16.9)
Disposals – excluded from adjusted profit	(0.8)	(0.1)	(0.9)	(3.9)	(14.3)	(18.2)
Impairment – included in adjusted profit	—	0.8	0.8	1.2	2.2	3.4
Impairment – excluded from adjusted profit	0.6	0.5	1.1	—	6.9	6.9
Transfer to assets held-for-sale	(0.1)	(0.2)	(0.3)	(0.7)	(8.8)	(9.5)
Reclassifications	—	(0.4)	(0.4)	—	—	—
Asset retirements	(8.9)	(25.8)	(34.7)	(6.8)	(1.4)	(8.2)
Exchange movement	—	(1.8)	(1.8)	0.3	0.5	0.8
At 31 December	40.5	99.2	139.7	41.6	97.7	139.3
Net book value						
At 1 January	61.7	95.5	157.2	70.8	123.5	194.3
At 31 December	59.1	69.9	129.0	61.7	95.5	157.2

At 31 December 2021, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £3.6m (2020: £5.3m), relating to building improvements on leased property.

During the year, the Group exited a number of properties and their related leasehold improvement assets were disposed of for no consideration. Since these exits were part of the Group wide transformation, the related charge was excluded from adjusted profit.

11 Intangible assets

	2021			2020		
	Intangible assets acquired in business combinations £m	Capitalised/ purchased software £m	Total £m	Intangible assets acquired in business combinations £m	Capitalised/ purchased software £m	Total £m
Cost						
At 1 January	174.3	314.2	488.5	371.0	363.0	734.0
Business disposal	(61.3)	(7.6)	(68.9)	—	(3.5)	(3.5)
Additions	—	32.5	32.5	—	46.6	46.6
Disposals – included in adjusted profit	—	(3.5)	(3.5)	—	(31.6)	(31.6)
Disposals – excluded from adjusted profit	—	(2.9)	(2.9)	—	(2.0)	(2.0)
Transfer to assets held-for-sale	(6.8)	(16.4)	(23.2)	—	(46.0)	(46.0)
Reclassifications	—	1.9	1.9	—	—	—
Asset retirement	(50.3)	(94.8)	(145.1)	(202.9)	(13.9)	(216.8)
Exchange movement	(0.5)	(0.7)	(1.2)	6.2	1.6	7.8
At 31 December	55.4	222.7	278.1	174.3	314.2	488.5
Amortisation and impairment						
At 1 January	135.4	88.1	223.5	296.9	82.9	379.8
Amortisation charged in the year - included in adjusted profit	—	36.8	36.8	—	36.7	36.7
Amortisation charged in the year - excluded from adjusted profit	12.0	—	12.0	24.8	—	24.8
Amortisation charged in the year - included in business exits	4.9	4.0	8.9	7.5	5.6	13.1
Impairment – included in adjusted profit	—	2.1	2.1	—	0.1	0.1
Impairment – excluded from adjusted profit	—	54.1	54.1	1.6	0.9	2.5
Impairment – included in business exits	—	2.5	2.5	—	—	—
Business disposal	(46.5)	(2.4)	(48.9)	—	(0.3)	(0.3)
Disposals – included in adjusted profit	—	(3.2)	(3.2)	—	(21.9)	(21.9)
Disposals – excluded from adjusted profit	—	(2.9)	(2.9)	—	(0.4)	(0.4)
Transfer to assets held-for-sale	(5.7)	(3.1)	(8.8)	—	(1.6)	(1.6)
Reclassifications	—	0.4	0.4	—	—	—
Asset retirement	(50.3)	(94.8)	(145.1)	(202.9)	(13.9)	(216.8)
Exchange movement	(0.2)	(0.4)	(0.6)	7.5	—	7.5
At 31 December	49.6	81.2	130.8	135.4	88.1	223.5
Net book value						
At 1 January	38.9	226.1	265.0	74.1	280.1	354.2
At 31 December	5.8	141.5	147.3	38.9	226.1	265.0

Intangible assets acquired in business combinations include brands (net book value 2021: £nil, 2020: £2.6m), Intellectual Property software and licences (net book value 2021: £nil, 2020: £20.9m), contracts and committed sales (net book value 2021: £3.3m, 2020: £7.7m) and clients lists and relationships (net book value 2021: £2.5m, 2020: £7.7m). Intangible assets capitalised or purchased include capitalised software development (net book value 2021: £120.7m, 2020: £184.0m) and purchased software (net book value 2021: £20.8m, 2020: £42.1m).

'Impairment - excluded from adjusted profit' includes £53.5m in respect of areas of a new financial reporting system invested in as part of the finance transformation that are no longer expected to be used. Refer to the Chief Financial Officer's review for details.

12 Goodwill

	2021 £m	2020 £m
Cost		
At 1 January	1,918.5	2,016.1
Business disposal	(65.7)	(52.4)
Transfer to disposal group assets held-for-sale	(177.3)	(45.3)
Exchange movement	1.3	0.1
At 31 December	1,676.8	1,918.5
Accumulated impairment		
At 1 January	798.0	838.3
Business disposal	—	(40.3)
Transfer to disposal group assets held-for-sale	(89.0)	—
Impairment – excluded from adjusted profit	11.5	—
Impairment – included in business exits	4.6	—
At 31 December	725.1	798.0
Net book value		
At 1 January	1,120.5	1,177.8
At 31 December	951.7	1,120.5

Cash-generating units

As announced in March 2021, the Group has put in place a new organisational structure effective from August 2021 comprising two core divisions, Capita Public Service and Capita Experience, and a third division holding our non-core assets, Capita Portfolio.

Following this reorganisation, the Group has reviewed the historical assessment of CGUs and the allocation of goodwill. Reflecting the way management now exercises oversight and monitors the Group's performance, the Board concluded that the lowest level at which goodwill is monitored is at the divisional level for Capita Public Service and Capita Experience, and at a sub-divisional level for Capita Portfolio, and goodwill has been reallocated to these new CGUs or group of CGUs. Where possible, goodwill was reallocated to the new CGUs by transferring the goodwill balance created on acquisition of the business to the CGU in which the business now primarily resides under the new organisational structure. In some cases it was not possible to clearly determine a single CGU in which the acquired business now primarily resides, and in these instances the goodwill was apportioned to the new CGUs using an allocation method that best reflected the goodwill associated with the reorganised units. As at 31 December 2021 the Group has nine CGUs or groups of CGUs for the purpose of impairment testing of goodwill. The opening goodwill balance as at 1 January 2021 has been reallocated for comparable purposes.

Carrying amount of goodwill allocated to groups of CGUs:

CGU	Capita Public Service £m	Capita Experience £m	Capita Portfolio							Total £m
			People £m	Software £m	Property £m	Business Solutions £m	Technology £m	Travel £m	Other ¹ £m	
At 1 January	284.6	218.9	106.5	94.7	82.6	32.6	102.8	80.2	117.6	1,120.5
Business disposals	—	—	—	—	—	—	—	—	(65.7)	(65.7)
Transfer to assets held-for-sale	—	—	—	(51.4)	—	—	—	—	(36.9)	(88.3)
Impairment	—	—	—	—	—	—	—	(11.5)	—	(11.5)
Impairment – business exits	—	—	—	(4.6)	—	—	—	—	—	(4.6)
Exchange movement	—	1.3	—	—	—	—	—	—	—	1.3
At 31 December	284.6	220.2	106.5	38.7	82.6	32.6	102.8	68.7	15.0	951.7

1. Other group of CGUs includes other businesses that have been disposed of or transferred to held for sale during the year and the Fera CGU.

Business exits

As set out in note 5, three businesses were fully disposed of during the year. Goodwill relating to two of these businesses had been reclassified to disposal group assets held-for-sale at 31 December 2020. Goodwill relating to the third disposal is included within the Other group of CGUs as at 1 January 2021, and derecognised as part of business disposals.

Three additional businesses within Capita Portfolio (within the Software CGU and Other group of CGUs) that the Group has or intends to dispose of in 2022 met the criteria to be treated as held-for-sale at 31 December 2021, with goodwill relating to these businesses reclassified to disposal group assets held-for-sale.

One business within the Software CGU met the criteria to be treated as a business exit at 31 December 2021. Goodwill relating to this business has been impaired within business exits.

The impairment test

The Group's impairment test compares the carrying value of each CGU with its recoverable amount. The recoverable amount of a CGU is the higher of fair value less cost of disposal, and its value in use. As described in the strategic report, 2021 marked the culmination of the Group's multi-year transformation programme. The recoverable amount of each group of CGUs has therefore been calculated using value in use (being the present value of future cash flows for each CGU) with the exception of the Technology CGU (representing the Trustmarque business) where the fair value less cost to sell was readily determinable and has instead been used. The fair value of the Technology CGU is based on the disposal proceeds expected to be received on completion of the Trustmarque disposal, and is categorised as Level 3 in the fair value hierarchy of IFRS 13.

In undertaking the annual impairment review, the directors considered both internal and external sources of information, and any observable indications that may suggest that the carrying value of goodwill may be impaired. This included a comparison with the Group's share price and market capitalisation.

As at 31 December 2021, the estimated recoverable amount of each CGU exceeded its respective carrying value, except for the Travel CGU where a goodwill impairment of £11.5m was recognised. Following the organisational restructure in 2021 this is the first year that the Group's Travel business is a stand-alone CGU for impairment testing purposes. In 2020 it formed part of the Specialist Services group of CGUs. The goodwill impairment was primarily driven by the continuing impact of Covid-19 on the travel industry, which is reflected in the recovery assumptions applied to the CGU's near-term business plans, as well as the increase in comparable companies' discount rates.

12 Goodwill continued

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

Forecast cash flows

The cash flow projections prepared for the impairment test are derived from the 2022-2024 business plans (BP) approved by the Board.

Covid-19 and the associated recovery continued to introduce unprecedented economic uncertainties and has led to increased judgement particularly in forecasting future financial performance.

Other than for movements in deferred income and contract fulfilment assets, cash flows are adjusted to exclude working capital movements since the corresponding balances are not included in the CGU carrying amount.

The Board has considered an appropriate methodology to apply when allocating central function costs, which is a key sensitivity. The methodology applied for the 2021 impairment test was aligned to that applied in reporting segmental performance. The remaining costs of the Capita plc segment are allocated based on 2022 EBITDA representing the first year of business post transformation.

The long-term growth rate is based on economic growth forecasts by recognised bodies and this been applied to forecast cash flows for years four and five (2025 and 2026) and for the terminal period. The 2021 long-term growth rate is 1.7% (2020: 1.6%).

Discount rates

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

The table below represents the pre-tax discount rates used on the cash flows for 2021. The 2020 rates have not been reported due to the CGU restructure in the second half of 2021.

	Capita Public Service	Capita Experience	Capita Portfolio						
			People	Software	Property	Business Solutions	Technology	Travel	Other
2021	13.0%	11.6%	12.4%	12.8%	13.2%	13.3%	13.2%	15.7%	11.9%

Sensitivity analysis

The impairment testing as described is reliant on the accuracy of management's forecasts and the assumptions that underlie them; and on the selection of the discount and growth rates to be applied. To gauge the sensitivity of the result to a change in any one, or combination of the assumptions that underlie the model, a number of scenarios were developed to identify the range of reasonably possible alternatives and measure which CGUs are the most susceptible to an impairment should the assumptions used be varied.

The table below shows the additional impairment required (with all other variables being equal) by: an increase in discount rate of 1%, or a decrease of 1% in the long-term growth rate (for the terminal period) for the Group in total and each of the CGUs; or, by the severe but plausible downsides applied to the base-case projections for assessing going concern and viability, without mitigations, for 2022 to 2024, and the long-term growth rate (1.7%) applied to projected cash flows for 2025, 2026, and the terminal period. We have also considered the impact of all of the scenarios together, which is also a reasonable possible alternative.

	1% increase in discount rate £m	Long-term growth rate decrease by 1% £m	Severe but plausible downside £m	Combination sensitivity £m
Capita Public Service	—	—	—	—
Capita Experience	—	—	(37.5)	(88.9)
Capita Portfolio - People	—	—	(22.0)	(34.1)
Capita Portfolio - Software	—	—	—	—
Capita Portfolio - Property	—	—	(6.4)	(16.0)
Capita Portfolio - Business Solutions	—	—	—	—
Capita Portfolio - Travel	(4.9)	(3.1)	(12.4)	(18.6)
Capita Portfolio - Other	—	—	—	—
Total	(4.9)	(3.1)	(78.3)	(157.6)

Under the combination sensitivity scenario, an increase in impairment for Travel and impairments in relation to Experience, People and Property CGUs have been highlighted. Whereas under the base case impairment test the recoverable amount exceeded the carrying amount of assets (including goodwill) relating to these CGUs by £174.9m for Experience, £10.6m for People and £10.2m for Property.

Management continue to monitor closely the performance of all CGUs and consider the impact of any changes to the key assumptions. Given trading is still being affected by the continued recovery from Covid-19, there is a greater range of potential future outcomes. A number of these downsides would give rise to an impairment.

13 Provisions

	Restructuring provision £m	Business exit provision £m	Claim and litigation provision £m	Property provision £m	Customer contract provision £m	Other provisions £m	Total £m
At 1 January	13.5	15.3	41.7	8.7	38.1	7.1	124.4
Reclassifications	0.2	—	—	0.8	0.1	(1.1)	—
Provisions in the year	24.6	8.3	7.1	4.0	62.5	9.7	116.2
Releases in the year	(1.6)	(5.4)	(6.2)	(3.4)	(9.1)	(1.8)	(27.5)
Utilisation	(11.1)	(16.7)	(29.4)	(0.4)	(6.9)	(5.6)	(70.1)
Transfer to disposal group liabilities held-for-sale	—	—	—	—	—	(2.4)	(2.4)
At 31 December	25.6	1.5	13.2	9.7	84.7	5.9	140.6

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

Restructuring provision: the provision represents the cost of reducing headcount where communication to affected employees has crystallised a valid expectation that roles are at risk and it is likely to unwind over a period of one to two years. Additionally, it relates to unavoidable running costs of leasehold properties, such as insurance and security, and dilapidation provision, where properties are exited as a result of the transformation plan. These provisions are likely to unwind over periods of up to 25 years.

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

Claims and litigation provision: the Group is exposed to claims and litigation proceedings arising in the ordinary course of business. These matters are reassessed regularly and where obligations are probable and estimable, provisions are made representing the Group's best estimate of the expenditure to be incurred. Due to the nature of the remaining claims, the Group cannot give an estimate of the period over which this provision will unwind.

Property provision: the provision relates to unavoidable running costs, such as insurance and security, of leasehold property where the space is vacant or currently not planned to be used for ongoing operations, and for dilapidation costs, as part of the ordinary course of business and not the Group wide transformation plan (where such costs are included in the restructuring provision). The expectation is that this expenditure will be incurred over the remaining periods of the leases which vary up to two years.

Customer contract provision: the provision includes onerous contract provisions in respect of customer contracts where the unavoidable costs of meeting the obligations under the contracts exceeds the economic benefits expected to be received under them, claims/obligations associated with missed milestones in contractual obligations, and other potential exposures related to contracts with customers. These provisions are forecast to unwind over periods up to six years.

The customer contract provision includes £54.5m in respect of contracts in Capita Experience. The new corporate structure has simplified internal reporting, which has highlighted those businesses that represent a drag on the Group cash resources. This includes the Life & Pensions business that provides outsourced administration services for the associated closed pension books which we main on behalf of clients.

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

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

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

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

This reassessment, reflecting the developments in the latter half of 2021, provides cover for contracts to extend out to 2026. This has resulted in an increase to the contract provision of £39.5m which has been reported as an adjusting item. In prior years the financial impacts of such contract judgements have not been shown as adjusting items as they were considered to be normal course of business, not material in the context of the Group results and not associated with the transformation plan. However, due to the quantum of the charge arising from the 2021 reassessment, the Board consider it appropriate to separately disclose this as an adjusted item to highlight the impact on the results in the period.

Other provisions: relates to provisions in respect of other potential exposures arising due to the nature of some of the operations that the Group provides which are immaterial on an individual basis. This includes provision for regulatory audits, employee related matters and related professional fees which are not included within the restructuring provision. These are likely to unwind over periods of up to five years.

14 Cash flow information

	Note	2021		2020	
		Adjusted £m	Reported £m	Adjusted ¹ £m	Reported £m
Cash flows from operating activities:					
Operating profit/(loss)	4	139.1	(86.6)	51.1	(32.0)
Adjustments for non-cash items:					
Depreciation		116.3	117.1	137.0	139.1
Amortisation of intangible assets	11	36.8	57.7	36.8	74.6
Share-based payment expense		1.2	1.2	6.4	6.4
Employee benefits		8.9	8.9	13.1	13.1
Loss on sale of property, plant and equipment / intangible assets		0.7	0.7	2.4	17.1
Impairment of disposal group assets		—	44.1	—	11.7
Impairment of non-current assets		2.9	90.0	3.5	32.2
Other adjustments:					
Movement in provisions		11.4	21.9	30.1	44.0
Pension deficit contribution		—	(155.5)	—	(29.5)
Other contributions into pension schemes		(8.4)	(8.4)	(19.5)	(19.5)
Movements in working capital:					
Trade and other receivables		(7.1)	(1.2)	148.4	172.7
Non-recourse trade receivables financing		—	(9.7)	—	13.6
Trade and other payables		16.7	44.2	(56.1)	(58.4)
VAT deferral		—	(104.1)	—	118.8
Deferred income		(92.8)	(116.9)	(26.1)	(46.8)
Contract fulfilment assets (non-current)		(40.3)	(24.7)	(31.9)	(22.9)
Cash generated from operations		185.4	(121.3)	295.2	434.2
Adjustments for free cash flows:					
Income tax paid		(15.5)	(17.7)	(8.8)	(8.8)
Net interest paid		(40.5)	(40.1)	(47.8)	(47.7)
Net cash flows from operating activities		129.4	(179.1)	238.6	377.7
Purchase of property, plant and equipment	10	(18.9)	(25.6)	(36.1)	(40.8)
Purchase of intangible assets	11	(32.5)	(32.5)	(42.7)	(46.6)
Proceeds from sale of property, plant and equipment / intangible assets		0.1	0.1	10.5	13.5
Free cash flow		78.1	(237.1)	170.3	303.8

14 Cash flow information continued

Adjusted free cash flow and cash generated from operations

	Free cash flow		Cash generated/(used) by operations	
	2021 £m	2020 £m	2021 £m	2020 £m
Reported	(237.1)	303.8	(121.3)	434.2
Pension deficit contributions	155.5	29.5	155.5	29.5
Significant restructuring	68.6	64.1	68.6	64.1
Litigation and claims	18.5	—	18.5	—
Business exits	(41.2)	(102.2)	(49.7)	(106.2)
Business exits - on hold disposal costs	—	7.5	—	7.5
Non-recourse trade receivables financing	9.7	(13.6)	9.7	(13.6)
VAT deferral	104.1	(118.8)	104.1	(118.8)
Other	—	—	—	(1.5)
Adjusted	78.1	170.3	185.4	295.2

Pension deficit contributions: in 2012, the Group established the Capita Scotland (Pension) Limited Partnership (the 'Partnership') with the Scheme. Under this arrangement, intellectual property rights (IPR) in specific Group software were transferred to the partnership and the rights to use, develop and exploit this IPR was licensed back to the Group in return for an annual fee. The Scheme's interest in the Partnership entitles it to an annual distribution of £8.0m for 15 years from inception. However, at 31 December 2020, the Scheme's interest in the Partnership ceased and in return the Scheme received a special contribution of £50.1m in February 2021 (for 31 December 2020: distributions of £8.0m were received).

In June 2021, the Group agreed a deficit recovery plan with the Trustee of the Capita Pension and Life Assurance Scheme (the "Scheme") following completion of the full actuarial valuation as at 31 March 2020. The payments under the agreed recovery plan total £124m to be paid between July 2021 and December 2023. In addition to this, the Group agreed to make additional, non-statutory, contributions of £15m each year in 2024, 2025 and 2026 to meet a secondary funding target.

As part of the 2017 funding agreement, additional monthly contributions of £4.16m were triggered from July 2020 until the 31 March 2020 valuation was finalised in June 2021. The Trustee Board and the Group agreed that these contributions would be paid into an escrow account (instead of the scheme), with the escrow account being released to the scheme later. The amounts held in escrow at 31 December 2021 (£5.0m) are included in the pension deficit contributions figures above and are recognised within current other receivables in the consolidated balance sheet.

During 2021, in addition to the £5.0m held in escrow, the Group paid £145.7m (this includes the following main items: (i) £59m paid in accordance with the June 2021 agreement, (ii) the special contribution received from ceasing interest in the Partnership (£50.1m as above) and (iii) contributions (£35.7m) agreed in November 2018 following completion of the full actuarial valuation as at 31 March 2017) to the Scheme (2020: £36.8m including the distributions received from the Partnership (£8m as above)).

In addition, £4.8m in deficit contributions were paid to other schemes that Capita participates in during 2021 (2020: £0.5m).

These payments have been excluded from adjusted cash flows because the Group treats them like debt.

Significant restructuring: in April 2018, the Group announced a multi-year transformation plan. In the period to 31 December 2021, a cash outflow of £68.6m (2020: £64.1m) was incurred in relation to the cost of the transformation plan and restructuring costs relating to Capita's previously announced cost reduction plan. The difference between the 2021 income statement charge of £148.3m and the cash flow of £68.6m is principally the impairment of the new financial reporting system (£53.5m) and impairment of right of use assets arising on rationalisation of the Group's property portfolio (£13.3m).

The cumulative significant restructuring cash outflows since the commencement of the group-wide transformation in 2018 is £385.4m. 2021 is the final year of major investments in the transformation plan where the costs are excluded from adjusted results. From 1 January 2022, any residual restructuring will be recorded within adjusted results.

Litigation and claims: the Group settled a legal claim, that had been fully provided for in a prior year and received an insurance settlement in respect of the same claim. The claim was excluded from adjusted results when provided due to its historical nature and size, and accordingly the insurance receipt has also been excluded from adjusted results. In addition, the Group paid the cash element of an agreed liability relating to past services received under supplier software licence agreements which had been fully provided for in the prior year. This was excluded from adjusted results because it related to services received in prior periods and is not reflective of current trading.

Business exits: the cash flows of businesses exited, or in the process of being exited, and the proceeds from disposals, are disclosed outside the adjusted results. The 2020 results have been restated for those businesses exited, or in the process of being exited during 2021 to enable comparability of the adjusted results.

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

Non-recourse trade receivables financing: a Group non-recourse trade receivables financing facility was put in place to mitigate the risk of customer receipts slippage resulting from the impact of the Covid-19 pandemic. The amounts excluded from adjusted cash flows do not include the Group's German business trade receivables financing facility as this was entered into in the normal course of business.

VAT deferral: utilisation of the Government's VAT deferral scheme.

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

14 Cash flow information continued

Reconciliation of net cash flow to movement in net debt

Year ended 31 December 2021	Net debt at 1 January £m	Cash flow movements £m	Non-cash movement ² £m	Net debt at 31 December £m
Cash, cash equivalents and overdrafts	141.1	(43.6)	4.0	101.5
Other loan notes	(2.3)	1.0	—	(1.3)
Credit facilities	—	(46.0)	—	(46.0)
Private placement loan notes ¹	(765.1)	234.2	18.0	(512.9)
Cross-currency interest rate swaps ¹	57.5	(19.7)	(9.8)	28.0
Interest rate swaps ¹	0.5	—	(0.5)	—
Lease liabilities	(508.1)	82.6	(22.9)	(448.4)
Total net liabilities from financing activities	(1,217.5)	252.1	(15.2)	(980.6)
Deferred consideration	(0.7)	—	—	(0.7)
Net debt	(1,077.1)	208.5	(11.2)	(879.8)

1. The sum of these items equates to the fair value of the Group's private placement loan note's debt of £484.9m (2020: £707.1m). Cash flow movement in private placement loan notes includes both repayment of private placement loan notes of £232.3m (2020: £242.9m) and finance arrangement costs of £1.9m (2020: £0.5m).

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

Year ended 31 December 2020	Net debt at 1 January £m	Cash flow movements £m	Non-cash movement £m	Net debt at 31 December £m
Cash, cash equivalents and overdrafts	119.3	27.2	(5.4)	141.1
Other loan notes	(0.5)	—	(1.8)	(2.3)
Private placement loan notes	(990.5)	243.4	(18.0)	(765.1)
Cross-currency interest rate swaps	77.3	(24.5)	4.7	57.5
Interest rate swaps	1.0	—	(0.5)	0.5
Lease liabilities	(562.6)	98.0	(43.5)	(508.1)
Total net liabilities from financing activities	(1,475.3)	316.9	(59.1)	(1,217.5)
Deferred consideration	(0.7)	—	—	(0.7)
Net debt	(1,356.7)	344.1	(64.5)	(1,077.1)

15 Contingent liabilities

Contingent liabilities represent potential future cash outflows which are either not probable or cannot be measured reliably.

The Group has provided, through the normal course of its business, performance bonds and bank guarantees of £28.7m (2020: £55.8m).

The Group is in discussions with a number of its closed book Life & Pensions clients, the outcomes and timings of which are uncertain but could result in the continuation of contracts with amended terms or the termination of contracts. If an operation is terminated, the Group may incur associated costs, accelerate the recognition of deferred income or the impairment of contract assets.

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

At any time there are a number of claims or notifications that need to be assessed across the Group. The disparate nature of the Group's entities heightens the risk that not all potential claims are known at any point in time.

16 Post balance sheet events

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

Disposal of AMT Sybex

The disposal of the AMT Sybex software business to Jonas Computing (UK) Limited completed on 1 January 2022.

Cash proceeds of £23.0m were received on completion, which included the settlement of intercompany balances owed by AMT Sybex to the Group of £12.8m. Following an impairment of assets in 2021 based on the expected fair value less cost of disposal of the business, net assets of £17.7m were disposed of on completion. Total costs of disposal are estimated to be £3.4m, of which £1.7m were recognised at 31 December 2021

Potential additional consideration of up to £17m is payable to Capita over 24 months, subject to certain conditions.

Disposal of Secure Solutions and Services (SSS)

The disposal of the SSS business to NEC Software Solutions UK completed on 3 January 2022.

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

Disposal of Trustmarque

The disposal of the Trustmarque business to One Equity Partners was announced on 28 January 2022 for £111m on a cash free, debt free basis, and the Group expects to receive net proceeds of c.£115m at completion. Additional consideration of c.£3m is payable to Capita contingent on certain future events. The sale is subject to certain consents.

Appendix - Alternative performance measures

The Group presents various alternative performance measures (APMs) as the performance of the Group is reported and measured on this basis internally or reported on externally for covenant purposes. This includes key performance indicators (KPIs) such as adjusted revenue, adjusted profit before tax, adjusted earnings per share, adjusted free cash flow, adjusted return on capital employed, interest cover and gearing ratios.

These APMs should not be viewed as a complete picture of the Group's financial performance which is presented in the reported results. The exclusion of certain items may result in a more favourable view when costs such as significant restructuring, acquired intangible amortisation and impairments of goodwill are excluded. These measures may not be comparable when reviewing similar measures reported by other companies.

APM	Closest equivalent IFRS measure	Definition, Purpose and Reconciliation																																																	
Income statement																																																			
Adjusted revenue	Revenue	<p>Calculated as revenue less any revenue relating to businesses that have been disposed of, or exited during the year or prior year; or, are in the process of being disposed of, or exited.</p> <p>This headline measure of revenue is used internally to analyse the growth in sales in the Group's core business (being: the Group's continuing activities, which exclude business exits) and the directors believe it is a good indication of ongoing performance.</p> <p>The table below shows a reconciliation between reported and adjusted revenue, as well as adjusted revenue growth/(decline):</p> <table border="1"> <thead> <tr> <th></th> <th>2021</th> <th>2020</th> </tr> </thead> <tbody> <tr> <td>Reported revenue per the income statement</td> <td>£3,182.5m</td> <td>£3,324.8m</td> </tr> <tr> <td>Deduct: business exit (note 7)</td> <td>(£174.0m)</td> <td>(£329.3m)</td> </tr> <tr> <td>Adjusted revenue</td> <td>£3,008.5m</td> <td>£2,995.5m</td> </tr> <tr> <td>Adjusted revenue growth/(decline)</td> <td>0.4%</td> <td>(9.7)%</td> </tr> </tbody> </table>		2021	2020	Reported revenue per the income statement	£3,182.5m	£3,324.8m	Deduct: business exit (note 7)	(£174.0m)	(£329.3m)	Adjusted revenue	£3,008.5m	£2,995.5m	Adjusted revenue growth/(decline)	0.4%	(9.7)%																																		
	2021	2020																																																	
Reported revenue per the income statement	£3,182.5m	£3,324.8m																																																	
Deduct: business exit (note 7)	(£174.0m)	(£329.3m)																																																	
Adjusted revenue	£3,008.5m	£2,995.5m																																																	
Adjusted revenue growth/(decline)	0.4%	(9.7)%																																																	
Adjusted operating profit	Operating profit	<p>Calculated as reported operating profit excluding items determined by the Board to be outside underlying operations. These items are detailed in note 4.</p> <p>The directors believe that this measure is useful for investors because it is closely monitored by management to evaluate the Group's operating performance and to make financial, strategic and operating decisions.</p> <p>A reconciliation of reported to adjusted operating profit is provided in note 4.</p>																																																	
Adjusted operating profit margin	Operating profit margin	<p>Calculated as the adjusted operating profit divided by adjusted revenue.</p> <p>This measure is an indicator of the Group's operating efficiency.</p> <p>The table below shows the components, and calculation, of adjusted operating profit margin:</p> <table border="1"> <thead> <tr> <th></th> <th>2021</th> <th>2020</th> </tr> </thead> <tbody> <tr> <td>Adjusted revenue</td> <td>a £3,008.5m</td> <td>£2,995.5m</td> </tr> <tr> <td>Adjusted operating profit (note 4)</td> <td>b £139.1m</td> <td>£51.1m</td> </tr> <tr> <td>Adjusted operating profit margin</td> <td>b/a 4.6%</td> <td>1.7%</td> </tr> </tbody> </table>		2021	2020	Adjusted revenue	a £3,008.5m	£2,995.5m	Adjusted operating profit (note 4)	b £139.1m	£51.1m	Adjusted operating profit margin	b/a 4.6%	1.7%																																					
	2021	2020																																																	
Adjusted revenue	a £3,008.5m	£2,995.5m																																																	
Adjusted operating profit (note 4)	b £139.1m	£51.1m																																																	
Adjusted operating profit margin	b/a 4.6%	1.7%																																																	
Adjusted EBITDA	EBITDA	<p>Calculated as adjusted operating profit for the last twelve months before: depreciation, amortisation and impairment of property, plant and equipment and intangible assets; net finance costs; and, the share of results in associates and investment gains (other than those already excluded from adjusted operating profit).</p> <p>The directors believe that adjusted EBITDA is a useful measure for investors because it is closely monitored by management to evaluate Group and divisional operating performance and is the basis of the measure agreed with the lenders for the purpose of measuring compliance with covenants.</p> <p>This measure has been calculated pre and post IFRS 16 to enable investors to understand the impact of the Group's lease portfolio on adjusted EBITDA.</p> <p>The table below shows the calculation of adjusted EBITDA:</p> <table border="1"> <thead> <tr> <th rowspan="2"></th> <th colspan="2">Post IFRS 16</th> <th colspan="2">Pre IFRS 16</th> </tr> <tr> <th>2021</th> <th>2020</th> <th>2021</th> <th>2020</th> </tr> </thead> <tbody> <tr> <td>Adjusted profit before tax</td> <td>£93.5m</td> <td>£5.4m</td> <td>£104.2m</td> <td>£17.4m</td> </tr> <tr> <td>Add back: adjusted net finance costs (note 8)</td> <td>£45.0m</td> <td>£46.5m</td> <td>£25.5m</td> <td>£22.6m</td> </tr> <tr> <td>Add back: adjusted depreciation and impairment of property, plant and equipment</td> <td>£48.9m</td> <td>£52.3m</td> <td>£48.9m</td> <td>£52.3m</td> </tr> <tr> <td>Add back: depreciation of right-of-use assets</td> <td>£68.2m</td> <td>£88.2m</td> <td>£—m</td> <td>£—m</td> </tr> <tr> <td>Add back: adjusted amortisation and impairment of intangibles</td> <td>£38.9m</td> <td>£36.8m</td> <td>£38.9m</td> <td>£36.8m</td> </tr> <tr> <td>Remove: Share of results in associates and investment gains (income statement)</td> <td>£0.6m</td> <td>(£0.8m)</td> <td>£0.6m</td> <td>(£0.8m)</td> </tr> <tr> <td>Adjusted EBITDA</td> <td>£295.1m</td> <td>£228.4m</td> <td>£218.1m</td> <td>£128.3m</td> </tr> <tr> <td>Adjusted EBITDA margin</td> <td>9.8%</td> <td>7.6%</td> <td>7.2%</td> <td>4.3%</td> </tr> </tbody> </table>		Post IFRS 16		Pre IFRS 16		2021	2020	2021	2020	Adjusted profit before tax	£93.5m	£5.4m	£104.2m	£17.4m	Add back: adjusted net finance costs (note 8)	£45.0m	£46.5m	£25.5m	£22.6m	Add back: adjusted depreciation and impairment of property, plant and equipment	£48.9m	£52.3m	£48.9m	£52.3m	Add back: depreciation of right-of-use assets	£68.2m	£88.2m	£—m	£—m	Add back: adjusted amortisation and impairment of intangibles	£38.9m	£36.8m	£38.9m	£36.8m	Remove: Share of results in associates and investment gains (income statement)	£0.6m	(£0.8m)	£0.6m	(£0.8m)	Adjusted EBITDA	£295.1m	£228.4m	£218.1m	£128.3m	Adjusted EBITDA margin	9.8%	7.6%	7.2%	4.3%
	Post IFRS 16			Pre IFRS 16																																															
	2021	2020	2021	2020																																															
Adjusted profit before tax	£93.5m	£5.4m	£104.2m	£17.4m																																															
Add back: adjusted net finance costs (note 8)	£45.0m	£46.5m	£25.5m	£22.6m																																															
Add back: adjusted depreciation and impairment of property, plant and equipment	£48.9m	£52.3m	£48.9m	£52.3m																																															
Add back: depreciation of right-of-use assets	£68.2m	£88.2m	£—m	£—m																																															
Add back: adjusted amortisation and impairment of intangibles	£38.9m	£36.8m	£38.9m	£36.8m																																															
Remove: Share of results in associates and investment gains (income statement)	£0.6m	(£0.8m)	£0.6m	(£0.8m)																																															
Adjusted EBITDA	£295.1m	£228.4m	£218.1m	£128.3m																																															
Adjusted EBITDA margin	9.8%	7.6%	7.2%	4.3%																																															

Alternative performance measures continued

APM	Closest equivalent IFRS measure	Definition, Purpose and Reconciliation												
Income statement continued														
Adjusted profit before tax	Profit before tax	<p>Calculated as profit or loss before tax excluding the items detailed in note 4 which include, but are not limited to: significant restructuring; business exits (trading results, non-trading expenses, and any gain/(loss) on business disposal); acquired intangible amortisation; and, impairment of goodwill and acquired intangibles.</p> <p>The directors believe that this measure is useful for investors because it is closely monitored by management to evaluate the Group's operating performance and to make financial, strategic and operating decisions.</p> <p>A reconciliation of reported to adjusted profit before tax is provided in note 4.</p>												
Adjusted profit after tax	Profit after tax	<p>Calculated as the above adjusted profit or loss before tax, less the tax credit or expense on adjusted profit or loss.</p> <p>The table below shows a reconciliation:</p> <table border="1"> <thead> <tr> <th></th> <th>2021</th> <th>2020</th> </tr> </thead> <tbody> <tr> <td>Adjusted profit before tax (note 4)</td> <td>£93.5m</td> <td>£5.4m</td> </tr> <tr> <td>Tax on adjusted profit</td> <td>(£64.8m)</td> <td>£25.3m</td> </tr> <tr> <td>Adjusted profit after tax</td> <td>£28.7m</td> <td>£30.7m</td> </tr> </tbody> </table>		2021	2020	Adjusted profit before tax (note 4)	£93.5m	£5.4m	Tax on adjusted profit	(£64.8m)	£25.3m	Adjusted profit after tax	£28.7m	£30.7m
	2021	2020												
Adjusted profit before tax (note 4)	£93.5m	£5.4m												
Tax on adjusted profit	(£64.8m)	£25.3m												
Adjusted profit after tax	£28.7m	£30.7m												
Adjusted tax rate	Tax rate	<p>Calculated as the income tax credit or expense on the adjusted profit or loss before tax divided by the adjusted profit or loss before tax.</p> <p>The effective tax rate for 31 December 2021 is calculated from the current year elements of corporation (£27.8m) and deferred taxes (£78.8m) (2020: £14.6m and £(16.0)m respectively), which exclude one-off items.</p> <p>The directors believe that this tax rate provides an indication of the effective average tax rate across the Group on adjusted profit before tax.</p>												
Adjusted basic earnings per share	Basic earnings per share	<p>Calculated as the adjusted profit/(loss) for the year after tax less non-controlling interests divided by the weighted average number of ordinary shares outstanding during the year.</p> <p>The directors believe that this provides an indication of basic earnings per share of the Group on adjusted profit after tax.</p> <p>For the calculation of adjusted basic earnings per share refer to note 9.</p>												
Adjusted diluted earnings per share	Diluted earnings per share	<p>Calculated as the adjusted profit/(loss) for the year after tax less non-controlling interests divided by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would have been issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.</p> <p>The directors believe that this provides an indication of diluted earnings per share of the Group on adjusted profit after tax.</p> <p>For the calculation of adjusted diluted earnings per share refer to note 9.</p>												
Cash flows and net debt														
Adjusted cash flows generated from operations	Cash generated from operations	<p>Calculated as the cash flows generated from operations excluding the items detailed in note 14 which includes, but are not limited to: significant restructuring; business exits (trading results, non-trading expenses); pension deficit contributions; and, non-recourse trade receivables financing.</p> <p>The directors believe that this measure is useful for investors because it is closely monitored by management to evaluate the Group's operating performance and to make financial, strategic and operating decisions.</p> <p>A reconciliation of reported to adjusted cash generated/(used) from operations is provided in note 14.</p>												
Adjusted free cash flow	Net cash flows from operating activities	<p>Calculated as adjusted cash generated from operations after: capital expenditure; income tax and interest; and, the proceeds from the sale of property, plant and equipment and intangible assets.</p> <p>Free cash flow is a measure used to show how efficient the Group is at generating cash and the directors believe it is useful for investors and management to measure whether the Group has enough cash to fund operations, capital expenditure, debt and pension obligations and dividends.</p> <p>A reconciliation of net cash flows from operating activities to free cash flow is provided in note 14 and a reconciliation of reported to adjusted free cash flow is provided in note 14.</p>												

Alternative performance measures continued

APM	Closest equivalent IFRS measure	Definition, Purpose and Reconciliation																																		
Cash flows and net debt continued																																				
Net debt	Borrowings, cash, derivatives, lease liabilities and deferred consideration	<p>Is calculated as the net of the Group's: cash, cash equivalents and overdrafts; the fair value of the Group's private placement loan notes debt; other loan notes; lease liabilities; and, deferred consideration.</p> <p>The directors believe that net debt enables investors to see the economic effect of debt, related hedges and cash and cash equivalents in total and shows the indebtedness of the Group and it's liquidity.</p> <p>The calculation of net debt is provided in note 14.</p>																																		
Headline net debt	No direct equivalent	<p>Is calculated as the sum of the Group's: cash, cash equivalents and overdrafts; the fair value of the Group's private placement loan notes debt; other loan notes; and, deferred consideration.</p> <p>The directors believe that headline net debt allows the investors to see the impact of the Group's lease portfolio on the net debt position.</p> <table border="1" style="width: 100%; margin-top: 10px;"> <thead> <tr> <th></th> <th style="text-align: right;">2021</th> <th style="text-align: right;">2020</th> </tr> </thead> <tbody> <tr> <td>Net debt (note 14)</td> <td style="text-align: right;">£879.8m</td> <td style="text-align: right;">£1,077.1m</td> </tr> <tr> <td>Remove: IFRS16 impact (note 14)</td> <td style="text-align: right;">(£448.4m)</td> <td style="text-align: right;">(£508.1m)</td> </tr> <tr> <td>Headline net debt</td> <td style="text-align: right;">£431.4m</td> <td style="text-align: right;">£569.0m</td> </tr> </tbody> </table>		2021	2020	Net debt (note 14)	£879.8m	£1,077.1m	Remove: IFRS16 impact (note 14)	(£448.4m)	(£508.1m)	Headline net debt	£431.4m	£569.0m																						
	2021	2020																																		
Net debt (note 14)	£879.8m	£1,077.1m																																		
Remove: IFRS16 impact (note 14)	(£448.4m)	(£508.1m)																																		
Headline net debt	£431.4m	£569.0m																																		
Headline gearing: net debt to adjusted EBITDA ratio	No direct equivalent	<p>This ratio is calculated as net debt divided by adjusted EBITDA including businesses held-for-sale at the balance sheet date.</p> <p>The directors believe that this ratio is useful because it shows how significant net debt is relative to adjusted EBITDA and how many years it would take for the Group to pay back its debt if headline net debt and adjusted EBITDA were held constant.</p> <p>This measure has been calculated including and excluding lease liabilities because the directors believe this provides useful information to enable investors to understand the impact of the Group's lease portfolio on net debt and headline gearing.</p> <p>The table below shows the components, and calculation, of the headline net debt to adjusted EBITDA ratio:</p> <table border="1" style="width: 100%; margin-top: 10px;"> <thead> <tr> <th rowspan="2"></th> <th colspan="2" style="text-align: center;">Post IFRS 16</th> <th colspan="2" style="text-align: center;">Pre IFRS 16</th> </tr> <tr> <th style="text-align: center;">2021</th> <th style="text-align: center;">2020²</th> <th style="text-align: center;">2021</th> <th style="text-align: center;">2020²</th> </tr> </thead> <tbody> <tr> <td>Adjusted EBITDA</td> <td style="text-align: right;">£295.1m</td> <td style="text-align: right;">£293.0m</td> <td style="text-align: right;">£218.1m</td> <td style="text-align: right;">£187.3m</td> </tr> <tr> <td>EBITDA in respect of businesses held-for-sale</td> <td style="text-align: right;">£32.2m</td> <td style="text-align: right;">£53.0m</td> <td style="text-align: right;">£32.2m</td> <td style="text-align: right;">£52.8m</td> </tr> <tr> <td>Adjusted EBITDA (including businesses held-for-sale)</td> <td style="text-align: right;">£327.3m</td> <td style="text-align: right;">£346.0m</td> <td style="text-align: right;">£250.3m</td> <td style="text-align: right;">£240.1m</td> </tr> <tr> <td>Headline net debt</td> <td style="text-align: right;">£879.8m</td> <td style="text-align: right;">£1,077.1m</td> <td style="text-align: right;">£431.4m</td> <td style="text-align: right;">£569.0m</td> </tr> <tr> <td>Headline net debt to adjusted EBITDA ratio</td> <td style="text-align: right;">2.7x</td> <td style="text-align: right;">3.1x</td> <td style="text-align: right;">1.7x</td> <td style="text-align: right;">2.4x</td> </tr> </tbody> </table>		Post IFRS 16		Pre IFRS 16		2021	2020 ²	2021	2020 ²	Adjusted EBITDA	£295.1m	£293.0m	£218.1m	£187.3m	EBITDA in respect of businesses held-for-sale	£32.2m	£53.0m	£32.2m	£52.8m	Adjusted EBITDA (including businesses held-for-sale)	£327.3m	£346.0m	£250.3m	£240.1m	Headline net debt	£879.8m	£1,077.1m	£431.4m	£569.0m	Headline net debt to adjusted EBITDA ratio	2.7x	3.1x	1.7x	2.4x
	Post IFRS 16			Pre IFRS 16																																
	2021	2020 ²	2021	2020 ²																																
Adjusted EBITDA	£295.1m	£293.0m	£218.1m	£187.3m																																
EBITDA in respect of businesses held-for-sale	£32.2m	£53.0m	£32.2m	£52.8m																																
Adjusted EBITDA (including businesses held-for-sale)	£327.3m	£346.0m	£250.3m	£240.1m																																
Headline net debt	£879.8m	£1,077.1m	£431.4m	£569.0m																																
Headline net debt to adjusted EBITDA ratio	2.7x	3.1x	1.7x	2.4x																																

1. Adjusted operating profit and adjusted profit before tax 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. See note 4.

2. To ensure consistent presentation of the ratios between periods, the 2020 comparatives have not been restated.

Alternative performance measures continued

The below measures are submitted to the Group's lenders and the directors believe these measures provide a useful insight to investors. The 31 December 2020 comparatives have not been restated because they are not required to be restated for covenant purposes.

		2021	2020	Source
Covenants³				
Adjusted operating profit ¹		£139.1m	£111.0m	Line information in note 4
Add: business exit – trading		£50.8m	£51.0m	Line information in note 5
Add: share of earnings in associates		£0.6m	(£0.8m)	
Deduct: non-controlling interest		(£2.4m)	(£12.6m)	Adjusted EBIT attributable to NCI
Add back: share-based payment charge		£1.2m	£6.4m	Line information in note 14
Add back: non-current service pension charge		£2.6m	£6.9m	
Add back: amortisation of purchased intangibles		£40.8m	£42.3m	
Adjusted EBITA	a1	£232.7m	£204.2m	
Less: IFRS 16 impact		(£8.9m)	(£17.5m)	
Adjusted EBITA (excluding IFRS 16)	a2	£223.8m	£186.7m	
Adjusted EBITA		£232.7m	£204.2m	Line item above
Deduct: business exit – trading sold		(£22.9m)	£2.5m	Trading (profit)/loss for businesses sold
Add back: adjusted depreciation and impairment of property, plant & equipment and right of use assets		£117.1m	£140.9m	
Covenant calculation – adjusted EBITDA	b1	£326.9m	£347.6m	
Less: IFRS 16 impact		(£77.1m)	(£105.7m)	
Covenant calculation – adjusted EBITDA (excluding IFRS 16)	b2	£249.8m	£241.9m	
Adjusted interest charge		(£45.0m)	(£46.6m)	Line information in note 8
Interest cost attributable to pensions		£1.5m	£3.2m	Line information in note 8
Cash flow hedges recycled to the income statement		£0.6m	(£4.5m)	Line information in note 8
Borrowing costs	c1	(£42.9m)	(£47.9m)	
Add: IFRS 16 impact		£19.5m	£23.9m	
Borrowing costs (excluding IFRS 16)	c2	(£23.4m)	(£24.0m)	
5.1 Interest cover (US PP covenant)	a1/c2	9.9x	8.5x	Adjusted EBITA/Borrowing costs with adjusted EBITDA including the impact of IFRS 16 and the borrowing costs excluding the impact of IFRS 16
5.2 Interest cover (other financing agreements)	a2/c2	9.6x	7.8x	Adjusted EBITA/Borrowing costs with both variables excluding IFRS 16
Net debt		£879.8m	£1,077.1m	Line information in note 14
Lease liabilities included within disposal group liabilities held for sale		£—m	(£4.6m)	
Cash, net of overdrafts, included in disposal group assets and liabilities held for sale		£15.8m	£12.9m	
Restricted cash ²		£54.8m	£34.5m	Cash that may not be applied against net debt for covenant calculation
Less: IFRS 16 impact		(£448.4m)	(£503.5m)	
Adjusted net debt (excluding IFRS 16)	d1	£502.0m	£616.4m	
6.1 Adjusted net debt to post IFRS 16 adjusted EBITDA ratio (US PP covenant)	d1/b1	1.5x	1.8x	Adjusted net debt/adjusted EBITDA with adjusted net debt excluding the impact of IFRS 16 and adjusted EBITDA including the impact of IFRS 16
6.2 Adjusted net debt to adjusted EBITDA ratio [KPI] (other financing agreements)	d1/b2	2.0x	2.5x	Adjusted net debt/adjusted EBITDA with both variables excluding IFRS 16

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

2. Restricted cash includes cash required to be held under FCA regulations, cash held in foreign bank accounts.