Capita plc

Full Year Results 2020

Summary

- Capita responded robustly to the challenges of 2020, including the Covid-19 crisis, delivering strong adjusted free cash flow and better than expected net debt, as well as winning £3.1bn of contract value
- Capita is now a much better business than at the start of the transformation, with materially improved client relationships and growth prospects
- Next stage is to simplify further: two core divisions focused on distinct growth markets and client needs
  - Capita Public Service will be one of Government's largest strategic suppliers and focused on six areas where we already have strong positions
  - Capita Experience will build on our significant share of the UK and European customer experience markets with a blue-chip client base
- A third division comprising an expanded portfolio of non-core businesses which will realise significant proceeds
- To support the balance sheet, our focus remains on efficient cash management, realising non-core disposals of £700m and planning to put in place a longer-term financing solution
- We are planning that Capita will return to organic revenue growth this year and achieve sustainable cash generation in 2022

2020 Financial outcome

- Results in line with expectations set out at the half year
- Adjusted revenue[1,2] decrease mainly due to Covid-19 impact and 2019 contract losses
- Adjusted profit before tax[1,2] decline resulting from change in profit mix from prior-year revenue losses and the net impact of Covid-19, partially offset by cost savings
- Adjusted free cash flow[1] better due to higher cash conversion and improved and sustainable cash collection
- Net debt better than expected. Gearing ratios well within covenants

Year ended 31 December 2020

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

Outlook

- Despite national lockdown through Q1 we are still targeting our first year of organic revenue growth for six years
- Improving profitability and cash from trading operations, offset by reversal of VAT savings, pension commitments and significant ongoing restructuring charges
- Targeting disposal proceeds of £700m, with £500m in 2021
- New simpler structure supports inflection to sustainable cash generation in 2022

- Continue to build a more focused, client-centric and streamlined business, delivering improving returns to investors

Jon Lewis, Chief Executive Officer said:

"I'm pleased with our robust response to the Covid-19 crisis and the challenges of 2020, protecting our business, client services and – most importantly – our people, whom I would like to thank for their hard work and commitment.

"Despite the challenges, we have continued to make good progress, improving client relationships and winning significant new contracts. Capita is a much better business than it was three years ago when we began our transformation.

"We are now building on that stronger foundation to move onto the next phase of our transformation by simplifying from six divisions to three. Two core divisions will be focused on the needs of our government and blue-chip customer experience clients, in growing markets where we know we can win. The third will comprise a portfolio of non-core businesses from which we are targeting significant disposal proceeds.

"We are planning a return to organic revenue growth this year and sustainable cash generation in 2022, as we continue to build a more focused, client-centric and streamlined Capita for the long term."

Board Governance

As part of ensuring we follow best practice we look to regularly refresh our Board to ensure that we have the relevant skills and experience to reflect our transforming business. As previously announced, we have welcomed both David Lowden and Neelam Dhawan to our Board as Senior Independent Director and Non-executive Director, respectively. Andrew Williams, who has been a Non-executive Director since January 2015, has decided that he will not put himself forward for re-election at the forthcoming Annual General Meeting. The Board would like to thank Andrew for his significant contribution and support over the past 6 years.

Investor presentation

A presentation for institutional investors and analysts hosted by Jon Lewis, CEO and Gordon Boyd, Interim CFO, will be held at 08:30am UK time, 17 March 2021. This will be a live audio webcast at 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 following day.

Webcast link:

https://webcast.openbriefing.com/capita-fy20/

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1 Refer to alternative performance measures (APMs) in the Appendix.
2 Adjusted results for both 2020 and 2019 exclude Education Software Solutions (ESS) as it is a business exit at 31 December 2020. ESS adjusted revenue and adjusted profit before tax in 2020 were £90.6m and £51.3m respectively. Covenant calculations adjust for ESS being excluded from EBITDA.

Chief Executive Officer's review

Summary

We started 2020 expecting to continue to strengthen the business operationally and to deliver more evidence of improvement – to be reflected in modest revenue growth and significant free cash flow generation.

We continued to make progress with many aspects of our transformation, but the impact of Covid-19 set us back and increased some of the challenges we faced.

I am pleased with our operational response to the pandemic, prioritising our colleagues and ensuring we could continue to deliver for our clients. The majority of our revenue has been resilient and we took decisive cost and cash action to manage the impact where it affected us. I do not believe we would have achieved this without the progress made in strengthening Capita over the preceding two years.

The fall in revenue and profit due to Covid-19 has put pressure on our balance sheet. But our cash preservation initiatives ensured that we met our covenant obligations, with net debt significantly better than at the end of 2019. We also took the decision to accelerate strategic actions to provide further financial support and dispose of non-core software assets, including Education Software Solutions (ESS) which sold for initial proceeds of £299m.

Despite the challenges of 2020, Capita is a much better business than it was at the start of the transformation, with stronger positions and improved growth prospects. With a more solid operational foundation in place, we are now moving onto the next phase of our transformation plan to 'simplify, strengthen and succeed'. We will be consolidating our current structure into three divisions. This comprises two core divisions – Capita Public Service and Capita Experience – focused on specific client needs and distinct markets where we know we can win. We will also have a third, enlarged portfolio of non-core businesses we intend to exit in due course; and a smaller overhead, generating additional long-term cost savings.

With respect to the balance sheet, our focus in 2021 is to ensure that we meet our upcoming debt maturities of £440m over the next two years, and put in place a longer-term financing solution. We have therefore started the process to extend our revolving credit facilities and we are targeting gross disposal proceeds of at least £700m, comprising £200m from three non-core disposals that are currently under way, ESS proceeds that we have now received of £299m, with another £200m to come thereafter. Further support comes from benefits of the planned new structure and lower 'below the line' cash costs. We plan to issue longer term debt when market conditions allow.

Our simpler new structure will support our inflection to sustainable cash generation in 2022 – as we continue to build a more focused, client-centric and streamlined business.

Financial results

Our financial performance in 2020 was significantly affected by the impact of Covid-19, despite the resilience of our operational response. To protect the business we took action to save a further £122m and, as a result, we were able to meet our covenant obligations at the year end and reduced net debt to £1,077.1m.

Adjusted revenue[1,2] fell by 9% during the year to £3,181.2m (2019: £3,501.0m) as a result of the impact of Covid-19, particularly on our transactional businesses such as Capita Travel & Events and Pay360, as well as due to prior-year contract losses in areas such as local government. This was partially offset by encouraging contract renewals and wins, and Covid-related work, mostly for the Government.

Adjusted profit before tax[1,2] decreased to £65.2m (2019: £197.7m), reflecting the loss of high-margin Covid-impacted transactional revenue and revenue from lost contracts, mitigated by a combination of £145.2m of planned transformational cost savings and £122m of cost and cash preservation taken in response to the pandemic. Including the impact of restructuring costs and accounting adjustments, reported loss before tax was £49.4m (2019: £62.6m loss). Reported earnings per share was (0.41)p (2019: (4.18)p).

Our strong cash performance in the year included strong working capital management and other short-term measures taken to protect the business, with around £50m expected to be sustainable. Adjusted free cash flow[1] increased to £238.6m (2019: £23.2m outflow) as we improved cash from trading operations, reduced capital expenditure significantly and from strong client cash collection. The overall improvement in net debt was boosted by cash preservation benefits such as the £118.8m VAT deferral, offsetting cash costs of restructuring of £64.1m. Net debt at 31 December was £1,077.1m (2019: £1,353.2m) and we were well within the covenants.

Response to Covid-19

Our priority throughout the Covid-19 crisis has been to protect the welfare and safety of our colleagues and I would like to thank them all for their dedication. In February 2020, we set up a pandemic planning team and, within a few weeks, we had successfully mobilised 85% of our people to work from home, while ensuring we had secure workplaces for key workers who needed them.

Reflecting the critical nature of many of the services we provide to our clients, most of our revenue remained resilient. We delivered client services on a remote basis, building software and digital platforms, managing IT solutions and shifting to remote provision. However, we have been significantly affected in areas such as our travel business or where our work is transactional and therefore affected by lower economic activity.

Offsetting this impact, we secured c.£100m of Covid-related business in 2020, including providing 1,200 contact-centre workers to a government department and sending 11.2 million letters to the vulnerable on behalf of the NHS. We won work in the private sector where our resilient delivery model and onshore location meant we could offer services to key retail and telecoms clients that some of our major competitors could not.

We implemented a range of cost-saving initiatives to mitigate the revenue impact of the pandemic, sustaining these through the second half of the year and into 2021. We achieved £122m of savings in total, including discretionary expenditure of £64m, staff-related savings of £48m, and £10m mainly in variable property costs as we temporarily closed 168 of our 294 properties at the height of the first lockdown.

We have also participated in the Government's VAT deferral scheme, benefiting the Group by £118.8m, postponed £56.7m of scheduled additional pension contributions, and entered into receivables financing arrangements. We expect these temporary cash saving measures to be paid back over the next 12 months.

Our experience with Covid-19 has enabled us to take steps to sustain some of the benefits and cost savings, mainly in travel and property.

Operationally, we have demonstrated to clients that remote working can be secure and productive, while maintaining our service KPIs. This has given fresh impetus to rationalising our property footprint. We have permanently closed 11% of our floor space in 2020, including our head office in London. We are now moving to a more flexible workspace model, allowing collaboration when needed but also recognising that our people want to spend more time working at home than before the pandemic. We plan to reduce office space by another 15% in 2021.

Being a responsible business

Being a responsible business continues to be a fundamental part of Capita's strategy. Putting our purpose – to create better outcomes – at the centre of all we do will benefit all of our stakeholders in the long term and has helped improve our reputation sentiment with external stakeholders.

In 2020 we delivered on our commitment to pay our UK employees the real living wage as a minimum. Our employee engagement continues to make progress, although there is clearly much more to be achieved. The employee net promoter score (eNPS) maintained its upward trajectory, increasing by seven points during the year and up 21 points since 2018.

We value our relationships with our suppliers, spending £2bn in 2020 with more than 24,540 direct suppliers in 87 countries. We pay 95% of our suppliers in 60 days or less, in line with the Government's prompt payment code. We are now looking to strengthen relationships with smaller suppliers.

Throughout 2020 we maintained our focus on our environmental impact. We reduced our carbon footprint by 40%, as we reduced travel and vacated offices. We have published our first statement on climate-related financial disclosure in our 2020 Responsible Business report and in February 2021 we were accredited by the Science-based Target Initiative for our company carbon reduction targets which will form the foundation of our commitment to get to net zero.

Transformation: building for revenue growth

Our revenue each year comes from a combination of longer-term, committed contracts that we report in our order book, framework contracts whose volumes are variable (but usually reliable), and transactional revenue that is won in-year.

While our target to grow revenue for the first time in many years was significantly affected by the pandemic, our track record of winning business showed tangible signs of improving during 2020, as we saw the first benefits from our investment in our clients, our structure and our capabilities.

Total contract value (TCV) won in the year was £3.1bn, £233m more than in 2019, which included framework and transactional wins. This represented 8% growth in TCV, or 11% in our core divisions (excluding Specialist Services). Our contract renewal rate of 90%, based on further improved client relationships, was a key driver. We have started 2021 strongly, with a £1bn contract to train the Royal Navy for the next 12 years. As would be expected we also lost some contracts that impacted the second half of 2020 and will have a further impact in 2021.

The Group's order book declined to £5.9bn in 2020 (2019 £6.7bn), with £2.4bn recognised as revenue in the year and £1.6bn won in order book-qualifying revenue. Book-to-bill has increased from 0.79x to 0.94x on a Group basis and following the win of the Royal Navy training contract on 11 January this has now risen to 1.26x.

An increasing amount of Capita's revenue comes from framework and transactional revenue. Revenue won that was recognised in 2020 (in-year revenue) was flat at £1.2bn, despite significant Covid-19 impact. Customer Management and Government Services were particularly strong, increasing by 72% and 92% respectively, benefiting from Covid-related work, extensions (Transport for London, 'TfL') and big framework wins such as a renewal for a European telecoms client.

Better structured with the right tools

As set out in 2018, our transformation growth strategy has been to win work through improving the capability and discipline in our sales function. We are now leveraging our new customer relationship management (CRM) platform better, giving us more insight and capability to predict future revenue. During the year we refined processes and the quality of our pipeline data, impacting pipeline in Q1 2020. We are winning more of the right work through the discipline of the Contract Review Committee (CRC). In 2020, we maintained an average double-digit margin on the bids processed by the CRC, although with a slightly lower-margin mix of work.

Focusing on the client

The way we sell and the way that clients want to engage has been changing. As we have simplified and strengthened across Capita, we have moved from selling one bespoke product to each client, to selling solutions based on standardised platforms and which bring people and products together from across Capita. We then use our sector and business insight to offer the right solution to a client need.

As we have invested in operational improvement, as well as offering more relevant and better propositions, we have seen strong support from our clients. We have seen another significant improvement in our customer Net Promoter Score, which increased by 17 points from +15 to +32. In our Top 20 accounts this focus translated into pipeline growth of 40%.

During 2020, we streamlined the portfolio to focus on high-value propositions, as we build our understanding of what, to whom and where we should be selling. As a result, during the year 80% of total contract value sold derived from 20 value proposals, out of a total portfolio of around 120.

With stronger client perception and better propositions to sell, account management was a major part of our sales performance in 2020. 43% of our 2020 TCV was won from our top 20 client accounts. Notable wins during the year were the TfL congestion charge and Ultra Low Emission Zone extension (£355m), the RPP army recruitment extension (£140m), a European telecoms client's new framework extension (£114m), and the Teachers' Pension extension (£60m).

Transition to consulting-led sales

A consulting-led business model remains a key part of our revenue growth proposition, securing pull-through transformational and delivery work, enabling us to move up the value chain, win more business and improve the margin mix of Group revenue. Despite being hit hard by Covid-19, Consulting revenue in 2020 focused on a highly specialised team with deep expertise in government, financial services and critical infrastructure, alongside three core practice areas: data and AI, transformation, and cloud.

A significant example of a consulting-led innovative and data-driven client solution was for the Financial Services Compensation Scheme (FSCS). In the face of a surge of claims to the FSCS, Capita and FSCS worked in partnership to design a solution using data, AI and automation to allow them to process regulated, highly complex claims more quickly and accurately, at around 30% of normal cost and taking two years fewer than normal. Having built this platform, we see opportunities to use it in other regulated industries.

Our markets are also gradually changing in nature, away from traditional business process outsourcing (BPO) to higher value business process services (BPS) and business process as a service (BPaaS). As a market leader in UK Government BPS, where the solution is delivered through a combination of people and a bespoke digital platform, we are now investing in BPaaS capabilities, which is a standardised, process-specific solution deliverable to many clients.

Consulting and transformation revenue comprised just over 15% of total Group revenue won in 2020. We expect to improve both margins and cash generation by increasing this type of revenue, as well as doing more BPS and BPaaS work.

Market positioning

Supporting the more client-focused approach, we are leveraging our strong market positions to bring more insight into our specific markets than competitors.

Capita is one of the biggest IT Services suppliers[3] to the UK Government which spends around £1bn[4] each year with us. Through improved contractual delivery, we now have a stronger relationship with the Government at a time when they are increasingly targeting investment in digital services and IT infrastructure. We also have a strong private sector position as the biggest customer experience partner in the UK, with specific expertise in the financial services, telecoms and utilities sectors. When we bring our understanding of complex solutions together with specific digital capabilities and combine them with our IT ecosystem partners such as Microsoft Azure, AWS and Cisco, our competitive position is now very strong.

Our better service delivery, investment in digital and IT capabilities, and more targeted marketing activities have all contributed to an improved market reputation with existing and potential clients in our chosen markets.

Sales outlook

The outlook for 2021 is promising, with a strong unweighted pipeline of £9.7bn (2019: £8.0bn), out of a total unweighted pipeline of £18.2bn (2019: £16.9bn), including a big increase in Government Services. It also includes contract bids that were delayed from 2020, such as the £925m Royal Navy training contract which has now been won.

Transformation: reducing cost and targeting margin increases

We have continued to target and deliver significant, sustainable cost reductions, through greater efficiency and structural 'cost-out' opportunities. In 2020, we secured a further £145.2m of transformation cost savings (4% of the total cost base), taking the total across the last three years to £305m of sustainable savings. This is in addition to the £122m of Covid savings in 2020.

Operational excellence and improvement

Despite the pandemic, we maintained our high level of service KPIs at 90.3% for 2020 (2019: 91.4%), including slightly better year-on-year performance in Customer Management, Government Services and People Solutions. This contributed to further improving our service credits, which reduced from £11m in 2019 to £4m in 2020.

We also significantly reduced the cash drag from major contracts, in particular in Government Services. The number of operationally and financially challenged contracts have reduced during the past two years from 16 to two (PCSE and Electronic Monitoring), where we expect to resolve key outstanding issues in 2021 and deliver significant benefits in 2022.

We are now also better at delivering large transformation projects. On RPP we delivered another year of high KPI achievement; and our performance on the new Defence Fire and Rescue contract was exemplary, with all operational KPIs delivered on target, good cost and cash performance, and with additional revenue from contracts won to work at six additional MoD sites during the year.

We saved £73m in 2020 simply by doing things better: including from the benefits of operational maturity, process improvement, reducing our cost of poor quality and reducing margin erosion through performance failures.

Structural optimisation
One of the major objectives of the transformation has been the simplification of a highly complex and inefficient organisation. Leveraging data from our new HR platform, we have optimised structures to align with our target operating model, delivering efficiency and overhead savings of £25m in 2020 and we see similar opportunity in 2021.

Technology
We are making significant technology savings through better governance, major efficiencies driven by consolidation of resource from across the Group, and through associated third-party procurement savings as we consolidated our supplier base. These were £30m in 2020 and we have significant further opportunity in 2021.

We are bringing all of our IT services together to be managed in one place, giving clarity of management and more efficient use of resource, with lower future maintenance and investment costs. We also made further progress in consolidating our software development resource from across the divisions under the umbrella of the digital development centre in the UK and India.

Group and overhead costs
We accelerated our property consolidation programme, closing 49 offices in 2020 and reducing the office footprint. This delivered savings of £11m in the year, with an annualised run rate of £25m in 2021. Procurement savings also generated £4m of cost savings during the year, focusing on scale benefits, in particular as we consolidated previously fragmented third-party purchasing behaviours.

Next phase of the transformation

Over the past three years we have improved governance, addressed inefficiency, focused on historical underinvestment and focused on delivering better outcomes for our clients. Capita is now a simpler business with a stronger operational platform to underpin its future development than it was in 2018. Last year we announced the disposal of our Specialist Services division, which is delayed but ongoing, as well as announcing our intention to dispose of non-core software products, starting with Eclipse and ESS. Structurally, our core business is now more orientated to growth markets and focused on our clients.

With this stronger foundation in place, we are now moving onto the next phase of our transformation, consolidating down to three divisions: two core divisions - Capita Public Service and Capita Experience – focused on distinct market and client needs and a third Portfolio division. This will comprise an enlarged portfolio of valuable but non-core businesses of which we are not the best owner, which we intend to exit when appropriate, with proforma revenue of around £700m.

We now have a clearer insight into where we can win, with most of our 2020 contract wins in clearly defined and focused areas – in specific parts of the UK Government market and in our core Customer Management industries. Both Public Service and Experience will adopt our 'consult, transform, deliver' business model with an increasing focus on digital transformation work. This structure will in turn drive out complexity and require a smaller, leaner Group overhead, from which we expect to save £50m on an annualised basis from 2022.

Public Service will integrate and simplify our offering to government, currently spread across four divisions, to focus on addressing their need to implement policy, transform productivity and improve citizen experience. The UK Government market is currently worth around £69bn. The fastest-growing parts of that, at around mid-single digit CAGR growth, are business process and technology-enabled services. As the number one strategic supplier of IT and Software Capita is already well positioned in this large and growing market, with a 2021 unweighted pipeline of £3.5bn. The proforma revenue of this division is expected to be around £1.2bn.

Experience will bring together our experts in designing, transforming and delivering frictionless customer experiences for blue chip clients, including our regulated businesses, and a number of assets from three of the existing divisions. The Global market is worth around £56bn and expected to grow at around 5% p.a. for the next three years. Currently one of the customer experience market leaders in the UK and with a solid foothold in Germany and Switzerland, Capita has an opportunity to leverage its sector expertise, digital ecosystem and global delivery centre to become a pan-European leader. The proforma revenue of this division is expected to be around £1.3bn.

We plan to complete this next phase of the transformation this year and will provide more detail to the markets later this year.

Balance sheet

Our focus in 2021 is to address our upcoming debt maturities and put in place a longer-term financing solution.

Our plan at the beginning of 2020 was that net debt would increase slightly, before the disposal of the Specialist Services portfolio, in order to complete key elements of the transformation; but thereafter sufficient sustainable free cash flow would be generated to allow us to reduce headline net debt to EBITDA to within our target range of 1x to 2x (pre-IFRS 16). We had also planned a bond issue to extend our debt maturities. We were, however, unable to do either of these in 2020.

Instead, we protected the balance sheet through successful cost and cash preservation and the bringing forward of our plans to dispose of non-core software products. We repaid £218.4m of maturing debt, remained well within financial covenants at both the half year and full year, and reduced net debt through a combination of good cash management, disposal proceeds and the deferral of VAT and pension payments.

In the short term our priority is to lengthen our current debt maturity profile as our free cash flow strengthens and to continue to be able to invest in our business.

However, we face significant short-term loan note maturities, with £440m due over the next two years. We plan to address this as follows:

- We recently received proceeds of £299m from the completion of the ESS disposal, which provides around £220m of available liquidity, with a further £45m contingent on CMA clearance of buyer Montagu's subsequent transaction with ParentPay.
- We expect to renew and extend the maturity of our revolving credit facility.
- We are continuing to dispose of non-core assets, with three processes currently under way: namely our 'blue light' emergency services software, our specialist insurance businesses in partnership with Artificial Labs, and our Axelos joint venture with the UK Government, with combined expected proceeds of at least £200m. We anticipate proceeds to come through in the second half of the year. Further non-core disposals are expected to realise around £200m, including from more off-the-shelf software assets as well as Specialist Service businesses that will be sold once recovery from the Covid crisis is well established.

We plan to put in place longer-term debt funding solutions, likely to be later in the year and subject to market conditions.

Outlook

Despite national lockdown through Q1 we are still targeting our first year of organic revenue growth for six years.

We plan to deliver improving profitability and cash from trading operations, offset by reversal of VAT savings, pension commitments and significant ongoing restructuring charges.

We are targeting disposal proceeds of £700m, with £500m in 2021.

Our new simpler structure supports inflection to sustainable cash generation in 2022.

We are continuing to build a more focused, client-centric and streamlined business, in order to deliver improving returns to investors.

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

[2] Adjusted results for both 2020 and 2019 exclude Education Software Solutions (ESS) as it is a business exit at 31 December 2020. ESS adjusted revenue and adjusted profit before tax in 2020 were £90.6m and £51.3m respectively. Covenant calculations adjust for ESS being excluded from EBITDA.

[3] Nelson Hall/Tech Market View

[4] Tussell March 2020

Divisional performance review

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

Software

Software provides application software and other solutions to clients in the local government, emergency services, healthcare, utilities and energy, professional and financial services, and payments sectors.

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

Our markets and growth drivers

Our existing markets remain the focus. While the payments market is expected to grow by double digits through to 2025, and our payments business is a successful challenger in this high-growth market, the remaining markets are expecting low to mid-single-digit growth in the next five years.

We are focusing on cross-selling opportunities in existing and adjacent markets, and strategic expansion into new markets.

At a macro level, market growth continues to be driven by software's deepening role in every aspect of business and consumer life, which has been further accelerated by the Covid-19 pandemic. The growth of cloud solutions and software as a service (SaaS) continued during 2020 and our investment reflected this shift, as we continued to replatform our core products ahead of segment demand.

Our strategy

Software capability remains critical to Capita. Our vertical market domain expertise and industry class software development capability ensures we are the differentiating catalyst for Capita's digitally enabled BPO services.

While we will continue to sell direct to market, we will increasingly create microservices and other digital componentry as a powerful enabler of our BPO services. We will also seek opportunities to embed our software and microservices in other third-party software.

We see increasing benefits from our global digital development centre (DDC) in India and the UK, which is now considered a top capability, as evidenced by the Capability Maturity Model Integration Institute's award of a 'maturity level 5' for development and support – an accreditation shared by IBM, Accenture and Deloitte.

We intend to leverage the DDC for the benefit of all of Capita and work is underway to transition to a pan-Capita DDC model, which is expected to drive Group cost savings in addition to the highest standards of software development.

Financial performance

Divisional financial summary	2020	2019	% change
Adjusted revenue[1] (£m)	246.0	252.1	(2.4)%
Adjusted operating profit[1] (£m)	43.4	50.7	(14.4)%
Adjusted operating margin[1] (%)	17.6%	20.1%	
Adjusted cash from trading operations (£m)	58.8	48.3	21.7%
Order book[2] (£m)	510.9	578.4	(11.7)%

2. Includes £92m for ESS, derecognised upon disposal completion in 2021

Adjusted revenue[1] in 2020 fell by 2.4% to £246.0m, with go-lives in Secure Solutions and Services, US growth and increased volumes in AMT Sybex, offsetting contracts ending. Covid-19 adversely impacted the volume-driven payments business and delayed pipeline delivery.

Adjusted operating profit[1] decreased by 14.4% to £43.4m, due to an increase in depreciation and amortisation, and increased costs of the DDC. The Covid-related transactional decline also adversely impacted profit.

Adjusted cash from trading operations improved by 21.7% to £58.8m with the reduction in profit more than offset by improvements in contractual working capital, driven by advance billing and lower contract fulfilment asset (CFA) additions in Secure Solutions and Services and AMT Sybex.

Cost and operational excellence

Swift action was taken to protect the business from the impact of Covid-19 and we sustained delivery on 96% of our service-level agreements. Our rapid response strengthened client relationships, with very positive feedback from local government and ambulance services, and an increase in our customer NPS of 26 points.

Our cost-saving initiatives helped to mitigate amortisation and inflationary cost increases; key programmes included organisational restructure, technology and procurement.

Our investment in standard software tools, developing best practice processes and shortened development cycles allowed us, for example, to develop and embed healthcare decision software within Microsoft's 'Azure Health Bot', allowing healthcare organisations around the world to build and deploy large-scale AI-powered, compliant, conversational healthcare experiences. This is an example of how by embedding software in third party software, we can distribute at scale and low marginal cost, and we expect to see benefits beginning in 2021.

Investing in growth

In 2020 we invested £15m in new product development, and reduced development cycles, and increasingly focused on microservices and digital componentry as a catalyst for pan-Capita digital services.

We also used products in new markets; for example, ResponsEye has been assisting social housing organisations with the maintenance of properties.

At 31 December 2020, the total unweighted pipeline was £1,037m, an increase of £252m from February 2020 (post divisional restructure), with £389m of total contract value (TCV) won. The order book at the year end was £510.9m, a decrease of £67.5m, from 31 December 2019. Our renewals rate across all opportunities was 88%, and 98% on those that we bid for.

People Solutions

The People Solutions division provides expert human resources (HR) advisory and digitally enabled services to large public and private sector organisations. Areas of expertise include learning, resourcing, pensions and HR outsourcing services.

We aim to refocus on the parts of these markets that are attractive and where we have an ability to win. During 2020, we sold the sub-scale employee benefits business, which provided flexible benefits and brokerage services, in order to focus our investments on our pensions business, where we have a leading UK market position.

Our markets and growth drivers

People are at the centre of our clients' stated business strategies, creating significant growth opportunities for our business. According to NelsonHall, the HR outsourcing market in the UK is estimated to be worth £7bn and is expected to grow at approximately 3% a year through to 2024.

The key market growth drivers are: (i) our clients' needs for financial sustainability for both themselves and their employees; (ii) a better employee experience; and (iii) the need to have access to skills, whether they are bought, borrowed or built internally, enabling them to be fit for a digital future. Legislation such as IR35 or judgments, such as McCloud and guaranteed minimum pension equalisation, offer continuous opportunities.

Our strategy

The core guiding principle of our divisional transformation journey is client centricity. We aim to retain and grow our existing clients through strong account management discipline. This involves working in partnership with our clients, understanding their issues and needs, increasing service levels, and providing digital solutions alongside data and insights.

Financial performance

Divisional financial summary	2020	2019	% change
Adjusted revenue[1] (£m)	472.0	535.0	(11.8)%
Adjusted operating profit[1] (£m)	52.5	68.9	(23.8)%
Adjusted operating margin[1] (%)	11.1%	12.9%	
Adjusted cash from trading operations (£m)	64.0	70.2	(8.8)%
Order book (£m)	534.4	497.2	7.5%

Adjusted revenue[1] decreased in 2020 by 11.8% to £472.0m, due to contract losses in learning services; the transition of historic pension contract losses and volumes on frameworks in learning. Covid-19 significantly adversely impacted learning and resourcing volumes.

Adjusted operating profit[1] declined by 23.8% to £52.5m, as revenue decreases and increased investment in the pensions business adversely impacted profit. Cost containment became the focus due to the higher fixed cost base of learning and resourcing, with Covid-related declines partially offset by savings.

Adjusted cash from trading operations fell by 8.8% to £64.0m, reflecting the decline in profit, which was partially offset by improvements in contractual working capital as a result of CFA balance unwinds and advanced receipts on some contracts.

Cost and operational excellence

We delivered a fast and effective response to Covid-19. The division performs critical processes for clients, including payroll and pension payments as well as recruitment and assessment for the British Army (RPP). We maintained continuity of these critical services by moving 91% of our colleagues to homeworking and assigning key worker status to others.

In order to serve our clients better, operational excellence and digital transformation are critical. During 2020, despite Covid, we invested in operational excellence tools and processes across our portfolio. This helped us manage a remote workforce while maintaining a resilient service for our clients. Progressing along an ambitious digital roadmap remains a priority, particularly in our pensions administration business.

We are improving our core products and platforms while working towards standard management information tools across all businesses. We are also strengthening our analytics capability and technological partnerships with key enterprise resource planning providers.

The successful transformation of the RPP contract resulted in a two-year contract extension worth £140m, starting in March 2022.

Investing in growth

We reorganised our business to align more closely with our clients so that we not only execute on their contracts but also solve their ever-changing challenges.

We invested in the development of our products, mainly the completion of product development for: Security Watchdog and Onboarding; a digital platform for learning; and a CRM system to improve employee experience in HR Solutions. We are also investing in digital remote training capabilities as a result of Covid, and we continued investment in the pensions member experience and the development of Axelos products.

At 31 December 2020, the total unweighted pipeline was £2,039m, an increase of £659m since February 2020, with £736m of TCV won. The order book at the year end was £534.4m, an increase of £37.2m since 31 December 2019. In 2020, client value retention and client renewals increased to 78% and 84% respectively. Our renewals rate across all opportunities was 80%, and 81% on those that we bid for.

Customer Management

Capita is a leading provider of multi-channel customer engagement services, serving clients in financial services, retail and consumer goods, energy and utilities, telecommunications and media, and government and transport sectors from a mix of locations in Europe, India and South Africa. The division also provides remediation, complaints management and collections services, and serves both regulated and non-regulated customer needs.

Our approach is to build partnerships, based on shared outcomes and value, while continuing to deliver transactional supply where this helps our clients to meet customer demands. The value we bring to our clients is increasingly built around transforming the customer experience through the application of digital services underpinned by data insight and analytics.

Our markets and growth drivers

According to NelsonHall, the UK market is estimated to be worth £4bn a year and is expected to grow at approximately 3% a year through to 2024. We are expecting several key segments to grow above this rate, with financial services, telecommunications and retail expected to grow at 4%, 4% and 6% respectively.

We are the largest provider of customer management services in the UK and Ireland. Customer experience and digitisation are at the forefront of our clients' strategies, with the Covid-19 pandemic further accelerating these. We are expecting the biggest impacts in markets such as online retail, telecommunications and digital entertainment, and increasingly see these setting the standard for both consumer and business-to-business expectations.

Our strategy

We have a differentiated strategy and core-value proposition in our markets; our approach is customer experience-led, tech-enabled and underpinned by contracted commitment to business outcomes. We are building capability to 'make great customer experience happen'. Our commercial model increasingly includes a commitment to client outcomes, such as improvements in the net promoter score, revenue generation, customer acquisition and cost-to-serve.

Financial performance

Divisional financial summary	2020	2019	change %
Adjusted revenue[1] (£m)	1,139.7	1,150.6	(0.9)%
Adjusted operating profit[1] (£m)	105.9	119.8	(11.6)%
Adjusted operating margin[1] (%)	9.3%	10.4%	
Adjusted cash from trading ops (£m)	73.0	41.1	77.6%
Order book (£m)	2,134.7	2,760.5	(22.7)%

Adjusted revenue[1] decreased in 2020 by 0.9% to £1,139.7m. Prior year one-offs and contract losses, as well as reduced volumes on telecommunications clients, were broadly offset by contract wins. While Covid adversely impacted scope and volume on contracts with challenged end-markets, we secured a number of Covid-related projects and the majority of revenue was resilient.

Adjusted operating profit[1] fell by 11.6% to £105.9m, due to the change in revenue mix. Salary inflation, including the impact of the adoption of the real living wage in the UK, and the impairment of contract assets on our mobilcom-debitel contract, adversely impacted profit. The reversal of 2019 one offs also led to the reduction in profit. This was partly offset by Covid-related savings and the ongoing cost-efficiency programme.

Adjusted cash from trading operations improved by 77.6% to £73.0m, with the decline in profit being partially offset by contractual working capital improvements, driven by a reduction in net accrued and deferred income outflows, predominantly due to agreed changes to timing of invoicing on a telecoms contract and impact of asset impairments on CFA inflows.

Cost and operational excellence

Operational delivery was challenging for both clients and providers, due to the significant change in operating model working practices and the effect of local lockdowns on the global economy throughout 2020. We maintained a high service level to clients throughout, remaining agile and focused on adjusting to the local requirements through our pandemic planning approach. We accelerated investment in computer equipment, customer experience and digital platforms, such as collaboration tools, chatbots and cloud technologies, which allowed more than 75% of the division to work from home at any one time, including 95% of our employees in India.

We maintained a number of critical services, operating with key workers for banks, telecommunications companies and utilities in a Covid-safe environment throughout 2020. In addition, we set up new services for retailers, governments and charities, including setting up a 1,000+ seat virtual contact centre in 10 days.

Improvements in the sales process, and adoption of the project management tool Evolve, allowed us to mobilise both large and targeted pieces of work, such as in our Covid-related Department for Work and Pensions (DWP) and NHS support work, in short timescales, and we have had no significant issues on recent wins.

We delivered cost improvements in 2020, particularly from efficiency gains and operating model initiatives, technology updates and procurement.

The transformation phase of our mobilcom–debitel contract is now complete, and therefore reached the inflection point during the year. There are still a number of opportunities yet to be delivered which remain key to the future lifetime profitability.

Our closed-book life insurance administration business is in structural decline, as books run off. Some customers, such as the recent partial Phoenix exit, are switching to suppliers who can provide a single digital platform for all their life books, and we are working with them to ensure a smooth transition. We continue to focus on our regulated businesses and growth areas in insurance, finance, pensions and mortgages.

Investing in growth

We continue to upgrade our infrastructure and tools, including in our analytics capability which increasingly allows real-time monitoring of our business and provides insights to our clients on their customers' behaviours and preferences.

At 31 December 2020, the total unweighted pipeline was £4,206m, a decrease of £1,511m since February 2020, with £586m of TCV won. The decrease was driven by pipeline opportunity refinement and when a consistent definition is applied throughout the period, the pipeline has increased. The order book at the year end was £2,134.7m, a decrease of £625.8m since 31 December 2019. Our renewals rate across all opportunities was 82%, and 83% on those that we bid for.

Government Services

Capita is the UK Government's largest partner in the application of digital transformation to improve the productivity of government operations and the citizen experience of public services. We do this in a socially responsible way to make public services better for citizens and government employees, and to help our clients to release resources so that they can be deployed back into frontline service priorities.

We believe that quality public services, innovatively designed and powered by technology, are critical to delivering safer, greener and healthier communities that support everyone, including society's most vulnerable.

Our markets and growth drivers

According to NelsonHall, the UK Government market is expected to grow at approximately 3% a year to 2024. We expect a significant increase in central government spending over the next few years, particularly in infrastructure and digital delivery, while local government is likely to need more cost-effective service delivery, due to shortfalls in their sources of income.

Capita is the fifth largest strategic supplier to central and local government in the UK according to Tussell, and the largest provider in the business process and technology-enabled services segments, which leverage both skilled people and technology. Within this, we have leading positions in several focused sectors where we have deep, proven experience and expertise, including education, health, transport, defence, justice, central and local government.

The UK Government has also introduced its outsourcing playbook, to provide a greater degree of collaboration with its suppliers and fairer returns, reshaping contracts at renewal, and is awarding new work under this framework. Local government markets have seen significant reshaping of the landscape, away from general outsourcing to targeted capabilities.

Our strategy

Our strategy is to: focus our business around core market sectors where we have strong positions; offer a refined set of value propositions developed by enabling our people with a defined stack of underlying, replicable digital products and capabilities; invest in a full-lifecycle digital transformation capability; and focus on excellence in our consulting, transformation and operational service delivery performance.

Financial performance

Divisional financial summary	2020	2019	% change
Adjusted revenue[1] (£m)	723.8	793.4	(8.8)%
Adjusted operating profit[1] (£m)	11.1	51.8	(78.6)%
Adjusted operating margin[1] (%)	1.5%	6.5%	
Adjusted cash from trading ops (£m)	5.3	(19.7)	126.9%
Order book (£m)	2,057.0	2,176.7	(5.5)%

Adjusted revenue[1] decreased in 2020 by 8.8% to £723.8m, mainly as a result of prior-year contract losses in local government and defence infrastructure organisation, partly offset by new business such as the Ministry of Defence 's fire and rescue project (DFRP) contract. Covid-19 impacted transactional and volume revenue; however, this was partly offset by Covid-related projects in health and welfare.

Adjusted operating profit[1] fell by 78.6% to £11.1m due to the impact of contract losses, and DFRP adversely impacted profit due to the one-off initial loss. Transformation delays on contracts and bid costs relating to contract wins further reduced profit. The impact of Covid-19 was offset by cash preservation actions.

Adjusted cash from trading operations significantly improved to £5.3m as the decline in profit relates predominantly to the 2019 contract handbacks that were non cash-backed.

Operational excellence

We continued to execute on client delivery across government and received positive feedback from clients in all verticals, despite the external, Covid-driven challenges; including 70% of the division servicing the contracts from home. Throughout the year, we successfully reduced the number of legacy problem major programmes to two. The GP Payment and Pensions element of PCSE and the Electronic Monitoring Service (EMS) contracts transformation have incurred additional cost due to poor quality and delays exacerbated by Covid but significant progress was made on both and we expect them to be substantially complete in 2021. We expect the contracts to reach the inflection point in 2021 and 2022 respectively. Inability to achieve key milestones could lead to reduced contract profitability and a risk of impairment of the associated contract assets. Since 2018, the major contracts within the division have moved to an overall cash inflow from an overall cash loss, demonstrating the progress made to date.

Operational excellence continues to be the driving force for savings in the division, generating cost savings of £15m by taking out overhead costs and improving the operating model. We continue to work towards a more agile service structure based on leveraging best practice between our chosen verticals.

While the legacy contract base caused some challenges, which were exacerbated by Covid-19, recent contracts progressed well and in line with expectations. DFRP 's strong start to service and programme delivery along with the establishment of a truly collaborative relationship led to the transfer to Capita of additional service delivery responsibilities. The Ultra Low Emissions Zone contract (ULEZ) with Transport for London (TfL) is also progressing well towards the scheme Go Live on 25th October 2021.

Investing in growth

We continue to innovate and launched two new digital business process as a service (BPaaS) platforms, Grantis and Resolvis, which are successfully delivering for their first customers in central and local government.

At 31 December 2020, the total unweighted pipeline was £8,516m (including the £0.9bn Royal Navy Contract won in early 2021), an increase of £1,743m since February 2020, with £838m of TCV won. Pipeline growth has been generated by TCV increases on existing opportunities, such as from changes in contractual arrangements, and a number of large FY21 onwards opportunities. The order book at the year end was £2,057.0m, a decrease of £119.7m since 31 December 2019. Our renewals rate across all opportunities was 100%, and 100% on those that we bid for.

Technology Solutions

Capita is a top-10 service provider of digital IT and connectivity solutions in the UK, focused on the mid-sized enterprise market.

We consult, transform and deliver digital solutions to help businesses improve, realise their digital strategies and provide better business outcomes. We have strategic partnerships with leading global IT vendors, have invested in our portfolio of hosted platforms and operate our own UK-wide network and data centres. Technology Solutions is also responsible for the delivery of IT services and support within the Capita Group.

Our markets and growth drivers

Technology Solutions operates in a broad and fast-changing market. The division is targeting growth in its digital business solutions, platform and cyber segments. These are the fastest growing verticals of the market at an annual rate of approximately 15% from 2019 to 2023 (TechMarketView). Cloud, cyber and automation demand have been further accelerated by the Covid-19 pandemic.

Capita is the UK's largest software and IT services supplier by revenue. Clients depend on our technology to provide high-value, mission-critical services to their customers and users. We are a trusted partner to deliver critical national infrastructure and IT transformation projects, with clients increasingly relying on our technology to extract valuable insights from their data and deliver outstanding customer experience.

Our strategy

Our strategy is to create innovative technology solutions, underpinned by a comprehensive range of services which address the needs of our enterprise clients. Our areas of expertise include: technology consultancy; digital business solutions; platform management; cyber security; digital workplace; and digital connectivity.

We are developing repeatable propositions to meet our clients' needs, with a focus on creating improved customer experience and expanding our client base. We have already started to increase the standardisation, robustness and security of the platforms and processes that underpin our products.

We are also continuing to simplify technology operations, platforms, products and suppliers to generate efficiency savings, strengthen our capabilities, and ultimately deliver greater value to our clients.

Financial performance

Divisional financial summary	2020	2019	% change
Adjusted revenue[1] (£m)	385.0	449.9	(14.4)%
Adjusted operating profit[1] (£m)	34.9	58.0	(39.8)%
Adjusted operating margin[1] (%)	9.1%	12.9%	
Adjusted cash from trading ops (£m)	72.0	51.3	40.4%
Order book (£m)	370.2	389.7	(5.0)%

Adjusted revenue[1] decreased by 14.4% to £385.0m, due to known contract losses, including BAE Systems, and reduced volumes across a range of contracts. The negative impact of Covid-19 on our transactional and volume-based businesses was partly offset by Covid wins across IT services and intelligent communications.

Adjusted operating profit[1] decreased by 39.8% to £34.9m, due to the above contract losses and reduced volumes, which were only partially offset by cost savings. Cost increases and additional depreciation from completed infrastructure projects also adversely impacted profit. The effect of Covid-19 was almost offset by cash preservation actions.

Adjusted cash from trading operations improved by 40.4% to £72.0m with the reduction in profit more than offset by improvements in contractual working capital, driven by accrued and deferred income inflows from the phasing variations and billing improvements, partially offset by an outflow from increased CFAs largely on Networks.

Cost and operational excellence

Technology Solutions was at the forefront of Capita's response to Covid-19. It was responsible for the Group's successful move to remote working with provision of equipment and connectivity for 85% of colleagues, which was only possible due to the investment to date as part of the transformation.

Covid-19 has accelerated the transformation of our working practices, with more than 69% of the division working remotely with no detriment to our operational KPIs. We provided an agile response to client demands and enabled them to continue operating successfully, with very positive feedback from both the private and public sector.

Cost savings were driven mainly by technology, although organisational structure and operational improvement initiatives also generated benefits.

Our main strategic programme has the key purpose of improving the business resilience of hosting, security posture, service quality and ultimately customer experience. During 2020, the programme continued to build capability and successfully migrate our clients from legacy systems to secure Azure or Nuvem hybrid hosting. This helped remove complexity and the limitations of legacy infrastructure, while generating growth opportunities by providing Capita's secure and accredited hosting solution for new digital growth, and helping mitigate the risk of cyber attacks.

In recent Whitelane research, we received the highest percentage improvement for customer satisfaction against UK end-user computing competitors. This rewards a continuous, multiple-year improvement programme to deliver high-quality and resilient solutions to our clients and customers.

Investing in growth

We invested in our ongoing data centre consolidation and cloud migration programme. We are investing in the development of our fast, digital IT propositions – in cloud, cyber security and automation. These core digital offerings are increasingly in demand as the market adapts to new ways of working.

We will continue to strengthen our partnerships with key technology providers, combining our consulting and delivery expertise with their technologies. Our partnerships with UiPath and Microsoft are working well, gaining a strong reputation for delivering UiPath implementations, and we achieved the Azure advanced specialisation accreditation in windows and SQL migration.

At 31 December 2020, the total unweighted pipeline was £2,027m, an increase of £64m since February 2020, with £332m of TCV won. The order book at the year end was £370.2m, a decrease of £19.5m since 31 December 2019. Our renewals rate across all opportunities was 66%, and 75% on those that we bid for.

Specialist Services

Specialist Services is a portfolio of businesses delivering a range of service offerings: including travel, enforcement, insurance, real estate and infrastructure.

The division is comprised of businesses which are not within Capita's growth markets. These businesses are actively managed on a portfolio basis in order to maximise value.

Our markets and growth drivers

Specialist Services includes a range of businesses serving public and private clients across multiple vertical sectors, which are generally mature.

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

Our strategy

Due to the varied nature of the activities in the division, each Specialist Services business has its own strategy, uniquely tailored to their service offerings and the needs of their clients. The focus across the portfolio is on adding new name business, operational excellence and cost optimisation.

The strategy remains to prepare earmarked businesses for disposal, although the originally envisaged timetable has been impacted by Covid-19.

Financial performance

Divisional financial summary	2020	2019	% change
Adjusted revenue[1] (£m)	196.5	295.6	(33.5)%
Adjusted operating (loss)/profit[1] (£m)	(4.4)	44.3	(109.9)%
Adjusted operating margin[1] (%)	(2.2)%	15.0%	
Adjusted cash from trading ops (£m)	9.3	43.5	(78.6)%
Order book (£m)	234.2	306.6	(23.6)%

In 2020, adjusted revenue[1] fell by 33.5% to £196.5m, due to contract losses, as a result of a combination of conscious exits and projects coming to an end, which were only partially offset by contract wins and new transactional revenue streams. Covid severely affected end-markets such as travel and enforcement. Due to the transactional nature of the divisions, with the exception of insurance, Page One, and translation and interpretation, most businesses saw a downturn in revenue.

Adjusted operating profit[1] became a loss of £4.4m as the contract losses adversely impacted profit; these were partially offset by cost savings across all work streams. The fall in transactional revenue caused by Covid was only partially offset by furlough support and discretionary spend savings.

Adjusted cash from trading operations decreased by 78.6% to £9.3m. This was due to a significant contractual working capital inflow, as a result of lower operational volumes, this benefit will unwind when business recovers.

Cost and operational excellence

We rapidly responded to Covid-19 and maintained service levels where possible throughout the pandemic, with around 77% of staff working from home. In those businesses whose end markets were most affected by Covid-19 we reduced service levels and, took decisive action to cut costs; however we were unable to cut too deeply in order to ensure a timely recovery. Where possible, we restructured and rationalised to achieve a long term reduction in our fixed cost base, including reducing our physical property footprint by almost half.

We expect Covid-19 to have a prolonged impact on several of the division's businesses and we reviewed their long-term operating models to ensure they are fit for the future. Additional savings were generated through automation, procurement and technology.

We strengthened the existing partnership between our insurance business and Artificial, which we established through the Capita Scaling Partner relationship. By bringing together our extensive insurance industry knowledge, compliance expertise and resource with best-in-class technology we are able to offer clients in the Lloyd's of London Market an end-to-end solution that provides expertise and consultancy across the full insurance lifecycle. The relationship was started in response to a market need for digital solutions to augment existing processing capability for insurers. Covid has exacerbated this need and, through our partnership, we are proactively addressing the changing needs of our clients.

We also achieved major improvement in our customer NPS, mainly due to the managing of relationships, even though the division was hardest hit by the pandemic.

Investing in growth

During the year, investment was targeted to preserve cash during the pandemic, with the focus of investment remaining on strengthening security and compliance, as well as developing cloud capabilities.

Our translation and interpreting business applied innovation to strengthen their technology platforms adding new features that enabled them to increase their support to the NHS and police throughout the pandemic, for example interpretation services via Zoom or MS Teams using their SmartMate and LiveLINK platforms.

At 31 December 2020, the total unweighted pipeline was £389m, a decrease of £255m since February 2020, with £182m of TCV won. The order book at the year end was £234.2m, a decrease of £72.4m since 31 December 2019. Due to the transactional nature of the division, the order book is not considered a suitable metric for growth.

Despite the pandemic we have added a number of new names across the division throughout the year including London Fire and NHS24 (Scotland), London Borough of Hackney, M&S and Sopra Steria.

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

Financial review

This preliminary announcement is extracted from Capita's financial statements for the year ended 31 December 2020 and the basis of its preparation can be found in the notes to the statements in this announcement.

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 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

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

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.

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] 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**

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 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.

Adjusted profit before tax

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 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 6)) 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 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 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.
- 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.

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.

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.

Adjusted[1] to reported profit bridge	Operating (loss)/profit 2020 £m	Operating (loss)/profit 2019 £m	(Loss)/profit before tax 2020 £m	(Loss)/profit before tax 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)

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.
- 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 4.

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)

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 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.

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

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.

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

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.

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 assumption and viability statement

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.

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 note 2.

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.

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 4 for the 'adjusted operating profit and adjusted profit before tax' disclosure note and note 16 for the 'commitments' disclosure note.

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 the alternative performance measures (APMs) in the Appendix.

Forward looking statements

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

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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.

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Consolidated income statement

For the year ended 31 December 2020

	Notes	2020 £m	2019[1] £m
Continuing operations:			
Revenue	7	**3,324.8**	3,678.6
Cost of sales		**(2,640.6)**	(2,756.4)
Gross profit		**684.2**	922.2
Administrative expenses		**(716.2)**	(921.8)
Operating (loss)/profit	7	**(32.0)**	0.4
Share of results in associates and investment gains		**0.8**	(0.6)
Net finance expense	8	**(49.6)**	(62.4)
Gain on business disposal	5	**31.4**	—
Loss before tax		**(49.4)**	(62.6)
Income tax credit		**47.6**	3.5
Loss for the year from continuing operations		**(1.8)**	(59.1)
Discontinued operations:			
Profit for the year	5	**20.8**	5.0
Total profit/(loss) for the year		**19.0**	(54.1)
Attributable to:			
Owners of the Company		**14.0**	(64.2)
Non-controlling interests		**5.0**	10.1
		19.0	(54.1)
Earnings/(loss) per share	9		
Continuing: – basic		**(0.41)p**	(4.18)p
– diluted		**(0.41)p**	(4.18)p
Total operations: – basic		**0.85p**	(3.89)p
– diluted		**0.85p**	(3.89)p

Adjusted operating profit	4	**111.0**	254.5
Adjusted profit before tax	4	**65.2**	197.7
Adjusted earnings per share	9	**4.19p**	9.30p
Adjusted and diluted earnings per share	9	**4.19p**	9.30p

1. The 2019 comparatives have been re-presented to align with the current year allocation of costs between cost of sales and administrative expenses. This has resulted in an increase to cost of sales of £73.4m and an equivalent reduction to administrative expenses.

Consolidated statement of comprehensive income

For the year ended 31 December 2020

	2020 £m	2019 £m
Total profit/(loss) for the year	**19.0**	(54.1)
Other comprehensive expense		
Items that will not be reclassified subsequently to the income statement		
Actuarial loss on defined benefit pension schemes	**(32.1)**	(106.7)
Deferred tax effect on defined benefit pension schemes	**10.9**	18.1
Loss on fair value of investments	**(0.7)**	—
Items that will or may be reclassified subsequently to the income statement		
Exchange differences on translation of foreign operations	**(9.0)**	(1.2)
(Loss)/gain on cash flow hedges	**(1.6)**	1.0
Cash flow hedges recycled to the income statement	**(4.5)**	(2.6)
Income tax effect on cash flow hedges	**1.1**	0.3
Other comprehensive expense for the year net of tax	**(35.9)**	(91.1)
Total comprehensive expense for the year net of tax	**(16.9)**	(145.2)
Attributable to:		
Owners of the Company	**(21.9)**	(155.3)
Non-controlling interests	**5.0**	10.1
	(16.9)	(145.2)

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

Consolidated balance sheet

At 31 December 2020

	Notes	2020 £m	2019 £m
Non-current assets			
Property, plant and equipment	10	**157.2**	194.3
Intangible assets	11	**265.0**	354.2
Goodwill	12	**1,120.5**	1,177.8
Right-of-use assets		**342.1**	480.9
Investments in associates and joint ventures		**5.1**	3.8
Contract fulfilment assets	13	**294.8**	275.8
Financial assets		**117.0**	82.2
Deferred tax assets		**242.8**	181.6
Trade and other receivables		**22.1**	26.4
		2,566.6	2,777.0
Current assets			
Financial assets		**32.1**	25.1
Disposal group assets held-for-sale	5	**114.6**	12.4
Trade and other receivables		**551.0**	748.4
Cash		**460.9**	409.1
Income tax receivable		**2.9**	4.5
		1,161.5	1,199.5
Total assets		**3,728.1**	3,976.5
Current liabilities			
Trade and other payables		**635.0**	619.8
Deferred income		**822.2**	884.5
Overdrafts		**332.7**	286.3
Lease liabilities		**77.5**	81.9
Disposal group liabilities held-for-sale	5	**53.9**	7.9
Finance liabilities		**347.8**	351.8
Provisions	14	**107.0**	71.3
		2,376.1	2,303.5
Non-current liabilities			
Trade and other payables		**23.6**	6.0
Deferred income		**153.0**	176.5
Lease liabilities		**426.0**	480.7
Financial liabilities		**554.3**	795.7
Deferred tax liabilities		**6.7**	16.3
Provisions	14	**17.4**	9.3
Employee benefits		**252.1**	252.5
		1,433.1	1,737.0
Total liabilities		**3,809.2**	4,040.5
Net liabilities		**(81.1)**	(64.0)
Capital and reserves			
Share capital		**34.5**	34.5
Share premium		**1,143.3**	1,143.3
Employee benefit trust and treasury shares		**(11.2)**	(11.2)
Capital redemption reserve		**1.8**	1.8
Other reserves		**(13.4)**	0.6
Retained deficit		**(1,289.5)**	(1,295.8)
Deficit attributable to owners of the Company		**(134.5)**	(126.8)
Non-controlling interests		**53.4**	62.8
Total deficit		**(81.1)**	(64.0)

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

Consolidated statement of changes in equity

For the year ended 31 December 2020

	Share capital £m	Share premium £m	Employee benefit trust and treasury shares	Capital redemption reserve £m	Retained deficit £m	Other reserves £m	Total attributable to the owners of the parent	Non-controlling interests £m	Total (deficit)/equity £m
At 1 January 2019	34.5	1,143.3	(11.2)	1.8	(1,135.3)	3.1	36.2	67.1	103.3
Impact of change in accounting standards – IFRS 16[1]	—	—	—	—	(26.8)	—	(26.8)	—	(26.8)
Impact of change in accounting standards – IFRIC 23[2]	—	—	—	—	6.2	—	6.2	—	6.2
At 1 January 2019, after adoption of IFRS 16[1] and IFRC 23[2]	34.5	1,143.3	(11.2)	1.8	(1,155.9)	3.1	15.6	67.1	82.7
(Loss)/profit for the year	—	—	—	—	(64.2)	—	(64.2)	10.1	(54.1)
Other comprehensive expense	—	—	—	—	(88.6)	(2.5)	(91.1)	—	(91.1)
Total comprehensive (expense)/income for the year	—	—	—	—	(152.8)	(2.5)	(155.3)	10.1	(145.2)
Share based payment net of deferred tax effect	—	—	—	—	3.8	—	3.8	—	3.8
Shares purchased	—	—	—	—	(0.7)	—	(0.7)	—	(0.7)
Dividends paid[3]	—	—	—	—	—	—	—	(14.4)	(14.4)
Movement in put-options held by non-controlling interests	—	—	—	—	9.8	—	9.8	—	9.8
At 1 January 2020	**34.5**	**1,143.3**	**(11.2)**	**1.8**	**(1,295.8)**	**0.6**	**(126.8)**	**62.8**	**(64.0)**
Profit for the year	**—**	**—**	**—**	**—**	**14.0**	**—**	**14.0**	**5.0**	**19.0**
Other comprehensive expense	**—**	**—**	**—**	**—**	**(21.9)**	**(14.0)**	**(35.9)**	**—**	**(35.9)**
Total comprehensive (expense)/income for the year	**—**	**—**	**—**	**—**	**(7.9)**	**(14.0)**	**(21.9)**	**5.0**	**(16.9)**
Share based payment net of deferred tax effect	**—**	**—**	**—**	**—**	**5.2**	**—**	**5.2**	**—**	**5.2**
Dividends paid[3]	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(14.4)**	**(14.4)**
Movement in put-options held by non-controlling interests	**—**	**—**	**—**	**—**	**9.0**	**—**	**9.0**	**—**	**9.0**
At 31 December 2020	**34.5**	**1,143.3**	**(11.2)**	**1.8**	**(1,289.5)**	**(13.4)**	**(134.5)**	**53.4**	**(81.1)**

1. The Group initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application.
2. The Group initially applied IFRIC 23 Uncertainty over Income Tax Treatments at 1 January 2019. The cumulative effect of initially applying IFRIC 23 has been recognised in retained earnings at the date of initial application.
3. Dividends paid and proposed: £14.4m (2019: £14.4m) relate to dividends paid to non-controlling interests. No dividends were declared, paid or proposed in 2020 or 2019 on the Parent Company's ordinary shares.

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

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

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

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

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

Other reserves – This consists of foreign currency translation reserve deficit of £8.6m (2019: £0.4m surplus) and cash flow hedging reserve deficit of £4.8m (2019: £0.2m surplus).

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

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

Consolidated cash flow statement

For the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Cash generated from operations	15	**434.2**	32.8
Cash generated from discontinued operations		**18.6**	4.7
Income tax paid		**(8.8)**	(5.4)
Net interest paid		**(47.7)**	(58.4)
Net cash inflow/(outflow) from operating activities		**396.3**	(26.3)
Cash flows from investing activities			
Purchase of property, plant and equipment	10	**(40.8)**	(57.7)
Purchase of intangible assets	11	**(46.6)**	(124.7)
Proceeds from sale of property, plant and equipment/intangible assets	10, 11	**13.5**	0.4
Additions to investments in associates		**(0.6)**	(0.6)
Additions to investments held at fair value		**(0.3)**	—
Disposals of investments held at fair value		**3.9**	—
Deferred consideration paid		**—**	(1.3)
Contingent consideration paid		**(4.9)**	(2.4)
Subsidiary partnership payment		**(9.4)**	(9.4)
Capital element of lease rental receipts		**2.8**	—
Net proceeds/(loss) on disposal of subsidiary undertakings	5	**51.3**	(8.9)
Cash disposed of with subsidiary undertakings	5	**(3.2)**	—
Net cash outflow from investing activities		**(34.3)**	(204.6)
Cash flows from financing activities			
Dividends paid to non-controlling interests		**(14.4)**	(14.4)
Purchase of shares		**—**	(0.7)
Capital element of lease rental payments		**(98.0)**	(93.7)
Repayment of private placement loan notes		**(242.9)**	(96.8)
Proceeds from cross-currency interest rate swaps		**24.5**	10.9
Repayment of term loan		**—**	(100.0)
Financing arrangement costs		**(0.5)**	(1.1)
Net cash outflow from financing activities		**(331.3)**	(295.8)
Increase/(decrease) in cash and cash equivalents		**30.7**	(526.7)
Cash and cash equivalents at the beginning of the period		**119.3**	642.7
Effect of exchange rates on cash and cash equivalents		**(8.9)**	3.3
Cash and cash equivalents at 31 December		**141.1**	119.3
Cash and cash equivalents comprise:			
Cash		**460.9**	409.1
Overdrafts		**(332.7)**	(286.3)
Cash, net of overdrafts, included in disposal group assets and liabilities held-for-sale	5	**12.9**	(3.5)
Total		**141.1**	119.3

Adjusted cash generated from operations	15	**367.5**	213.6
Adjusted free cash flows	15	**238.6**	(23.2)

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

Notes to the consolidated financial statements

for the year ended 31 December 2020

1 Corporate information

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

These consolidated financial statements of Capita plc for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the directors on 16 March 2021.

2 Basis of preparation, judgements and estimates and going concern

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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

(b) Adjusted profit

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

The Board has adopted a policy to separately disclose those items that it considers are outside the underlying operating results for the particular year 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-year performance of the business. Accordingly, these items are also excluded in the discussion of divisional performances. Those items which relate to the ordinary course of the Group's operating activities remain within adjusted profit.

(c) Judgements and estimates

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

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

Covid-19 has introduced unprecedented economic uncertainties and has led to increased judgement particularly in forecasting future financial performance. There have also been direct impacts on revenue and costs arising from: new contracts helping customers respond to the pandemic; costs of setting up colleagues to work remotely; the release of the 2019 bonus accruals; and utilisation of the Government's furlough scheme. The Board has not reported these items separately, but where there is an impact this is captured in the divisional performance reviews.

The Board has continued with a policy to separately identify items such as restructuring, where the plans have been advanced and adapted in response to Covid-19. The Board has also considered the impact on the provisions recorded at 31 December 2020, with no significant adjustments recorded, and the valuation of the defined benefit pension scheme.

Given the level of judgement and estimation involved in assessing the future profitability of contracts, it is reasonably possible that outcomes within the next financial year may be different from management's assumptions and could require a material adjustment to the carrying amounts of contract assets and onerous contract provisions. This risk is increased further by the uncertainly Covid-19 brings to forecasting.

(d) Going concern

In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2020, the directors are required to consider whether the Group and Parent Company can continue in operational existence for the foreseeable future. The Board has concluded that it is appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts, key uncertainties and sensitivities, as set out below, and that align with the viability statement of the Annual Report and Accounts.

Accounting standards require that the foreseeable future covers a period of at least 12 months from the date of approval of the financial statements, although they do not specify how far beyond 12 months a Board should consider. In the prior year, the Board considered an extended period out to 31 August 2022 (30 months) which aligned with the expiry of the revolving credit facility (RCF). The Board continue to consider the period out to 31 August 2022 for the purpose of the going concern assessment, which reflects a period of at least 18 months from the date of approval of these financial statements (the going concern period). While this is a shorter period, it does align with the expiry of the RCF which is a key consideration. The Board have also considered any committed outflows beyond this period in forming their assessment.

The base case projections prepared for the going concern assessment are derived from the 2021–2023 business plans (BP) as approved by the Board in February 2021. The BP captures the benefits that the transformation plan is anticipated to deliver, and the costs to achieve these.

Covid-19 has introduced unprecedented economic uncertainties and has led to increased judgement particularly in forecasting future financial performance. Many parts of the Group have demonstrated resilience throughout 2020, adapting to address the impact of Covid-19, but as discussed at the half year, the pandemic has slowed the progress of the transformation plan. The impact has been incorporated within the base case projections.

The going concern assessment considers the Group's existing debt facilities, committed funding and liquidity positions, and covenant compliance throughout the period under review. The Group's committed RCF (£452.0m at 31 December 2020) matures in August 2022 but the Group is targeting completion of its refinancing agenda during 2021, which it expects will include a RCF with a maturity at least a year later. There are scheduled debt repayments totalling £277m over the period to August 2022, with a further repayment of c.£163m in November 2022 on the private placement loan notes. Details of the covenant requirements and definitions are set out in the Appendix.

Financial position at 31 December 2020
The Group had net debt of £1,077.1m at 31 December 2020 (2019: £1,353.2m) and adjusted net debt of £616.4m (2019: £832.7m). Adjusted EBITDA was £293.0m at 31 December 2020 (2019: £439.4m). The Group was in compliance with all debt covenants at 31 December 2020 (see Appendix).

Board assessment

Base case scenario
Under the base case projections, the transformation plan will simplify and strengthen the business and drive a reduced cost base to generate sustainable revenue growth and cash flows.

This realises positive free cash flows, and when combined with available committed facilities allows the Group to manage the scheduled debt repayments. Under the base case there is liquidity headroom throughout the forecast period to 31 August 2022, and compliance with all covenant measures.

The base case assumes the extension of the RCF as set out above, given the improved financial position of the Group which benefits from the successful delivery of the transformation plan. The key sensitivity to the base case is the execution risk associated with delivering the revenue growth, exacerbated should the pandemic continue to impact the Group's activities.

Severe but plausible downside
In considering the severe but plausible downside scenarios the Board has considered trading downside risks, which assumes the transformation plan is not successful in delivering the anticipated revenue growth, together with increased attrition, and further impacts of Covid-19. In addition, the downside scenario includes potential adverse financial impacts that could arise from unforeseen operational issues leading to contract losses and cash outflows, and unexpected potential fines and losses linked to incidents such as data breaches and/or cyber attacks.

There are mitigations, under the direct control of the Group, that the Board can introduce to address these shortfalls. These include continued reductions to variable pay rises, setting aside any bonus payments and limiting discretionary spend. While these are available as possible short-term mitigations and would be actioned if required to ensure compliance with debt covenants, the Board is mindful that such restrictions may be detrimental to the success of the transformation plan. In addition, such actions would not address the liquidity requirements beyond the going concern period. Absent these mitigating actions, on a downside scenario there is insufficient headroom to ensure compliance with the debt covenants throughout the measurement period to 31 August 2022, and insufficient liquidity taking into account the facilities currently available, due to a combination of the downside risks crystallising and scheduled debt repayments.

To address the resilience of the Group to such downside scenarios, the Board has been exploring a refinancing of the debt maturities to reprofile the debt repayments to align with the completion of the transformation programme while also providing the financial support necessary to complete the required investments. While refinancing was not completed in 2020, the Board did successfully arrange backstop facilities in February and August 2020, is already in discussion with lenders, and is targeting completion of a refinancing in 2021.

In addition to refinancing, the Board has approved a continuation of the previously announced disposal programme which covers businesses that do not align with the longer-term strategy for the Group.

The Group has a strong track record of executing major planned disposals. Examples include net cash proceeds from the disposal of the Asset Services business in 2017 (c.£865m) and ParkingEye and Constructionline in 2018 (c.£390m). More recently the Group generated net cash proceeds of c.£50m from the disposal of Eclipse Legal Services in June 2020 and c.£300m from the disposal of the Education Software Solutions business in February 2021. The Board is confident that the disposal programme can be delivered given the strength of the underlying businesses and the value they deliver. The planned disposals will introduce considerable net cash proceeds to the Group, albeit with a corresponding removal of consolidated profits associated with these businesses.

The net proceeds received during 2020 have been effective in reducing the Group's indebtedness from £1,353.2m at 31 December 2019 to £1,077.1m at 31 December 2020. The deferral of £118.8m of VAT under the Government's Covid-19 measures has also contributed to this reduction in net debt.

Material uncertainties

The Board recognises that any refinancing, should the severe downside play out, would require third party agreements from lenders. Furthermore, the disposal programme requires agreement from third parties, and major disposals may be subject to shareholder and lender approval. Such agreements and approvals are outside the direct control of the Company. Accordingly, these events give rise to material uncertainties, as defined in auditing and accounting standards, relating to events and circumstances which may cast significant doubt about the Group's and Parent's ability to continue as a going concern and, therefore, that the Group and Company may be unable to realise their assets and discharge their liabilities in the normal course of business.

Reflecting the Board's confidence in the transformation programme, ability to refinance, and execution of the approved disposal programme, the Company continues to adopt the going concern basis in preparing the financial statements. 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 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.

3 Preliminary announcement

A duly appointed and authorised committee of the Board of Directors approved the preliminary announcement on 16 March 2021.

The financial information set out above does not constitute the Group's consolidated financial statements for the years ended 31 December 2020 and 2019 but is derived from those accounts.

Statutory accounts for 2019 have been delivered to the Registrar of Companies and those for 2020 will be delivered in due course. The auditor has reported on those accounts.

Their report for the accounts of 2020 was (i) unqualified, (ii) contains a material uncertainty in respect of going concern to which the auditor drew attention by way of emphasis without modifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Their report for the accounts of 2019 was (i) unqualified, (ii) did not include a reference of any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

4 Adjusted operating profit and adjusted profit before tax

The items below are excluded from the adjusted results:

		Operating (loss)/profit		(Loss)/profit before tax	
	Notes	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Reported		**(32.0)**	0.4	**(49.4)**	(62.6)
Amortisation and impairment of acquired intangibles	11	**33.9**	49.9	**33.9**	49.9
Impairment of goodwill	12	**—**	41.4	**—**	41.4
Impairment of loans and investments		**0.4**	—	**0.4**	—
Litigation and claims		**0.7**	(0.7)	**0.7**	(0.8)
Net finance costs	8	**—**	—	**3.0**	6.3
Contingent consideration and acquisition cost movements		**—**	(1.4)	**—**	(1.4)
Business exit – trading	5	**(51.0)**	(46.6)	**(51.0)**	(46.6)
Business exit – non-trading expenses	5	**41.9**	52.1	**41.9**	52.1
Business exit – gain on business disposals	5	**—**	—	**(31.4)**	—
Business exit – on-hold disposal costs		**7.5**	—	**7.5**	—
Significant restructuring		**109.6**	159.4	**109.6**	159.4
Adjusted		**111.0**	254.5	**65.2**	197.7

1. Adjusted operating profit decreased by 56.4% (2019: 8.5%) and adjusted profit before tax decreased by 67.0% (2019: 2.2%). Adjusted operating profit of £111.0m (2019: £254.5m) was generated on adjusted revenue of £3,181.2m (2019: £3,501.0m) resulting in an adjusted operating profit margin of 3.5% (2019: 7.3%).
2. The tax credit on adjusted profit before tax is £13.6m (2019: charge of £29.0m) resulting in adjusted profit after tax of £78.8m (2019: £168.7m)
3. The adjusted operating profit and adjusted profit before tax at 31 December 2019 have been restated for the impact of business exits in 2020, and for the impact of IFRS 16. This has resulted in adjusted operating profit decreasing from £306.1m to £254.5m and adjusted profit before tax decreasing from £275.0m to £197.7m.

Amortisation and impairment of acquired intangible assets: the Group recognised acquired intangible amortisation of £32.3m (2019: £50.3m) of which £nil relates to business exits (2019: £0.4m) and impairment of £1.6m (2019: £nil).

Impairment of goodwill: goodwill is subject to annual impairment testing and any impairment charges are reported separately. Refer to note 12 for further details.

Litigation and claims: In September 2020 the Group agreed a liability relating to past services received under supplier software licence agreements. In June 2020, the Group made a provision of £5.0m for the cash element of the settlement, and in September 2020 booked a provision of £0.1m for related professional fees. These are excluded from adjusted results because they relate to services received in prior periods and are not reflective of current year trading. Refer to note 14 for further details. This is partially offset by a gain of £4.4m (2019: gain of £0.7m) from net movements in historical provisions for litigation and claims which were excluded from adjusted profit when originally recognised due to their age and size.

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

Business exits: the trading result of businesses exited, or in the process of being exited, and the gain or loss on business disposals, are excluded from the Group's adjusted results. Refer to note 5 for further details.

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

Significant restructuring: in January 2018, the Group announced a multi-year transformation plan. In 2020 a charge of £109.6m (2019: £159.4m) was recognised in relation to the cost of the transformation plan. The costs include the following:

- **Cost to realise cost savings and efficiencies from the transformation plan £66m (2019: £80m):** including significant reductions in overheads, the elimination of duplicate roles and management layers, and the Group's operational excellence programme which will improve the consistency of the Group's operations, reduce spans and layers, increasing the use of off-shoring and automation, adopting lean methodologies and working smarter. These costs also include rationalisation and increased utilisation of the Group's property estate in metro centres and regionally. As the Group continues to rationalise its property estate, costs associated with onerous property commitments and dilapidation liabilities, and impairment of property right of use assets and fixtures and fittings, will be captured and presented as part of the transformation adjustments.
- **Professional fees £3m (2019: £26m):** incurred to support reigniting sales growth, increasing the proportion of centrally controlled spend, and refinancing costs which had to be aborted due to the impact Covid-19 had on the debt markets.
- **Transformation of central Group functions £15m (2019: £53m):** investment in programmes to improve the Group's central functions, including: finance; sales; human resources; and information technology. All costs associated with these programmes are recorded separately, and exclude any costs capitalised as part of the investment and the ongoing depreciation and amortisation of such assets.
- **Cost of accelerating savings to mitigate the financial impact of Covid-19 £26m (2019: £nil):** these are incremental to those planned to be incurred as part of the transformation plan and include accelerated property estate rationalisation and severance costs.

5 Business exits, assets held for sale and discontinued operations

Business exits

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

However, the trading result of these businesses exits, non-trading expenses, and any gain/loss on disposal, have been excluded from

adjusted results. To enable a like-for-like comparison of adjusted results, the 2019 comparatives have been re-presented to exclude the 2020 business exits.

Assets held-for-sale

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

2020 business exits

Business exits during the year ended 31 December 2020 comprised:

- the Eclipse Legal Services business whose disposal was completed on 30 June 2020;
- the Capita Workplace Technology business whose disposal was competed on 1 August 2020;
- the Employee Benefits business whose disposal was completed on 30 November 2020;
- two businesses in the process of being exited and which met the held-for-sale criteria. Accordingly, these businesses were treated

as disposal groups held-for-sale at the reporting date. The sale of both businesses completed subsequently; and

- the exit costs relating to further planned disposals, including professional fees and separation planning costs.

Further disposals are planned as part of the simplification agenda. Since these disposals did not met the definition of business exits or assets held-for-sale at 31 December 2020, their trading results were included within adjusted results.

		Non-trading disposal			**2020**		Non-trading disposal			2019
Income statement impact	**Trading £m**	**Cash £m**	**Non-cash £m**	**Total £m**	**Total £m**	Trading £m	Cash £m	Non-cash £m	Total £m	Total £m
Revenue	**143.6**	**—**	**—**	**—**	**143.6**	177.6	—	—	—	177.6
Cost of sales	**(67.6)**	**—**	**—**	**—**	**(67.6)**	(80.8)	—	—	—	(80.8)
Gross profit	**76.0**	**—**	**—**	**—**	**76.0**	96.8	—	—	—	96.8
Administrative expenses	**(25.0)**	**(17.2)**	**(24.7)**	**(41.9)**	**(66.9)**	(50.2)	—	(52.1)	(52.1)	(102.3)
Operating profit/(loss)	**51.0**	**(17.2)**	**(24.7)**	**(41.9)**	**9.1**	46.6	—	(52.1)	(52.1)	(5.5)
Gain on business disposal	**—**	**48.1**	**(16.7)**	**31.4**	**31.4**	—	—	—	—	—
Profit/(loss) before tax	**51.0**	**30.9**	**(41.4)**	**(10.5)**	**40.5**	46.6	—	(52.1)	(52.1)	(5.5)
Taxation	**(9.6)**	**2.2**	**13.8**	**16.0**	**6.4**	(8.8)	3.0	—	3.0	(5.8)
Profit/(loss) after tax	**41.4**	**33.1**	**(27.6)**	**5.5**	**46.9**	37.8	3.0	(52.1)	(49.1)	(11.3)

Trading revenue and costs represent the current year trading performance of those businesses up to the point of being disposed or exited. Trading expenses primarily comprise of payroll costs of £60.3m (2019: £73.9m) and IT costs of £26.3m (2019: £37.8m).

Non-trading administrative expenses primarily comprise closure costs of £17.2m (2019: £nil), goodwill impairment of £2.8m (2019: £35.3m), accruals of £8.8m (2019: £nil), held-for-sale asset impairments £8.9m including £0.8m of contract fulfilment assets and £3.2m of property plant and equipment, other asset impairments of £6.3m (2019: £14.7m) which is partially offset by releases of provisions of £2.1m (2019: £2.8m).

2020 disposals

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

In 2020 the gain arising on the disposal of these businesses of £31.4m comprised the disposal of net assets of £17.3m for £58.1m consideration and disposal costs of £9.4m. The net cash proceeds of £54.9m comprised the cash purchase consideration of £58.1m less £3.2m of cash disposed of.

Gain on business disposals	Cash £m	2020 Non-cash £m	Total £m
Property, plant and equipment	—	0.6	0.6
Intangible assets	—	3.2	3.2
Goodwill	—	12.1	12.1
Trade and other receivables	—	2.3	2.3
Disposal group assets held-for-sale	—	4.3	4.3
Trade and other payables	—	(6.5)	(6.5)
Deferred income	—	(0.4)	(0.4)
Disposal group liabilities held-for-sale	—	(1.2)	(1.2)
Income tax payable	—	(0.3)	(0.3)
Cash disposed of	3.2	—	3.2
Total net assets disposed of	3.2	14.1	17.3
Cash purchase consideration received	58.1		58.1
Costs of disposal – paid and accrued	(6.8)	(2.6)	(9.4)
Proceeds, less costs, on disposal	51.3	(2.6)	48.7
Gain on business disposals	48.1	(16.7)	31.4

Disposal group assets and liabilities held-for-sale

	2020 £m	2019 £m
Property, plant and equipment	**0.1**	0.2
Intangibles	**44.4**	0.1
Goodwill	**45.3**	2.8
Right-of-use assets	**4.5**	—
Income tax receivable and deferred tax asset	**0.1**	1.1
Contract fulfilment assets	**3.1**	—
Trade and other receivables	**2.9**	3.3
Accrued income	**0.6**	4.8
Prepayments	**0.7**	0.1
Cash and cash equivalents	**12.9**	—
Disposal group assets held-for-sale	**114.6**	12.4
Trade and other payables	**1.5**	0.9
Accruals	**3.5**	1.0
Lease liabilities	**4.6**	—
Other taxes and social security	**0.1**	0.1
Deferred income	**40.3**	1.0
Income tax payable and deferred tax liability	**3.5**	1.4
Provisions	**0.4**	—
Overdraft	**—**	3.5
Disposal group liabilities held-for-sale	**53.9**	7.9

Business exit cash flows

Businesses exited and being exited generated net operating cash inflows of £56.2m (2019: cash inflows of £39.7m).

Post balance sheet disposal

The disposal of the Education Software Solutions business completed on 1 February 2021. Refer to note 18 for further details.

Discontinued operations

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

The credit of £20.8m (2019: £5.0m) relates to additional payments received in connection with the sale of the Asset Services businesses arising from the return of redress payments made to the Financial Conduct Authority (FCA) regarding the Connaught Income Series 1 Fund (2019: £3.1m).

Cash flows generated from discontinuing operations of £18.6m (2019: £4.7m) relate to the above return of redress payments made to the FCA less previously accrued amounts paid in connection with the sale of the Asset Services business.

The earnings per share impact from discontinued operations is 1.26p (2019: 0.29p) on basic earnings per share and 1.26p (2019: 0.29p) on diluted earnings per share.

6 Contract accounting

At 31 December 2020, the Group had the following results and balance sheet items related to long-term contracts:

	Notes	**2020 £m**	2019 £m
Long-term contractual adjusted revenue	7	**2,317.0**	2,491.5
Non-current and current deferred income		**975.2**	1,061.0
Non-current contract fulfilment assets	13	**294.8**	275.8
Non-current and current onerous contract provision		**16.5**	6.1

Background

The Group operates a number of diverse businesses. The majority of the Group's revenue is from contracts greater than two years in duration (long-term contractual), being 73% of Group adjusted revenue in 2020 (2019: 71%).

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

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

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

Assessing contract profitability

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

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

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

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

Recoverability of contract fulfilment assets and completeness of onerous contract provisions

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

The major contracts contributed £1.5billion (2019: £1.4billion) or 47% (2019: 40%) of Group adjusted revenue. Non-current contract fulfilment assets at 31 December 2020 were £294.8, of which £152.7m (2019: £80.7m) relates to major contracts with on-going transformational activities. The remainder relates to contracts post transformation and includes non-major contracts.

The major contracts, both pre- and post-transformation, are rated according to their financial risk profile, which is linked to the level of uncertainty over future assumptions. For those that are in the high and medium rated risk categories the associated non-current contract fulfilment assets were, in aggregate, £44.5m at 31 December 2020 (2019: £52.4m). The recoverability of these assets is dependent on no significant adverse change in the key contract assumptions arising in the next financial year. The deferred income associated with these contracts was £232.3m at 31 December 2020 (2019: £243.6m) and is forecast to be recognised as performance obligations continue to be delivered over the life of the respective contracts.

Following these reviews, as outlined in note 13, contract fulfilment asset provisions of £17.5m (2019: £9.6m) were identified and recognised within adjusted cost of sales, of which £2.0m (2019: £2.2m) relates to contract fulfilment assets added during the period, net onerous contract provisions of £10.4m (2019: £(1.3)m) were identified and recognised within adjusted cost of sales.

Given the quantum of the relevant contract assets and liabilities, and the nature of the estimates noted above, management has concluded that it is reasonably possible, that outcomes within the next financial year may be different from management's current assumptions and could require a material adjustment to the carrying amounts of contract assets and onerous contract provisions. However, as noted above, £152.7m of non-current contract fulfilment assets relates to major contracts with on-going transformational activities and £44.5m of non-contract fulfilment assets relates to the highest and medium rated risk category. Due to the level of uncertainty, combination of variables and timing across numerous contracts, it is not practical to provide a quantitative analysis of the aggregated judgements that are applied, and management do not believe that disclosing a potential range of outcomes on a consolidated basis would provide meaningful information to a user of the financial statements. Due to commercial sensitivities, the Group does not specifically disclose the amounts involved in any individual contract.

Certain of the major contracts in transformation have key milestones during the next 12 months and inability to meet these key milestones could lead to reduced profitability and a risk of impairment of the associated contract assets. These contracts include Primary Care Support England (PCSE) and Electronic Monitoring Services (EMS).

7 Revenue including segmental revenue

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. A description of the service provision for each segment can be found in the strategic report of the Annual Report.

The tables below present revenue for the Group's business segments for the years 2020 and 2019. During 2020, there were a number of transfers of businesses between the segments due to changes in the structure and how the business performance is measured and monitored, relevant to the KPIs for the segment. Comparative information has been re-presented accordingly. For segmental reporting, Consulting is aggregated within the 'Group trading and central services' segment.

Adjusted revenue, excluding results from businesses exited in both years (adjusting items), was £3,181.2m (2019: £3,501.0m), an organic decline of 9.1% (2019: 4.4%).

Year ended 31 December 2020	Notes	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central services £m	Total adjusted £m	Adjusting items £m	Total reported £m
Continuing operations											
Long-term contractual		**232.2**	**284.5**	**902.1**	**574.0**	**266.9**	**43.3**	**14.0**	**2,317.0**	**126.3**	**2,443.3**
Short-term contractual		**9.8**	**77.8**	**235.7**	**8.9**	**24.7**	**110.7**	**3.4**	**471.0**	**18.5**	**489.5**
Transactional (point-in-time)		**4.0**	**109.7**	**1.9**	**140.9**	**93.4**	**42.5**	**0.8**	**393.2**	**(1.2)**	**392.0**
Total segment revenue		**246.0**	**472.0**	**1,139.7**	**723.8**	**385.0**	**196.5**	**18.2**	**3,181.2**	**143.6**	**3,324.8**
Trading revenue		**298.6**	**584.0**	**1,294.0**	**751.2**	**608.5**	**209.4**	**61.3**	**3,807.0**	**—**	**3,807.0**
Inter-segment revenue		**(52.6)**	**(112.0)**	**(154.3)**	**(27.4)**	**(223.5)**	**(12.9)**	**(43.1)**	**(625.8)**	**—**	**(625.8)**
Total adjusted segment revenue		**246.0**	**472.0**	**1,139.7**	**723.8**	**385.0**	**196.5**	**18.2**	**3,181.2**	**—**	**3,181.2**
Business exits – trading	5	**97.8**	**10.4**	**30.3**	**—**	**—**	**5.1**	**—**	**—**	**143.6**	**143.6**
Total segment revenue		**343.8**	**482.4**	**1,170.0**	**723.8**	**385.0**	**201.6**	**18.2**	**—**	**—**	**3,324.8**

Year ended 31 December 2019	Notes	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central services £m	Total adjusted £m	Adjusting items £m	Total reported £m
Continuing operations											
Long-term contractual		234.5	310.6	900.8	647.8	317.5	61.4	18.9	2,491.5	147.4	2,638.9
Short-term contractual		12.7	82.3	248.1	19.0	41.7	142.0	2.4	548.2	15.4	563.6
Transactional (point-in-time)		4.9	142.1	1.7	126.6	90.7	92.2	3.1	461.3	14.8	476.1
Total segment revenue		252.1	535.0	1,150.6	793.4	449.9	295.6	24.4	3,501.0	177.6	3,678.6
Trading revenue		305.7	729.6	1,283.5	820.2	698.4	315.9	79.0	4,232.3	—	4,232.3
Inter-segment revenue		(53.6)	(194.6)	(132.9)	(26.8)	(248.5)	(20.3)	(54.6)	(731.3)	—	(731.3)
Total adjusted segment revenue		252.1	535.0	1,150.6	793.4	449.9	295.6	24.4	3,501.0	—	3,501.0
Business exits – trading	5	107.9	13.0	31.0	—	—	25.7	—	—	177.6	177.6
Total segment revenue		360.0	548.0	1,181.6	793.4	449.9	321.3	24.4	—	—	3,678.6

Geographical location

The table below presents revenue by geographical location.

	2020			2019		
	United Kingdom £m	**Other £m**	**Total £m**	United Kingdom £m	Other £m	Total £m
Revenue	**3,011.0**	**313.8**	**3,324.8**	3,358.4	320.2	3,678.6

Order book

The tables below show the order book for each division, categorised into long-term contractual (contracts with length greater than two years) and short-term contractual (contracts with length less than two years). The length of the contract is calculated from the start of the service commencement date. The figures represent the aggregate amount of currently contracted transaction price allocated to the performance obligations that are wholly or partially unsatisfied. The current environment has contributed to the Group's order book declining with contract wins not offsetting revenue recognised in the period, however, in January 2021 the Group signed a contract with the Royal Navy which represents a £0.9 billion addition to the order book which is not included below. Revenue expected to be recognised upon satisfaction of these performance obligations is as follows:

Order book 31 December 2020	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central functions £m	Total £m
Long-term contractual	**489.6**	**533.4**	**2,106.8**	**1,980.8**	**338.4**	**201.0**	**4.4**	**5,654.4**
Short-term contractual	**21.3**	**1.0**	**27.9**	**76.2**	**31.8**	**33.2**	**4.9**	**196.3**
Total	**510.9**	**534.4**	**2,134.7**	**2,057.0**	**370.2**	**234.2**	**9.3**	**5,850.7**

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

The table below shows the expected timing of revenue to be recognised on long-term contractual orders at 31 December 2020.

Time bands expected revenue recognition from long-term contractual orders	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central functions £m	Total £m
< 1 year	**221.0**	**199.3**	**691.5**	**403.9**	**117.7**	**29.1**	**1.0**	**1,663.5**
1–5 years	**243.1**	**334.1**	**1,185.0**	**1,179.1**	**175.1**	**46.0**	**3.4**	**3,165.8**
> 5 years	**25.5**	**—**	**230.3**	**397.8**	**45.6**	**125.9**	**—**	**825.1**
Total	**489.6**	**533.4**	**2,106.8**	**1,980.8**	**338.4**	**201.0**	**4.4**	**5,654.4**

The order book represents the consideration that the Group will be entitled to receive from customers when the Group satisfies its remaining performance obligations under the contracts. However, the total revenue that will be earned by the Group will also include non-contracted volumetric revenue, new wins, scope changes and anticipated contract extensions. These elements have been excluded from the figures in the tables above because they are not contracted. In addition, revenue from contract extensions is also excluded from the order book unless they are pre-priced extensions whereby the Group has a legally binding obligation to deliver the performance obligations during the extension period. The total revenue related to pre-priced extensions that has been included in the tables above amounted to £800.7m (2019: £605.4m). The amounts presented do not include orders for which neither party has performed, and each party has the unilateral right to terminate a wholly unperformed contract without compensating the other party.

Of the £5.7 billion (2019: £6.5 billion) revenue to be earned on long-term contractual, £3.8 billion (2019: £4.4 billion) relates to major contracts. This amount excludes revenue that will be derived from frameworks (transactional 'point-in-time' contracts), non-contracted volumetric revenue, non-contracted scope changes and future unforeseen volume changes from these major contracts, which together are anticipated to contribute an additional £2.1 billion (2019: £1.8 billion) of revenue to the Group over the life of these contracts.

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

Deferred Income

The Group's deferred income balances solely relate to revenue from contracts with customers. Revenue recognised in the reporting period that was included in the deferred income balance at the beginning of the period was £998.7m (2019: £1,119.3m).

Movements in the deferred income balances were driven by transactions entered into by the Group within the normal course of business in the year, other than the accelerated revenue recognised of £17.5m relating to the partial termination of a contract in Customer Management.

Segmental profit

The table below presents profit by segment.

Year ended 31 December 2020	Notes	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central services £m	Total adjusted £m	Adjusting items £m	Total reported £m
Adjusted operating profit	4	**43.4**	**52.5**	**105.9**	**11.1**	**34.9**	**(4.4)**	**(132.4)**	**111.0**	**—**	**111.0**
Restructuring	4	**(1.5)**	**(8.5)**	**(6.2)**	**(3.2)**	**(9.2)**	**(3.4)**	**(77.6)**	**—**	**(109.6)**	**(109.6)**
Business exits – trading	5	**53.2**	**(1.8)**	**2.1**	**—**	**—**	**(2.5)**	**—**	**—**	**51.0**	**51.0**
Total trading result		**95.1**	**42.2**	**101.8**	**7.9**	**25.7**	**(10.3)**	**(210.0)**	**111.0**	**(58.6)**	**52.4**
Non-trading items:											
Business exits – non-trading	5								**—**	**(41.9)**	**(41.9)**
Other adjusting items	4								**—**	**(42.5)**	**(42.5)**
Operating profit/(loss)									**111.0**	**(143.0)**	**(32.0)**

Year ended 31 December 2019	Notes	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central services £m	Total adjusted £m	Adjusting items £m	Total reported £m
Adjusted operating profit	4	50.7	68.9	119.8	51.8	58.0	44.3	(139.0)	254.5	—	254.5
Restructuring	4	(5.4)	(34.3)	(10.8)	(2.7)	(15.2)	(3.9)	(87.1)	—	(159.4)	(159.4)
Business exits – trading	5	57.0	(9.1)	3.6	—	—	(4.9)	—	—	46.6	46.6
Total trading result		102.3	25.5	112.6	49.1	42.8	35.5	(226.1)	254.5	(112.8)	141.7
Non-trading items:											
Business exits – non-trading	5								—	(52.1)	(52.1)
Other adjusting items	4								—	(89.2)	(89.2)
Operating profit/(loss)									254.5	(254.1)	0.4

Geographical location

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

	2020			2019		
	United Kingdom £m	**Other £m**	**Total £m**	United Kingdom £m	Other £m	Total £m
Non-current assets	**2,168.4**	**38.4**	**2,206.8**	2,457.3	55.9	2,513.2

8 Net finance costs

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

	2020 £m	2019 £m
Interest income		
Interest on cash	**(1.6)**	**(3.6)**
Interest on finance lease assets	**(1.2)**	**(0.6)**
Total interest income	**(2.8)**	**(4.2)**
Interest expense		
Private placement loan notes[1]	**20.6**	**28.1**
Cash flow hedges recycled to the income statement	**(4.5)**	**(2.6)**
Bank loans and overdrafts	**5.0**	**4.2**
Interest on finance lease liabilities	**25.1**	**26.3**
Net interest cost on defined benefit pension schemes	**3.2**	**4.4**
Total interest expense	**49.4**	**60.4**
Net finance expense included in adjusted profit	**46.6**	**56.2**
Other financial expenses		
Discount unwind on public sector subsidiary partnership payment	**1.1**	**1.3**
Non-designated foreign exchange forward contracts – mark-to-market	**0.9**	**2.1**
Fair value hedge ineffectiveness[2]	**1.0**	**2.8**
Total other financial expenses not included in adjusted profit	**3.0**	**6.2**
Total net finance expense	**49.6**	**62.4**

1. Private placement loan notes comprise US private placement loan notes, euro fixed rate bearer notes, and a Schuldschein loan.
2. Fair value hedge ineffectiveness arises from changes in currency basis, and the movement in a provision for counterparty risk associated with the swaps.

9 Earnings/(loss) per share

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

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

		2020		2019	
		Continuing operations p	**Total operations p**	Continuing operations p	Total operations p
Basic earnings/(loss) per share	– adjusted	**4.19**	**4.19**	9.30	9.30
	– reported	**(0.41)**	**0.85**	(4.18)	(3.89)
Diluted earnings/(loss) per share	– adjusted	**4.19**	**4.19**	9.30	9.30
	– reported	**(0.41)**	**0.85**	(4.18)	(3.89)

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

	2020		2019	
	Continuing operations £m	**Total operations £m**	**Continuing operations £m**	**Total operations £m**
Adjusted profit before tax for the period	**65.2**	**65.2**	197.7	197.7
Income tax credit/(charge)	**13.6**	**13.6**	(29.0)	(29.0)
Adjusted profit for the period	**78.8**	**78.8**	168.7	168.7
Less: Non-controlling interest	**(9.4)**	**(9.4)**	(14.7)	(14.7)
Adjusted profit attributable to shareholders	**69.4**	**69.4**	154.0	154.0
Reported loss before tax for the period	**(49.4)**	**(28.6)**	(62.6)	(57.6)
Income tax credit	**47.6**	**47.6**	3.5	3.5
Reported loss for the period	**(1.8)**	**19.0**	(59.1)	(54.1)
Less: Non-controlling interest	**(5.0)**	**(5.0)**	(10.1)	(10.1)
Total loss attributable to shareholders	**(6.8)**	**14.0**	(69.2)	(64.2)

	2020 m	2019 m
Weighted average number of ordinary shares (excluding trust and treasury shares) for basic earnings per share	**1,656.1**	1,656.1
Dilutive potential ordinary shares:		
Employee share options	**—**	—
Weighted average number of ordinary shares (excluding trust and treasury shares) adjusted for the effect of dilution	**1,656.1**	1,656.1

At 31 December 2020 27,447,210 (2019: 25,313,414) options were excluded from the diluted weighted average number of ordinary shares calculation because their effect would have been anti-dilutive. Under IAS 33 Earnings per Share, potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

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

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

10 Property, plant and equipment

	2020			2019		
	Leasehold improvement, land and buildings £m	**Plant and machinery £m**	**Total £m**	Leasehold improvements, land and buildings £m	Plant and machinery £m	Total £m
Cost						
At 1 January	**118.1**	**206.6**	**324.7**	103.0	175.7	278.7
Additions	**21.0**	**19.8**	**40.8**	18.0	39.7	57.7
Disposal of business	**(0.7)**	**(0.1)**	**(0.8)**	—	—	—
Disposals – included in adjusted profit	**(5.3)**	**(14.8)**	**(20.1)**	(2.4)	(4.6)	(7.0)
Disposals – excluded from adjusted profit	**(19.9)**	**(14.4)**	**(34.3)**	—	—	—
Transfer to assets held-for-sale	**(1.0)**	**(11.8)**	**(12.8)**	(0.2)	—	(0.2)
Reclassifications	**(1.1)**	**7.8**	**6.7**	—	—	—
Asset retirements	**(6.8)**	**(1.4)**	**(8.2)**	—	—	—
Exchange movement	**(1.0)**	**1.5**	**0.5**	(0.3)	(4.2)	(4.5)
At 31 December	**103.3**	**193.2**	**296.5**	118.1	206.6	324.7
Depreciation and impairment						
At 1 January	**47.3**	**83.1**	**130.4**	41.8	23.3	65.1
Depreciation charged during the year	**9.0**	**41.9**	**50.9**	9.6	50.7	60.3
Disposal of business	**(0.2)**	**(0.1)**	**(0.3)**	—	—	—
Disposals – included in adjusted profit	**(4.6)**	**(12.3)**	**(16.9)**	(2.2)	(3.8)	(6.0)
Disposals – excluded from adjusted profit	**(3.9)**	**(14.3)**	**(18.2)**	—	—	—
Impairment – included in adjusted profit	**1.2**	**2.2**	**3.4**	—	—	—
Impairment – excluded from adjusted profit	**—**	**6.9**	**6.9**	—	14.7	14.7
Transfer to assets held-for-sale	**(0.7)**	**(8.8)**	**(9.5)**	—	—	—
Asset retirements	**(6.8)**	**(1.4)**	**(8.2)**	—	—	—
Exchange movement	**0.3**	**0.5**	**0.8**	(1.9)	(1.8)	(3.7)
At 31 December	**41.6**	**97.7**	**139.3**	47.3	83.1	130.4
Net book value						
At 1 January	**70.8**	**123.5**	**194.3**	61.2	152.4	213.6
At 31 December	**61.7**	**95.5**	**157.2**	70.8	123.5	194.3

At 31 December 2020, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £5.3m (2019: £6.7m), relating to building improvements on leased property.

In January 2020, the Group acquired a property from the lessor for £3.0m which was subsequently sold and leased back in October 2020.

During the year, the Group exited a number of properties and their related leasehold improvement assets were disposed of for £nil consideration. Since these exits were part of the Group wide transformation, the related charge was excluded from adjusted profit.

11 Intangible assets

	2020			2019		
	Intangible assets acquired in business combinations £m	Capitalised/ purchased intangible assets £m	Total £m	Intangible assets acquired in business combinations £m	Capitalised/ purchased intangible assets £m	Total £m
Cost						
At 1 January	**371.0**	**363.0**	**734.0**	552.5	254.0	806.5
Business disposal	**—**	**(3.5)**	**(3.5)**	—	—	—
Additions	**—**	**46.6**	**46.6**	—	124.7	124.7
Disposals – included in adjusted profit	**—**	**(31.6)**	**(31.6)**	—	(2.7)	(2.7)
Disposals – excluded from adjusted profit	**—**	**(2.0)**	**(2.0)**	—	—	—
Transfer to assets held-for-sale	**—**	**(46.0)**	**(46.0)**	—	(0.1)	(0.1)
Asset retirement	**(202.9)**	**(13.9)**	**(216.8)**	(179.2)	(12.2)	(191.4)
Exchange movement	**6.2**	**1.6**	**7.8**	(2.3)	(0.7)	(3.0)
At 31 December	**174.3**	**314.2**	**488.5**	371.0	363.0	734.0
Amortisation and impairment						
At 1 January	**296.9**	**82.9**	**379.8**	425.8	52.0	477.8
Amortisation charged during the year	**32.3**	**42.3**	**74.6**	50.3	31.1	81.4
Impairment – included in adjusted profit	**—**	**0.1**	**0.1**	—	—	—
Impairment – excluded from adjusted profit	**1.6**	**0.9**	**2.5**	—	13.8	13.8
Business disposal	**—**	**(0.3)**	**(0.3)**	—	—	—
Disposals – included in adjusted profit	**—**	**(21.9)**	**(21.9)**	—	(1.5)	(1.5)
Disposals – excluded from adjusted profit	**—**	**(0.4)**	**(0.4)**	—	—	—
Transfer to assets held-for-sale	**—**	**(1.6)**	**(1.6)**	—	—	—
Asset retirement	**(202.9)**	**(13.9)**	**(216.8)**	(179.2)	(12.2)	(191.4)
Exchange movement	**7.5**	**—**	**7.5**	—	(0.3)	(0.3)
At 31 December	**135.4**	**88.1**	**223.5**	296.9	82.9	379.8
Net book value						
At 1 January	**74.1**	**280.1**	**354.2**	126.7	202.0	328.7
At 31 December	**38.9**	**226.1**	**265.0**	74.1	280.1	354.2

Intangible assets acquired in business combinations include brands (net book value 2020: £2.6m, 2019: £8.8m), Intellectual Property software and licences (net book value 2020: £20.9m, 2019: £28.7m), contracts and committed sales (net book value 2020: £7.7m, 2019: £15.9m) and clients lists and relationships (net book value 2020: £7.7m, 2019: £20.7m). Intangible assets capitalised or purchased include capitalised software development (net book value 2020: £184.0m, 2019: £237.0m) and other intangibles (net book value 2020: £42.1m, 2019: £43.1m).

The aim of the finance transformation is 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 is required on the core processes and procedures before the system can 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 through 2020 and remain ready to deploy. No impairment has been recorded during 2020 because it is believed that the solution is fit for purpose. The carrying value of the investment at 31 December 2020 is £58.6m (31 December 2019: £58.6m). Further impairment may arise 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.

12 Goodwill

	2020 £m	2019 £m
Cost		
At 1 January	**2,016.1**	2,020.6
Business disposal	**(52.4)**	—
Transfer to disposal group assets held-for-sale	**(45.3)**	(2.8)
Exchange movement	**0.1**	(1.7)
At 31 December	**1,918.5**	2,016.1
Accumulated impairment		
At 1 January	**838.3**	761.6
Business disposal	**(40.3)**	—
Impairment – excluded from adjusted profit	**—**	41.4
Impairment – business exit	**—**	35.3
At 31 December	**798.0**	838.3
Net book value		
At 1 January	**1,177.8**	1,259.0
At 31 December	**1,120.5**	1,177.8

Cash-generating units

Cash generating units reflect the way management exercises oversight and monitors the Group 's performance. The lowest level at which goodwill is monitored is at the divisional level for five divisions (Software, People Solutions, Technology Solutions, Consulting, and Specialist Services (see below)), and at a sub-divisional level for the other two divisions (Government Services and Customer Management (see below)). Goodwill is allocated to these CGUs or groups of CGUs. At 31 December 2020, the Group has nine CGUs or groups of CGUs for the purpose of impairment testing.

In line with our drive to simplify the Group, we have continued to review the portfolio of businesses in each division. In early 2020 we decided a number of businesses in Specialist Services would benefit from closer alignment with core Capita and should be moved into other divisions (People Solutions, Government Services, Customer Management and Technology Solutions), and that some other businesses should be moved into Specialist Services (from Government Services and Software). The relevant goodwill balances were reallocated to reflect these transfers. Transfers made were the entire goodwill balances relating to the underlying businesses moving between groups of CGUs, with no individual goodwill balances needing to be apportioned out as part of this process.

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

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

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

Carrying amount of goodwill allocated to groups of CGUs:

CGU	Software £m	People Solutions £m	Customer Management £m	Central Government £m	Technology Solutions £m	Specialist Services £m	Consulting £m	Total £m
At 1 January	254.9	199.7	137.0	8.7	276.3	280.5	20.7	1,177.8
Restructuring transfers	**(19.6)**	**88.5**	**(12.6)**	**9.1**	**10.2**	**(75.6)**	**—**	**—**
Business disposal	**(3.8)**	**(8.3)**	**—**	**—**	**—**	**—**	**—**	**(12.1)**
Transfer to assets held for sale	**(45.3)**	**—**	**—**	**—**	**—**	**—**	**—**	**(45.3)**
Exchange movement	**—**	**—**	**0.1**	**—**	**—**	**—**	**—**	**0.1**
At 31 December	**186.2**	**279.9**	**124.5**	**17.8**	**286.5**	**204.9**	**20.7**	**1,120.5**

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

Business exits

As set out in note 5, three businesses (within Software, People Solutions and Specialist Services) were fully disposed of during the year, with goodwill relating to them written off as part of business disposals.

Two businesses (within Software and Regulated Services) that the Group has or intends to dispose of in 2021 meet the criteria to be treated as held-for-sale at 31 December 2020, with goodwill relating to the Software business reclassified to assets held-for-sale. There was no goodwill relating to the businesses in Regulated Services at 31 December 2020.

The impairment test

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

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

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

No impairment has arisen from the impairment test performed.

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

Forecast cash flows

The cash flow projections prepared for the impairment test are derived from the 2021-2023 business plans (BP) and 2024-2025 strategic plans, approved by the Board in February 2021. The BP captures the benefits that the transformation plan is anticipated to deliver, and the costs to achieve these.

Covid-19 has introduced unprecedented economic uncertainties and has led to increased judgement particularly in forecasting future financial performance. Many parts of the Group have demonstrated resilience throughout 2020, adapting to address the impact of Covid-19, but the pandemic has slowed the progress of the transformation plan. The impact has been incorporated within the BP assumptions approved by the Board.

For the purpose of the impairment test, the strategic plan cash flow forecasts for 2024-2025 have been further risk adjusted to reflect additional uncertainty in outer year forecasts.

Other than for movements in deferred income and contract fulfilment assets, cash flows are adjusted to exclude working capital movements as the corresponding balances are not included in the CGU carrying amount. The cash flows include forecast capital expenditure and restructuring, as well as an allocation of the costs of central functions.

The Board have considered an appropriate methodology to apply when allocating central function costs, which is a key sensitivity. Forecast CGU EBITDA measures for 2022 (2019: 2021) were used for this purpose because these are seen to represent a steady state forecast for the Group, and an appropriate approximation of the attention and focus of the Group's central functions. As the transformation plan delivers, and there is more certainty over the impact of Covid-19 on the Group and the wider economy as a whole, the Board will assess any changes required to ensure the allocation methodology continues to reflect the efforts of the central functions.

The long-term growth rate is based on economic growth forecasts by recognised bodies and this has been applied to forecast cash flows for the terminal period. The 2020 long-term growth rate is 1.6% (2019: 1.6%).

Discount rates

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

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

	Software	People Solutions	Customer Management	Central Government	Technology Solutions	Specialist Services	Consulting
2020	**11.8%**	**11.2%**	**11%**	**10.5%**	**10.2%**	**10.9%**	**10.9%**
2019	11.5%	10.9%	10.7%	10.2%	9.9%	10.6%	10.6%

As set out above, discount rates used in 2020 are 0.3% higher than those for 2019. The key drivers for this increase are changes in market assumptions for market risk premiums and the levered beta of peer group comparators, offset by decreases in UK corporate bond yields and risk-free rates.

To further risk-adjust discounted cash flows for the purposes of the impairment test, the discount rate applied to years 2023 and onwards has been increased by 3% compared to that used for 2021 and 2022 (2019: no additional adjustment applied to outer year discount rates).

Sensitivity analysis

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

The table below shows how the enterprise value would be impacted (with all other variables being equal) by: an increase in discount rate of 1%, or a decrease of 1% in the long-term growth rate (for the terminal period) for the Group in total and each of the CGUs; or, by the severe but plausible downsides applied to the base-case projections for assessing going concern and viability, without mitigations, for both 2021 and 2022, and the long-term growth rate (1.6%) applied to projected cash flows for 2023 to 2025 and the terminal period. This downside scenario includes trading risks which assume the transformation plan is not successful in delivering the anticipated revenue growth. We have also considered the impact of all of the scenarios together and disclosed the impact on impairment in the final column.

	1% increase in discount rate £m	Long-term growth rate decrease by 1% £m	Severe but plausible downside £m	Combination sensitivity £m	2020 goodwill impairment using combination scenario £m
Software	(27.9)	(19.4)	(82.1)	(116.4)	—
People Solutions	(38.5)	(25.6)	(90.4)	(143.5)	—
Customer Management	(25.7)	(18.1)	(21.2)	(65.4)	—
Central Government	(32.6)	(24.1)	(111.5)	(150.1)	—
Technology Solutions	(48.1)	(33.3)	(160.1)	(219.2)	—
Specialist Services	(24.3)	(16.6)	(124.9)	(148.0)	(74.1)
Consulting	(4.1)	(2.9)	(43.7)	(43.7)	(20.7)
Total	**(201.2)**	**(140.0)**	**(633.9)**	**(886.3)**	**(94.8)**

At 31 December 2020, no impairment of goodwill has arisen from the impairment test performed. Under the combination sensitivity scenario, impairments have been highlighted in relation to Specialist Services and Consulting, whereas under the base case impairment test the recoverable amount exceeded the carrying amount of assets (including goodwill) relating to these CGUs by £74.0m for Specialist Services, and by £20.9m for Consulting. Under the severe but plausible downside and combination sensitivity scenarios presented, the enterprise value impact for Consulting has been capped at the enterprise value for the CGU under the base case impairment test.

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

13 Contract fulfilment assets

Movements in non-current contract fulfilment assets were as follows:

	2020 £m	2019 £m
At 1 January	**275.8**	264.2
Additions	**127.4**	114.3
Transfer to assets held-for-sale	**(3.9)**	—
Impairment - excluded from adjusted profit	**(17.5)**	(9.6)
Derecognition	**(9.5)**	(2.0)
Utilised during the year	**(78.0)**	(90.7)
Exchange movement	**0.5**	(0.4)
At 31 December	**294.8**	275.8

Impairment: In 2020, the Group recognised an impairment of £17.5m (2019: £9.6m) in adjusted cost of sales, of which, £2.0m (2019: £2.2m) relates to contract fulfilment assets added during the year.

Derecognition: In 2020, £9.5m (2019: £2.0m) was derecognised in relation to business exits and a contract in Customer Management where the scope of our services changed due to the partial termination of the contract and the Group had no further use for the assets. In the prior year, derecognition related to business exits.

14 Provisions

	Restructuring provision £m	Business exit provision £m	Claim and litigation provision £m	Property provision £m	Customer contract provision £m	Other provisions £m	Total £m
At 1 January	6.1	10.5	41.2	8.3	6.1	8.4	80.6
Provisions provided for in the year	**31.1**	**11.6**	**13.1**	**2.5**	**36.8**	**3.3**	**98.4**
Provisions released in the year	**(0.8)**	**(3.2)**	**(4.6)**	**(2.0)**	**(2.9)**	**(1.9)**	**(15.4)**
Utilisation	**(22.9)**	**(3.6)**	**(8.0)**	**(0.1)**	**(1.9)**	**(2.4)**	**(38.9)**
Transfer to disposal group liabilities held for sale	**—**	**—**	**—**	**—**	**—**	**(0.4)**	**(0.4)**
Exchange movement	**—**	**—**	**—**	**—**	**—**	**0.1**	**0.1**
At 31 December	**13.5**	**15.3**	**41.7**	**8.7**	**38.1**	**7.1**	**124.4**

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

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

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

Claims and litigation provision: The Group is exposed to claims and litigation proceedings arising in the ordinary course of business. These matters are reassessed regularly and where obligations are probable and estimable, provisions are made representing the Group' s best estimate of the expenditure to be incurred. £23.7m of claims provided for were settled in early 2021. Due to the nature of the remaining claims, the Group cannot give an estimate of the period over which this provision will unwind.

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

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

During 2020, an onerous contract provision of £11.2m was recognised on a contract in Customer Management. The contract has a clause such that the customer can continue to extend the contract indefinitely. Accordingly, judgement is required in assessing the remaining length of the contract to determine the provision. Management considered previous discussions with the customer regarding their intentions and experiences on other contracts, and concluded the best estimate of the remaining contract term is the current contractually committed period to 2023. However, the contract may end earlier or be extended for longer, resulting in a material release or increase in the provision in future reporting periods.

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

15 Cash flow information

	Note	2020 Adjusted £m	2020 Reported £m	2019 Adjusted[1] £m	2019 Reported £m
Cash flows from operating activities:					
Operating profit/(loss)	4	**111.0**	**(32.0)**	254.5	0.4
Adjustments for non-cash items:					
Depreciation		**137.5**	**139.1**	154.9	159.5
Amortisation of intangible assets	11	**41.0**	**74.6**	30.0	81.4
Share based payment expense		**6.4**	**6.4**	3.0	3.0
Employee benefits		**13.1**	**13.1**	11.2	11.2
Loss on sale of property, plant and equipment / intangible assets		**2.4**	**17.1**	1.8	1.8
Contingent consideration	4	**—**	**—**	—	(1.4)
Impairment of disposal group assets		**—**	**11.7**	—	—
Impairment of non-current assets		**3.5**	**32.2**	0.9	106.1
Other adjustments:					
Movement in provisions		**31.5**	**44.0**	(3.3)	(19.0)
Pension deficit contribution		**—**	**(29.5)**	—	(71.1)
Other contributions into pension schemes		**(19.5)**	**(19.5)**	(17.0)	(17.0)
Movements in working capital:					
Trade and other receivables		**162.9**	**172.7**	(7.1)	2.4
Non-recourse trade receivables financing		**—**	**13.6**	—	—
Trade and other payables		**(62.0)**	**(58.4)**	(8.6)	(14.8)
VAT deferral		**—**	**118.8**	—	—
Deferred income		**(36.7)**	**(46.8)**	(190.5)	(198.1)
Contract fulfilment assets (non-current)		**(23.6)**	**(22.9)**	(16.2)	(11.6)
Cash generated by operations		**367.5**	**434.2**	213.6	32.8
Adjustments for free cash flows:					
Income tax paid		**(8.8)**	**(8.8)**	(5.4)	(5.4)
Net interest paid		**(47.7)**	**(47.7)**	(58.5)	(58.4)
Purchase of property, plant and equipment	10	**(40.2)**	**(40.8)**	(48.7)	(57.7)
Purchase of intangible assets	11	**(42.7)**	**(46.6)**	(124.6)	(124.7)
Proceeds from sale of property, plant and equipment / intangible assets		**10.5**	**13.5**	0.4	0.4
Free cash flow		**238.6**	**303.8**	(23.2)	(213.0)

1. The 2019 adjusted cash flow has been restated for business exits in 2020 and also for the inclusion of IFRS 16. This has resulted in adjusted cash generated by operations increasing from £158.6m to £213.6m and adjusted free cash outflow decreasing from £(61.3)m to £(23.2)m.

Adjusted free cash flow and cash generated from operations

	Free cash flow		Cash generated/(used) by operations	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Reported	**303.8**	(213.0)	**434.2**	32.8
Pension deficit contributions	**29.5**	71.1	**29.5**	71.1
Significant restructuring	**64.1**	148.5	**67.1**	148.5
Business exits	**(33.9)**	(32.5)	**(38.4)**	(41.5)
Business exits - on hold disposal costs	**7.5**	—	**7.5**	—
Non-recourse trade receivables financing	**(13.6)**	—	**(13.6)**	—
VAT deferral	**(118.8)**	—	**(118.8)**	—
Other	**—**	2.7	**—**	2.7
Adjusted	**238.6**	(23.2)	**367.5**	213.6

Pension deficit contributions: in November 2018, the Group agreed a deficit recovery plan with the Trustees of the Capita Pension and Life Assurance Scheme (the 'Scheme'). The payments under the agreed deficit recovery plan total £176.0m, of which £29.5m was paid in 2020 (2019: £71.1m). These payments have been excluded from adjusted cash flows since the Group treats them as a debt like item.

Significant restructuring: in April 2018, the Group announced a multi-year transformation plan. In the period to 31 December 2020, a cash outflow of £64.1m (2019: £148.5m) was incurred in relation to the cost of the transformation plan, and restructuring costs relating to Capita's previously announced cost reduction plan.

Business exits: the cash flows of businesses exited, or in the process of being exited, and the proceeds from disposals, are disclosed outside the adjusted results. The 2019 results have been restated for those businesses exited, or in the process of being exited during 2020 to enable comparability of the adjusted results.

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

Non-recourse trade receivables financing: a non-recourse receivables financing facility was put in place to mitigate the risk of customer receipts slippage resulting from the impact of the Covid-19 pandemic.

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

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

Reconciliation of net cash flow to movement in net debt

Year ended 31 December 2020	**Net debt at 1 January £m**	**Cash flow movements £m**	**Non-cash movement[2] £m**	**Net debt at 31 December £m**
Cash, cash equivalents and overdrafts	**122.8**	**27.2**	**(8.9)**	**141.1**
Other loan notes	**(0.3)**	**—**	**(2.0)**	**(2.3)**
Private placement loan notes[1]	**(990.7)**	**243.4**	**(17.8)**	**(765.1)**
Cross-currency interest rate swaps[1]	**77.3**	**(24.5)**	**4.7**	**57.5**
Interest rate swaps[1]	**1.0**	**—**	**(0.5)**	**0.5**
Lease liabilities	**(562.6)**	**98.0**	**(43.5)**	**(508.1)**
Total net liabilities from financing activities	**(1,475.3)**	**316.9**	**(59.1)**	**(1,217.5)**
Deferred consideration	**(0.7)**	**—**	**—**	**(0.7)**
Net debt	**(1,353.2)**	**344.1**	**(68.0)**	**(1,077.1)**

1. The sum of these items equates to the fair value of the Group's private placement loan note's debt of £707.1m (2019: £912.4m). Cash flow movement in private placement loan notes includes both repayment of private placement loan notes of £242.9m and finance arrangement costs of £0.5m.
2. Non-cash movement relates to: the effect of changes in foreign exchange on cash; fair value changes on the swaps; amortisation of loan notes issue costs; amortisation of the discount on the euro debt; and additions and terminations and foreign exchange rate effects on the Group's leases.

Year ended 31 December 2019	Net debt at 1 January £m	Lease liability adjustment[1] £m	Cash flow movements £m	Non-cash movement £m	Net debt at 31 December £m
Cash, cash equivalents and overdrafts	642.7	—	(523.2)	3.3	122.8
Other loan notes	(0.3)	—	—	—	(0.3)
Private placement loan notes	(1,108.0)	—	97.9	19.4	(990.7)
Cross-currency interest rate swaps	99.6	—	(10.9)	(11.4)	77.3
Interest rate swaps	1.9	—	—	(0.9)	1.0
Term loan	(100.0)	—	100.0	—	—
Lease liabilities[1]	—	(643.9)	93.7	(12.4)	(562.6)
Total net liabilities from financing activities	(1,106.8)	(643.9)	280.7	(5.3)	(1,475.3)
Deferred consideration	(2.0)	—	1.3	—	(0.7)
Net debt	(466.1)	(643.9)	(241.2)	(2.0)	(1,353.2)

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

16 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 £55.8m (2019: £58.1m).

In September 2020, the Group settled a liability relating to past services received under supplier software licence agreements which had previously been disclosed as a contingent liability. The settlement includes a commitment to future purchases of £79m of which £6m is over the period to 31 December 2021 and £73m (payable in US dollars), is over the period to 30 June 2024. 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 and will benefit the Group.

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

As outlined in note 14, a provision was recognised for an onerous contract in Customer Management. The contract has a clause such that the customer can continue to extend the contract indefinitely. Accordingly, judgement is required in assessing the remaining length of the contract to determine the provision. Management considered previous discussions with the client regarding their intentions and experiences on other contracts, and concluded the best estimate of the remaining contract term is the current contractually committed period to 2023. However, the contract may end earlier or be extended for longer, resulting in a material release or increase in the provision in future accounting periods.

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

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

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

17 Related-party transactions

Compensation of key management personnel

	2020 £m	2019 £m
Short-term employment benefits	**6.9**	9.3
Pension	**—**	0.2
Share-based payments	**3.5**	2.6
	10.4	12.1

Gains on share options exercised in the year by Capita plc executive directors were £49,569 (2019: £nil) and by key management personnel £38,050 (2019: £104,960), totalling £87,619 (2019: £104,960).

During the year, the Group rendered administrative services to Smart DCC Limited (DCC), a wholly-owned subsidiary which is not consolidated. The Group received £113.1m (2019: £83.4m) of revenue for these services. The services are procured by DCC on an arm's length basis under the DCC licence. The services are subject to review by Ofgem to ensure that all costs are economically and efficiently incurred by DCC.

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

At 31 December 2020, the Company had received notifications in accordance with the DTRs that the following were interested in the Company's shares:

Shareholder	Number of shares	% of voting rights at 31 December 2020	Number of shares direct	Number of shares indirect
RWC Asset Management LLP	300,200,371	17.99	–	300,200,371
Schroders plc	249,517,951	14.95	–	249,517,951
Marathon Asset Management LLP	86,576,890	5.19	–	86,576,890
River and Mercantile Asset Management LLP	85,996,707	5.15	85,996,707	–
Veritas Asset Management LLP[1]	83,131,892	4.98	–	83,131,892
Ninety One UK Limited	76,779,117	4.60	–	76,779,117
BlackRock Inc.	74,230,358	4.45	–	74,230,358
Invesco Ltd	70,883,236	4.24	–	70,883,236
Veritas Funds PLC	55,009,900	3.30	–	55,009,900
Vanguard Group Inc.	54,711,874	3.28	54,711,874	–
Jupiter Asset Management Limited	53,573,060	3.21	–	53,573,060

1 Includes the holding of Veritas Funds PLC.

On 11 March 2021, notification in accordance with the DTRs was received from Schroders plc that it held indirectly 252,790,465 shares, being 15.146% of voting rights. At 12 March 2021, no further notifications had been received under the DTRs in relation to interests in the Company's shares.

18 Post balance sheet events

The following events occurred after 31 December 2020, and before the approval of these consolidated financial statements, but have not resulted in adjustment to the 2020 financial results:

Disposal of Education Software Solutions (ESS)
The disposal of the ESS business to Tiger UK Bidco Limited, a newly formed company established by funds advised by Montagu Private Equity (Montagu), completed on 1 February 2021.

Cash proceeds of £298.5m were received, with net assets disposed of £51.8m, and estimated disposal costs of £28.9m (of which £20.6m were recognised at 31 December 2020). Consequently, we expect to record a total gain on disposal of approximately £217.8m.

Montagu has also agreed to invest in ParentPay (Holdings) Limited (ParentPay), a provider of education technology. Following successful completion of both investments, ESS will become part of ParentPay Group. An additional sum of £45m will subsequently be payable to Capita once Montagu's agreed investment in ParentPay has achieved regulatory approval.

Royal Navy training contract
Capita signed a contract to provide training services to the Royal Navy and Royal Marines in January 2021. Capita will transform and modernise the Royal Navy's shore-based training across 16 sites in the UK as the lead partner in a consortium which includes Raytheon UK, Elbit Systems UK, Fujitsu and several smaller British suppliers. The contract will be worth an estimated £1.0bn for Capita over 12 years, with opportunities to deliver further training according to the Royal Navy's requirements. This is an addition of £0.9bn to the Group's order book in 2021.

Put option expiry
The Group has a 51% interest in AXELOS Limited. There was a put option in place whereby the Group could be required to acquire the 49% non-controlling interest. This option expired without being exercised on 28 February 2021, and the related liability was derecognised.

19 Preliminary announcement

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

It is intended that the Annual Report and Accounts will be posted to shareholders early April 2020. It will be available to members of the public at the registered office and on the Company's Corporate website https://www.capita.com/investors from that date.

Appendix - Alternative performance measures

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

	2020	2019	Source
Revenue – continuing operations			
Reported revenue	**£3,324.8m**	£3,678.6m	Line item in income statement
Deduct: business exit	**(£143.6m)**	(£177.6m)	Line item in note 7
1. Adjusted revenue	**£3,181.2m**	£3,501.0m	
Operating profit – continuing operations			
Reported operating (loss)/profit	**(£32.0m)**	£0.4m	Line item in income statement
Adjusting items in note 4	**£143.0m**	£254.1m	
2. Adjusted operating profit[1]	**£111.0m**	£254.5m	
Adjusted operating profit margin	**3.5%**	7.3%	Adjusted operating profit/adjusted revenue

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

		2020	2019	Source
ROCE				
Adjusted operating profit[1]	a	**£111.0m**	£254.5m	Adjusted operating profit note 4
Adjusted tax rate[2]	b	**14.9%**	14.7%	
Tax	c = a x b	**£16.5m**	£37.4m	Adjusted operating profit multiplied by tax rate
Adjusted operating profit after tax	d = a – c	**£94.5m**	£217.1m	Adjusted operating profit less tax
Share capital	e	**£34.5m**	£34.5m	Line information in balance sheet
Share premium	f	**£1,143.3m**	£1,143.3m	Line information in balance sheet
Employee benefit trust and treasury shares	g	**(£11.2m)**	(£11.2m)	Line information in balance sheet
Capital redemption reserve	h	**£1.8m**	£1.8m	Line information in balance sheet
Total net liabilities from financing activities	i	**£1,217.5m**	£1,475.3m	Line information in note 15
Total capital employed	j = e+f+g+h+i	**£2,385.9m**	£2,643.7m	Used as current year capital employed balance in average capital employed 'm'
Prior year capital employed	k	**£2,643.7m**	£2,919.1m	Used as prior period capital employed balance in average employed 'm'
Average capital employed	l = (j+k)/2	**£2,514.8m**	£2,781.4m	
3. ROCE	m = d/l	**3.8%**	7.8%	

1. Adjusted operating profit excludes items that are separately disclosed and considered to be outside the underlying operating results for the particular period under review and against which the Group's performance is assessed.
2. The effective tax rate for 31 December 2020 has been calculated after excluding the one-off gains and resulted in a 20.9% overall effective tax benefit on adjusted profits for the period.

		Post IFRS 16		Pre IFRS 16		
		2020	**2019**	**2020**	**2019**	
Headline gearing						
Adjusted profit before tax[1]		**£65.2m**	£197.7m	**£71.6m**	£211.6m	Line information in note 4
Add back: adjusted net finance costs		**£46.6m**	£56.2m	**£22.7m**	£30.5m	Line information in note 8
Add back: adjusted depreciation and impairment on property, plant and equipment		**£52.7m**	£55.7m	**£52.7m**	£55.7m	
Add back: depreciation on right of use assets		**£88.2m**	£99.2m	**£—m**	£—m	
Add back: adjusted amortisation and impairment on intangibles		**£41.1m**	£30.0m	**£41.1m**	£30.0m	
Remove: Share of results in associates and investment gains		**(£0.8m)**	£0.6m	**(£0.8m)**	£0.6m	Line information in income statement
Adjusted EBITDA	a	**£293.0m**	£439.4m	**£187.3m**	£328.4m	
Impact of ESS business exit on adjusted EBITDA		**£53.0m**	£53.4m	**£52.8m**	£53.2m	
Adjusted EBITDA including ESS exit	b	**£346.0m**	£492.8m	**£240.1m**	£381.6m	
Headline net debt		**£1,077.1m**	£1,353.2m	**£1,077.1m**	£1,353.2m	
Remove: IFRS 16 impact		**£—m**	£—m	**£508.1m**	£562.6m	
Net debt	c	**£1,077.1m**	£1,353.2m	**£569.0m**	£790.6m	Net debt excluding the impact of IFRS 16

4. Headline net debt to adjusted EBITDA ratio including ESS business exit	c/b	**3.1x**	2.7x	**2.4x**	2.1x	

1. Adjusted operating profit and adjusted profit before tax excludes items that are separately disclosed and considered to be outside the underlying operating results for the particular period under review and against which the Group's performance is assessed. See note 4.

		2020	2019	Source
Covenants[3]				
Adjusted operating profit[1]		**£111.0m**	£317.8m	Line information in note 4
Add: business exit – trading		**£51.0m**	(£16.7m)	Line information in note 5
Add: share of earnings in associates		**(£0.8m)**	(£0.6m)	
Deduct: non-controlling interest		**(£12.6m)**	(£18.1m)	Adjusted EBIT attributable to NCI
Add back: share-based payment charge		**£6.4m**	£3.0m	Line information in note 15
Add back: non-current service pension charge		**£6.9m**	£4.2m	
Add back: amortisation on purchased intangibles		**£42.3m**	£31.1m	
Adjusted EBITA	a1	**£204.2m**	£320.7m	
Less: IFRS 16 impact		**(£17.5m)**	(£11.7m)	
Adjusted EBITA (excluding IFRS 16)	a2	**£186.7m**	£309.0m	
Adjusted EBITA		**£204.2m**	£320.7m	Line item above
Deduct: business exit – trading sold		**£2.5m**	£—m	Trading (profit)/loss for businesses sold
Add back: adjusted depreciation and impairment on property, plant & equipment and right of use assets		**£140.9m**	£174.2m	
Covenant calculation – adjusted EBITDA	b1	**£347.6m**	£494.9m	
Less: IFRS 16 impact		**(£105.7m)**	(£110.9m)	
Covenant calculation – adjusted EBITDA (excluding IFRS 16)	b2	**£241.9m**	£384.0m	
Adjusted interest charge		**(£46.6m)**	(£56.2m)	Line information in note 8
Interest cost attributable to pensions		**£3.2m**	£4.4m	Line information in note 8
Cash flow hedges recycled to the income statement		**(£4.5m)**	(£2.6m)	Line information in note 8
Borrowing costs	c1	**(£47.9m)**	(£54.4m)	
Add: IFRS 16 impact		**£23.9m**	£25.7m	
Borrowing costs (excluding IFRS 16)	c2	**(£24.0m)**	(£28.7m)	
5.1 Interest cover (US PP covenant)	a1/c2	**8.5x**	11.2x	Adjusted EBITA/Borrowing costs with adjusted EBITDA including the impact of IFRS 16 and the borrowing costs excluding the impact of IFRS 16
5.2 Interest cover (other financing agreements)	a2/c2	**7.8x**	10.8x	Adjusted EBITA/Borrowing costs with both variables excluding IFRS 16
Net debt		**£1,077.1m**	£1,353.2m	Line information in note 15
Lease liabilities included within disposal group liabilities held for sale		**(£4.6m)**	£—m	
Cash, net of overdrafts, included in disposal group assets and liabilities held for sale		**£12.9m**	£—m	
Restricted cash[2]		**£34.5m**	£42.1m	Cash that may not be applied against net debt for covenant calculation purposes
Less: IFRS 16 impact		**(£503.5m)**	(£562.6m)	
Adjusted net debt (excluding IFRS 16)	d1	**£616.4m**	£832.7m	
6.1 Adjusted net debt to post IFRS 16 adjusted EBITDA ratio (US PP covenant)	d1/b1	**1.8x**	1.7x	Adjusted net debt/adjusted EBITDA with adjusted net debt excluding the impact of IFRS 16 and adjusted EBITDA including the impact of IFRS 16
6.2 Adjusted net debt to adjusted EBITDA ratio [KPI] (other financing agreements)	d1/b2	**2.5x**	2.2x	Adjusted net debt/adjusted EBITDA with both variables excluding IFRS 16

1. Adjusted operating profit excludes items that are separately disclosed and considered to be outside the underlying operating results for the particular period under review and against which the Group's performance is assessed.
2. Restricted cash includes cash required to be held under FCA regulations, cash held in foreign bank accounts and cash represented by non-controlling interests and joint ventures.
3. To enable the user of the financial statements to understand the covenant information submitted to the Group's external lenders, the 31 December 2019 comparatives have not been restated.