

Capita plc

Half Year Results 2022

Summary

- Half Year results in line with management expectations
- Pipeline growth and organisational structure give confidence in future growth
- Continuing strong operational delivery for our clients
- Stronger balance sheet as we continue to make progress with disposals
- Expected to continue revenue growth trend and deliver positive free cash flow in FY 2022

H1 2022 Financial outcome

- Adjusted revenue¹ increased by 0.6% to £1,480.1m (H1 2021: £1,471.9m) with growth in contractual and transactional business offset by prior year losses
- Adjusted profit before tax¹ increased by £35.9m to £37.0m (H1 2021: £1.1m) reflecting cost efficiencies and cessation of major restructuring spend
- Reported profit before tax of £0.1m (H1 2021: £261.1m) reflecting business exits and Portfolio goodwill impairment
- Positive free cash flow before business exits² delivered; improving by £71.9m to £12.7m (H1 2021 outflow: £59.2m) underpinned by improvement in underlying cash generation and reduced pension deficit contributions
- Net debt reduced by £169.4m to £710.4m (31 December 2021: £879.8m) reflecting positive free cash flow and proceeds from four disposals

Building our growth pipeline

- Strong contract win performance driven by the Experience division, with Public Service division opportunities weighted to the second half
 - Total Contract Value won of £1,611m (H1 2021: £2,472m) impacted by Royal Navy win in H1 2021; Experience £808m, Public Service £571m, Portfolio £232m
 - In Year Revenue won of £686m (H1 2021: £686m); Experience £201m, Public Service £311m, Portfolio £174m
- Unweighted pipeline increased to £14,354m (31 December 2021: £13,947m) with significant growth in Public Service and Portfolio divisions and good progress to replenish opportunities in Experience
- Targeting new scopes of work and new clients: represents 26% of TCW won in the first half; and 64% of opportunities in the remainder of this year

Strengthening the balance sheet

- Proceeds received year to date of £223m, taking total receipts from the disposal programme to over £750m
 - AMT Sybex, Secure Solutions and Services, Speciality Insurance and Trustmarque
 - Agreed disposal of property businesses for £60m
 - Three further processes currently in progress, including our Pay360 business unit, with all disposals expected to have been launched by the end of the year
- RCF extended to 31 August 2024

Outlook

- We are focused on delivering our expectations for FY 2022
- Accelerated revenue growth in the second half of the year despite the uncertain macro environment, with positive momentum in all divisions, supported by a strong pipeline of opportunities
- Continuing to strengthen the balance sheet through the disposal programme of non-core assets; all disposal processes launched by the year end
- On track to deliver positive free cash flow before the impact of business exits for full year 2022
- We continue to make material progress in our strategy to build a more focused, sustainable business for the long term

Jon Lewis, Chief Executive Officer, said:

"I am pleased with the progress we have continued to make across Capita so far this year.

"Our performance has been in line with our expectations. We have increased adjusted revenue, profit and free cash flow; and further reduced debt and strengthened the balance sheet.

"Operationally, we have remained strong, continuing to deliver successfully for our many clients in both the public and private sectors.

"As our reputation for delivery and digital transformation services increases, we have secured a series of important contract wins and renewals, as well as growing the amount of work won with new clients.

"We are well positioned for growth in the second half of the year and beyond; and our full-year commitments remain on track.

"All of this has been achieved against the ongoing backdrop of Covid-19 and increasing economic challenges; and I would like to thank all our colleagues for their continued hard work, commitment and professionalism."

Six months ended 30 June 2022

Financial highlights - continuing operations	Reported 2022	Reported 2021	Reported POP change	Adjusted ¹ 2022	Adjusted ¹ 2021	Adjusted ¹ POP change
Revenue	£1,517.2m	£1,619.4m	(6%)	£1,480.1m	£1,471.9m	1%
Operating profit/(loss)	(£51.2m)	£40.8m	(225%)	£52.2m	£22.5m	132%
Profit before tax	£0.1m	£261.1m	(100%)	£37.0m	£1.1m	3,264%
EBITDA	£115.6m	£134.7m	(14%)	£123.2m	£100.8m	22%
Cash generated/(used) by operations²	£49.2m	(£22.5m)	319%	£49.0m	(£16.0m)	406%
Earnings per share	1.10p	16.18p	(93%)	3.31p	2.80p	18%
Free cash flow²	£12.9m	(£71.6m)	118%	£12.7m	(£59.2m)	121%
Net debt	(£710.4m)	(£894.4m)	21%	(£710.4m)	(£894.4m)	21%

¹ Capita reports results on an adjusted basis to aid understanding of business performance.

² Cash generated/(used) by operations adjusted results¹ and free cash flow adjusted results¹ = free cash flow before business exits and cash generated from operations before business exits respectively (refer to note 12)

Investor presentation

A presentation for institutional investors and analysts hosted by Jon Lewis, CEO and Tim Weller, CFO, will be held at 09:00am UK time, Friday 5 August 2022. This will be held at Capita offices at 65 Gresham Street, London EC2V 7NQ. A live audio webcast will also be available (www.capita.com/investors) and will subsequently be available on demand. The presentation slides will be published on our website at 07:00am and a full transcript will be available the next working day.

Webcast link:

<https://webcast.openbriefing.com/capita0822/>

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Chief Executive Officer's review

H1 22 Summary

We have delivered a first-half performance in line with our expectations. Adjusted revenue¹ has grown. We have secured important contract renewals and wins and grown the pipeline. We are embedding Capita's new operating model from which we expect to secure both revenue and profit benefits. We have made good progress in strengthening the balance sheet.

Notwithstanding the current challenging economic environment, our markets remain strong and continue to support growth in outsourcing services. This is driven by both the public and private sectors investing in digital transformation to drive efficiency and to deliver better citizen and customer services. We are well placed to benefit as the UK Government's largest software and IT services provider and as the largest customer experience provider in the UK.

As the operating model becomes more embedded we are becoming better positioned to deliver our longer term aspirations.

Our growth model is becoming more established to drive at least market growth rates in the medium term. In both the Public Service and Experience divisions the industry verticals structure, led by dedicated client partners, is generating more pipeline opportunities and we are seeing win rates improve. The pipeline continues to grow and we are targeting both large and smaller opportunities in our core divisions to grow revenue this year and beyond.

We are also seeing opportunities to drive efficiency from the model: reducing the cost of delivering consistently good operational services; moving to more digital offerings; simplifying reporting, organisational and legal structures; eliminating internal friction points; and reducing overhead costs.

We have dedicated significant resource to ensuring that we have a motivated, stable and well-trained workforce. As a result of initiatives taken this year we have seen our mid-year employee Net Promoter Score improve significantly from last year's result and we are continuing to evolve our recruitment and retention processes so that we attract the resources we need and attrition levels are reduced sustainably.

Our disposal programme of non-core businesses to strengthen the balance sheet is continuing. We completed four disposals in the first half and launched a further three, with the sale of our real estate businesses now agreed. This takes prospective proceeds to well over £800m. We expect to have launched the disposal process of all our remaining Portfolio businesses by the end of the year.

We are now focused on delivering on our expectations for the rest of the year. We expect to grow revenue and profit in the second half, with a pipeline of both large and smaller opportunities and ongoing cost savings opportunities. We remain on track to deliver positive free cash flow before the impact of business exits in 2022 and materially reduce net debt during the year.

Financial outcome

Adjusted revenue¹ grew by 0.6% year on year at £1,480.1m (H1 2021: £1,471.9m), Public Service grew by 0.8% as the division benefited from a full half year of revenue from the Royal Navy training contract and the Job Entry Targeted Support (JETS) contract in Scotland, offsetting the absence of Covid contracts delivered last year and some limited local government contract losses. Revenue in Experience stabilised as the impact from historic lost contracts rolled off and there was a positive benefit from the Trade Republic contract won in 2021 and the first month of the ScottishPower contract. We also saw strong revenue growth in the Portfolio division as Covid-affected businesses recovered well, in particular the Agiito travel business and Enforcement, despite some impact from omicron-constraints in the first half.

Adjusted profit before tax¹ for the half year increased by £35.9m to £37.0m (H1 2021: £1.1m). This has been delivered by the recovery of the Portfolio division, the timing of milestones on some of our larger contracts in the core divisions, the cessation of major restructuring spend and by the benefit at the Group level of overhead cost savings, offsetting the accrual for the commitment to repay £4.9m of 2021 furlough-related income as announced in May.

Reported profit before tax decreased to £0.1m (H1 2021: £261.1m) as a result of the impact of business exits and a non-cash goodwill impairment in our Portfolio division.

Free cash flow before business exits¹ improved by £71.9m to £12.7m (H1 2021: outflow £59.2m) reflecting an improvement in underlying cash generation and the step down in pension deficit contributions.

Net debt at 30 June 2022 was £169.4m lower at £710.4m (31 December 2021: £879.8m) as a result of the improving free cash flow and the receipt of disposal proceeds. We have repaid £82m of debt so far this year, with approximately £140m due to be paid in the second half. Pre-IFRS 16 net financial debt¹ was £289.3m (31 December 2021: £431.4m).

Revenue growth

Our markets continue to see good growth, as governments and private sector companies look to reduce costs in times of economic uncertainty, supporting the need for continued outsourcing of digital transformation and customer experience services. In the public sector the UK Government is looking to deliver better citizen services at a lower cost and has published its Roadmap for Digital and Data as it looks to accelerate improvements over the next three years, including an additional £8bn of investment in the area. These trends of focusing on digital transformation to deliver better customer service and cost efficiency also continue to drive market growth in the private sector.

At Capita we are becoming better organised to be able to take advantage of these market conditions. This will support revenue growth in the second half of the year and we expect our revenue growth trend to continue to improve thereafter.

Total Contract Value (TCV) won in the first half was £1,611m (H1 2021: £2,472m), including the BBC TV licence renewal (£456m), the renewal of the Primary Care Support England contract (£94m), ScottishPower (£63m) and Northern Ireland Education Authority (£51m). The decline year-on-year reflects the substantial 2021 Royal Navy Training win in Public Service. The TCV won by Experience increased by 54%, benefiting significantly from the BBC win.

The In Year Revenue (IYR) generated from these wins was £686m (H1 2021: £686m), flat year-on-year and helped in particular by the BBC contract. In the remainder of the year we expect that around 86% of the in year revenue won will be won from contracts of a value of £10m or less, which reduces the reliance of large deals with binary outcomes.

The order book at 30 June 2022 was £5.9bn (31 December 2021: £6.1bn), with £1.1bn recognised in the first half and £0.9bn won in order book-qualifying revenue, as well as reflecting the impact of disposals. Book to bill has remained at above 1x, a positive indicator of future growth, and is now at 1.1x at the half year, with the Experience division at 1.4x, its highest in several years. Public Service has fallen to 0.8x, mainly due to the timing of bid opportunities. We expect Group book to bill to increase by year end as significant pipeline opportunities crystallise.

We have continued to build and replenish our pipeline since the year end. Our total unweighted pipeline increased to £14.4bn (31 December 2021: £13.9bn), mainly as the Public Service division increased its opportunity set (£8.5bn vs £8.1bn at 31 December 2021). The Experience division is only slightly down (at £5.4bn vs £5.5bn at 31 December 2021) despite having won the £456m BBC renewal and £63m ScottishPower contract.

We are now more aligned to our markets in our approach to revenue growth. Our structure in both divisions is more client-centric, with verticals that are focused on specific market sectors and client partners that lead those verticals, who have deep levels of sector understanding and experience, now solely dedicated to understanding those client needs. They are also helping to generate consulting work that spearheads our Consult, Transform, Deliver service model. In the first half we won £40m of total contract value for consulting work. This is more advanced in our Public Service division where we have won consulting work across all of our verticals including work for the Ministry of Defence and HMRC. In the Experience division we are currently advising a transport client on data analysis and insight.

Our focus on verticals is reflected in the distribution of our pipeline, in which over 90% of the opportunities are in 15 industries that are represented through our verticals, and in particular two thirds of the pipeline is in five "industries": Telecommunications, Banking, Transportation, Central Government and Healthcare. We have a track record of winning in these industries too, given that 12 of the 15 industries have generated £4.4bn of contract value in the last 18 months.

With a better understanding of our clients' needs and more focused capabilities, and with a more stable revenue base, we expect to deliver higher rates of revenue growth through targeting new scopes of work and new clients, with our sales teams explicitly incentivised to focus on the latter.

- During the first half we renewed £889m of TCV, mainly driven by the BBC contract. This is a good example of a contract that is not just extending previous work, but one where we are refreshing the solution to support the evolving needs of our client
- New scopes of work for existing clients represented £295m of TCV, such as DFRP and HMRC
- We won £128m of new work from new clients, including for ScottishPower and Natwest. Between Public Service and Experience we won business from over 200 new clients (that we've not worked with for at least 12 months) in the first half.

Unweighted pipeline in the remainder of the year is £5.5bn (H1 2021: £4.6bn) which underpins our TCV and book to bill expectations for the end of the year. Almost 70% of this pipeline represents new business and new clients, in particular a telecom company, the Student Loans Company and a motor finance company. Major renewals include two existing telecoms clients, a financial services client, a second DWP contract and one for NHS Scotland. We have seen a couple of contracts move into 2023, having originally been expected this year, including one for the Department of Work and Pensions and one for a major financial services company.

Our win rates remain good, at 83% overall, up from 76% last year, demonstrating strong competitive positioning in the market. Win rates on renewals have increased slightly from the year end and are now at 95% for the first half, with Experience at 99%. Our win rates on growth on account and new business have decreased slightly, mainly because of the impact of the Royal Navy Training contract. The Experience division is seeing progress with its win rate on new business, now at 48% from 26%.

Operational delivery

Delivering for our clients is paramount. Not only is it a key part of being a responsible business but it creates the environment to grow revenue and eliminate unnecessary cost.

The first half was another period of strong delivery for our clients. For example:

- We continue to execute well on our Royal Navy Training contract, with all major KPIs having been at Green status since the start of the contract. The latest milestone delivered on time was the transfer of engineering and maintenance support services of the Vanguard-class Nuclear Ship Control trainer and the Role Performance Trainer, both based at Her Majesty's Naval Base Clyde, as well as recently delivering the Maritime Composite Training System. This latest milestone maintains our 100% success delivery record in both time and cost on this contract and helps to ensure that our partnership remains strong and that we are able to bid for additional scopes of work as originally envisaged in the contract.
- In July we delivered the key stage two assessments on the Standards and Testing Agency contract, for the first time. We were pleased with the overall outcome on what was a particularly complex project to deliver, involving the collection, marking and return of 3.9m scripts.
- We have recently extended our contract with a major international consumer electronics client where we are now making good progress after some Covid-related delays to the transformation and we are implementing our new digital tools such as Assisted Customer Conversation. Customer satisfaction has improved greatly and is now consistently over 90%.
- Our work for our new client ScottishPower started smoothly on the 6th June, soon after the signing of the contract, with around 400 people transferring to Capita from the previous service provider.

With all remaining legacy contract operational issues now resolved we have eliminated a significant source of margin and cash drag on the Group.

Digital and technology

Our digital and technology strategy is a significant driver of future revenue and margin opportunities.

Both divisions currently have strong capabilities to support delivery for their clients, as evidenced in their rankings by TechMarketView and ISG. However we remain on a journey in which we are transitioning from traditional Business Process Outsourcing (BPO) contracts, where services are mainly delivered by agents supported by technology, to Business Process Services and Digital Transformation, where services and processes are much more heavily delivered and supported by technology. The market for digital transformation is both bigger and growing at up to three times the overall market rate.

The majority of our contract portfolio is currently BPO, around 80% across both divisions, but the portfolio is starting to evolve through contracts such as TfL ULEZ in Public Sector or Tesco Mobile in Experience. Both have significant elements of market-leading digital technology and are high performing contracts - Tesco Mobile is the UK's top-ranked mobile phone customer service provider. At another international technology client we have recently deployed our Assisted Customer Conversation tool which, along with our Virtual First hybrid working model, is now delivering CSAT scores of above 90%. We recently developed a partnership with HMRC to develop, deploy and support robotic process automation tools to make HMRC's processes simpler and drive operational efficiency.

Both divisions continue to strengthen their technology capability. Through building standardised, scalable platforms, supported by partner technologies from AWS, Salesforce and Microsoft, and deploying automation, AI and analytics, we can drive cost efficiency for our clients and for ourselves. By investing in tools and capabilities, we will enhance our client offerings.

Combining market-leading offerings and standardised technology stacks with our client knowledge and insight will support faster revenue growth and be a driver of medium-term margin opportunity.

Driving margins and efficiency

There is still much to be done to improve the EBITDA margins in the group over the medium to long term. At a divisional level this will reflect improving gross margins from contract pricing and business mix, further reduction in service charges, along with deriving efficiency benefits from the operating model. There is also opportunity to create benefits in our shared services as we eliminate intercompany transactions, inefficiencies from our legal entity structure, and improve our systems. Finally, our group overhead costs are too high for a group of this size, particularly as we have disposed of multiple businesses in recent years, and we are taking steps to review our structure in this area.

Since establishing the new divisional structure in August last year, we have made good progress in implementing the operating model, with the Public Service division further ahead of the Experience division in its evolution. This has involved internal restructuring to a matrix organisation in which client-focused verticals are supported by division-wide consulting, transformation and delivery capabilities, together with functional support (HR, legal, commercial etc.).

We have consolidated sales teams so that individuals are now better aligned to the key products that we are taking to market. Operationally we are rolling out best practice, in particular using standardised methodologies to reduce the level of bespoke customised solutions that Capita historically deployed. In the Experience division this best practice includes the deployment of service delivery to the most efficient location, including near-shore and off-shore capabilities in Poland, Bulgaria, the Middle East, South Africa and India.

We have more to do. The new structure is allowing us to produce data-driven insights for further efficiency in operations, including more automation of internal processes and increased use of internal self-service channels, as well as the deployment of common technology platforms across divisions. And in support of our growth propositions, we are standardising our technology stack with common client-facing tools that will allow faster and more consistent delivery for our clients.

We are actively managing the impact of inflation on the business. During the first half there has been no material net profit impact on the Group mainly due to the quantum and timing of inflationary clauses in contracts and pay rises. On a full year basis we also expect no material net profit impact on the Group. Looking forward we are taking a proactive approach to ensuring that this protection continues, and where there are gaps (for instance when indexation is capped or when contracts are fixed price) we are looking to implement more dynamic pricing models.

We have delivered further overhead cost savings in the first half. Our property costs continue to reduce as we close and exit more of our portfolio. In the first half we disposed of 18 properties, as well as vacating another nine properties and consolidating space in a further four. This has reduced annualised lease costs by a further £4m and brings the total amount of property that we have disposed of in the last two years to over 1.1m square ft. Our IFRS 16 property lease liability has reduced by around £23m in the first six months to £401m. We are targeting another 20 closures this year.

Investing in our people

Last year the business experienced unprecedented levels of employee attrition as a result of the tight labour market and ongoing restructuring at Capita. This was ultimately reflected in a 22 point fall in our employee Net Promoter Score (eNPS) in late 2021.

We have made encouraging progress on both fronts. Our eNPS has improved by 16 points as of June 2022 and is now close to where it was in 2020, our best position over the course of the transformation. Both Experience and Public Service saw significant improvements, reflecting actions that we have taken and plans that we have set out, particularly around personal development and training and our Employee Value Proposition. In addition, our Virtual First hybrid working approach is quoted as being a top three reason for working at Capita. As well as being a driver of our Net Zero plans, and cost reductions, we also see that people who work in a hybrid way are more engaged. We have also communicated more frequently and more clearly, reflecting a key piece of feedback from last year.

These actions have also helped us to reduce attrition and sustain high levels of recruitment. We are now recruiting 2,500 people per month and have recruited 15,000 people for the year so far. Attrition is reducing steadily. We continue to focus on improving this, in particular through our vetting and onboarding processes.

The cost of living crisis is also something that we are helping our colleagues to address, in particular the lowest earners. We are committed to being a Real Living Wage employer and plan to implement the recommended increase next year. We also look to support our colleagues in other ways, such as through our Level app that helps to manage day-to-day finances, offering financial counselling and providing a broad range of other employee benefits.

Strengthening the balance sheet

We have continued to strengthen the balance sheet through the disposal of non-core businesses, with the target to materially reduce net debt, as well as improve the pension funding position.

During the first half we completed the disposal of four businesses: AMT Sybex, Secure Solutions and Services, Speciality Insurance and Trustmarque and we have received over £750m from our disposal programme started in 2021.

We launched three more processes, including the Property pillar, of which we recently announced the agreement to sell our real estate and infrastructure businesses to WSP for £60m.

We have also started the disposal process of our Pay360 business unit, which currently sits in the Experience division. The business generated external revenue of £44m and profit before tax of £7m in 2021. Pay360 has been a standalone business historically, first in the Software division and since 2021 the Experience division, and which does not align with the division's strategy. We believe that Pay360's best interests are served by new ownership, to take the business to its full potential. We will provide a further update on this process later in the year. We have no plans to sell other businesses in either Public Service or Experience.

We continue to see strong interest in the businesses we are disposing of and we currently expect all of our disposal processes to have been launched by the end of the year.

Growing free cash flow

We have delivered positive free cash flow before the impact of business exits in the first half and target to build on this in the future.

In the main this will be delivered from consistent revenue growth and margin improvements.

We also expect higher cash conversion as new contracts generate more cash as we deliver transformation services and large legacy contracts come to the end of their terms and associated deferred income is released from the balance sheet.

In 2022 we will see a major reduction in previous one-off cash commitments, mainly from reduced pension deficit payments, significantly reduced restructuring costs associated with the transformation and completion of the deferred VAT payments (the last £15m of which was repaid in the first quarter).

Our closed book Life and Pensions business unit, which sits in the Experience division, also continues to negatively impact the group's cash performance, as the costs of servicing a small number of legacy contracts in the business unit significantly outweigh cash receipts from the relevant clients. The net cash outflow from these contracts was £20m in FY 2021 and is forecast to be broadly similar in future years. The impact is exacerbated by the evergreen nature of some of the contracts potentially allowing customers to extend indefinitely, particularly as we provide a good service at a low price. Whilst we want to continue to support those Life & Pensions clients who remain core to our Financial Services vertical, we are looking to resolve the situation with regards to those few contracts that drive the negative performance. We are redoubling our efforts to reduce the cash burn from these contracts.

Finally, some of the proceeds from our disposals will be used to accelerate agreed pension deficit payments, which we expect to benefit the funding position at the next triennial actuarial valuation, due at 31 March 2023, and potentially reduce or eliminate future deficit payments.

Outlook

We are focused on delivering on our expectations for 2022.

We expect revenue growth and profit to increase in the second half of the year, despite the uncertain economic outlook, to deliver positive free cash flow before the impact of business exits and materially to reduce net debt over the full year.

We expect revenue growth to be driven by work that we have already secured, such as the new ScottishPower contract and the timing of contracts such as the Standards and Testing Agency and the BBC and we have a healthy pipeline of over £5bn of opportunity for the second half of this year.

We will continue to focus on greater efficiency and productivity, in the second half of this year and beyond, and to minimise our overhead costs so that we can drive margin in the longer term.

We expect to have launched all of our disposal processes by year end and completion of the programme will result in a very low level of net financial debt moving into 2023.

We continue to make material progress in our strategy to build a more focused, sustainable Capita for the long term.

¹ Refer to alternative performance measures 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, because the Board assesses divisional performance on adjusted results. The basis of preparation of the adjusted figures and KPIs is set out in the Alternative Performance Measures (APMs) summary in the appendix to this statement.

Public Service

Capita is the number one strategic supplier of Business Process Services (BPS) and technology services to the UK Government. The division is structured to focus on five market verticals: Education & Learning; Local Public Services; Health & Welfare; Defence, Fire & Security and Justice, Central Government & Transport, as well as the non-consolidated Smart DCC subsidiary.

Our markets and growth strategy

We estimate that Government spending in the UK in the Software and IT Services market has a value of circa £13.3bn. The BPS market, comprising both business process outsourcing (BPO) and Digital BPS sub-segments, is growing at circa 5% per annum.

In its recently published Roadmap for Digital and Data the UK Government stated its intention to spend up to £8bn by 2025 on digital, data and technology transformation in order to accelerate its digital transformation and better respond to future challenges. As such, the BPS market is shifting quickly towards being more digitally and data-enabled to provide productivity improvements and cost savings during times of fiscal strain.

Our digital capability includes design experience, data mastery, modern software engineering, user experience and an automation toolkit that is combined with technology partners such as Microsoft Azure where it makes sense to use them.

The Public Service division is well positioned, benefiting from its breadth of coverage, domain understanding, scale, and sales and delivery capabilities in our respective verticals, each of which presents significant opportunity.

Our pipeline remains strong with an unweighted pipeline of £8,463m, an increase of £314m from 31 December 2021 with £571m of TCW won. Book to bill for the period was 0.8x. Key bids in the second half the year include a renewal with NHS Scotland and services with the Department for Work and Pensions. Given this pipeline, we expect an improved book to bill ratio on a full year basis.

During the first half of the year we agreed an extension of our Primary Care Support England contract with the NHS, worth £94m over three years, a two-year extension with Northern Ireland's Education Authority and smaller contracts with HMRC and Entrust (our joint venture with Staffordshire County Council).

Operational delivery

Last year we finished fixing previously failing legacy contracts in the division and across 2022 our operational delivery has remained consistently strong.

For example, in the first half we delivered on all of the key milestones with the Royal Navy training contracts and have now started running the Royal Navy's Maritime Composite Training System and launched the Aviation Fire Programme at the Fire Service College.

Our performance on contract delivery continues to yield additional contract opportunities and growth, aligned with our breadth of capability focused around the Consult, Transform, Deliver model.

This is the model for our partnership with HMRC to develop, deploy and support robotic software and other automation tools to make HMRC's processes simpler and drive operational efficiency. We are continuing to identify areas to invest in to improve our digital offerings.

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

A core part of our strategy is to standardise our platforms, where we can use our process insight to present a 'digital first' solution for our clients' needs. This, alongside our culture of continuous improvement, will drive margin improvements going forwards.

Divisional financial summary	2022	2021	% change
Adjusted revenue ¹ (£m)	713.6	708.2	0.8%
Adjusted operating profit ¹ (£m)	46.8	38.4	21.9%
Adjusted operating margin ¹ (%)	6.6%	5.4%	22.2%
Adjusted EBITDA ¹ (£m)	65.8	63.0	4.4%
Adjusted cash generated by operations before business exits ¹ (£m)	58.1	75.5	(23.0)%
Order book (£m) (comparative at 31 December 2021)	3,025.0	3,286.3	(8.0)%

Adjusted revenue¹ increased 0.8% to £713.6m, reflecting the full half year of the Royal Navy training contract, the Job Entry Targeted Support Scheme, the Turing scheme with the Department for Education and the laptop provisioning contract with the Northern Ireland Education Authority. This offset the impact of previously announced Local Government handbacks and the one-off benefit in 2021 within our Intelligent Communications business from Covid related projects.

Adjusted operating profit¹ increased 21.9% to £46.8m with the full half year impact of the Royal Navy training contract, other wins and benefit from the non-repeat of the additional programme costs on EMS and restructuring costs of £2.9m incurred as part of the Group's significant restructuring in 2021. This offset the margin impact from Local Government handbacks and the reduction in margin on RPP as we moved into a new contract hosting phase.

Adjusted cash generated by operations before business exits¹ reduced by 23.0% to £58.1m as the EBITDA improvement was more than offset by the unwind of 2021 working capital benefits from the TfL ULEZ contract and the settlement of a previously provided for commercial claim.

Outlook

We expect revenue growth in the Public Service division in H2, driven by completion of milestones on our Standards and Testing Agency contract and an increase in transactional revenue in our Health & Welfare, Education & Learning and Local Public Services verticals. We expect a reduction in margin in H2 reflecting phasing and mix of work.

Experience

Capita Experience is one of Western Europe's leading customer experience businesses. It is the market leader in the UK and ranks third in EMEA. The division comprises: core Customer Experience services; our payments business; Capita Scaling Partners; closed book Life and Pensions; and the Pensions Consulting and Pensions Administration business. Experience is structured around three market verticals, Telecoms, Media & Technology, Multi-Industry and Financial Services.

Our markets and growth strategy

The global customer experience market is valued at more than £244bn and is expected to grow at around 5% per annum between 2020 and 2024. The market continues to trend towards self-service and automation with clients looking to digitise service offerings. Increasingly we are seeing clients utilising cloud shoring agreements, digital and artificial intelligence and insight and analytics-based solutions to improve service delivery while reducing costs.

The changing economic landscape poses an opportunity for the Group, particularly within the Financial Services and Multi-Industry verticals (which includes our Energy and Utilities clients) as institutions in these verticals have a key role to play in helping vulnerable customers through periods of uncertainty. More broadly, a challenging economic backdrop can create new opportunities for service providers such as Capita Experience given the capability we have to provide more efficient and effective customer management solutions across a range of clients.

The unweighted pipeline at 30 June 2022 was £5,417m, a decrease of £93m since 31 December 2021 with £808m of TCW won. In July, the total TCW won in the year to date, exceeded the TCW won in 2021. The material win of the BBC TV Licensing contract in H1 led to a book to bill for the period of 1.4x compared with 0.9x in the comparative period, we expect book to bill to reduce slightly but remain above 1x on a full year basis.

In the six months to June 2022, Experience successfully won over 1,600 opportunities. Notable wins and renewals include the five year renewal with the BBC worth £456m and a new contract with ScottishPower worth £63m over five years which successfully went live in June with no impact to operations. Successful renewals were also signed with Plusnet, Samsung and Water Plus.

There remain a significant number of bids in 2022 and early into 2023 including a number of telecoms renewals, an insurance client renewal and new business opportunities within the Utilities sector.

Operational delivery

Our new matrix structure allows us to have a clear view of client contracts matched with an end-to-end view of delivery.

We deliver services both onshore and offshore with delivery centres in the UK, Europe, the Middle East, India and South Africa. As economies continue to recover from the pandemic, we are adapting to new ways of working, offering hybrid working and flexibility in our locations, which drives benefits to customers and employees.

In 2021, to support consistent delivery we expanded our geographical footprint in South Africa, opening a new office in Durban. This site will be an important strategic hub for future growth. This year, to improve our multi-lingual capabilities for European clients we opened a site in Bulgaria to support the delivery of our services in 35 different languages.

Within our advanced toolkit of services, we have rolled out our Assisted Customer Conversation tool on a number of contracts. The tool, which leverages AWS, drives a tailored customer experience, enhanced by Artificial Intelligence, and we've successfully seen this reduce handling times of calls while increasing both client and agent satisfaction. We believe this tool has multiple uses across the current customer base and within our pipeline of upcoming opportunities.

In 2022, we worked with a pre-existing customer, on a consulting basis, to categorise all incoming calls across their entire estate and use data analytics to improve and add value to the overall customer experience. This type of consulting work, where it not only impacts improvements in our BPO-type services, but extends into the entire customer experience, provides an opportunity for our client to benefit from our extensive experience using data analytics to improve the operations we service and their in-house and multi-vendor environments as well.

As expected, we have seen continued volume attrition within our closed book Life and Pensions business as contracts have been handed back and volumes on existing clients decline.

Within our Pensions Administration business we have seen overall activity levels improve and are looking to build on this in H2 and into 2023.

Divisional financial summary	2022	2021	% change
Adjusted revenue ¹ (£m)	592.4	599.9	(1.3)%
Adjusted operating profit ¹ (£m)	17.6	28.0	(37.1)%
Adjusted operating margin ¹ (%)	3.0%	4.7%	(36.2)%
Adjusted EBITDA ¹ (£m)	54.1	65.3	(17.2)%
Adjusted cash generated by operations before business exits ¹ (£m)	27.8	16.6	67.5%
Order book (£m) (comparative at 31 December 2021)	2,518.7	2,271.8	10.9%

Adjusted revenue¹ fell by 1.3% to £592.4m, reflecting the final year impact of prior period losses including 3UK, Carphone Warehouse, Npower and William Hill. The impact of losses on Experience continues to reduce as the division stabilises. There were improved volumes in our Financial Services vertical which offset the Phoenix contract loss and wider Life & Pensions volume attrition. Wins in the period included a number of wins in our International Market and ScottishPower.

Adjusted operating profit¹ decreased by 37.1% to £17.6m reflecting contract losses, the non-repeat of one-off deferred income releases in 2021 relating to Carphone Warehouse and the repayment of furlough income which more than offset the £4.4m benefit from the non-repeat of significant restructuring incurred in 2021.

Adjusted cash generated by operations before the impact of business exits¹ increased by 67.5% to £27.8m driven by working capital improvements principally reflecting increased customer advances.

Outlook

Revenue growth in Experience in H2 is expected to be driven by the Telecommunications, Media & Technology vertical, particularly as we begin implementation in our renewed BBC contract and within our wider International Markets. We expect profit in H2 to improve in line with revenue growth and the unwind of the H1 holiday pay accrual.

Portfolio

Capita Portfolio comprises non-core businesses that are intended for disposal.

The division is organised into pillars comprising businesses of similar characteristics: People, Property, Software, Business Solutions, Travel and the FERA joint venture.

We enjoy a strong market position within each pillar, with leading brands and positive client perception of our services. In 2021 the division secured its third consecutive year of improving customer NPS scores.

This year we have completed the disposal of four businesses, AMT Sybex, Secure Solutions and Services, our Speciality Insurance business and Trustmarque.

During 2022, we launched the sales process for three further pillars. Our readiness activity on the remaining pillars is progressing well and we expect to have launched the disposal processes of all our remaining Portfolio businesses by the end of the year.

Operational delivery across all pillars has remained strong and we have seen good recovery in the areas heavily affected by the pandemic. We are well positioned for growth with a more efficient long-term operating model in our Agiito (travel and events) business in the Travel pillar. Despite wider market challenges and uncertainty in the UK travel market, the Travel business continues to perform well and is forecast to return to profitability in 2022.

We are working to ensure ongoing cost efficiency in the division ahead of completion of the Portfolio asset sales, through successful vacancy management and redeployment of staff into vacancies across the wider Group.

Divisional financial summary	2022	2021	% change
Adjusted revenue ¹ (£m)	174.1	163.8	6.3%
Adjusted operating profit ¹ (£m)	3.0	3.0	—%
Adjusted operating margin ¹ (%)	1.7%	1.8%	(5.6)%
Adjusted EBITDA ¹ (£m)	17.9	19.4	(7.7)%
Adjusted cash used by operations before business exits ¹ (£m)	(7.4)	(3.7)	(100.0)%
Order book (£m) (comparative at 31 December 2021)	367.6	557.3	(34.0)%

Adjusted revenue¹ increased 6.3% to £174.1m as volumes in the Travel and Enforcement businesses improved as Covid-19 restrictions eased across 2022.

Adjusted operating profit¹ was flat at £3.0m as we saw revenue growth across the division and the benefit from the non-repeat of £1.6m of significant restructuring incurred in 2021, which helped to offset the £1.8m one-off impact of the previously announced furlough reimbursement in 2022.

Adjusted cash used by operations before the impact of business exits¹ reduced to £(7.4)m reflecting the working capital movements from revenue expansion within Agiito.

Outlook

Revenue and operating profit growth in H2 is expected to be driven by further recovery in Covid impacted businesses with the benefit of high operational leverage driving profit growth.

This outlook is based on the scope of the division at half year.

¹ Refer to alternative performance measures in the appendix

Chief Financial Officer's review

Financial highlights	Reported results			Adjusted ¹ results		
	30 June 2022	30 June 2021	POP change	30 June 2022	30 June 2021	POP change
Revenue	£1,517.2m	£1,619.4m	(6)%	£1,480.1m	£1,471.9m	1%
Operating (loss)/profit	(£51.2m)	£40.8m	(225)%	£52.2m	£22.5m	132%
Profit before tax	£0.1m	£261.1m	(100)%	£37.0m	£1.1m	3,264%
EBITDA	£115.6m	£134.7m	(14)%	£123.2m	£100.8m	22%
Cash generated/(used) by operations ¹	£49.2m	(£22.5m)	319%	£49.0m	(£16.0m)	406%
Earnings per share	1.10p	16.18p	(93)%	3.31p	2.80p	18%
Free cash flow*	£12.9m	(£71.6m)	118%	£12.7m	(£59.2m)	121%
Net debt	(£710.4m)	(£894.4m)	21%	(£710.4m)	(£894.4m)	21%

¹ Cash generated/(used) by operations adjusted results and free cash flow adjusted results = free cash flow before business exits and cash generated from operations before business exits respectively (refer to note 12)

Overview

Adjusted revenue¹ was in line with our expectations. Contractual revenue growth from contract wins, reflected the annualised impact of Royal Navy training, Job Entry Targeted Support (JETS) and Turing scheme and indexation, partially offset by the annualised impact of prior year losses and the net reduction in scope and volumes. Growth in transactional business was mainly driven by Capita Portfolio, including the Agito and Enforcement businesses, which continued their recovery following Covid-related constraints. The results for the period were not affected by any current period contract losses, although there was a reduction in scope and volume reflecting pandemic related work in 2021.

From 1 January 2022, the Board has limited the items excluded from the adjusted results to business exits, amortisation and impairment of acquired intangibles, impairment of goodwill and certain fair value adjustments which impact net finance income/expense. This presentation provides a more representative measure of the underlying performance of the business following completion of the Group-wide transformation. The comparatives have been represented on the same basis, with significant restructuring (£30.0m) and certain litigation and claims (credit £8.9m) now included within adjusted results for the six months ended 30 June 2021.

The increase in adjusted profit before tax¹ reflects the above change in presentation, and therefore benefits from the reduction in restructuring costs (which previously were disclosed as £30.0m in H1 2021), as well as the benefit of stable revenues, and efficiencies delivered. In 2021, the Group received £4.9m of funding under the coronavirus job retention scheme made available by the Government to help ease the employment impact of Covid-19. In May 2022, we announced the Group's intention to repay the 2021 furlough related income at the end of the Group's publicly stated disposal programme and no later than the end of June 2023. An accrual has been recognised for this repayment in the period ended 30 June 2022.

The decrease in reported profit before tax reflects an impairment of goodwill in the period, a reduction in operating profit from business exits and lower gain on the sale of businesses, partially offset by the increase in adjusted profit before tax¹.

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

Cash generated from operations before business exits¹ increased by 406% to £49.0m, benefiting from the improvement in adjusted profit¹ explained above and a £43m reduction in pension deficit contributions as the Group reverts to the £30m of regular annual deficit contributions set as part of the 2020 triennial funding agreement with the pension scheme trustees.

Free cash flow before business exits¹ in the six months ended 30 June 2022 was an inflow of £12.7m (2021: outflow £59.2m). The improvement primarily reflected the above increase in cash generated from operations before business exits¹, and a reduction in net interest paid in respect of leases and private placement loan notes.

The increase in free cash flow reflects the above improvement in free cash flow before business exits¹, supplemented by a reduction in the net cash out flow in relation to business exits.

As part of our drive for simplification of the business, and strengthening the balance sheet, we continue to seek to dispose of a number of non-core businesses. During the first half of 2022 we completed the disposal of the AMT Sybex, Secure Solutions and Services, Speciality Insurance and Trustmarque businesses realising total proceeds net of disposal costs of £222.7m (including settlement of intercompany balances on completion) with net cash proceeds of £164.3m reflecting the cash held in the disposed entities on completion. On 2 August 2022, we announced the disposal of our real estate and infrastructure consultancy business for £60m on a cash free, debt free basis. Taking into account cash-like and debt-like items, Capita expects to receive proceeds of circa £69m at completion.

These disposals form part of the Board-approved disposal programme. The preparation for a number of further disposals has commenced. The Group expects to use the proceeds from this disposal programme to repay 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 the first half of 2022, we repaid £82.1m of private placement loan notes and made pension deficit contributions of £19.3m.

Liquidity as at 30 June 2022 was £423.8m, made up of £358.1m our undrawn committed revolving credit facility (RCF) and £65.7m of cash and cash equivalents less overdrafts and restricted cash. In July 2022, we extended the RCF to 31 August 2024.

Financial review

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 Board's judgement, these items need to be disclosed separately by virtue of their nature, size and/or incidence for users of the financial statements to obtain an understanding of the financial information and the underlying in-period performance of the business.

In accordance with the above policy, the trading results of business exits, along with the non-trading expenses and gain or loss on disposals, have been excluded from adjusted results. To enable a like-for-like comparison of adjusted results, the 2021 comparatives have been re-presented to exclude 2022 business exits. As at 30 June 2022, the following businesses met this threshold and were classified as business exits and therefore excluded from adjusted results in both 2022 and 2021: ESS, AXELOS, Life Insurance and Pensions Servicing business in Ireland, AMT Sybex, Secure Solutions and Services, the Speciality Insurance business, and Trustmarque.

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

Adjusted revenue

Adjusted revenue ¹ bridge by key driver	£m
Six months ended 30 June 2021	1,471.9
Contract losses	(45.0)
Net contract scope & volume	(15.5)
Revenue indexation	10.2
Net transactional	3.5
Contract wins	55.0
Six months ended 30 June 2022	1,480.1

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

- contract losses are primarily those from the prior period, including 3UK, Carphone Warehouse, NPower and William Hill. The results for the period were not affected by any new contract losses;
- scope and volume reductions reflect pandemic related work in 2021 (circa £6m) that did not repeat in 2022;
- impact of revenue indexation and inflationary increases on contracts within Capita Experience and Capita Public Service;
- growth in transactional revenue mainly driven by Capita Portfolio, including Agiito and Enforcement; and
- the benefit of the annualisation of the Royal Navy training contract and JETS, the Turing scheme and the Northern Ireland Education Authority laptop contract together with smaller wins within Capita Experience.

Order book

The Group's order book was £5,911.3m at 30 June 2022 (31 December 2021: £6,115.4m). Additions from contract wins and extensions in 2022 (£938.2m), including the BBC extension within Capita Experience and Northern Ireland's Education Authority extension within Capita Public Service and scope changes (£122.6m), were offset by the reduction from revenue recognised in the period (£1,057.2m), contract terminations (£5.5m) and business disposals (£202.2m).

Adjusted profit before tax

Adjusted profit before tax ¹ bridge by key driver	£m
Six months ended 30 June 2021	1.1
Contract losses	(12.4)
Net contract scope & volume	(11.6)
Revenue indexation	10.2
Net transactional	10.0
Contract wins	9.8
Significant restructuring and certain litigation and claims	21.1
Other cost movements	13.7
Furlough repayment	(4.9)
Six months ended 30 June 2022	37.0

Adjusted profit before tax¹ increased in 2022. The adjusted profit before tax¹ bridge above reflects the following items:

- the margin effect of revenue losses, scope and volume, transactional changes and contract wins results is a net £4.2m negative, with the ramp up mainly in the second quarter from new wins not yet offsetting the impact of contract losses;
- impact of revenue indexation on contracts within Capita Public Service and Capita Experience;
- the re-presentation of the prior period to include significant restructuring and certain litigation and claims following the end of the group wide transformation;
- net reduction in other costs reflecting efficiencies delivered, partially offset by inflation; and
- the effect of the announced intention to repay the 2021 furlough related income.

Cash generated by operations and free cash flow

	30 June 2022 £m	30 June 2021 £m
Adjusted operating profit to free cash flow before business exits¹		
Adjusted operating profit¹	52.2	22.5
Add: depreciation/amortisation and impairment of property, plant and equipment and intangible assets	71.0	78.3
Adjusted EBITDA¹	123.2	100.8
Working capital	(14.0)	(29.7)
Other operating cash flows	(30.3)	(14.1)
Operating cash flow	78.9	57.0
VAT deferral	(14.9)	(14.9)
Pension deficit contributions	(15.0)	(58.1)
Cash generated by operations before business exits¹	49.0	(16.0)
Net capital expenditure	(17.6)	(20.1)
Interest/tax paid	(18.7)	(23.1)
Free cash flow before business exits¹	12.7	(59.2)

Operating cash conversion increased to 64% (30 June 2021: 57%).

Cash generated from operations before business exits¹ benefited from the improvement in adjusted profit¹ explained above. There were additional benefits from the reduction in pension deficit contributions compared with last year and reduced expenditure on contract fulfilment assets, offset by a negative movement in cash flows from trade and other payables.

The increase in other operating cash flows was primarily due to movements in provisions, with increased outflows in respect of restructuring and customer contract provisions, partially offset by a decrease in claims and litigations.

Free cash flow before business exits¹ in the six months ended 30 June 2022 was an inflow of £12.7m (2021: outflow £59.2m). The improvement primarily reflected the above increase in cash generated from operations before business exits¹, and a reduction in net interest paid in respect of leases and the Group's private placement loan notes.

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 the amortisation and impairment of acquired intangibles and goodwill, and the impact of business exits.

Reported to adjusted profit bridge

	Operating (loss)/profit		Profit before tax	
	30 June 2022 £m	30 June 2021 £m	30 June 2022 £m	30 June 2021 £m
Reported	(51.2)	40.8	0.1	261.1
Business exits	7.7	(22.4)	(54.3)	(262.5)
Amortisation and impairment of acquired intangibles	3.2	4.1	3.2	4.1
Impairment of goodwill	92.5	—	92.5	—
Net finance income	—	—	(4.5)	(1.6)
Adjusted	52.2	22.5	37.0	1.1

Impairment of goodwill

In preparing these condensed consolidated financial statements, the Group undertook a review to identify indicators of impairment of goodwill. Consideration was given to performance against forecasts used in the year end impairment testing and where this gave rise to an indicator of potential impairment, an impairment test was performed.

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

Business exits

Business exits include the effects of businesses that have been sold or exited during the period and the results of businesses held-for-sale at the reporting date.

In addition, business exits include the exit costs, including professional fees, salary costs and separation planning costs, relating to further planned disposals for which the held-for-sale and business exit criteria were not met at 30 June 2022.

In accordance with our policy, the trading results of these businesses, along with the non-trading expenses and gain on disposal, were included in business exits and therefore excluded from adjusted results. To enable a like-for-like comparison of adjusted results, the 2021 comparatives have been re-presented to exclude businesses classified as business exits from 1 July 2021 to 30 June 2022.

At 30 June 2022 business exits primarily comprised:

Business	Disposal completed on
AMT Sybex	1 January 2022
Secure Solutions and Services	3 January 2022
Trustmarque	31 March 2022
Speciality Insurance	29 April 2022

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 were not classified as assets held-for-sale at 30 June 2022 and, accordingly their trading results are included within adjusted results.

Further detail of the specific items charged in arriving at reported operating profit and profit before tax for 2022 is provided in note 3 to the condensed consolidated financial statements.

Free cash flow to free cash flow before business exits

Free cash flow to free cash flow before business exits	30 June 2022 £m	30 June 2021 £m
Total	12.9	(71.6)
Business exits	(4.5)	(69.4)
Pension deficit contributions triggered by disposals	4.3	81.8
Before business exits	12.7	(59.2)

Free cash flow was lower than free cash flow before business exits¹ reflecting free cash flows generated by business exits, offset by pension deficit contributions triggered by the disposal of Trustmarque.

Movements in net debt

Net debt at 30 June 2022 was £710.4m (31 December 2021: £879.8m). The reduction in net debt largely reflects the proceeds from the AMT Sybex, Secure Solutions and Services and Trustmarque disposals.

Net debt	30 June 2022 £m	31 December 2021 £m
Opening net debt	(879.8)	(1,077.1)
Cash movement in net debt	180.7	208.5
Non-cash movements	(11.3)	(11.2)
Closing net debt (post-IFRS 16)	(710.4)	(879.8)
Remove closing IFRS 16 impact	421.1	448.4
Net financial debt (pre-IFRS 16)	(289.3)	(431.4)
Cash and cash equivalents net of overdrafts	126.4	101.5
Financial debt net of swaps	(415.7)	(532.9)
Net financial debt (pre-IFRS 16)/adjusted EBITDA¹	2.6x	3.4x
Net debt (post-IFRS 16)/adjusted EBITDA¹	3.7x	4.1x

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

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

At 30 June 2022, the US private placement loan notes net debt to adjusted EBITDA¹ covenant ratio was 1.2 times (30 June 2021: 1.5 times, 31 December 2021: 1.5 times) and was 1.6 times for all other financing agreements (30 June 2021: 2.1 times, 31 December 2021: 2.0 times) compared with maximum permitted levels of 3.0 times and 3.5 times respectively.

At 30 June 2022, the interest cover¹ covenant ratio was 8.4 times for the US private placement loan notes and 8.0 times for other financing arrangements (30 June 2021: 12.1 times and 12.0 times, and 31 December 2021: 9.9 times and 9.6 times respectively) compared with minimum permitted levels of 4.0 times for all debt instruments.

The Group was compliant with all debt covenants at 30 June 2022.

Capital and financial risk management

Liquidity remains a key area of focus for the Group. Financial instruments used to fund operations and to manage liquidity comprise US private placement loan notes, Euro fixed-rate bearer notes, a Schuldschein loan, revolving credit facilities (RCF's), leases and overdrafts.

Liquidity	30 June 2022 £m	31 December 2021 £m
RCF	358.1	385.7
Less: drawing on RCF	—	(40.0)
Undrawn committed facilities	358.1	345.7
Net cash, cash equivalents and overdrafts	126.4	101.5
Less: restricted cash ¹	(60.7)	(54.8)
Liquidity	423.8	392.4

The Group's RCF provides flexible liquidity available to fund operations and was undrawn at 30 June 2022 (31 December 2021: £40m drawn).

The existing RCF expires on 31 August 2022, and in June 2021 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. In July 2022 the Group extended this second RCF to 31 August 2024. The extended facility is subject to covenants, which are the same as in the existing RCF. The two RCF's incorporate provisions such that they will partially reduce in quantum as a consequence of specified transactions.

As part of the Group's mitigation of the impact of Covid-19, in June 2020 a non-recourse invoice discounting facility was obtained. The value of invoices sold under the facility at 30 June 2022 was £4.3m (31 December 2021: £3.9m).

At 30 June 2022, the Group had £126.4m of cash and cash equivalents net of overdrafts, and £433.8m of private placement loan notes, fixed-rate bearer notes, and Schuldschein loan. These debt instruments mature over the period to 2027, with repayment of £139.0m and £74.5m, 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.

Going concern

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

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 continues to adopt the going concern basis in preparing these condensed consolidated financial statements as set out in note 2 to the condensed consolidated financial statements.

Pensions

The net defined benefit pension position for accounting purposes moved from a small net asset at the start of the year (£5.8m) to a larger net asset by 30 June 2022 (£162.3m).

The main reasons for this movement were the £19.3m of deficit funding contributions paid into the Group's schemes during the period, along with favourable market conditions (particularly the material increase in the yields available on good quality long term corporate bonds in addition to a decrease in future inflationary expectations) that are used to derive the assumptions to value the schemes' liabilities. This increase was partially offset by lower-than-expected asset returns predominantly as a result of inflation and interest rate hedging. For further details, please refer to note 14 of the condensed consolidated financial statements.

The valuation of the defined benefit pension scheme liabilities for funding purposes (the actuarial valuation) differs from the valuation for accounting purposes (which are shown in these condensed consolidated financial statements) mainly due to different assumption principles being used based on the different regulatory requirements of the valuations. Management estimate that at 30 June 2022 the net asset of the Capita Pension and Life Assurance Scheme (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 30 June 2022) was approximately £50m (31 December 2021: net asset £40m). 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 30 June 2022, the funding level was around 94% (or a net liability of £85m). The deficit is expected to be met by the remaining deficit contributions.

Balance sheet

Consolidated net assets were £406.3m at 30 June 2022 (31 December 2021: net assets £296.5m).

The movement is predominantly driven by the gains on sale of AMT Sybex, Secure Solutions and Services and Trustmarque, and the increase in the net pension asset referred to above.

¹ Refer to alternative performance measures in the appendix

Forward looking statements

This half year results statement is prepared for and addressed only to the Company's shareholders as a whole and to no other person. The Company, its Directors, employees, agents and advisors accept and assume no liability to any person in respect of this trading update except 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.

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

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

Principal risks and uncertainties

The principal risks and uncertainties faced by the Group and its approach to internal control and risk management are set out on pages 53 to 61 of the 2021 Annual Report which is available on the Group's website at www.capita.com/investors/results-reports-and-presentations.

The principal risks and uncertainties, as set out below, have been reassessed and the Board expect them to remain materially the same as those reported in the 2021 Annual Report during the remaining six months of the financial year.

Risk title	Risk description
Living our purpose	Failure to live our purpose and failure to change stakeholder perception so we are seen to live our purpose
Strategy	Failure to define, resource and execute the right medium-term strategy
Innovation	Failure to innovate and develop new value propositions for clients and customers
People attraction & retention	Failure to attract, develop, engage and retain the right people for current and future client propositions
Culture	Failure to change the culture and practices of Capita in line with our purpose and strategy
Data protection	Failure to protect data, information and IT systems
Contracts	Failure to secure new/extend existing contracts and services
Delighting clients	Failure to delight clients and customers and deliver contractual obligations
Internal control	Failure to maintain an adequate risk-based system of internal control
Geopolitical climate	Failure to plan for, influence and respond to potential changes in the geopolitical climate
Financial stability	Failure to maintain financial stability, viability and achieve financial targets / results
Wellbeing, health & safety	Failure of Capita to protect the wellbeing, health and safety of all Capita's employees, service users, and others
Climate change	Failure to adapt Capita and its services to the impacts of climate change

Statement of Directors' responsibilities

The Board of directors confirms, to the best of its knowledge, that these condensed consolidated financial statements have been prepared in accordance with IAS 34 as adopted for use in the UK and that the Half Year Management Report includes a fair review of the information required by Rules 4.2.7 and 4.2.8 of the Disclosure Guidance and Transparency Rules of the United Kingdom Financial Conduct Authority.

The names and functions of the Board of directors of Capita plc are listed on the Group website at www.capita.com/our-company/about-capita/about-board.

By order of the Board

J Lewis
Chief Executive Officer
4 August 2022

T Weller
Chief Financial Officer
4 August 2022

Condensed consolidated income statement

For the six months ended 30 June 2022

	Notes	30 June 2022 £m	30 June 2021 £m
Continuing operations:			
Revenue	6	1,517.2	1,619.4
Cost of sales		(1,185.5)	(1,271.6)
Gross profit		331.7	347.8
Administrative expenses		(382.9)	(307.0)
Operating (loss)/profit	6	(51.2)	40.8
Share of results in associates and investment gains		3.6	(0.9)
Net finance expense	7	(14.2)	(19.1)
Gain on business disposal	4	61.9	240.3
Profit before tax		0.1	261.1
Income tax credit	8	18.2	10.9
Total profit for the period		18.3	272.0
Attributable to:			
Owners of the Company		18.3	268.5
Non-controlling interests		—	3.5
		18.3	272.0
Earnings per share			
	9		
– basic		1.10p	16.18p
– diluted		1.08p	15.94p

Adjusted operating profit	3	52.2	22.5
Adjusted profit before tax	3	37.0	1.1
Adjusted earnings per share	9	3.31p	2.80p
Adjusted and diluted earnings per share	9	3.25p	2.75p

Condensed consolidated statement of comprehensive income

For the six months ended 30 June 2022

	Notes	30 June 2022 £m	30 June 2021 £m
Total profit for the period		18.3	272.0
Other comprehensive income/(expense)			
Items that will not be reclassified subsequently to the income statement			
Actuarial gain on defined benefit pension schemes		136.3	76.3
Tax effect on defined benefit pension schemes		(34.1)	(5.7)
Gain on fair value of investments		—	0.1
Items that will or may be reclassified subsequently to the income statement			
Exchange differences on translation of foreign operations		1.1	(1.1)
Exchange differences realised on business disposals	4	0.3	(2.8)
Gain/(loss) on cash flow hedges		10.3	(1.0)
Cash flow hedges recycled to the income statement	7	(1.2)	0.5
Tax effect on cash flow hedges		(2.3)	0.1
Other comprehensive income for the period net of tax		110.4	66.4
Total comprehensive income for the period net of tax		128.7	338.4
Attributable to:			
Owners of the Company		128.5	334.9
Non-controlling interests		0.2	3.5
		128.7	338.4

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

Condensed consolidated balance sheet

At 30 June 2022

	Notes	30 June 2022 £m	31 December 2021 £m
Non-current assets			
Property, plant and equipment		113.3	129.0
Intangible assets		132.4	147.3
Goodwill	10	757.1	951.7
Right-of-use assets		266.1	287.9
Investments in associates and joint ventures		0.3	0.7
Contract fulfilment assets		282.7	286.7
Financial assets	13	119.7	107.2
Deferred tax assets		158.7	176.0
Employee benefits		166.2	13.3
Trade and other receivables		14.9	15.7
		2,011.4	2,115.5
Current assets			
Financial assets	13	25.9	17.5
Disposal group assets held-for-sale		—	138.8
Trade and other receivables		541.6	547.1
Cash	13	352.0	317.6
Income tax receivable		6.5	5.9
		926.0	1,026.9
Total assets		2,937.4	3,142.4
Current liabilities			
Trade and other payables		476.0	542.2
Deferred income		696.9	669.8
Overdrafts	13	225.6	231.9
Lease liabilities	13	59.7	61.6
Disposal group liabilities held-for-sale		—	81.1
Financial liabilities	13	186.0	286.3
Provisions	11	76.7	126.6
		1,720.9	1,999.5
Non-current liabilities			
Trade and other payables		15.3	15.4
Deferred income		104.6	124.9
Lease liabilities	13	361.4	386.8
Financial liabilities	13	264.7	291.9
Deferred tax liabilities		5.9	5.9
Provisions	11	54.4	14.0
Employee benefits		3.9	7.5
		810.2	846.4
Total liabilities		2,531.1	2,845.9
Net assets		406.3	296.5
Capital and reserves			
Share capital	15	34.8	34.8
Share premium	15	1,145.5	1,145.5
Employee benefit trust and treasury shares	15	(4.8)	(8.0)
Capital redemption reserve		1.8	1.8
Other reserves		(1.0)	(9.0)
Retained deficit		(792.2)	(890.6)
Equity attributable to owners of the Company		384.1	274.5
Non-controlling interests		22.2	22.0
Total equity		406.3	296.5

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

Condensed consolidated statement of changes in equity

For the six months ended 30 June 2022

	Share capital £m	Share premium £m	Employee benefit trust and treasury shares £m	Capital redemption reserve £m	Retained deficit £m	Other reserves £m	Total attributable to the owners of the parent £m	Non controlling interests £m	Total equity/(deficit) £m
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 period	—	—	—	—	268.5	—	268.5	3.5	272.0
Other comprehensive income/(expense)	—	—	—	—	70.7	(4.3)	66.4	—	66.4
Total comprehensive income/(expense) for the period	—	—	—	—	339.2	(4.3)	334.9	3.5	338.4
Share based payment net of deferred tax effect	—	—	—	—	1.8	—	1.8	—	1.8
Exercise of share options under employee long term incentive plans	—	—	2.4	—	(2.4)	—	—	—	—
Shares issued	0.3	—	(0.3)	—	—	—	—	—	—
VAT refund on rights issue issuance costs	—	2.2	—	—	—	—	2.2	—	2.2
Dividends ²	—	—	—	—	—	—	—	(36.7)	(36.7)
Change in put-options held by non-controlling interests ³	—	—	—	—	96.5	—	96.5	—	96.5
At 30 June 2021	34.8	1,145.5	(9.1)	1.8	(854.4)	(17.7)	300.9	20.2	321.1
At 1 January 2022	34.8	1,145.5	(8.0)	1.8	(890.6)	(9.0)	274.5	22.0	296.5
Impact of change in accounting standards – amendments to IAS 37 ¹	—	—	—	—	(21.7)	—	(21.7)	—	(21.7)
At 1 January 2022 on adoption of IAS 37	34.8	1,145.5	(8.0)	1.8	(912.3)	(9.0)	252.8	22.0	274.8
Profit for the period	—	—	—	—	18.3	—	18.3	—	18.3
Other comprehensive income	—	—	—	—	102.2	8.0	110.2	0.2	110.4
Total comprehensive income for the period	—	—	—	—	120.5	8.0	128.5	0.2	128.7
Share based payment net of deferred tax effect	—	—	—	—	2.7	—	2.7	—	2.7
Exercise of share options under employee long term incentive plans (note 15)	—	—	3.2	—	(3.2)	—	—	—	—
Change in put-options held by non-controlling interests	—	—	—	—	0.1	—	0.1	—	0.1
At 30 June 2022	34.8	1,145.5	(4.8)	1.8	(792.2)	(1.0)	384.1	22.2	406.3

1. The Group initially applied the amendments to IAS 37 at 1 January 2022 and the cumulative effect of applying the amendments was recognised as an opening balance adjustment to retained earnings. Refer to note 2 for further details.

2. Of the dividends during the six months ended 30 June 2021 to non-controlling interests totalling £36.7m, the majority were related to AXELOS Limited (£36.6m) who paid £10.7m in cash with the remainder settled by the purchaser when AXELOS Limited was sold.

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

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

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

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

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

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

Other reserves – This consists of foreign currency translation reserve deficit of £7.1m (31 December 2021: deficit £8.3m) and cash flow hedging reserve surplus of £6.1m (31 December 2021: deficit £0.7m).

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

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

Condensed consolidated cash flow statement

For the six months ended 30 June 2022

	Notes	30 June 2022 £m	30 June 2021 £m
Cash generated from/(used by) operations	12	49.2	(22.5)
Income tax paid		(2.5)	(7.0)
Net interest paid		(16.2)	(18.2)
Net cash inflow/(outflow) from operating activities		30.5	(47.7)
Cash flows from investing activities			
Purchase of property, plant and equipment		(7.3)	(11.0)
Purchase of intangible assets		(10.8)	(13.1)
Proceeds from sale of property, plant and equipment / intangible assets		0.5	0.2
Capital repayment from investments at fair value through other comprehensive income		0.2	—
Subsidiary partnership payment		—	(4.7)
Capital element of lease rental receipts		3.3	1.5
Total proceeds received net of disposal costs paid	4	222.7	306.0
Cash held by subsidiaries when sold	4	(58.4)	(17.7)
Net cash inflow from investing activities		150.2	261.2
Cash flows from financing activities			
Dividends paid to non-controlling interest		—	(10.7)
Capital element of lease rental payments		(32.8)	(47.3)
Proceeds from issue of share capital (net of issuance costs)		—	2.2
Repayment of private placement loan notes and other debt		(92.7)	(0.5)
Repayment of revolving credit facility borrowings		(40.0)	—
Proceeds from cross currency interest rate swaps		10.1	—
Debt financing arrangement costs paid		(0.3)	(1.5)
Net cash outflow from financing activities		(155.7)	(57.8)
Increase in cash and cash equivalents		25.0	155.7
Cash and cash equivalents at the beginning of the period		101.5	141.1
Effect of exchange rates on cash and cash equivalents		(0.1)	0.9
Cash and cash equivalents at 30 June		126.4	297.7
Cash and cash equivalents comprise:			
Cash		352.0	546.0
Overdrafts		(225.6)	(258.4)
Cash, net of overdrafts, included in disposal group assets/liabilities held-for-sale		—	10.1
Total		126.4	297.7
Cash generated from/(used by) operations before business exits	12	49.0	(16.0)
Free cash flow before business exits	12	12.7	(59.2)

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

Notes to the condensed consolidated financial statements

For the six months ended 30 June 2022

1 Corporate information

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

The condensed consolidated financial statements of the Company and its subsidiaries (the 'Group') for the six months ended 30 June 2022 were authorised for issue in accordance with a resolution of the Board of directors on 4 August 2022.

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

(a) Basis of preparation

These condensed consolidated financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the UK's Financial Conduct Authority, and with IAS 34 'Interim Financial Reporting' under UK-adopted International Financial Reporting Standards (IFRS).

These condensed consolidated financial statements have been prepared by applying the accounting policies and presentation that were applied in the preparation of the company's published consolidated financial statements for the year ended 31 December 2021, except for the impact of the amendments to IAS 37 as detailed below.

These condensed consolidated financial statements do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. A copy of the statutory accounts for the year ended 31 December 2021 has been delivered to the Registrar of Companies. The auditors have reported on those accounts; their report was (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.

These condensed consolidated financial statements have been reviewed by the Group's auditors pursuant to the Auditing Practices Board guidance on Review of Interim Financial Information.

Several amendments to reporting standards apply for the first time in 2022 but were not applicable or not material to the Group, except for the impact of the Amendment to IAS 37 as detailed below.

The Group is in the early stages of the assessment for all other standards, amendments and interpretations that have been issued by the IASB but are not yet effective.

Onerous contracts – cost of fulfilling a contract (amendments to IAS 37)

An onerous contract is a contract under which the unavoidable costs (ie, the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services, which include both incremental costs (eg. the costs of direct labour and materials) and an allocation of costs directly related to contract activities (eg. depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The Group has adopted the amendment which resulted in a change in accounting policy for performing an onerous contracts assessment. Previously, the Group included only incremental costs to fulfil a contract when determining whether that contract was onerous. The revised policy requires inclusion of both incremental costs and an allocation of other direct costs.

In accordance with the transitional provisions, the Group applies the amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application) and has not restated its comparative information.

The adoption of the amended standard has resulted in a reduction in retained earnings at 1 January 2022 of £21.7m, comprising an increase of £18.8m in onerous contract provisions and an impairment of contract related assets of £2.9m. The additional onerous contract provision recognised is tax deductible, however, no deferred tax asset has been recognised reflecting the probable level of future taxable profits that will be available against which the assets can be utilised at 1 January 2022. For further details, please refer to note 8.

	1 January 2022 £m
Impact of amendments to IAS 37	
Property, plant and equipment	(0.5)
Contract fulfilment assets	(2.4)
Total assets	(2.9)
Provisions	(18.8)
Total liabilities	(18.8)
Retained earnings	(21.7)
Total equity	(21.7)

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

From 1 January 2022, the Board has limited the items excluded from the adjusted results to: business exits, amortisation and impairment of acquired intangibles, impairment of goodwill and certain net finance expense/income, because these metrics provide a more representative measure of the underlying performance of the business post completion of the Group wide transformation.

In prior years, the Board excluded other items from the adjusted results because they were material and required separate disclosure for users of the financial statements to obtain a proper understanding of the financial information and the underlying performance of the business. These items included significant restructuring, contract-related provisions and impairments, and certain litigation and claims.

From 1 January 2022, the Board considers free cash flow, and cash generated from operations before business exits, to be alternative performance measures because these metrics provide a more representative measure of the sustainable cash flow of the Group. In prior years, the Board excluded certain items from the reported free cash flow and cash generated from operations because they were material and required separate disclosure for users of the financial statements to obtain a proper understanding of the financial information and the underlying performance of the business. These items included: significant restructuring, all pension deficit contributions, utilisation of the Government's VAT deferral scheme, non-recourse trade receivables financing and certain litigation and claims.

The comparatives have been re-presented.

While the Board believes the alternative performance measures (APMs) used provide a meaningful basis upon which to analyse the Group's financial performance and position, which is helpful to the reader, it notes that APMs have certain limitations, and may not be directly comparable with similarly titled measures presented by other companies.

A reconciliation between reported and adjusted operating profit and profit before tax is provided in note 3, and a reconciliation between reported and free cash flow before business exits and cash generated from operations is provided in note 12.

(c) Judgements and estimates

These condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles which require the Board of 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 Board's best knowledge of the amounts, events or actions, actual results may differ.

The significant judgements and assumptions made by the Board in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2021, except for the impact of the amendments to IAS 37 detailed above and explained further in note 5.

The key sources of uncertainty that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are summarised below and set out in more detail in the related note:

- Contract accounting (note 5) - Impairment of contract fulfilment assets, and onerous contract provisions
- Deferred tax asset recognition (note 8)
- Impairment of goodwill (note 10)
- Measurement of defined benefit pension obligations (note 14)

The key areas where significant accounting judgements have been made are summarised below and set out in more detail in the related note where included in the these condensed consolidated financial statements:

- Capitalisation of contract fulfilment assets
- Measurement of goodwill (note 10)
- Measurement of provisions (note 11) and contingent liabilities (note 18)

(d) Going concern

In determining the appropriate basis of preparation of these condensed consolidated financial statements for the six month period ended 30 June 2022, the Board is required to consider whether the Group 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 December 2023, which is just less than eighteen months from the date of approval of these condensed consolidated financial statements ('the going concern period'), and includes the scheduled repayments of private placement loan notes in the second half of 2023.

The base case financial forecasts used in the going concern assessment are derived from financial projections for 2022-2023 as approved by the Board in July 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 £358.1m at 30 June 2022 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. In July 2022 the Group extended this second RCF to 31 August 2024. The extended facility is subject to covenants, which are the same as in the existing RCF. The two RCF's incorporate provisions such that they will partially reduce in quantum as a consequence of specified transactions.

Financial position at 30 June 2022

The Group had net debt of £710.4m at 30 June 2022 (31 December 2021: £879.8m) and adjusted net debt for covenant purposes of £350.0m (31 December 2021: £502.0m). The Group was in compliance with all debt covenants at 30 June 2022. The Group had liquidity of £423.8m at 30 June 2022 as detailed further in the Chief Financial Officer's review.

The Group's committed RCFs and private placement notes are subject to financial covenants including a maximum ratio of adjusted net debt to adjusted EBITDA and a minimum ratio of adjusted EBITA to borrowing costs. The Group's covenanted maximum adjusted net debt to adjusted EBITDA ratio is 3.0 or 3.5 times depending on the debt instrument in question and minimum adjusted EBITA to borrowing costs is 4.0 times for all debt instruments. Compliance with these covenants is tested semi-annually.

The components of the adjusted net debt to adjusted EBITDA and adjusted EBITA to borrowing costs ratios are set out in the alternative performance measures in the appendix.

The Group's adjusted net debt to adjusted EBITDA at 30 June 2022 was 1.2 times for the US private placement loan notes and 1.6 times for other financing agreements. The Group's adjusted EBITA to borrowing costs at 30 June 2022 was 8.4 times for the US private placement loan notes and 8.0 times for other financing agreements. The Group is therefore in compliance with the relevant ratios.

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 December 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 resulting from 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.

In the absence of 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 capital expenditure, 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.

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 has exceeded this target. The disposal programme continues, with further disposal processes launched in 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, most recently the extension of the RCF which was signed in July 2022.

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 and regulatory approval. Similarly, any new refinancing, 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 condensed consolidated financial statements. The Board has concluded that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 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 Adjusted operating profit and adjusted profit before tax

The items below are excluded from the adjusted profit because the Board deems that these amounts are (or have been) material and require separate disclosure for users of the financial statements to obtain a proper understanding of the financial information and the underlying performance of the business.

From 1 January 2022, the Board has limited the items excluded from the adjusted results to: business exits, amortisation and impairment of acquired intangibles, impairment of goodwill and certain mark-to-market valuation changes that impact net finance expense/income, because these metrics provide a more representative measure of the underlying performance of the business post completion of the Group-wide transformation.

In prior years, the Board excluded other items from the adjusted results because they were material and required separate disclosure for users of the financial statements to obtain a proper understanding of the financial information and the underlying performance of the business. These items included: significant restructuring, contact-related provisions and impairments, and certain litigation and claims.

The comparatives have been re-presented on the same basis, with significant restructuring (£30.0m) and certain litigation and claims (credit £8.9m) now included within adjusted results for the six months ended 30 June 2021.

The items excluded from adjusted profit are discussed further below:

	Notes	Operating (loss)/profit		Profit before tax	
		30 June 2022 £m	30 June 2021 £m	30 June 2022 £m	30 June 2021 £m
Reported		(51.2)	40.8	0.1	261.1
Business exits	4	7.7	(22.4)	(54.3)	(262.5)
Amortisation and impairment of acquired intangibles		3.2	4.1	3.2	4.1
Impairment of goodwill	10	92.5	—	92.5	—
Net finance income	7	—	—	(4.5)	(1.6)
Adjusted		52.2	22.5	37.0	1.1

1. Adjusted operating profit of £52.2m (30 June 2021: £22.5m) was generated on adjusted revenue of £1,480.1m (30 June 2021: £1,471.9m) resulting in an adjusted operating profit margin of 3.5% (30 June 2021: 1.5%).

2. The tax impact of the profit before tax adjusting items is a £0.6m charge (30 June 2021: £34.1m charge).

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 are treated as held-for-sale (and therefore as a business exit) where the disposal is seen to be highly probable, and expected to complete within the following twelve months. Refer to note 4 for further details.

Amortisation and impairment of acquired intangible assets: the Group recognised total acquired intangible asset amortisation of £3.2m (30 June 2021: £11.8m) of which £nil (30 June 2021: £7.7m) has been classified within 'Business exit - non-trading expenses'.

Impairment of goodwill: goodwill is subject to impairment testing annually and when indicators of impairment are identified. Any impairment charges are reported separately.

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

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

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

However, the trading results of these businesses, non-trading expenses, and any gain/loss on disposal, have been excluded from adjusted results. To enable a like-for-like comparison of adjusted results, the 30 June 2021 comparatives have been re-presented to exclude businesses classified as business exits from 1 July 2021 to 30 June 2022.

Assets held-for-sale

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

Based on the above requirements, individual businesses within the Portfolio Division will only reach the criteria to be treated as held-for-sale where the disposal is seen to be highly probable, and expected to complete within the following twelve months. At 30 June 2022 no disposals were deemed to have met this threshold. At 30 June 2021, only the disposal of the AXELOS joint venture was deemed to have met this threshold.

2022 business exits

Business exits at 30 June 2022 primarily comprised:

Business	Disposal completed on
AMT Sybex	1 January 2022
Secure Solutions and Services	3 January 2022
Trustmarque	31 March 2022
Speciality Insurance	29 April 2022

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 30 June 2022, their trading results were included within adjusted results. However, exit costs related to those disposals, which include professional fees, salary costs and separation planning costs, are included within business exit non-trading administrative expenses.

Income statement impact	30 June 2022			30 June 2021		
	Trading £m	Non-trading £m	Total £m	Trading £m	Non-trading £m	Total £m
Revenue	37.1	—	37.1	147.5	—	147.5
Cost of sales	(27.0)	—	(27.0)	(79.9)	—	(79.9)
Gross profit	10.1	—	10.1	67.6	—	67.6
Administrative expenses	(4.4)	(13.4)	(17.8)	(23.0)	(22.2)	(45.2)
Operating profit/(loss)	5.7	(13.4)	(7.7)	44.6	(22.2)	22.4
Net finance income/(expense)	0.1	—	0.1	—	(0.2)	(0.2)
Gain on business disposal	—	61.9	61.9	—	240.3	240.3
Profit before tax	5.8	48.5	54.3	44.6	217.9	262.5
Taxation	(0.6)	0.4	(0.2)	(8.3)	(26.3)	(34.6)
Profit after tax	5.2	48.9	54.1	36.3	191.6	227.9

Trading revenue and costs represent the current period trading performance of the above businesses up to the point of being disposed or exited, and in the comparative those businesses disposed of during 2021 (ESS, Life Insurance and Pensions Servicing in Ireland, and AXELOS). Trading expenses primarily comprise payroll costs of £17.1m (30 June 2021: £63.4m) and information technology costs of £10.8m (30 June 2021: £27.7m).

Included within non-trading administrative expenses is £nil (30 June 2021: £7.7m) of amortisation of acquired intangibles, which in accordance with the Group's policy were excluded from the Group's adjusted results and have been reclassified to business exits because they relate to businesses sold or being exited. Other non-trading administrative expenses include: disposal project costs of £11.2m (30 June 2021: £12.3m); and other costs of £2.2m (30 June 2021: £2.2m).

2022 disposals

In the six months ended 30 June 2022, the gain arising on the disposal of the AMT Sybex, Secure Solutions and Services, Trustmarque and Speciality Insurance businesses was determined as follows:

	30 June 2022 £m	30 June 2021 £m
Intangible assets	1.2	—
Goodwill	102.8	—
Income tax receivable and deferred tax asset	2.1	—
Contract fulfilment assets	5.1	—
Trade and other receivables	76.8	—
Accrued income	9.5	—
Prepayments	9.7	—
Cash and cash equivalents	38.8	—
Disposal group assets held-for-sale	141.8	120.4
Trade and other payables	(94.9)	—
Accruals	(6.1)	—
Other taxes and social security	(8.7)	—
Deferred income	(27.2)	—
Provisions	(0.3)	—
Capita group loan balances	(51.1)	—
Disposal group liabilities held-for-sale	(136.2)	(57.7)
Net identifiable assets sold	63.3	62.7
Sales price		
- received in cash	126.5	308.8
- deferred receivable	10.8	—
Less: costs of disposal		
- paid in cash	(9.5)	(2.8)
- accrued at period end	(2.3)	(5.8)
Net sales price	125.5	300.2
Realisation of cumulative currency translation difference	(0.3)	2.8
Gain on business disposals	61.9	240.3
Net cash inflow		
Cash proceeds received less costs of disposal paid	117.0	306.0
Settlement of receivables due from disposed subsidiaries		
- disposal of subsidiaries in the period	51.1	—
- disposal of subsidiaries within disposal group assets/liabilities held-for-sale	54.6	—
	105.7	—
Total proceeds received net of disposal costs paid	222.7	306.0
(Cash)/overdrafts held by subsidiaries when sold	(38.8)	—
(Cash)/overdrafts within disposal group assets/liabilities held-for-sale	(19.6)	(17.7)
Total (cash)/overdrafts held by subsidiaries when sold	(58.4)	(17.7)

In preparing these condensed consolidated financial statements, management identified that the net assets of a business held-for-sale at 31 December 2021 and used to assess for impairment were incorrectly determined when comparing to the expected net disposal proceeds. This resulted in an overstatement of a goodwill impairment charge recognised within business exits (£19.0m) and consequently, an understatement of assets held-for-sale at 31 December 2021. This error did not impact the adjusted results of the Group.

Management has considered IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and concluded that the impact of this error is not deemed material since it would not influence the economic decisions of primary users of the financial statements, not least because the business has been disposed of in the current period, and therefore, the correction of the impairment has been recognised in the current period within the gain on business disposal.

Disposal group assets and liabilities held-for-sale

Disposal group assets and liabilities held-for-sale at 31 December 2021 comprised the AMT Sybex, Secure Solutions and Services and Speciality Insurance businesses, whose disposals were completed during the first half of 2022. At 30 June 2022, no disposals were deemed to have met the threshold to be treated as held-for-sale.

Business exit cash flows

Businesses exited and being exited generated net operating cash inflows of £4.5m (30 June 2021: cash inflows of £75.3m).

5 Contract accounting

At 30 June 2022, the Group had the following results and balance sheet items relating to long-term contracts:

	Note	30 June 2022 £m	30 June 2021 £m	31 December 2021 £m
Long-term contractual adjusted revenue	6	1,080.8	1,077.7	
Non-current and current deferred income		801.5		794.7
Non-current contract fulfilment assets		282.7		286.7
Non-current and current onerous contract provisions		70.0		45.8

Background

The majority of the Group's revenue is from contracts greater than two years in duration (long-term contractual), which provided 73.0% of Group adjusted revenue for the six months ended 30 June 2022 (30 June 2021: 73.2%).

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 appropriate. These contracts are collectively referred to as 'major contracts' in the remainder of this note.

The major contracts contributed £0.8billion at 30 June 2022 (30 June 2021: £0.8billion) or 53% (30 June 2021: 53%) of the Group's adjusted revenue. Non-current contract fulfilment assets as at 30 June 2022 were £282.7m, of which £108.8m (31 December 2021: £184.1m) related to major contracts with on-going transformational activities. The remainder relates to contracts post transformation and includes non-major contracts.

The major contracts, both pre and post-transformation, are rated according to their financial risk profile, which is linked to the level of uncertainty over future assumptions. For those that are in the high and medium rated risk categories the associated non-current contract fulfilment assets in aggregate were £9.6m at 30 June 2022 (31 December 2021: £6.6m). The recoverability of these assets is dependent on no significant adverse change in the key contract assumptions arising in the next financial year. The balance of deferred income associated with these contracts was £102.2m at 30 June 2022 (31 December 2021: £89.5m) 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 £48.3m at 30 June 2022 (31 December 2021: £45.8m).

Following these reviews, contract fulfilment asset impairments of £0.1m at 30 June 2022 (30 June 2021: £0.8m) were identified and recognised within adjusted cost of sales, of which, at 30 June 2022, £nil (30 June 2021: £nil) related to contract fulfilment assets added during the period. As discussed in note 2, the adoption of the amendment to IAS 37 resulted in additional onerous contract provisions being required, as well as contract asset impairments. On adoption of the amended standard the cumulative effect was recognised as an opening balance adjustment to retained earnings.

Given the quantum of the relevant contract assets and liabilities, and the nature of the estimates noted above, management has concluded that it is reasonably possible that outcomes within the next financial year may be different from management's current assumptions and could require a material adjustment to the carrying amounts of contract assets and onerous contract provisions. As noted above, £108.8m of non-current contract fulfilment assets relate to major contracts with on-going transformational activities and £9.6m of non-current contract fulfilment assets relate to the high and medium rated risk categories. Given 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. Management does not believe that disclosing a potential range of outcomes on a consolidated basis would provide meaningful information to a user of these condensed consolidated financial statements. Due to commercial sensitivities, the Group does not disclose amounts involved in any individual contract.

6 Revenue and segmental information

The Group's operations are managed separately according to the nature of the services provided, with each segment representing a strategic business division offering a different package of client outcomes across the markets the Group serves. Capita plc is a reconciling item and not an operating segment.

The tables below present revenue and trading results for the Group's business segments for the six months ended 30 June 2022 and 2021.

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

Adjusted revenue, excluding results from businesses exited in both periods (adjusting items), was £1,480.1m (30 June 2021: £1,471.9m), an increase of 0.6% (2021: increase 0.3%).

Six months ended 30 June 2022	Notes	Capita Public Service £m	Capita Experience £m	Capita Portfolio £m	Capita plc £m	Total adjusted £m	Adjusting items £m	Total reported £m
Continuing operations								
Long-term contractual		613.7	449.2	17.9	—	1,080.8	10.7	1,091.5
Short-term contractual		66.7	115.8	66.9	—	249.4	2.0	251.4
Transactional (point-in-time)		33.2	27.4	89.3	—	149.9	24.4	174.3
Total segment revenue		713.6	592.4	174.1	—	1,480.1	37.1	1,517.2
Trading revenue		735.4	609.7	222.2	—	1,567.3	—	1,567.3
Inter-segment revenue		(21.8)	(17.3)	(48.1)	—	(87.2)	—	(87.2)
Total adjusted segment revenue		713.6	592.4	174.1	—	1,480.1	—	1,480.1
Business exits – trading	4	—	—	37.1	—	—	37.1	37.1
Total segment revenue		713.6	592.4	211.2	—	1,480.1	37.1	1,517.2

Six months ended 30 June 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		603.7	454.9	19.1	—	1,077.7	81.9	1,159.6
Short-term contractual		56.7	119.8	71.3	—	247.8	26.6	274.4
Transactional (point-in-time)		47.8	25.2	73.4	—	146.4	39.0	185.4
Total segment revenue		708.2	599.9	163.8	—	1,471.9	147.5	1,619.4
Trading revenue		728.9	621.4	237.7	—	1,588.0	—	1,588.0
Inter-segment revenue		(20.7)	(21.5)	(73.9)	—	(116.1)	—	(116.1)
Total adjusted segment revenue		708.2	599.9	163.8	—	1,471.9	—	1,471.9
Business exits – trading	4	—	—	147.5	—	—	147.5	147.5
Total segment revenue		708.2	599.9	311.3	—	1,471.9	147.5	1,619.4

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 present the aggregate amount of the currently contracted transaction price allocated to the performance obligations that are unsatisfied or partially unsatisfied. Revenue expected to be recognised upon satisfaction of these performance obligations is as follows:

Order book 30 June 2022	Capita Public Service £m	Capita Experience £m	Capita Portfolio £m	Capita plc £m	Total £m
Long-term contractual	2,874.8	2,345.1	264.1	—	5,484.0
Short-term contractual	150.2	173.6	103.5	—	427.3
Total	3,025.0	2,518.7	367.6	—	5,911.3

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

The table below shows the expected timing of revenue to be recognised from long-term contractual orders at 30 June 2022:

Time bands of expected revenue recognition from long-term contractual orders	Capita Public Service £m	Capita Experience £m	Capita Portfolio £m	Capita plc £m	Total £m
< 1 year	738.3	742.8	46.9	—	1,528.0
1–5 years	1,346.0	1,225.1	87.2	—	2,658.3
> 5 years	790.5	377.2	130.0	—	1,297.7
Total	2,874.8	2,345.1	264.1	—	5,484.0

The order book represents the consideration which the Group will be entitled to receive from the customers when the Group satisfies the remaining performance obligations in the contracts. However, the total revenue that will be earned by the Group will also include non-contracted volumetric revenue, new wins, scope changes and anticipated contract extensions. These elements have been excluded from the figures in the tables above because they are not contracted. In addition, revenue from contract extensions is also excluded from the order book unless the extensions are pre-priced 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 £590.4m (31 December 2021: £668.0m). The amounts presented do not include orders for which neither party has performed, and each party has the unilateral right to terminate a wholly unperformed contract without compensating the other party.

Of the £5.5billion (31 December 2021: £5.8billion) revenue to be earned from long-term contractual orders, £4.4billion (31 December 2021: £4.3billion) relates to major contracts. This amount excludes revenue that will be derived from frameworks (transactional (point-in-time) contracts), non-contracted volumetric revenue, non-contracted scope changes and future unforeseen volume changes from these major contracts, which together are expected to contribute an additional £1.8billion (31 December 2021: £2.3billion) of revenue to the Group over the life of the relevant contracts.

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 £681.5m (30 June 2021: £738.5m; 31 December 2021: £941.5m).

Segmental profit

The tables below present trading results for the Group's business segments for the six month periods ended 30 June 2022 and 30 June 2021. For segmental reporting, the costs of the central functions have been allocated to the segments using appropriate drivers such as adjusted revenue, adjusted profit or headcount.

Six months ended 30 June 2022	Notes	Capita Public Service £m	Capita Experience £m	Capita Portfolio £m	Capita plc £m	Total adjusted £m	Adjusting items £m	Total reported £m
Adjusted operating profit	3	46.8	17.6	3.0	(15.2)	52.2	—	52.2
Business exits – trading	4	—	—	5.7	—	—	5.7	5.7
Total trading result		46.8	17.6	8.7	(15.2)	52.2	5.7	57.9
Non-trading items:								
Business exits – non-trading	4					—	(13.4)	(13.4)
Other adjusting items	3					—	(95.7)	(95.7)
Operating profit/(loss)						52.2	(103.4)	(51.2)

Six months ended 30 June 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	3	38.4	28.0	3.0	(46.9)	22.5	—	22.5
Business exits – trading	4	—	—	44.6	—	—	44.6	44.6
Total trading result		38.4	28.0	47.6	(46.9)	22.5	44.6	67.1
Non-trading items:								
Business exits – non-trading	4					—	(22.2)	(22.2)
Other adjusting items	3					—	(4.1)	(4.1)
Operating profit						22.5	18.3	40.8

7 Net finance expense

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

	30 June 2022 £m	30 June 2021 £m
Interest income		
Interest on cash	(0.3)	(0.3)
Interest on lease receivables	(2.1)	(2.1)
Total interest income	(2.4)	(2.4)
Interest expense		
Private placement loan notes ¹	6.6	7.8
Cash flow hedges recycled to the income statement	(1.2)	0.5
Bank loans and overdrafts	5.1	1.9
Interest on lease liabilities	11.3	11.5
Net interest (receivable)/payable on defined benefit pension schemes	(0.6)	1.2
Total interest expense	21.2	22.9
Net finance expense included in adjusted profit	18.8	20.5
Included within business exits		
Discount unwind on public sector subsidiary partnership payments	—	0.4
Other financial income	(0.1)	(0.2)
Total included within business exits	(0.1)	0.2
Other items excluded from adjusted profits		
Non-designated foreign exchange forward contracts - mark-to-market	(5.3)	(1.5)
Other financial expense	—	0.2
Fair value hedge ineffectiveness ²	0.8	(0.3)
Total other items excluded from adjusted profits	(4.5)	(1.6)
Total net finance income excluded from adjusted profit	(4.6)	(1.4)
Total net finance expense	14.2	19.1

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

2. Fair value hedge ineffectiveness includes ineffectiveness from changes in currency basis, and the movement in mark-to-market valuations on hedge derivatives from the perceived change in the credit worthiness of the counterparties to those instruments.

8 Income tax

The adjusted income tax charge is based on management's best estimate of the full-year effective tax rate of 18.9%, estimated using full-year profit projections excluding any discrete items. The estimated full year effective tax rate has been applied to profit before adjusting items for the six months ending 30 June 2022 to calculate the adjusted income tax charge for the six month period. The tax credit on discrete items for the six months is calculated separately, and mainly relates to the adjustment to unrecognised deferred tax assets described below. The tax impact of adjusting items has been calculated on an item-by-item basis.

There is a reported income tax credit for the period of £18.2m on reported profit before tax of £0.1m (30 June 2021: reported income tax credit of £10.9m on reported profit of £261.1m), and an adjusted income tax credit for the period of £18.8m on adjusted profit before tax of £37.0m (30 June 2021: adjusted tax credit of £45.0m on adjusted profit of £1.1m). The most significant reconciling items, explaining the difference from the standard UK rate of 19%, are movement in unrecognised deferred tax assets, non-taxable profit on disposal and non-deductible goodwill impairment.

The main movements in the net deferred tax asset arise due to the deferred tax liability, tax charge to equity, on the defined benefit pension scheme surplus recognised for accounting purposes, partly offset by the change in the accounting estimate of deferred tax, tax credit to the income statement.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised. The recoverability of deferred tax assets is supported by the deferred tax liabilities against which the reversal can be offset and the expected level of future profits in the countries concerned. The recognition of deferred tax assets has been based on the forecast accounting profits in the full year profit projections for 2022 and the 2023-2024 business plans approved by the Board, using a long-term growth rate of 1.7% and a reducing probability factor applied to future profits, consistent with the approach in 2021. The impact of this assessment results in a change in the accounting estimate of deferred tax of £26.1m, and unrecognised temporary differences decreasing by £104.4m, resulting in total unrecognised temporary differences at 30 June 2022 of £553.0m. Further disposals, planned as part of the simplification agenda, could also have an impact on deferred tax assessment in future periods.

Capita has an open and positive working relationship with HMRC, has a designated customer compliance manager, and is committed to prompt disclosure and transparency in all dealings with HMRC and overseas tax authorities. The Group does not have a complex tax structure, nor does it pursue aggressive tax avoidance activities. The Group has a low-risk rating from HMRC, reassessed at the end of 2021, and has been awarded the Fair Tax Mark for its tax disclosures from 2018 to 2020. The Group has operations in a number of countries outside the UK. All Capita operations outside the UK are trading operations and pay the appropriate local taxes on these activities. Further detail regarding Capita's approach to tax can be found in our 'Responsible Taxation' publication in the Policies and Principles area of the Capita website (<https://www.capita.com/our-company/about-capita/policies-and-principles>).

9 Earnings per share

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

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

		30 June 2022	30 June 2021
		pence	pence
Basic earnings per share	– reported	1.10	16.18
	– adjusted	3.31	2.80
Diluted earnings per share	– reported	1.08	15.94
	– adjusted	3.25	2.75

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

	Notes	30 June 2022	30 June 2021
		£m	£m
Reported profit before tax for the period		0.1	261.1
Income tax credit	8	18.2	10.9
Reported profit for the period		18.3	272.0
Less: Non-controlling interest		—	(3.5)
Total profit attributable to shareholders		18.3	268.5
Adjusted profit before tax for the period	3	37.0	1.1
Income tax credit		18.8	45.0
Adjusted profit for the period		55.8	46.1
Less: Non-controlling interest		(0.6)	0.3
Adjusted profit attributable to shareholders		55.2	46.4
		30 June 2022	30 June 2021
		£m	£m
Weighted average number of ordinary shares (excluding trust and treasury shares) for basic earnings per share		1,668.9	1,659.0
Dilutive potential ordinary shares:			
Employee share options		28.6	25.8
Weighted average number of ordinary shares (excluding trust and treasury shares) adjusted for the effect of dilution		1,697.5	1,684.8

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

10 Goodwill

In preparing these condensed consolidated financial statements, the Group undertook a review to identify indicators of impairment of goodwill. Consideration was given to performance against the financial forecasts used in the impairment test conducted at 31 December 2021, as well as against indicative disposal proceeds for Portfolio division Cash Generating Units (CGUs) where disposal processes were seen to be sufficiently advanced. Where this analysis gave rise to an indicator of potential impairment, an impairment test was performed.

	2022 £m
Cost	
At 1 January	1,676.8
Business disposal	(138.7)
Exchange movement	0.7
At 30 June	1,538.8
Accumulated impairment	
At 1 January	725.1
Business disposal	(35.9)
Impairment	92.5
At 30 June	781.7
Net book value	
At 1 January	951.7
At 30 June	757.1

Cash-generating units

Reflecting the way management exercises oversight and monitors the Group's performance, the lowest level at which goodwill is monitored is at the divisional level for Capita Public Service and Capita Experience, and at a sub-divisional level for Capita Portfolio (comprising - People, Software, Property, Business Solutions, Travel and Other). At 30 June 2022, the Group had eight CGUs or groups of CGUs for the purpose of impairment testing of goodwill.

Business exits

As set out in note 4, four businesses were sold during the period. Goodwill relating to three of these businesses had been reclassified to disposal group assets held-for-sale at 31 December 2021. Goodwill relating to the fourth disposal (£102.8m) was included within the Technology group of CGUs at 1 January 2022, and then derecognised as part of business disposals during the period.

One business within the Software CGU continues to meet the criteria to be treated as a business exit at 30 June 2022. Goodwill relating to this business had been fully impaired within business exits in December 2021.

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, where value in use would typically be the expected cash flows to be generated from operating the businesses into perpetuity.

At 30 June 2022, no planned disposals met the threshold to be classified as held-for-sale (refer to note 4). However, the disposal of businesses aligned to the People, Property and Business Solutions CGUs in Portfolio were sufficiently advanced that the Board's judgement was that for impairment testing purposes the value in use of these CGUs should be determined based on the future cash flows of the CGUs from continuing use up to the estimated date of disposal, plus an estimate of the sale proceeds less cost of disposal.

The key inputs to the value in use calculations were the forecast cash flows, both operational up to the expected date of disposal and the Board's best estimate of expected net proceeds at disposal. These have been derived from management's latest financial projections and reflect an assessment of the range of bids currently being considered by the Board, the status of these sale processes and the time horizon over which these transactions are expected to complete. While it is the Board's intention to complete these disposals in the short-term, where there is presently no signed agreement in place with any counterparty, the actual cash flows could differ from those assumed in the impairment assessment.

The Board has considered an appropriate methodology to apply when allocating central function costs, which is a key sensitivity. The methodology applied for the 30 June 2022 impairment test was aligned to that applied in reporting segmental performance (refer to note 6). The remaining costs of the Capita plc segment are allocated based on forecast EBITDA for the second half of 2022 representing the first year of business post transformation.

At 30 June 2022, a goodwill impairment of £92.5m was recognised in respect of the People and Property CGUs. The impairment has arisen primarily due to the potential for acquirers factoring in additional investment and costs required to run the businesses outside of the Group, and general macroeconomic conditions. A circa 10% change in the expected net proceeds for either CGU would result in a material impact to the impairment currently recognised.

The Travel CGU in Portfolio was impaired by £11.5m at 31 December 2021 and is therefore sensitive to changes in assumptions giving rise to a further impairment. At 30 June 2022, an impairment test was performed for the Travel CGU using value in use based on the present value of future cash flows. The key inputs to the calculation are described below:

- The cash flows were based on the most recent forecasts available
- The pre-tax discount rate used was 13.2% (31 December 2021: 15.7%), driven primarily by a decline in levered beta of peer group comparators
- The long-term growth rate of 1.7% (31 December 2021: 1.7%) was applied to forecast cash flows for years four and five based on economic growth forecasts by recognised bodies

No impairment was recognised as a result of the impairment test. A sensitivity analysis performed by a decrease in long-term growth rate of 1% (for the terminal period), did not identify any impairment. An increase in the discount rate of 2.8% or a 16% decrease in the forecast cash flows (across years one to five and terminal value) would be required to trigger an impairment for the Travel CGU.

11 Provisions

	Restructuring provision £m	Business exit provision £m	Claims and litigation provision £m	Property provision £m	Customer contract provision £m	Other provisions £m	Total £m
At 1 January	25.6	1.5	13.3	9.7	84.7	5.8	140.6
Impact of change in accounting standards – amendments to IAS 37 ¹	—	—	—	—	18.8	—	18.8
At 1 January 2022 on adoption of IAS 37	25.6	1.5	13.3	9.7	103.5	5.8	159.4
Reclassification ²	(21.8)	—	—	21.8	—	—	—
Provisions in the period	—	6.8	2.2	2.7	7.2	3.3	22.2
Releases in the period	(0.2)	—	(0.7)	(4.5)	(3.4)	(1.8)	(10.6)
Utilisation	(2.8)	(2.7)	(1.2)	(7.6)	(25.2)	(0.4)	(39.9)
At 30 June	0.8	5.6	13.6	22.1	82.1	6.9	131.1

	30 June 2022 £m	31 December 2021 £m
Current	76.7	126.6
Non-current	54.4	14.0
	131.1	140.6

1. The Group initially applied the amendments to IAS 37 at 1 January 2022 and the cumulative effect of applying the amendments was recognised as an opening balance adjustment to retained earnings. Refer to note 2 for further details.

2. Following the end of the Group-wide transformation programme, the element of the restructuring provision relating to property costs (including unavoidable running costs, such as insurance, security, and dilapidation costs) where properties have been exited as a result of the transformation programme, have been reclassified to the property provision as at 1 January 2022.

Restructuring provision: The provision represents the cost of reducing headcount where communication to affected employees has crystallised a valid expectation that the roles are at risk. These provisions are likely to unwind within a year.

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

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

Property provision: The provision relates to unavoidable running costs, such as insurance and security, of leasehold property where the space is vacant or currently not planned to be used for ongoing operations, and for dilapidation costs. The expectation is that this expenditure will be incurred over the remaining periods of the leases which vary up to 25 years.

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

The customer contract provision includes £72.7m in respect of contracts in Capita Experience. The Group has highlighted in prior reporting the structural challenges associated with the closed book Life and Pensions contracts. These provided for upfront cash inflows to support initial transformation activities with a much lower level of cash inflow after the transformation phase was completed. Under the Group's long-term contract accounting policy, the cash flow profile of these contracts has resulted in deferral of profit into future years which is not backed by net cash flows (because the relevant cash receipts arose in the early years of contract execution). Additionally, some of the contracts contain evergreen clauses potentially allowing the customers to extend the contracts indefinitely until the run-off of the underlying life and pension books is complete.

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

The closed books and contractual dynamics have led to onerous conditions to service certain of these contracts. Management has been required to assess the likely length of the remaining contracts, given the pattern and experience of contract terminations while also recognising the evergreen clauses. Accordingly, the Group has, in prior years, provided for the onerous contract conditions based on the best estimate of the remaining contract terms.

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

This reassessment, reflecting the developments in the latter half of 2021, provided cover for contracts to extend out to 2026. This resulted in an increase to the contract provision of £39.5m which was reported as an adjusting item in 2021. At 30 June 2022, the provision was increased to provide cover for contracts to extend out to June 2027 (ie. a five year rolling period). The increase in the provision was reflected in adjusted results.

Other provisions: Relates to provisions in respect of other potential exposures arising as a result of the nature of some of the operations that the Group provides. These are likely to unwind over periods of up to five years.

12 Cash flow information

	Note	30 June 2022		30 June 2021	
		Reported £m	Before business exits £m	Reported £m	Before business exits £m
Cash flows from operating activities:					
Reported operating (loss)/profit	3	(51.2)	(51.2)	40.8	40.8
Less: business exit operating loss/(profit)	4	—	7.7	—	(22.4)
Total operating (loss)/profit		(51.2)	(43.5)	40.8	18.4
Adjustments for non-cash items:					
Depreciation		49.0	49.0	60.1	58.9
Amortisation of intangible assets		22.0	21.9	31.7	21.4
Share based payment expense		2.7	2.7	1.8	1.8
Employee benefits		4.3	4.3	4.0	4.0
Loss on disposal of property, plant and equipment / intangible assets		0.7	0.7	0.1	0.1
Impairment of non-current assets		94.7	94.7	2.1	2.1
Other adjustments:					
Movement in provisions		(28.0)	(32.0)	(20.5)	(15.7)
Pension deficit contribution		(19.3)	(15.0)	(139.9)	(58.1)
Other contributions into pension schemes		(4.9)	(4.9)	(4.3)	(4.3)
Movements in working capital:					
Trade and other receivables		(88.5)	(39.9)	(84.6)	(43.4)
Non-recourse trade receivables financing		0.4	0.4	(7.2)	(7.2)
Trade and other payables		50.8	4.6	107.9	20.5
VAT deferral		(14.9)	(14.9)	(14.9)	(14.9)
Deferred income		34.7	24.2	22.9	25.6
Contract fulfilment assets (non-current)		(3.3)	(3.3)	(22.5)	(25.2)
Cash generated/(used) by operations		49.2	49.0	(22.5)	(16.0)
Adjustments for free cash flows:					
Income tax paid		(2.5)	(2.5)	(7.0)	(4.8)
Net interest paid		(16.2)	(16.2)	(18.2)	(18.3)
Net cash flows from operating activities		30.5	30.3	(47.7)	(39.1)
Purchase of property, plant and equipment		(7.3)	(7.3)	(11.0)	(8.4)
Purchase of intangible assets		(10.8)	(10.8)	(13.1)	(11.9)
Proceeds from sale of property, plant and equipment / intangible assets		0.5	0.5	0.2	0.2
Free cash flow		12.9	12.7	(71.6)	(59.2)

Free cash flow and cash generated from operations

From 1 January 2022, the Board considers free cash flow, and cash generated from operations before business exits, to be alternative performance measures because these metrics provide a more representative measure of the sustainable cash flow of the Group.

These measures are analysed below:

	Free cash flow		Cash generated from operations	
	2022 £m	2021 £m	2022 £m	2021 £m
Total	12.9	(71.6)	49.2	(22.5)
Business exits	(4.5)	(69.4)	(4.5)	(75.3)
Pension deficit contributions triggered by disposals	4.3	81.8	4.3	81.8
Before business exits	12.7	(59.2)	49.0	(16.0)

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 30 June 2021 results have been re-presented for those businesses exited, or in the process of being exited, during the period from 1 July 2021 to 30 June 2022 to enable comparability of the adjusted results.

Pension deficit contributions triggered by disposals: the Trustee of the CPLAS Scheme has agreed with the Group to accelerate the payment of future agreed deficit contributions on a pound for pound basis in the event of disposal proceeds being used to fund mandatory prepayments of debt. During the period, the disposal of the Trustmarque business led to accelerated deficit contributions of £4.3m, with a further £1.6m due in the second half of 2022. In addition, a further £14.5m in accelerated contributions is required by 31 March 2024 as a result of that disposal.

Reconciliation of net cash flow to movement in net debt

Six months ended 30 June 2022	Net debt at 1 January £m	Cash flow movements £m	Non-cash movement ² £m	Net debt at 30 June £m
Cash, cash equivalents and overdrafts	101.5	25.0	(0.1)	126.4
Other loan notes	(1.3)	0.5	—	(0.8)
Credit facilities	(46.0)	40.0	—	(6.0)
Private placement loan notes ¹	(512.9)	92.5	(13.4)	(433.8)
Cross-currency interest rate swaps ¹	28.0	(10.1)	7.7	25.6
Lease liabilities	(448.4)	32.8	(5.5)	(421.1)
Total net liabilities from financing activities	(980.6)	155.7	(11.2)	(836.1)
Deferred consideration	(0.7)	—	—	(0.7)
Net debt	(879.8)	180.7	(11.3)	(710.4)

1. The sum of these items equates to the fair value of the Group's private placement loan note debt: £408.2m (31 December 2021: £484.9m). The £92.5m of cash flow movement during the period represents £92.2m of private placement loan note repayments and £0.3m of maintenance expenses for the revolving credit facility.

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

Overdrafts comprise the aggregate value of bank account debit balances within the Group's notional interest pooling arrangement. The aggregate value is fully offset by credit balances within the same arrangement.

At 30 June 2022, £nil of the Group's £358.1m committed revolving credit facility was drawn (31 December 2021: £40.0m drawn).

Six months ended 30 June 2021	Net debt at 1 January £m	Cash flow movements £m	Non-cash movement ² £m	Net debt at 30 June £m
Cash, cash equivalents and overdrafts	141.1	155.7	0.9	297.7
Other loan notes	(2.3)	—	1.0	(1.3)
Loan included within disposal group liabilities held-for-sale ³	—	—	(26.0)	(26.0)
Private placement loan notes ¹	(765.1)	1.5	19.0	(744.6)
Cross-currency interest rate swaps ¹	57.5	—	(10.4)	47.1
Interest rate swaps ¹	0.5	—	(0.5)	—
Lease liabilities	(508.1)	47.3	(5.8)	(466.6)
Total net liabilities from financing activities	(1,217.5)	48.8	(22.7)	(1,191.4)
Deferred consideration	(0.7)	—	—	(0.7)
Net debt	(1,077.1)	204.5	(21.8)	(894.4)

1. The sum of these items equates to the fair value of the Group's private placement loan note debt: £697.5m (31 December 2020: £707.1m). The £1.5m of cash flow movement during the period represents expenses incurred for renewing and extending the revolving credit facility.

2. Non-cash movement relates to: the effect of changes in foreign exchange rates on cash; fair value changes on the swaps; amortisation of loan notes issue costs; amortisation of the discount on the Euro debt; and additions, terminations; foreign exchange rate effects on the Group's leases; and the loan detailed in footnote 3 below.

3. The loan included within disposal group liabilities held-for-sale represents an interest bearing loan payable by AXELOS Limited to HM Government in connection with a dividend payable by this company as at 30 June 2021. The loan was subject to interest at 6%pa and was settled on completion of the disposal on 29 July 2021.

13 Financial Instruments

The Group's financial assets and liabilities are classified based on the following fair value hierarchy:

- Level-1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level-2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

With the exception of current financial instruments (which have a short maturity), the fair value of the Group's level-2 financial instruments was calculated by discounting the expected future cash flows at prevailing interest rates. The valuation models incorporate various inputs including foreign exchange spot and forward rates and interest rate curves. In the case of floating rate borrowings nominal value approximates to fair value because interest is set at floating rates where payments are reset to market values at intervals of less than one year.

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

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

During the six months ended 30 June 2022, there were no assets or liabilities transferred between the fair value levels.

The following table analyses, by classification and category, the carrying value of the Group's financial instruments and identifies the level of the fair value hierarchy for the instruments carried at fair value:

At 30 June 2022	Note	Fair value hierarchy	At fair value through P&L £m	At fair value through OCI £m	Derivatives used for hedging £m	Amortised cost £m	Total £m	Current £m	Non-current £m
Financial assets									
Lease receivables		n/a	—	—	—	79.3	79.3	5.9	73.4
Cash flow hedges		Level-2	—	—	8.2	—	8.2	4.5	3.7
Non-designated foreign exchange forwards and swaps		Level-2	7.3	—	—	—	7.3	5.5	1.8
Cross-currency interest rate swaps	a	Level-2	—	—	26.4	—	26.4	7.7	18.7
Originated loans receivable		n/a	—	—	—	0.5	0.5	—	0.5
Financial assets at fair value through P&L		Level-3	12.5	—	—	—	12.5	—	12.5
Financial assets at fair value through OCI		Level-3	—	0.6	—	—	0.6	—	0.6
Deferred consideration receivable		n/a	—	—	—	10.8	10.8	2.3	8.5
			19.8	0.6	34.6	90.6	145.6	25.9	119.7
Other financial assets									
Cash and cash equivalents		n/a	—	—	—	352.0	352.0	352.0	—
Total financial assets			19.8	0.6	34.6	442.6	497.6	377.9	119.7

At 30 June 2022	Note	Fair value hierarchy	At fair value through P&L £m	At fair value through OCI £m	Derivatives used for hedging £m	Amortised cost £m	Total £m	Current £m	Non-current £m
Financial liabilities									
Private placement loan notes	a	n/a	—	—	—	433.8	433.8	170.6	263.2
Other loan notes		n/a	—	—	—	0.8	0.8	0.8	—
Credit facilities	b	n/a	—	—	—	6.0	6.0	6.0	—
Non-designated foreign exchange forwards and swaps		Level-2	0.1	—	—	—	0.1	0.1	—
Cross-currency interest rate swaps	a	Level-2	—	—	0.8	—	0.8	—	0.8
Deferred consideration payable		n/a	—	—	—	0.7	0.7	—	0.7
Put options of non-controlling interests	c	Level-3	—	8.5	—	—	8.5	8.5	—
			0.1	8.5	0.8	441.3	450.7	186.0	264.7
Other financial liabilities									
Overdrafts		n/a	—	—	—	225.6	225.6	225.6	—
Lease liabilities		n/a	—	—	—	421.1	421.1	59.7	361.4
Total financial liabilities			0.1	8.5	0.8	1,088.0	1,097.4	471.3	626.1

Financial assets measured at amortised cost consist of cash, lease receivables, originated loans and deferred consideration receivable. The carrying value of cash is a reasonable approximation of its fair value due to the short-term nature of the instruments. Lease receivables, originated loans and deferred consideration receivable are measured at amortised cost using the effective interest rate method. Included in other investments are £0.6m (31 December 2021: £0.8m) of strategic investments in unlisted equity securities which are not held-for-trading and the Group elected to recognise at Fair Value through Other Comprehensive Income (FVOCI). During the period no dividends were received from, and no disposals were made of, strategic investments.

Financial liabilities measured at amortised cost consist of loan notes, overdrafts, lease liabilities, credit facilities and deferred consideration payable. With the exception of certain series within the fixed rate private placement loan notes, the carrying value of financial liabilities are a reasonable approximation of their fair value. This is because either the interest payable is close to market rates or the liability is short-term in nature. The private placement loan note series that remain subject to a fixed rate of interest have an underlying carrying value of £291.3m (31 December 2021: £320.7m) and a fair value of £242.4m (31 December 2021: £278.2m). The carrying value of overdrafts is a reasonable approximation of fair value reflecting the short-term nature of the instruments. Lease liabilities and deferred consideration payable are measured at amortised cost using the effective interest rate method.

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

a. Private placement loan notes

The private placement loan notes were issued in US dollars, Pounds sterling, and Euros at fixed interest rates. The Group manages its exposure to foreign exchange and interest rate movements through cross-currency interest rate swaps, interest rate swaps, and forward foreign exchange contracts.

b. Revolving credit facility

The Group's revolving credit facility (RCF) was undrawn at 30 June 2022 (31 December 2021 £40.0m drawn). The Chief Financial Officer's review and basis of preparation in note 2 includes further details of the RCF.

c. Put options of non-controlling interests

The liability at 30 June 2022 represents the present value of the cost to acquire the non-controlling interest in Fera Science Limited. The option held by the non-controlling shareholder of Fera Science Limited became exercisable in April 2021. A sensitivity analysis assuming a 10% increase/decrease in the earnings potential of the business results in a £0.9m increase/decrease in the valuation.

At 31 December 2021	Note	Fair value hierarchy	At fair value through P&L £m	At fair value through OCI £m	Derivatives used for hedging £m	Amortised cost £m	Total £m	Current £m	Non-current £m
Financial assets									
Lease receivables		n/a	—	—	—	82.1	82.1	6.6	75.5
Cash flow hedges		Level-2	—	—	0.9	—	0.9	0.7	0.2
Non-designated foreign exchange forwards and swaps		Level-2	1.8	—	—	—	1.8	0.8	1.0
Cross-currency interest rate swaps	a	Level-2	—	—	30.2	—	30.2	9.4	20.8
Originated loans receivable		n/a	—	—	—	0.5	0.5	—	0.5
Financial assets at fair value through P&L		Level-3	8.4	—	—	—	8.4	—	8.4
Financial assets at fair value through OCI		Level-3	—	0.8	—	—	0.8	—	0.8
			10.2	0.8	31.1	82.6	124.7	17.5	107.2
Other financial assets									
Cash and cash equivalents		n/a	—	—	—	317.6	317.6	317.6	—
Cash and cash equivalents included within disposal group assets held-for-sale	4	n/a	—	—	—	15.8	15.8	15.8	—
Total financial assets			10.2	0.8	31.1	416.0	458.1	350.9	107.2

At 31 December 2021	Note	Fair value hierarchy	At fair value through P&L £m	At fair value through OCI £m	Derivatives used for hedging £m	Amortised cost £m	Total £m	Current £m	Non-current £m
Financial liabilities									
Private placement loan notes	a	n/a	—	—	—	512.9	512.9	226.3	286.6
Other loan notes		n/a	—	—	—	1.3	1.3	0.3	1.0
Credit facilities	b	n/a	—	—	—	46.0	46.0	46.0	—
Cash flow hedges		Level-2	—	—	1.8	—	1.8	0.8	1.0
Non-designated foreign exchange forwards and swaps		Level-2	4.7	—	—	—	4.7	4.3	0.4
Cross-currency interest rate swaps	a	Level-2	—	—	2.2	—	2.2	—	2.2
Deferred consideration payable		n/a	—	—	—	0.7	0.7	—	0.7
Put options of non-controlling interests	c	Level-3	—	8.6	—	—	8.6	8.6	—
			4.7	8.6	4.0	560.9	578.2	286.3	291.9
Other financial liabilities									
Overdrafts		n/a	—	—	—	231.9	231.9	231.9	—
Lease liabilities		n/a	—	—	—	448.4	448.4	61.6	386.8
Total financial liabilities			4.7	8.6	4.0	1,241.2	1,258.5	579.8	678.7

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

	Put options of non-controlling interests £m	Investments and other investments £m
At 1 January	8.6	9.7
Change in put-options held by non-controlling interests recognised in equity	(0.1)	—
Additions	—	0.2
Gain on fair value recognised through profit and loss	—	3.7
At 30 June	8.5	13.6

Non-recourse sale of receivables

The Group holds a non-recourse short-term receivables facility. The outstanding invoices sold under this facility at 30 June 2022 totalled £4.3m (31 December 2021: £3.9m). The costs of selling such invoices (£0.3m) were included in administrative expenses in the condensed consolidated income statement. In addition, the Group's German business uses an invoice discounting arrangement relating to a specific customer contract, and the value of the invoices sold under that arrangement at 30 June 2022 was £7.7m (31 December 2021: £12.5m).

14 Employee benefits

The 31 March 2020 triennial valuation of the Capita Pension and Life Assurance Scheme (the Scheme), concluded in 2021, identified a deficit for funding purposes of £182.2m. Deficit recovery contributions have been paid in accordance with the agreed schedule of contributions, with the remaining amount (inclusive of the contributions required to enable the Scheme to target a lower-risk investment strategy facilitating lower reliance on the covenant provided by the Group) scheduled to be paid over the period to December 2026. The funding schedule agreed with the Trustee of the Scheme would see deficit contributions of £15m in the second half of 2022, £30m in 2023 and £15m in each of 2024, 2025 and 2026. The Trustee of the Scheme has agreed with the Group to accelerate the payment of some of the deficit contributions on a pound for pound basis in the event of disposal proceeds being used to fund mandatory prepayments of debt. The current expectation is that the required contributions will be paid ahead of schedule and could be paid by 2024.

The total net defined benefit pension position for accounting purposes moved from a small net surplus at the start of the year (surplus: £5.8m) to a larger net surplus by 30 June 2022 (surplus: £162.3m). The main reasons for this movement were the £19.3m of deficit funding contributions paid into the Group's schemes during the period, along with favourable market conditions (particularly the material increase in the yields available on good quality long term corporate bonds in addition to a decrease in future inflationary expectations that are used to derive the assumptions), partially offset by lower-than-expected asset returns predominantly as a result of inflation and interest rate hedging. The hedging aims to match the value of the assets to the movement in the Trustee of the Scheme's value of liabilities arising from changes in market expectations of future inflation rates and future gilt yields.

The Group has considered the impact of IFRIC 14 on the various schemes (in relation to either recognising a surplus or allowing for the impact of any funding commitments made) and has concluded, based on the interpretation of the rules for each of the schemes, that IFRIC 14 would increase the deficits shown at this balance sheet date for only one scheme, which is reflected in the balance sheet position. For the Scheme and the other schemes, IFRIC 14 would not limit the surplus or increase the deficits shown at the balance sheet date because the Group has an unconditional right to a refund at some point during the life of the schemes.

The valuation of the defined benefit pension scheme liabilities for funding purposes (the actuarial valuation) differs from the valuation for accounting purposes (as shown in these condensed consolidated financial statements) mainly due to different assumption principles being used based on the different regulatory requirements of the valuations. Management estimates that at 30 June 2022 the net asset of the Scheme on a funding basis (ie. the funding assumption principles adopted for the full actuarial valuation at 31 March 2020 updated for market conditions at 30 June 2022) was approximately £50m (31 December 2021: net asset £40m). 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, as at 30 June 2022, the funding level was around 94% (or a net liability of £85m). The deficit is expected to be met by the remaining deficit contributions.

15 Issued share capital and share premium

Allotted, called up and fully paid	Share capital		Share premium	Employee benefit trust and treasury shares	
	No.m	£m	£m	No.m	£m
Ordinary shares of 2 1/15p					
At 1 January	1,684.1	34.8	1,145.5	18.1	(8.0)
Exercise of share options under employee long term incentive plans	—	—	—	(7.3)	3.2
At 30 June	1,684.1	34.8	1,145.5	10.8	(4.8)

The Group uses shares held in the Employee Benefit Trust (EBT) and treasury shares to satisfy future requirements for shares under the Group's share option and long-term incentive plans.

During the six months to 30 June 2022, the Group did not purchase any treasury shares, and did not allot nor issue any treasury shares (30 June 2021: 2,299,955 whose aggregate nominal value was £47,532) to satisfy exercises under the Group's share option and long term incentive plans. The total consideration received in respect of these shares was £nil (30 June 2021: £nil).

On 19 April 2021, 13m ordinary 2 1/15p shares were allotted to the EBT for an aggregate nominal value of £268,667 to satisfy exercises under the Group's share plans. The total consideration received in respect of these shares was £268,667. During the six months to 30 June 2022, 7,319,499 (30 June 2021: 5,194,329) shares with a value of £3.2m (30 June 2021: £2.4m) were transferred out of the EBT to satisfy exercises under the Group's share option and long term incentive plans. The total consideration received in respect of these shares was £nil (30 June 2021: £nil).

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

16 Commitments

At 30 June 2022, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £4.7m (31 December 2021: £3.6m).

As part of the disposal of Trustmarque to One Equity Partners in March 2022, Capita entered into a five year agreement committing to procure sufficient of the Group's IT and technology requirements through Trustmarque as a reseller of such services to enable Trustmarque to realise a specified level of gross profits over the period of that agreement. The price paid for these purchases will be equivalent to that paid by other customers of Trustmarque, and the Group expects to have sufficient demand to meet the commitment. It is currently estimated that the total expenditure with Trustmarque under this agreement over the five year period will be approximately £300m of which less than 25% is expected to be capital in nature.

17 Related-party transactions

Compensation of key management personnel

	30 June 2022 £m	30 June 2021 £m
Short-term employment benefits	3.1	4.2
Pension	0.1	0.2
Share based payments	1.2	1.8
	4.4	6.2

Gains on share options exercised in the period by Capita plc Executive Directors were £0.1m (30 June 2021: £nil) and by key management personnel £0.3m (30 June 2021: £1.0m).

During the period, the Group provided administrative services to Smart DCC Ltd, a wholly-owned subsidiary which is not consolidated. The Group received £53.3m (30 June 2021: £49.1m) of revenue for these services. The services are procured by Smart DCC Ltd on an arm's length basis under the DCC licence. The services are subject to review by Ofgem to ensure that all costs are economically and efficiently incurred by Smart DCC Ltd.

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

18 Contingent liabilities

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

The Group has provided, through the normal course of its business, performance bonds and bank guarantees of £35.2m (31 December 2021: £28.7m).

The Group is reviewing its position in respect of a number of its closed book Life and Pensions contracts. The outcome and timing of this review, which are uncertain, could result in the continuation of contracts with amended terms or the termination of contracts. If an operation is terminated, the Group may incur associated costs, accelerate the recognition of deferred income or the impairment of contract assets.

The Group's entities are parties to legal actions and claims which arise in the normal course of business. The Group needs to apply judgement in determining the merit of litigation against it and the chances of a claim being successfully 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.

19 Post balance sheet events

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

The following events occurred after 30 June 2022, and before the approval of these condensed consolidated financial statements, but have not resulted in adjustment to these financial statements:

Disposal of real estate and infrastructure consultancy business

The disposal of the real estate and infrastructure business to WSP was announced on 2 August 2022 for £60m on a cash free, debt free basis. Taking into account cash-like and debt-like items, Capita expects to receive proceeds of circa £69m at completion. The sale is subject to certain consents.

Independent review report to Capita plc

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated balance sheet, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted for use in the UK and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Basis for conclusion

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

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

Material uncertainty related to going concern

We draw attention to note 2 to the condensed set of financial statements which indicates that the group may require completion of its planned disposal programme or a refinancing. Both require agreements and consents from third parties which are not within the direct control of the company. These events and conditions, along with the other matters explained in note 2 (d), constitute material uncertainties that may cast significant doubt on the group's ability to continue as a going concern.

Our conclusion is not modified in respect of this matter.

Directors' responsibilities

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

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with UK-adopted international accounting standards.

The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted for use in the UK.

In preparing the condensed set of financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review. Our conclusion, including our conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion section of this report.

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

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Ian Griffiths

for and on behalf of KPMG LLP

Chartered Accountants

15 Canada Square

London

E14 5GL

4 August 2022

Alternative performance measures

The Group presents various alternative performance measures (APMs) because 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, free cash flow before business exits, 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 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 sold, or exited during the year or prior year; or, are in the process of being sold, or exited.</p> <p>This measure of revenue is used internally in respect of the Group's continuing business (being the Group's continuing activities, which exclude business exits) and the Board believes it is a good indication of ongoing performance.</p> <p>The table below shows a reconciliation between reported and adjusted revenue, as well as adjusted revenue growth:</p> <table border="1"> <thead> <tr> <th></th> <th>30 June 2022</th> <th>30 June 2021</th> </tr> </thead> <tbody> <tr> <td>Reported revenue per the income statement</td> <td>£1,517.2m</td> <td>£1,619.4m</td> </tr> <tr> <td>Deduct: business exits (note 4)</td> <td>(£37.1m)</td> <td>(£147.5m)</td> </tr> <tr> <td>Adjusted revenue</td> <td>£1,480.1m</td> <td>£1,471.9m</td> </tr> <tr> <td>Adjusted revenue growth</td> <td>0.6%</td> <td>0.3%</td> </tr> </tbody> </table>		30 June 2022	30 June 2021	Reported revenue per the income statement	£1,517.2m	£1,619.4m	Deduct: business exits (note 4)	(£37.1m)	(£147.5m)	Adjusted revenue	£1,480.1m	£1,471.9m	Adjusted revenue growth	0.6%	0.3%																																		
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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 3.</p> <p>The Board believes that this measure is useful for investors because it is closely monitored by management to evaluate the Group's operating performance and to make financial, strategic and operating decisions.</p> <p>A reconciliation of reported to adjusted operating profit is provided in note 3.</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></th> <th>30 June 2022</th> <th>30 June 2021</th> </tr> </thead> <tbody> <tr> <td>Adjusted revenue</td> <td>a</td> <td>£1,480.1m</td> <td>£1,471.9m</td> </tr> <tr> <td>Adjusted operating profit (note 3)</td> <td>b</td> <td>£52.2m</td> <td>£22.5m</td> </tr> <tr> <td>Adjusted operating profit margin</td> <td>b/a</td> <td>3.5%</td> <td>1.5%</td> </tr> </tbody> </table>			30 June 2022	30 June 2021	Adjusted revenue	a	£1,480.1m	£1,471.9m	Adjusted operating profit (note 3)	b	£52.2m	£22.5m	Adjusted operating profit margin	b/a	3.5%	1.5%																																	
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Adjusted EBITDA	EBITDA	<p>Calculated as adjusted operating profit for the six month period 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 Board believes 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>30 June 2022</th> <th>30 June 2021</th> <th>30 June 2022</th> <th>30 June 2021</th> </tr> </thead> <tbody> <tr> <td>Adjusted profit before tax</td> <td>£37.0m</td> <td>£1.1m</td> <td>£40.3m</td> <td>£5.2m</td> </tr> <tr> <td>Add back: adjusted net finance expense (note 7)</td> <td>£18.8m</td> <td>£20.5m</td> <td>£9.6m</td> <td>£11.1m</td> </tr> <tr> <td>Add back: adjusted depreciation and impairment of property, plant and equipment</td> <td>£22.5m</td> <td>£24.6m</td> <td>£22.5m</td> <td>£24.6m</td> </tr> <tr> <td>Add back: depreciation of right-of-use assets</td> <td>£27.8m</td> <td>£36.4m</td> <td>£—m</td> <td>£—m</td> </tr> <tr> <td>Add back: adjusted amortisation and impairment of intangibles</td> <td>£20.7m</td> <td>£17.3m</td> <td>£20.7m</td> <td>£17.3m</td> </tr> <tr> <td>Remove: Share of results in associates and investment gains (income statement)</td> <td>(£3.6m)</td> <td>£0.9m</td> <td>(£3.6m)</td> <td>£0.9m</td> </tr> <tr> <td>Adjusted EBITDA</td> <td>£123.2m</td> <td>£100.8m</td> <td>£89.5m</td> <td>£59.1m</td> </tr> <tr> <td>Adjusted EBITDA margin</td> <td>8.3%</td> <td>6.8%</td> <td>6.0%</td> <td>4.0%</td> </tr> </tbody> </table>		Post IFRS 16		Pre IFRS 16		30 June 2022	30 June 2021	30 June 2022	30 June 2021	Adjusted profit before tax	£37.0m	£1.1m	£40.3m	£5.2m	Add back: adjusted net finance expense (note 7)	£18.8m	£20.5m	£9.6m	£11.1m	Add back: adjusted depreciation and impairment of property, plant and equipment	£22.5m	£24.6m	£22.5m	£24.6m	Add back: depreciation of right-of-use assets	£27.8m	£36.4m	£—m	£—m	Add back: adjusted amortisation and impairment of intangibles	£20.7m	£17.3m	£20.7m	£17.3m	Remove: Share of results in associates and investment gains (income statement)	(£3.6m)	£0.9m	(£3.6m)	£0.9m	Adjusted EBITDA	£123.2m	£100.8m	£89.5m	£59.1m	Adjusted EBITDA margin	8.3%	6.8%	6.0%	4.0%
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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 3 which include: business exits (trading results, non-trading expenses, and any gain/(loss) on business disposal); acquired intangible amortisation; and impairment of goodwill and acquired intangibles.</p> <p>The Board believes that this measure is useful for investors because it is closely monitored by management to evaluate the Group's operating performance and to make financial, strategic and operating decisions.</p> <p>A reconciliation of reported to adjusted profit before tax is provided in note 3.</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>30 June 2022</th> <th>30 June 2021</th> </tr> </thead> <tbody> <tr> <td>Adjusted profit before tax (note 3)</td> <td>£37.0m</td> <td>£1.1m</td> </tr> <tr> <td>Tax on adjusted profit (note 8)</td> <td>£18.8m</td> <td>£45.0m</td> </tr> <tr> <td>Adjusted profit after tax</td> <td>£55.8m</td> <td>£46.1m</td> </tr> </tbody> </table>		30 June 2022	30 June 2021	Adjusted profit before tax (note 3)	£37.0m	£1.1m	Tax on adjusted profit (note 8)	£18.8m	£45.0m	Adjusted profit after tax	£55.8m	£46.1m
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Adjusted basic earnings per share	Basic earnings per share	<p>Calculated as the adjusted profit/(loss) for the period after tax less non-controlling interests divided by the weighted average number of ordinary shares outstanding during the period.</p> <p>The Board believes 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 period 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 Board believes 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														
Cash flows generated/(used) by operations before business exits	Cash generated / (used) by operations	<p>Calculated as the cash flows generated from operations excluding the items detailed in note 12 which includes: business exits (trading results, non-trading expenses) and pension deficit contributions which have been triggered by disposals.</p> <p>The Board believes that this measure is useful for investors because it is closely monitored by management to evaluate the Group's operating performance and to make financial, strategic and operating decisions.</p> <p>A reconciliation of reported to cash generated/(used) by operations excluding business exits is provided in note 12.</p>												
Free cash flow before business exits	Net cash flows from operating activities	<p>Calculated as cash generated from operations after: capital expenditure; income tax and interest; and, the proceeds from the sale of property, plant and equipment and intangible assets, but before the impact of business exits.</p> <p>From 1 January 2022, the Board considers free cash flow and cash generated from operations before business exits provide a more representative measure of the sustainable cash flow of the Group.</p> <p>Free cash flow is a measure used to show how efficient the Group is at generating cash and the Board believes it is useful for investors and management to measure whether the Group has enough cash to fund operations, capital expenditure, debt and pension obligations, and dividends.</p> <p>A reconciliation of net cash flows from operating activities to free cash flow and reported to free cash flows excluding business exits free cash flow is provided in note 12.</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>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 Board believes that net debt enables investors to see the economic effect of debt, related hedges and cash and cash equivalents in total and shows the indebtedness of the Group.</p> <p>The calculation of net debt is provided in note 12.</p>																																		
Net financial debt	No direct equivalent	<p>Calculated as the sum of the Group's: cash, cash equivalents and overdrafts; the fair value of the Group's private placement loan notes; other loan notes; and, deferred consideration.</p> <p>The Board believes that this measure of net debt allows investors to see the Group's net debt position excluding its IFRS 16 lease liabilities.</p>																																		
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Net financial debt	£289.3m	£431.4m																																		
Gearing: net debt to adjusted EBITDA ratio	No direct equivalent	<p>This ratio is calculated as net debt divided by adjusted EBITDA over a rolling twelve month period including business exits not yet completed at the balance sheet date.</p> <p>The Board believes that this ratio is useful because it shows how significant net debt is relative to adjusted EBITDA.</p> <p>This measure has been calculated including and excluding the impact of IFRS 16 leases on EBITDA and net debt because the Board believes this provides useful information to enable investors to understand the impact of the Group's lease portfolio on its gearing ratio.</p> <p>The table below shows the components, and calculation, of the net debt to adjusted EBITDA ratio:</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>30 June 2022</th> <th>31 December 2021</th> <th>30 June 2022</th> <th>31 December 2021</th> </tr> </thead> <tbody> <tr> <td>Adjusted EBITDA</td> <td>£193.4m</td> <td>£184.8m</td> <td>£111.1m</td> <td>£94.5m</td> </tr> <tr> <td>EBITDA in respect of business exits not yet completed</td> <td>£0.6m</td> <td>£32.2m</td> <td>£0.6m</td> <td>£32.2m</td> </tr> <tr> <td>Adjusted EBITDA (including business exits not yet completed)</td> <td>£194.0m</td> <td>£217.0m</td> <td>£111.7m</td> <td>£126.7m</td> </tr> <tr> <td>Net debt / net financial debt</td> <td>£710.4m</td> <td>£879.8m</td> <td>£289.3m</td> <td>£431.4m</td> </tr> <tr> <td>Net debt / net financial debt to adjusted EBITDA ratio</td> <td>3.7x</td> <td>4.1x</td> <td>2.6x</td> <td>3.4x</td> </tr> </tbody> </table>		Post IFRS 16		Pre IFRS 16		30 June 2022	31 December 2021	30 June 2022	31 December 2021	Adjusted EBITDA	£193.4m	£184.8m	£111.1m	£94.5m	EBITDA in respect of business exits not yet completed	£0.6m	£32.2m	£0.6m	£32.2m	Adjusted EBITDA (including business exits not yet completed)	£194.0m	£217.0m	£111.7m	£126.7m	Net debt / net financial debt	£710.4m	£879.8m	£289.3m	£431.4m	Net debt / net financial debt to adjusted EBITDA ratio	3.7x	4.1x	2.6x	3.4x
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Alternative performance measures continued

The below measures are submitted to the Group's lenders and the Board believes these measures provide a useful insight to investors. The 31 December 2021 comparatives have not been restated because they are not required to be restated for covenant purposes.

		Source		
		30 June 2022	31 December 2021	
Covenants (based on rolling 12 months)				
Adjusted operating profit ¹		(£23.9m)	£139.1m	
Add: significant restructuring		£118.8m	£—m	
Add: litigation, claims and contract related provisions		£41.1m	£—m	
Add: business exit – trading		£25.8m	£50.8m	
Add: share of earnings in associates		(£0.3m)	£0.6m	
Deduct: non-controlling interest		(£1.0m)	(£2.4m)	Adjusted EBIT attributable to NCI
Add back: share-based payment charge		£2.1m	£1.2m	
Add back: non-current service pension charge		£3.7m	£2.6m	
Add back: amortisation of purchased intangibles		£46.3m	£40.8m	
Adjusted EBITA	a1	£212.6m	£232.7m	
Less: IFRS 16 impact		(£9.5m)	(£8.9m)	
Adjusted EBITA (excluding IFRS 16)	a2	£203.1m	£223.8m	
Adjusted EBITA		£212.6m	£232.7m	
Deduct: business exit – trading sold		(£26.7m)	(£22.9m)	Trading profit for businesses sold
Add back: adjusted depreciation and impairment of property, plant and equipment and right of use assets		£107.9m	£117.1m	
Covenant calculation – adjusted EBITDA	b1	£293.8m	£326.9m	
Less: IFRS 16 impact		(£70.6m)	(£77.1m)	
Covenant calculation – adjusted EBITDA (excluding IFRS 16)	b2	£223.2m	£249.8m	
Adjusted interest charge		(£43.3m)	(£45.0m)	
Interest cost attributable to pensions		(£0.3m)	£1.5m	
Cash flow hedges recycled to the income statement		(£1.1m)	£0.6m	
Borrowing costs	c1	(£44.7m)	(£42.9m)	
Less: IFRS 16 impact		£19.3m	£19.5m	
Borrowing costs (excluding IFRS 16)	c2	(£25.4m)	(£23.4m)	
5.1 Interest cover (US PP covenant)	a1/c2	8.4x	9.9x	Adjusted EBITA/Borrowing costs with adjusted EBITA including the impact of IFRS 16 and the borrowing costs excluding the impact of IFRS 16. Minimum permitted value of 4.0
5.2 Interest cover (other financing agreements)	a2/c2	8.0x	9.6x	Adjusted EBITA/Borrowing costs with both variables excluding IFRS 16. Minimum permitted value of 4.0
Net debt		£710.4m	£879.8m	Line information in note 12
Cash, net of overdrafts, included in disposal group assets and liabilities held for sale		£—m	£15.8m	
Restricted cash ²		£60.7m	£54.8m	Cash that may not be applied against net debt for covenant calculation purposes
Less: IFRS 16 impact		(£421.1m)	(£448.4m)	
Covenant calculation - adjusted net debt (excluding IFRS 16)	d1	£350.0m	£502.0m	
6.1 Adjusted net debt to post IFRS 16 adjusted EBITDA ratio (US PP covenant)	d1/b1	1.2x	1.5x	Adjusted net debt/adjusted EBITDA with adjusted net debt excluding the impact of IFRS 16 and adjusted EBITDA including the impact of IFRS 16. Maximum permitted value of 3.0
6.2 Adjusted net debt to adjusted EBITDA ratio (other financing agreements)	d1/b2	1.6x	2.0x	Adjusted net debt/adjusted EBITDA with both variables excluding IFRS 16. Maximum permitted value of 3.5

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 and cash to cover the cost of repatriating balances currently held in foreign accounts.