Focused on the balance sheet

"Our priority for 2021 is to address the short-term debt maturities through extending our committed credit facilities and issuing new long-term debt instruments, while continuing to strengthen the balance sheet."

Gordon Boyd
Chief Financial Officer (interim)

Summary of financial performance

	Financial highlights					
	Adjusted[1] results – continuing operations			Reported results – continuing operations		
	Adjusted[1] 2020	Adjusted[1] 2019	Adjusted[1] YOY change	Reported 2020	Reported 2019	Reported YOY change
Revenue	**£3,181.2m**	£3,501.0m	(9)%	**£3,324.8m**	£3,678.6m	(10)%
Operating profit/(loss)	**£111.0m**	£254.5m	(56)%	**£(32.0)m**	£0.4m	(8,100)%
Profit/(loss) before tax	**£65.2m**	£197.7m	(67)%	**£(49.4)m**	£(62.6)m	21%
Earnings/(loss) per share	**4.19p**	9.30p	(55)%	**(0.41)p**	(4.18)p	90%
Free cash flow	**£238.6m**	£(23.2)m	1,128%	**£303.8m**	£(213.0)m	243%
Net debt	**£(1,077.1)m**	£(1,353.2)m	£276.1m	**£(1,077.1)m**	£(1,353.2)m	£276.1m

Overview

The onset of the Covid-19 crisis interrupted the pace of our ongoing transformation at Capita, as well as planned disposals and refinancing plans.

A small decline in adjusted revenue[1] was expected in the first half of 2020 due to contract losses reported in 2019 and the first quarter of 2020 was broadly in line with expectations. However, the economic impact of Covid-19 resulted in lower revenue in a number of businesses through the rest of the year. The weaknesses in transactional revenue and volume-related framework contracts related to businesses such as travel and events, resourcing, face-to-face training, and the payment services software we use to collect the London congestion charge. We continued to see resilient revenue performance in the majority of our operations from long-term contracts with a stable government and blue-chip customer base, and saw contract wins with the DWP and the NHS.

Adjusted profit before tax[1] was impacted by new contract wins not yet replacing profits from lost contracts, reduced transactional revenue, mostly due to the pandemic, and scope and volume reductions. These were partially offset by cost savings from our ongoing transformation plan and cost saving actions taken to offset the financial impact of Covid-19, particularly in those businesses of a more transactional nature. There were, however, other cost increases, including inflation, additional depreciation, amortisation and running costs on completed transformation programmes, and an increased bad debt provision. The Group participated in the job retention scheme made available by the Government to help ease the impact Covid-19 otherwise would have had, including potentially additional headcount reductions. The grant income of £21.3m was recorded in the year and offset against the associated payroll costs.

Cash from trading operations was improved by contractual working capital movements more than offsetting the decline in adjusted operating profit[1]. Adjusted free cash flow[1] was underpinned by this improvement in cash from trading operations, shorter public sector payment cycles as part of the Covid-19 response, the impact of lower revenue, and better working capital management, lower capital expenditure and lower spend on certain transformation projects as the Group

1 Refer to alternative performance measures on pages 204 to 206.

focused on managing cash in the face of economic uncertainty.

As part of our drive for simplification, and strengthening the balance sheet, we continue to seek to dispose of a number of non-core businesses. In June 2020, we completed the disposal of Eclipse Legal Services for net cash proceeds of £50.0m, realising a gain of £43.3m, and in February 2021 we received cash proceeds from the disposal of the Education Software Solutions (ESS) business of £298.5m, of which £50.1m was payable to the Capita defined benefit pension scheme to obtain legal title to the intellectual property rights used by the ESS business. Proceeds from both of these disposals will strengthen the Group's balance sheet by reducing net debt and pension liabilities. The Board has approved a disposal programme and further disposals will be considered in due course where there are opportunities to maximise the value from exiting these non-core businesses.

Liquidity at 31 December 2020 was £708.6m, made up of £452.0m of our committed revolving credit facility and £150.0m backstop liquidity facility which expired on completion of the ESS disposal, none of which were drawn at 31 December, and £106.6m of unrestricted cash and cash equivalents net of overdrafts. The Group was in compliance with its financial covenants at 31 December 2020.

Our priority for 2021 is to address the short-term debt maturities through extending our committed credit facilities and issuing new long-term debt instruments, while continuing to strengthen the balance sheet. We had planned a bond issuance in 2020, to extend our debt maturities; however, due to market appetite, we were unable to do this.

The move to a new corporate structure in the second half of 2021, that is more focused and client-centric, will also drive further cost savings from reduced overheads.

Summary of financial performance

Adjusted results

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

Adjusted revenue[1] bridge by key driver

	£m
Year ended 31 December 2019	**3,501.0**
One-offs in 2019	**(39.3)**
Year ended 31 December 2019 rebased	**3,461.7**
Losses	**(212.1)**
Scope and volume	**(51.8)**
Transactional	**(1.1)**
Wins	**122.4**
One-offs in 2020	**14.7**
Year ended 31 December 2020 – pre-Covid-19	**3,333.8**
Covid-19 – scope and volume	**(112.3)**
Covid-19 – transactional	**(110.7)**
Covid-19 – wins	**70.4**
Year ended 31 December 2020	**3,181.2**

In accordance with the above policy, the trading results of business exits, along with the non-trading expenses and gain on disposals, were excluded from adjusted results. To enable a like-for-like comparison of adjusted results, the 2019 comparatives have been re-presented to exclude 2020 business exits. Education Software Solutions was classified as a business exit and therefore excluded from adjusted results in both 2020 and 2019.

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

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

Adjusted revenue

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

- One-off benefits from contract termination payments and deferred income releases.
- Contract losses, mainly the impact of local government hand backs in Government Services, such as Birmingham and Southampton councils, and a number of losses in Specialist Services.
- Contract wins which include the first year of revenue on the Ministry of Defence's fire and rescue project (DFRP) contract, a project performed in Customer Management, and a number of smaller wins across all divisions.
- As happened in 2019, a number of one-offs arose from deferred income releases associated with contract terminations and modifications (detailed further below).
- Net reduction of £152.6m (5%) attributed to Covid-19, largely due to lower transactional revenues in our businesses heavily impacted by the pandemic in travel and events, enforcement, Government Services and People Solutions, including a number of our framework agreements which are driven by volumes. This was offset by additional revenue won, predominantly within Government Services and Customer Management, to assist with the UK's response to the Covid-19 including contracts with the DWP and various NHS schemes, with some of these continuing into 2021.

Order book

The Group's consolidated order book was £5,851m at 31 December 2020 (2019: £6,720m) as additions from contract wins and extensions in 2020 (£1,573m), including TfL congestion charge and Army recruitment extension, did not offset the reduction from revenue recognised in the year (£2,365m) and contract terminations and scope changes (£77m). In January 2021 the Group signed a contract with the Royal Navy which represents a £0.9bn addition to the order book which is not reflected in the December 2020 order book.

1 Refer to alternative performance measures on pages 204 to 206.

Adjusted profit before tax[1] bridge by key driver

	£m
Year ended 31 December 2019	**197.7**
One-offs in 2019 – contract-related	**(28.2)**
Year ended 31 December 2019 rebased	**169.5**
Contract losses	**(48.0)**
Contract wins	**37.0**
Scope and volume	**(81.0)**
Other costs	**(65.7)**
Transformation cost savings	**145.2**
Transactional	**(67.9)**
One-offs in 2020 – contract-related	**(23.9)**
Year ended 31 December 2020	**65.2**

Adjusted operating profit to adjusted free cash flow[1]

	2020 £m	2019 £m
Adjusted operating profit[1]	**111.0**	254.5
Add: depreciation/amortisation and impairment property, plant and equipment and intangible assets	**182.0**	184.9
Adjusted EBITDA	**293.0**	439.4
Contractual working capital movement (deferred income, contract fulfilment assets and accrued income)	**(42.5)**	(215.7)
Cash from trading operations*	**250.5**	223.7
Net capital expenditure	**(72.4)**	(172.9)
Other/working capital	**60.5**	(74.0)
Adjusted free cash flow[1]	**238.6**	(23.2)

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

Adjusted profit before tax

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

- One-off contract related items in 2019 relating to the release of deferred income and write-off of contract assets arising from contract terminations, settlements and modifications.
- The benefit from contract wins (which includes the initial loss on the DFRP contract of £15m (refer to note 2.1 of the consolidated financial statements)) are not yet replacing margin from lost contracts.
- Scope and volume reductions described earlier, and other cost increases, are partly mitigated by cost savings from the transformation cost competitiveness programme (see below).
- Other cost increases, such as, inflation (including the commitment in the UK to the real living wage), additional depreciation, amortisation and running costs on completed transformation programmes, and an increase in bad debt provision.
- Reduction in transactional revenue (mostly attributable to Covid-19) which has a high initial margin impact due to fixed and semi-fixed cost base. This could not be fully mitigated by cost reduction actions, for example the impact of furloughing employees.
- Unplanned contractual one-offs, including the release of deferred income and write-off of contract assets arising from contract terminations, settlements and modifications, provisions recognised on onerous contracts and contract related asset impairments (see further below).

The cost competitiveness programme delivered £145.2m of savings in 2020 and cumulative savings since 2018 of £305m, which were used prior to 2020 to increase investment in strengthening functions and build the platforms for growth, as well as to partially offset the decline in revenue. The savings continued to be generated through simplifying the organisation, reducing management layers and rationalising the IT and property portfolios.

The adjusted revenue[1] and adjusted profit before tax[1] were impacted by a number of material unplanned contractual one-off items, netting to a charge of £23.9m. These items are not excluded from adjusted results as they are considered to be normal course of business and not associated with the transformation plan. These included:

- Net gain of £14.1m from the release of deferred income and contract fulfilment asset utilisation from a contract termination in Customer Management. Where a contract is terminated early, all deferred revenue is recognised in the year of termination, which would otherwise have been deferred over the expected life of the contract in line with the Group IFRS 15 policy. Similarly, any associated contract assets are written off in the year of termination, unless there are alternative uses on other contracts.
- Contract related provisions of £17.3m, including an onerous contract provision of £11.2m in Customer Management.
- Contract related asset impairments of £16.4m on challenging contracts in Government Services and Customer Management.

Adjusted free cash flow

Adjusted free cash flow[1] in 2020 was an inflow (£238.6m). This inflow was due to improved contractual working capital movements and inflows from other working capital more than offsetting the decline in adjusted operating profit[1].

There are also a number of items that can lead to significant differences between profit and the generation of free cash flow, including:

- Timing of profits compared to the cash received. Typically, cash receipts are aligned to costs incurred whereas, under IFRS 15, revenue is more evenly distributed in the early years on the contract. This typically results in lower profits in early years on contracts which have significant restructuring costs or higher operating costs prior to transformation. The cash received is deferred and released as we deliver against our obligations to provide services and solutions to our clients rather than matched against costs as they are incurred. We have set out in note 2.1 a graphical presentation of the profits and cash flows on a typical outsourcing contract, and have also provided explanations, to aid an understanding of how the differences arise.
- Contract terminations and modifications, which can lead to major gains or losses in the year of termination or modification, and where cash inflows/outflows have occurred in prior years.

1 Refer to alternative performance measures on pages 204 to 206.

Revolving credit facility

£452.0m

at 31 December 2020

Reported cash flow

£308.8m

(2019: £(213.0m outflow)

"The cost competitiveness programme delivered £145m of savings in 2020 and cumulative savings since 2018 of £305m."

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

Cash from trading operations improved to £250.5m (2019: £223.7m) due to a reduction in contractual working capital outflows, as previously expected.

Contractual working capital improved with an outflow of £42.5m (2019: outflow £215.7m). This movement arises from:

- An increased accrued income inflow of £27m, driven by invoice phasing in Technology Solutions and the impact of lower volumes across People Solutions and Software.
- A reduced deferred income outflow of £154m, largely from advanced receipts and higher activity levels on the DFRP contract where cash has been received in 2020 in respect of transformation and invoice timing on a contract with a telecom customer, compared to an outflow in 2019 which included the £78m one-off impact of ending local government contracts, offset by:
- An increased contract fulfilment asset outflow of £8m, mostly from an increase in additions on Government Services contracts, the most significant being on the DFRP contract, offset by contract asset write-offs in Customer Management and Government Services.

1 Refer to alternative performance measures on pages 204 to 206.

Adjusted[1] to reported profit bridge

	Operating (loss)/profit		(Loss)/profit before tax	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Adjusted[1]	**111.0**	254.5	**65.2**	197.7
Amortisation and impairment of acquired intangibles	**(33.9)**	(49.9)	**(33.9)**	(49.9)
Impairment of goodwill	**—**	(41.4)	**—**	(41.4)
Business exit – trading	**51.0**	46.6	**51.0**	46.6
Business exit – non-trading expenses	**(41.9)**	(52.1)	**(41.9)**	(52.1)
Business exit – gain on business disposals	**—**	—	**31.4**	—
Business exit – on hold disposal costs	**(7.5)**	—	**(7.5)**	—
Significant restructuring	**(109.6)**	(159.4)	**(109.6)**	(159.4)
Other	**(1.1)**	2.1	**(4.1)**	(4.1)
Reported	**(32.0)**	0.4	(49.4)	(62.6)

Other working capital related cash inflows reflected shorter public sector payment cycles as part of the Covid-19 response, the impact of lower revenue, and actions taken to improve working capital.

Net capital expenditure decreased in 2020 in line with previously planned reductions as we drove focused investment and Group cash preservation methods in response to the pandemic. This included reduced spend on finance transformation and functional IT programmes, such as Workday, Salesforce and SAP.

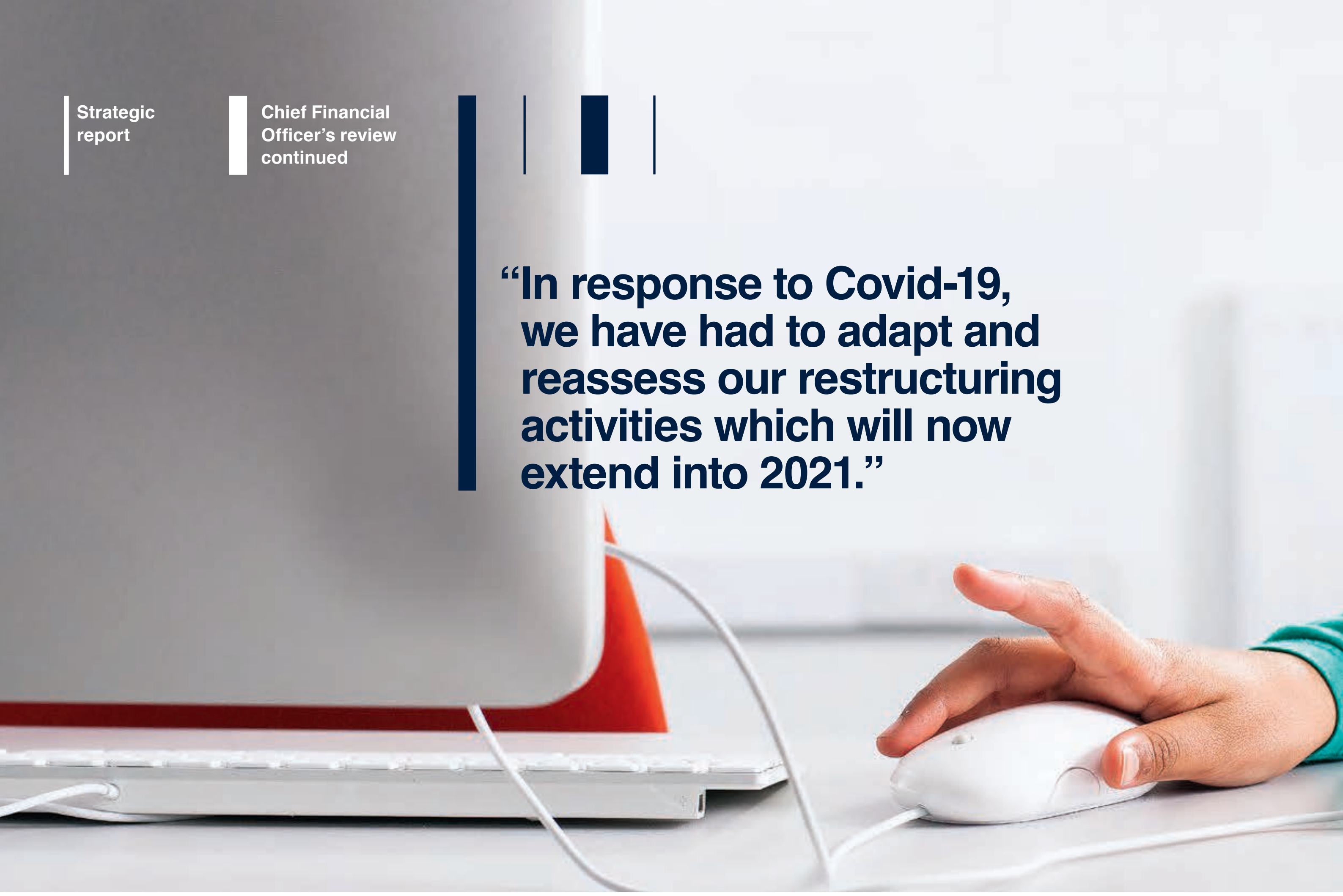
Reported results

The Board presents adjusted key measures of profit and cash, in addition to reported measures, where items are significant in size and either they do not form part of the trading activities of the Group or their separate presentation enhances understanding of the underlying financial performance of the Group. Given the wide-ranging scope of the transformation plan, including for 2020 property portfolio management, the Board has again sought to provide a clear understanding of the underlying and continuing performance of the businesses. This has been achieved by separating and disclosing separately significant adjusted items as set out in the following table. The Board will continue to keep under review the presentation of alternative measures.

Adjusted operating profit[1] and adjusted profit before tax[1] exclude a number of specific items, including significant restructuring costs of £109.6m, the amortisation and impairment of acquired intangibles, including goodwill, of £33.9m, and business exits of £9.1m, to aid understanding of business performance.

Business exits are businesses that have been disposed of or exited during the year, or are in the process of being disposed of or exited. At 31 December 2020 these comprised:

- The Eclipse business whose disposal completed on 30 June 2020.
- The Capita Workplace Technology business whose disposal completed on 1 August 2020.
- The Employee Benefits business whose disposal was completed on 30 November 2020.



"In response to Covid-19, we have had to adapt and reassess our restructuring activities which will now extend into 2021."

Adjusted to reported free cash flow

	2020 £m	2019 £m
Adjusted[1]	**238.6**	(23.2)
Pension deficit contributions	**(29.5)**	(71.1)
Significant restructuring	**(64.1)**	(148.5)
Business exits	**33.9**	32.5
Business exits – on hold disposal costs	**(7.5)**	—
Non-recourse trade receivables financing	**13.6**	—
VAT deferral	**118.8**	—
Other	**—**	(2.7)
Reported	**303.8**	(213.0)

- Two businesses, including the Education Software Solutions business, which were in the process of being exited and which met the held-for-sale criteria. Accordingly, these businesses were treated as disposal groups held-for-sale at this date. The sale of both businesses completed subsequently, and
- The exit costs relating to further planned disposals, including professional fees and separation planning costs.

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

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

Further disposals are planned as part of the Group's simplification strategy. As these disposals did not meet the definition of business exits or assets held-for-sale at 31 December 2020, their trading results were included within adjusted results.

In 2018, the Board launched a multi-year transformation plan to support the objectives of simplifying and strengthening Capita. The plan has extended to property rationalisation, procurement centralisation, transformation of support functions, including investment in growth, and transformation of finance, and operational excellence, including investment in automation. These activities are designed to improve the cost competitiveness of the Group, secure Capita's position in the markets it serves, and strengthen governance and control. In response to the varied impacts of Covid-19 we have had to adapt and reassess our restructuring activities which will now extend into 2021.

The costs of the transformation plan, including redundancy costs, are excluded from adjusted operating profit[1] as significant restructuring. We will keep this presentation under review to ensure it remains appropriate.

Further detail of the specific items charged in arriving at reported operating profit for 2020 is provided in note 2.4 to the consolidated financial statements.

Reported free cash flow was an inflow in 2020 reflecting the inflow from adjusted free cash flow explained above, the benefit from the Government VAT deferral measures, the utilisation of a non-recourse trade receivables financing facility, and cash from the trading of business exits and net proceeds on the disposal of businesses in the period. These

1 Refer to alternative performance measures on pages 204 to 206.

Net debt	2020 £m	2019 £m
Opening net debt	**(1,353.2)**	(466.1)
Adoption of IFRS 16	—	(643.9)
Opening net debt post adoption of IFRS 16	**(1,353.2)**	(1,110.0)
Cash movement in net debt	344.1	(241.2)
Non-cash movements	(68.0)	(2.0)
Closing net debt	**(1,077.1)**	(1,353.2)
Remove closing IFRS 16 impact	508.1	562.6
Headline net debt (pre-IFRS 16)	**(569.0)**	(790.6)
Cash and cash equivalents net of overdrafts	141.1	122.8
Debt net of swaps	(710.1)	(913.4)
Headline net debt (pre-IFRS 16)/adjusted EBITDA[1]	**2.4x**	2.1x
Headline net debt (post-IFRS 16)/adjusted EBITDA[1]	**3.1x**	2.7x

Liquidity	2020 £m	2019 £m
RCF	**452.0**	414.0
Backstop liquidity facilities	**150.0**	—
Less: drawing on facilities	**—**	—
Undrawn committed facilities	**602.0**	414.0
Net cash, cash equivalents net of overdrafts	**141.1**	122.8
Less: restricted cash[1]	**(34.5)**	(42.1)
Liquidity	**708.6**	494.7

were offset by spend on known commitments, including pension deficit contributions (which the directors consider to be debt-like in nature), and restructuring costs.

A non-recourse trade receivables financing facility was put in place to mitigate the risk of customer receipts slippage due to the Covid-19 pandemic. This facility and the VAT deferral were both excluded from adjusted free cash flow[1].

Impact on net debt

Net debt at 31 December 2020 was £1,077.1m (2019: £1,353.2m) reflecting the cash inflow in the year. The reduction in net debt was largely from the improved adjusted free cash flow[1], the deferral of VAT, and proceeds from the Eclipse disposal.

The Board's view is that the appropriate headline leverage ratio for Capita over the medium term should be between 1.0 and 2.0 times headline net debt to adjusted EBITDA[1] (prior to the adoption of IFRS 16). At 31 December 2020, the ratio exceeded the top of our range at 2.4 times (2019: 2.1 times) as a result of the lower adjusted EBITDA, which as explained above, was due to the impact of Covid-19.

The Board has not formally reviewed the target range, but taking account of the adoption of IFRS 16, the range would increase arithmetically to be between 1.7 and 2.7 times headline net debt to adjusted EBITDA[1]. At 31 December 2020, this ratio exceeded this range at 3.1 times (31 December 2019: 2.7 times) for the same reasons set out above.

We will keep our leverage target under review as the economic circumstances develop and our balance sheet strengthens following asset disposals.

We were compliant with all debt covenants at 31 December 2020.

The impact of IFRS 16 adoption on the Group's adjusted net debt to adjusted EBITDA[1] debt covenant ratio is neutral, as the Group covenants are calculated based on frozen GAAP, with the exception of the US private placement loan notes. The US private placement loan notes covenant test includes the income statement impact of IFRS 16 but not the balance sheet impact, and therefore adoption of IFRS 16 is favourable on this covenant measure. At 31 December 2020, the US private placement loan notes ratio was 1.8 times.

Interest cover[1] covenant was 8.5 times for the US private placement loan notes (2019: 11.2 times) and 7.8 times for other financing arrangements (2019: 10.8 times).

Capital and financial risk management
Liquidity remains a key area of focus for the Group. Financial instruments used to fund operations, including the transformation plan, and to manage liquidity comprise US private placement loan notes, euro fixed-rate bearer notes, a Schuldschein loan, a revolving credit facility (RCF), backstop liquidity facilities, leases and overdrafts.

We have been very focused on conserving cash and maximising liquidity and this has resulted in an improved liquidity since the end of 2019.

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

Additionally, the Group secured a committed backstop liquidity facility of £150.0m in February 2020. This reduced to £93.5m on 30 June 2020 with the disposal of the Eclipse business. It was then supplemented by a second backstop liquidity facility, bringing the combined value of the two facilities back to £150.0m. Neither facility was drawn at 31 December 2020. Both backstop liquidity facilities terminated on 1 February 2021 with the receipt of proceeds from the disposal of the ESS business.

1 Refer to alternative performance measures on pages 204 to 206.

"The Group has a strong track record of executing major planned disposals and a successful history of securing effective refinancing."

As part of the Group's mitigation of the impact of Covid-19, in June 2020 a non-recourse invoice discounting facility was executed. The value of invoices sold under the facility at 31 December 2020 was £13.6m. The Group's intention is that the facility will be used only while Covid-19 continues to impact the business.

At 31 December 2020, the Group had £141.1m of cash and cash equivalents net of overdrafts, and £765.1m of private placement loan notes, fixed-rate bearer notes, and Schuldschein loan. These debt instruments mature over the period to 2027, with repayments of £209.9m and £230.2m, in 2021 and 2022 respectively.

The Group intends to extend the average term to maturity of its debt, and thereby reduce refinancing risk, by issuing new long-term debt instruments in 2021, market conditions permitting.

As noted previously, as part of our simplification drive, we also decided to dispose of a number of non-core businesses in 2020. The anticipated disposal proceeds will provide options to reduce the Group's debt. We will continue to pursue these in 2021.

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

Year end liquidity

£708.6m

(2019: £494.7m)

Headline leverage post IFRS 16

3.1x

(2019: 2.7x)

The Board has considered risks to the projections under a severe but plausible downside. This includes adverse impacts arising from the execution risk associated with the transformation plan and the unprecedented economic uncertainties introduced by Covid-19.

To mitigate these the Board is focused on introducing significant new funds to the Group via a continuation of the approved disposal programme, and refinancing of the debt maturities. The Group is already engaged in discussions with its RCF lenders regarding an extension to the existing facility which matures in August 2022, targeting completion of a refinancing during 2021, which it expects will include an RCF with a maturity at least a year later.

Any refinancing and future disposals, should the severe but plausible downside crystallise, will require third party agreements and approvals which represent events that are outside the direct control of the Company. Accordingly, at the time of signing these financial statements there remain material uncertainties, as defined in auditing and accounting standards, related to events or conditions that may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern.

The Group has a strong track record of executing major planned disposals and a successful history of securing effective refinancing. Therefore, after careful consideration and reflecting also the Board's confidence in the transformation plan, the Board has concluded that the Group and Parent Company will continue to have adequate financial resources to realise their assets and discharge their liabilities as they fall due over the going concern period to 31 August 2022. Consequently, these financial statements do not include any adjustments which would be required if the going concern basis of preparation is inappropriate.

The Board's assessment is set out in more detail in Section 1 of the consolidated financial statements and summarised in the viability statement on page 58.

Pensions

As a result of the last triennial valuation at 31 March 2017, deficit-repair contributions totalling £176.0m, were agreed and these will be fully paid in the first half of 2021. It was expected that the combination of the deficit contributions and the scheme's investment strategy would largely eliminate the deficit identified in 2017. Looking to the valuation at March 2020, the Trustees will need to take into account the impact of Covid-19 and the planned delivery of the transformation of the Group. The impact being that we expect a further deficit will be identified as a result of more prudent assumptions. The Company and Trustees will continue their commitment to an open dialogue between them, ensuring the financial health of the scheme is maintained in a proportionate way with all other stakeholders. We expect to conclude the triennial valuation in the first half of 2021, including agreement with the Trustees with regards to repairing the deficit in the next three to six years.

1 Refer to alternative performance measures on pages 204 to 206.

Balance sheet
The consolidated net liabilities were £81.1m at 31 December 2020 (2019: £64.0m). The increase in net liabilities is predominantly driven by the actuarial loss on the Group's defined benefit pension schemes.

Finance transformation
In 2018, the Board launched a multi-year transformation plan to support the objectives of simplifying and strengthening Capita. The plan includes transformation of finance to improve the Group's financial reporting systems, processes and controls, by increasing standardisation, automation and the quality of available data.

The new financial systems were due to go live in the second half of 2019. While progress was made, we took the decision to defer the go-live as more work was required on the core processes and procedures before the system would be effectively implemented. As such, we impaired £12.3m at 31 December 2019, representing areas that we expected to redesign before going live. Several interim activities were progressed during 2020 and the technical asset including the IT infrastructure, software and codebase have been preserved and remain ready to deploy. No impairment has been recorded in 2020 as we believe the solution remains fit for purpose. The carrying value of the investment remains unchanged at 31 December 2020 at £58.6m. The carrying value of the asset will be kept under review through the next phase of the Group's transformation to assess for any triggers for impairment should there be a material change to the Group's operating model.

The Group has continued to invest in shared service centres and offshoring, and in making improvements to the Group's existing reporting systems, processes and controls.

Contingent liabilities
In September 2020, the Group settled a liability relating to past services received under supplier software licence agreements. The settlement requires a cash payment of £5m (payable in USD) in January 2021, and with a commitment to future purchases of £79m of which £6m (payable in USD) is over the period to 31 December 2021 and £73m (payable in USD), is over the period to 30 June 2024.

In June 2020 the Group made a provision for the cash settlement at 31 December 2020 and excluded this from adjusted results. The future purchases will be at the usual discounted prices available to the Group, and the Group has forecasts that support the requirement for such products and services. These products are important in supporting the delivery of future performance obligations and digital solutions for our customers. Accordingly, there is no provision to record as the committed future purchases will benefit the Group and do not represent an economic outflow of resources. As the future purchases are made, the cost if expensed will be recorded in adjusted results.

Refer to note 2.4 of the consolidated financial statements for the 'adjusted operating profit and adjusted profit before tax' disclosure note and note 6.2 for the 'commitments' disclosure note.

> "As part of our drive for simplification, and strengthening the balance sheet, we continue to seek to dispose of a number of non-core businesses."

Forward planning assumptions

The uncertainties created by the current and potential future impact of Covid-19 on our business means that forecasting is inherently uncertain and so guidance is not provided. However, our current planning assumptions are:

- **Revenue:** despite lockdown in the first quarter of 2021, targeting organic revenue growth.
- **Adjusted profit before tax and cash from trading operations:** underpinned by net cost savings (further £50m savings in 2022 from future Capita).
- **Restructuring:** continuation of restructuring programme, broadly in line with 2020.
- **Pensions:** triennial valuation agreement targeted for the first half of 2021, deficit reduction programme expected over the next three – six years.
- **Net debt:** broadly flat year on year – before disposals.

1 Refer to alternative performance measures on pages 204 to 206.