Capita plc

2018 Half Year Results

Highlights

Good progress on executing the new strategy.

Balance sheet strengthened: completed £701m rights issue and £416m expected proceeds from disposals.

On track to realise £70m cost savings in 2018 and £175m by 2020.

First investment decisions made to strengthen business.

2018 half year results are in line with expectations.

Half year order intake £921m and order book £7.7bn at 30 June 2018.

2018 full year guidance unchanged, before adjustment for planned disposals.

2020 targets unchanged.

Jon Lewis, Chief Executive Officer, commented today:
"In April we set out our new strategy and received the support of shareholders to strengthen the balance sheet. Since then, we have continued to make good progress on the plans we set out to simplify and strengthen the business. It is still early days, but my team and I are very focused and confident in our ability to deliver those commitments."

Half Year ended 30 June 2018

Financial highlights - continuing operations	**Reported 2018**	**Reported 2017**	**Underlying[1] 2018**	**Underlying[1] 2017**	**Underlying YOY change**
Revenue	£2,012.6m	£2,127.3m	£1,978.7m	£2,065.9m	(4)%
Operating profit	£66.7m	£62.6m	£108.1m	£228.4m	(53)%
Profit before tax	£42.3m	£27.6m	£80.5m	£195.0m	(59)%
Earnings/(loss) per share	4.86p	(0.07)p	6.96p	13.99p	(50)%
Free cash flow	(£173.4m)	£182.0m	(£152.0m)	£179.2m	-
Net debt	£729.5m	£1,595.5m			

HY 2018 underlying profit before tax[1] including trading result from businesses held for sale[2]

Underlying profit before tax[1]	£80.5m
Significant new contracts and restructuring	£49.1m
Underlying profit before tax[1] before significant new contracts and restructuring	**£129.6m**
HY 2018 trading profit for Supplier Assessment Services and ParkingEye	£10.2m
Underlying profit before tax[1] including businesses held for sale, before significant new contracts and restructuring	**£139.8m**

[1] Refer to appendix 1 for calculation of Alternative Performance Measures
[2] At 30 June 2018, the recently announced disposals, Supplier Assessment Services (including Constructionline) and ParkingEye, are disclosed as held for sale and their trading profit for HY 2018 is no longer included in underlying performance. The FY 2018 profit guidance of £270-£300m included the trading profit from these two businesses. The table reconciles the HY 2018 underlying profit before tax[1] to the half year equivalent of the FY 2018 guidance by including the trading result from these businesses.

Investor presentation

A presentation for institutional investors and analysts hosted by Jon Lewis and Nick Greatorex will be held today, starting at 08.00. The presentation will be webcast live on www.capita.com/investors and subsequently available on demand. A dial-in facility is also available. See access details below:

Webcast:

https://www.investis-live.com/capita/5b3f96a62e7c290b00afaf04/lmqu

Conference call:

From UK: 0800 640 6441 or 020 3936 2999

From all other locations: +44 20 3936 2999

Participant access code: 073332

Participant names and company names will be collected as they dial in. Capita must be quoted to the Operator to gain access.

This call will be available on a seven day replay:

UK: 020 3936 3001

US: 1 845 709 8569

All other locations: + 44 20 3936 3001

Replay access code: 833889

For further information:

Capita	
Andrew Ripper, Head of Investor Relations	T +44 (0) 20 7654 0220
Fiona O'Nolan, Investor Relations Director	T +44 (0) 20 7654 2281
Capita press office	T +44 (0) 20 7654 2399
Powerscourt	
Victoria Palmer-Moore or Mazar Masud	T +44 (0) 20 72501446

This announcement contains inside information for the purposes of article 7 of EU Regulation 596/2014.

LEI no. CMIGEWPLHL4M7ZV0IZ88.

Executing our strategy

We announced our new strategy to transform Capita on 23 April, alongside the rights issue. The objective of our new strategy is to become a more focussed and predictable business with improved returns, stronger client relationships and sustainable free cash flow. The strategy is largely driven by things we control and has been designed with three elements:

Simplify

- Focus on strong market positions with growth potential
- Align our organisation around growth markets
- Using common and scalable capabilities
- £175m cost savings by end 2020.

Strengthen

- Leadership and governance
- Up to £500m investment in our asset base, technology and people
- Win more of the right work
- Balance sheet.

Succeed

- More predictable and lower risk
- At least £200m of sustainable free cash flow in 2020, before exceptional and restructuring charges and additional pension contributions.

We shall increase Capita's focus upon technology-led complex activities by building out existing strengths in digital transformation, software, platforms and data analytics, a large, long term structural growth market, and we plan to deliver double digit underlying EBIT margins within the next three years.

Organisation update

In April, we put in place a new organisational structure, with six divisions: Software, People Solutions, Customer Management, Government Services, IT and Networks and Specialist Services. The businesses within Specialist Services are mostly stand-alone and are being managed on a portfolio basis to maximise value. These divisions are supported by a common set of group capabilities and functions, which are being strengthened.

We have commenced work on the design of our operating model which we intend to implement across the Company. This is to create an environment where talent is valued and developed and externally facing divisions, which focus upon delighting our customers, have a standardised way of working that aids collaboration and drives organic growth of existing customers to full potential. We are also placing more emphasis upon our social agenda and are measuring success by how we are delivering for all of our stakeholders - employees, clients, suppliers and investors.

Leadership

The Company formed a new Executive Committee in January 2018 to support the delivery of its strategy. Led by Jon Lewis, this brings together our six divisional leaders and a number of existing and new functional roles, including our Chief Transformation Officer, Chief People Officer and Chief Corporate Development Officer. Since April, we have also appointed a Chief General Counsel and we are making good progress on the search for a Chief Growth Officer and Chief Digital Officer. We have also commenced a shareholder consultation to agree performance measures for our Long Term Incentive Plan, which will be aligned with our multi-year strategy and based upon free cash flow, cost saving, EBIT margin, customer satisfaction and employee engagement targets.

Meeting our cost competitiveness targets

Capita has identified a significant multi-year opportunity to reduce costs and improve operational efficiency, including reductions in general and administration, IT and property expenses; centralising more of our procurement; and offshoring, automating and improving the consistency of our operations. We have made a strong start on executing these cost competitiveness initiatives in the first half and remain on track to realise £70m of savings in 2018 and £175m of savings by the end of 2020. The cost of achieving these efficiencies is still expected to be £40m this year and a total of £150m by the end of 2020.

Update on legacy contract issues

We are working to improve the performance of challenging contracts. We have improved our NHS Primary Care Support England (NHS PCSE) contract operationally during the first half of 2018 and are now meeting 40 out of 41 key service levels, with a further 4 indicators still to be agreed. We plan to reach break even on the contract by the end of 2020, following the digitisation of ophthalmic payments and consolidation of IT systems for three services.

Whilst recruitment targets remain challenging, we have re-set our partnership with the Army on the Recruitment Partnering Project (RPP) at a senior level and both of us remain committed to making a success of the strategic partnership.

Finally, we delivered the first major milestone of the replanned mobilcom-debitel transformation programme, the soft-launch of the new Genesys telephony platform in part of the operation. We plan to reach break even on the contract by the end of 2020.

Rights issue completed and disposals ahead of plan

We have taken decisive action to strengthen the balance sheet through the raising of new equity and disposal of five non-core businesses. We launched a rights issue on 23 April, which received shareholder approval on 9 May and successfully completed later in the month. The rights issue raised £701m gross proceeds and £663m net after expenses, with a take up rate of 97.3%.

We expect to raise £416m from non-core disposals in 2018, well ahead of our original target of £300m. The disposal of Supplier Assessment Services, including Constructionline, was announced in June for £160m, which subsequently completed in July, and the disposal of ParkingEye was announced in July for £235m, which is expected to complete later this year. In addition, we disposed of three small businesses in the first half for an aggregate consideration of £21m - Capita Specialist Insurance Solutions for £16m, Projen for £2.75m and Medicals Direct Group for £2.7m. These transactions are in line with Capita's strategy of simplifying the Company, focussing on growth markets.

Pension deficit

As previously stated, Capita intends to reduce the actuarial pension deficit in its main defined benefit pension scheme ('the Scheme') over the medium term. At the 31 March 2017 actuarial valuation, the deficit of Capita's main defined benefit pension scheme ('the Scheme') was £185m. The IAS 19 deficit was £289m at 30 June 2018 (31 December 2017: £407m). We are making good progress in our discussions with the trustees of the Scheme and will provide a further update in due course when an agreement has been reached.

Making targeted investments

We have formed an Investment Review Committee, chaired by Jon Lewis. The committee will support our goal of investing a total of up to £500m over the next three years, addressing historic under-investment and facilitating growth. Since April, we have approved a number of investments including:

Services and products

- Education software - development of SIMS (School Information Management System) 'light' smartphone version for emerging markets and an app to offer a suite of engagement tools to teachers, parents and students to expand engagement "beyond the school gate".
- Customer Management - new digital omnichannel contact platform to support webchat/automation/messaging.
- People Solutions - next generation of the Orbit benefits platform, our Knowledgepool learning booking system and the candidate portal of our pre-employment screening system to improve customer experience.

IT systems and infrastructure

- An organisation-wide Customer Relationship Management (CRM) system, giving a single view of our customers, providing robust and granular data to better predict future sales and monetise customer relationships.
- The design and build of a new data centre network to simplify and consolidate the existing network environment with an objective of moving workloads to the Cloud.

- Standardising, simplifying and consolidating our IT support model and centralising software asset management to drive cost savings whilst improving customer service and efficiency.

Organisation capability

- Enhanced customer engagement training for 8,000 staff in Customer Management, to be delivered by Blue Sky, Capita's behavioural training business.

Technology partnerships

Capita intends to increase its use of partnering to extend the scope and speed of our digital transformation and to support the re-invigoration of sales.

We have agreed a five year strategic partnership with Microsoft for the use of Azure to support the roll out of our cloud services, particularly in our Software and Customer Management businesses. This will help facilitate the roll out of the next version of our education software SIMS8 and make it easier to internationalise the business. We are close to agreeing a digital partnership with McKinsey to accelerate our analytics and digital transformation capabilities.

Returning to sales growth will take time

Our new pre-bid Contract Review Committee is operating well. The committee reviews all contracts above certain financial thresholds and/or with risks/commitments, evaluating them to ensure complete alignment with our operational, strategic and financial goals.

Order intake in the first half was £921m, largely comprised of contract wins and renewals in Customer Management, Software and Government Services. We have also recently announced a number of new contracts, some of which were delayed from earlier in the year. These are discussed in more detail in the divisional performance section of this statement.

Capita's order book at 30 June 2018 stood at £7.7bn compared to £8.2bn at 31 December 2017, reflecting that order intake was lower than revenue recognised in the first half of the year, low levels of bid activity in 2017 and delays in decisions. As a result of this and known attrition, including Prudential, we continue to expect organic growth to be weaker in the second half as compared to the first half of 2018. We continue to plan for a return to organic growth in 2020, given the re-orientation of our sales resources over time and medium to long-term nature of our sales cycles.

Divisional performance review

Our segmental reporting is aligned with our new operating structure, comprised of six divisions: Software, People Solutions, Customer Management, Government Services, IT and Networks and Specialist Services.

Software

Capita is one of the UK's largest software companies, supplying specialist, repeatable enterprise software in specific vertical markets, including education, emergency services, local government and utilities, in which we have leading market positions, and a smaller number of products in horizontal markets. The division also forms a differentiating component of the wider tech-enabled Capita service offering.

The UK software market is estimated to be valued at £15bn in 2017 and is expected to grow at an annual growth rate of 8% to 2021 (source: Gartner).

Software is a high return business with good cash flow. Our strategy is to invest in our core products with distinctive offerings, migrating more to the cloud, and internationalise the business in carefully selected markets. We are also building best-in-class development for production of standardised software and creating scaled, integrated, shared service functions.

In the half year, we piloted the next cloud based version of our main education software product SIMS8, launched SIMS Finance, a cloud based financial reporting product and started development of a “light-touch” smartphone enabled version of SIMS for emerging markets. We also set up a marketing and sales operation in the US to roll out selected products, including AMTSybex, Retain, Pay360 and 911eye, and consolidated multiple support desks into an integrated shared service.

Capita Secure Solutions has been awarded a contract to provide its ControlWorks control room solution to West Midlands Police, worth £6m over 10 years, and renewed its contract to provide support and maintenance to the Ministry of Justice for digital radio networks across the prison estate in England and Wales for the next five years.

SIMS has won a contract with City Montessori School (CMS) in India, the world's largest private school with over 56,000 pupils. This is a target market for the roll out of the SIMS light product.

Financial performance

Division financial summary	2018	2017	YOY change
Underlying revenue	£200.2m	£202.6m	(1.2)%
Underlying operating profit before restructuring	£48.8m	£55.2m	(11.6)%
Margin	24.4%	27.2%	-
Order book	£554.9m	-	-

Underlying revenue fell by 1%, reflecting good growth in AMT-Sybex and modest growth in Education Software. This was partially offset by declines in Software Services (local government, social housing and social care), Healthcare Decisions and our multi-industry products business Retain (resource management software), which still operates on a passive (revenue recognised at a point in time) licence sale basis.

Underlying profits declined, due to investments in sales, including the US pilot, and people and the end of our NHS24 Scotland contract in Healthcare Decisions.

People Solutions

Capita provides a full suite of HR offerings across the employment life cycle, including leading market positions in recruitment process outsourcing, learning and benefits administration, which are supported by our proprietary digital platforms, Orbit, Hartlink and Tessello. We also provide attraction, screening, performance management and payroll services and best in class fire prevention and protection training facilities from the Fire Service College. These businesses were historically managed in different divisions.

The market for HR solutions is estimated to be worth £5bn and is expected to grow at an annual rate of 5% per annum to 2021 (source: NelsonHall).

We have now brought our existing HR businesses together under a single leadership team for the first time, to create the People Solutions division. Our strategy is to derive benefits from the new structure, by creating and leveraging a single sales engine and realising cost savings. We plan to invest in our core products and platforms, strengthen our analytics capability and grow our scalable, repeatable solutions. In the first half, we commenced investments in the next generation of the Orbit benefits platform, onto which a number of clients were migrated, our Knowledgepool learning booking system and the candidate portal of our pre-employment screening system to improve customer experience. We have also identified many new opportunities at our first sales workshop.

Whilst recruitment targets remain challenging, we have re-set our partnership with the Army on the Recruitment Partnering Project (RPP) at a senior level and both of us remain committed to making a success of the strategic partnership. The new defence recruitment system is now working well, facilitating improvements in speed of process, we have had a good response to recent campaigns and regular soldier applications are now at a five year seasonal high.

Financial performance

Division financial summary	2018	2017	YOY change
Underlying revenue	£251.9m	£256.0m	(1.6)%
Underlying operating profit before restructuring	£16.0m	£29.1m	(45.0)%
Margin	6.4%	11.4%	-
Order book	£712.0m	-	-

Underlying revenue fell by 2%, as a result of small declines in Capita Resourcing and Learning Services, which was impacted by a significant decline in the apprenticeship market after changes in legislation. Underlying profits decreased, reflecting the above decline in revenue, investments to strengthen the business and transition to a new public sector training framework, which have yet to be offset by cost reduction actions. The Contingent Labour One (CL1) public sector resourcing contract transfers to a new provider in the second half.

Customer Management

Capita is a leading provider of multi-channel customer contact services in the UK, Switzerland and Germany, primarily serving customers in the telecommunications, retail and utility sectors, from a mix of onshore locations in Europe and offshore locations in India and South Africa.

Our strategy is to standardise best practice, improve our infrastructure, invest in people, increase our use of technology, offshoring and analytics, build upon our strengths in existing sectors and diversify into new sectors, with a focus on building an offer for financial services, travel and automotive. Since April, we have commenced a number of initiatives to support this strategy, including the roll out of an enhanced training programme to be delivered to c8,000 FTE over the course of this year and a programme to refresh our IT and telephony infrastructure. In June, we delivered the first major milestone of the replanned mobilcom-debitel transformation programme, the soft-launch of the new Genesys telephony platform in part of the operation.

We recently signed a number of contracts:

- British Airways has chosen us to deliver a new five year contract to deliver enhanced customer services from our global centre in Cape Town, South Africa. This partnership aligns with Capita's strategy to deliver high-quality services for leading global brands, utilising our customer management expertise and capability.
- Expanded contract with Southern Water for end-to-end customer services including the management of back office billing processes, correspondence-handling, print and mail, worth £30m over five years.
- Expanded contract with the Financial Services Compensation Scheme (FSCS) to consolidate all its claims handling services, including all inbound and outbound customer contact, worth £37m over four years and nine months.
- Extensions of our contracts with npower, worth £41m over three years, Marks & Spencer, worth £70m over five years, and BBC Audience Services for five years.

The UK retail sector is currently challenging and we are experiencing some attrition in this sector.

Financial performance

Division financial summary	**2018**	**2017**	**YOY change**
Underlying revenue	£400.4m	£414.2m	(3.3)%
Underlying operating profit before restructuring	£15.7m	£35.2m	(55.4)%
Margin	3.9%	8.5%	-
Order book	£2,039.9m	-	-

Underlying revenue fell by 3%, due to contract and volume attrition including weakness in the UK retail sector and lower volume in Switzerland. Underlying profits decreased due to the aforementioned decline in revenue, a weaker performance in Europe, which was impacted by an increased loss on our contract with mobilcom-debitel, investment in people and increases in some cost items, including the adoption of General Data Protection Regulation.

Government Services

Capita is a trusted partner to central government for the delivery and transformation of technology-enabled business services, including the operation of large, complex contracts that underpin the achievement of policy outcomes. We are also a leading provider of support services such as revenues, benefits and back office processing, IT, HR, and finance to local authorities, education and health organisations.

Capita is the leading provider of business process outsourcing services to government, with an 11% market share in central government and 15% share in local government (source: based upon data compiled by NelsonHall). We believe that the addressable pipeline for central government services by total contract value is £3.5bn through 2020. The local government market is challenging, being impacted by budget pressure and a shift in purchasing behaviour away from long term strategic partnerships to more transactional services.

Our strategy is to focus upon and leverage areas where Capita has core expertise, invest in our transformation, technology and operational capabilities, productise more of our services, improve the performance of challenging contracts, and implement structured account management. We are also de-prioritising smaller non-core activities such as facilities management and property. Since April, we have commenced a programme to drive operational excellence and put in place continuous improvement plans for all businesses.

We recently announced the following contracts:

- Selected by the Ministry of Defence as the winning tenderer for the Defence Fire and Rescue Project*.
- New contract with the Department for Education's Standards and Testing Agency to manage the administration, processing and support for all primary school national curriculum assessment tests in England. The contract is worth approximately £109 million over six years, with the new service starting in September 2019 following a phased implementation and transition from September 2018.
- Expanded contract with Transport for London to include the Central London Ultra Low Emission Zone.

Capita has taken responsibility for our performance issues at our NHS Primary Care Support England contract and worked in conjunction with stakeholders and NHSE to improve them. We have improved operationally during the half and are now meeting 40 out of 41 key service levels, with a further 4 indicators still to be agreed. We plan to reach break even on the contract by the end of 2020, driven by moving paper based processes to electronic self-service and moving to a national IT system for cervical screening, GP payments and patient registration.

We have been notified by Southampton City Council of their intention to end our contract with them in the second half of 2019. Capita has successfully partnered with Southampton City Council for more than a decade and service levels on the contract are good, with 98% of KPIs being met. We chose not to rebid our Home Office escorting contract which transferred to a new supplier in the first half of 2018, in line with our strategy of de-prioritising non-core activities.

Financial performance

Division financial summary	2018	2017	YOY change
Underlying revenue	£387.0m	£424.3m	(8.8)%
Underlying operating profit before restructuring	£12.6m	£37.6m	(66.5)%
Margin	3.3%	8.9%	-
Order book	£2,297.1m	-	-

Underlying revenue fell by 9%, due to the re-shaping of our Defence Infrastructure Organisation (DIO) contract, which benefited from the recognition of previously deferred income in the prior year, and a decline in our local government long term strategic partnerships, reflecting the aforementioned market weakness. Underlying profits decreased due to the dropping out of the £16m one-off benefit from DIO, as previously disclosed, and attrition in local government.

IT and Networks

Capita provides end-to-end enterprise IT services and solutions, managed network, datacentre and cloud infrastructure, managed IT support for educational institutions and other professional IT services including testing, data consulting and cybersecurity.

The IT Services market is forecast to grow at an annual rate of 1% to 2020 (source: Gartner).

Our strategy is to consolidate separately run entities into a single IT and Networks business 'One ITS',simplifying the service catalogue and professionalising internal relationships, invest in our infrastructure, cloud and people and build technical and sales capabilities to drive better customer experience. In the half year, we commenced the 'One ITS' programme, which is expected to realise significant cost savings over the next three years and includes the introduction of shared service centres with common processes and an increase in the use of offshoring. We also commenced a programme to invest in our data centre network to simplify and consolidate the existing environment and improve performance and consistency.

* Contract award on hold due to legal challenge

Financial performance

Division financial summary	2018	2017	YOY change
Underlying revenue	£197.6m	£217.9m	(9.3)%
Underlying operating profit before restructuring	£21.5m	£33.4m	(35.6)%
Margin	10.9%	15.3%	-
Order book	£397.7m	-	-

Underlying revenue fell by 9%, due to contract and volume attrition in Managed IT Solutions and major clients. Underlying profits decreased due to the dropping out of a £9m one-off supplier settlement in the prior year.

Specialist Services

Specialist Services includes those businesses which either (a) are not within Capita's growth markets and/or (b) have little in common with our other divisions and/or (c) are at an early phase in their development but may be scaled up in the future. These businesses are mostly stand-alone operations and are being managed on a portfolio basis in order to maximise value. The division includes Life & Pensions, Insurance Services, Mortgage & Collections, Optima, Travel & Events, Evolvi, Real Estate & Infrastructure, Managed Print, Hardware Reselling, Axelos, Fera, Enforcement and Mortgage Software Solutions.

We have been recently selected as preferred bidder by the MoJ for a courts enforcement contract.

Financial performance

Division financial summary	2018	2017	YOY change
Underlying revenue	£518.9m	£546.6m	(5.1)%
Underlying operating profit before restructuring	£85.7m	£82.8m	3.5 %
Margin	16.5%	15.1%	-
Order book	£1,696.0m	-	-

Underlying revenue decreased by 5%, reflecting the disposals of Supplier Assessment Services, including Constructionline and ParkingEye, which were treated as business exits in the first half but for which the comparative period is not re-stated. There was good growth at Managed Print Services and Fera, which was broadly offset by a decline in Real Estate & Infrastructure. As previously announced, the administration of Prudential's life and pensions business, around 2% of our revenue, is expected to transfer to a new supplier in the second half of 2018, which will lead to a release of deferred income. Underlying profits increased as a result of a £9m one-off benefit on the end of our general insurance contract with Marsh.

Financial review

Revenue

Reported revenue decreased by 5.4% to £2,012.6m (H1 2017: £2,127.3m). Underlying revenue on a like for like basis[1], excluding results from businesses exited in both years, decreased by 2.3% including 2.4% organic decline and 0.1% growth from acquisitions. This was mainly due to the limited benefit from new contract wins, contract attrition in Customer Management, IT and Networks and Government Services and the re-shaping of our DIO contract, which benefited from the recognition of previously deferred income in the prior year.

Our revenue mix in the half year was 71% long term contracts, 16% short term contracts of up to 2 years and 13% transactional.

Underlying operating profit

Underlying operating profit[1] decreased by 52.7% to £108.1m (H1 2017: £228.4m), as a consequence of decline in People Solutions margin, volume attrition in Customer Management, Government Services and IT and Networks, the reshaping of the DIO contract in Government Services and dropping out of a one-off supplier settlement in IT and Networks. This included restructuring costs and professional advisor fees of £49.1m (H1 2017: £nil), relating to Capita's new strategy and transformation plan. Underlying operating profit before significant new contracts and restructuring[1] costs decreased by 31.2% to £157.2m (H1 2017: £228.4m).

Underlying operating margin

Underlying operating margin[1] was 5.5% (H1 2017: 11.1%) and underlying operating margin[1] before significant new contracts and restructuring costs[1] was 7.9% (H1 2017: 11.1%).

We continue to target double digit underlying EBIT margins before significant new contracts and restructuring costs in 2020.

Underlying net finance costs

The underlying net interest charge was £27.6m (H1 2017: £33.4m). This reduction was driven by the removal of fixed rate swaps in 2017 and the repayment of US Private Placement debt following the disposal of Capita Asset Services in the second half of 2017. We expect underlying net interest costs to be in the region of £55m in the full year to December 2018.

Profit before tax

Reported profit before tax was £42.3m (H1 2017: £27.6m), including profits from business exits of £22.6m (H1 2017 losses of £67.6m) and a charge for specific items of £60.8m (H1 2017: £99.8m) including the amortisation of acquired intangibles.

Underlying profit before tax[1] decreased by 58.7% to £80.5m (H1 2017: £195.0m) and underlying profit before tax before significant new contracts and restructuring costs decreased by 33.5% to £129.6m (H1 2017: £195.0m).

Tax

The underlying income tax credit for the half year of £14.1m resulted in an underlying negative tax rate of 17.5% (H1 2017: income tax charge of £36.0m and tax rate 18.5%). This was favourably impacted by a specific one-off deferred tax credit arising from a re-assessment of the recognition of deferred tax balances on tax losses since the year end. Prior to the recognition of this deferred tax credit, the underlying tax rate for the half year was 18.9%. The reassessment is driven by the accessibility of tax losses realised as an impact of IFRS 15. Capita continues with its commitment to prompt disclosure and transparency in all dealings with HMRC and overseas tax authorities. It does not have a complex tax structure, nor does it pursue any aggressive tax avoidance activities. We expect a small underlying tax credit in the full year to December 2018.

Earnings per share

The reported basic earnings per share for continuing operations was 4.86p (H1 2017: loss 0.07p) and the reported basic earnings per share for total operations was 5.21p (H1 2017: 2.30p).

Underlying basic earnings per share[1] for continuing operations decreased by 50.3% to 6.96p (H1 2017: 13.99p) as a result of performance explained above, and the restructuring and transformational activity being undertaken.

Dividends

The Board is not recommending the payment of an interim dividend (H1 2017: 11.1p). However, the Board recognises the importance of regular dividend payments to investors in forming part of their total shareholder return, and will consider the payment of dividends once Capita is generating sufficient sustainable free cash flow.

Cash flow

Underlying free cash flow[1] was an outflow of £152.0m (H1 2017: inflow £179.2m).

Underlying free cash flow before significant new contracts and restructuring was an outflow of £114.7m (H1 2017: inflow £194.6m). Capita's free cash flow was impacted by the aforementioned decline in profit and a £257.4m working capital outflow from continuing operations. As expected, the change in our working capital profile reflected a £130m unwind from the end of period end cash management activity and a £80m reduction of deferred income, which reflects the relatively low level of new business signed in 2017 and meant that we received less cash payments from clients to undertake work than revenue recognised in the period. We also reduced our use of receivables financing to a balance of £94m at 30 June 2018 from £110m at 31 December 2017. Net capital expenditure on continuing operations was £55.5m in 2018 (H1 2017: £49.7m) mainly attributable to an increase of investments in systems and infrastructure.

We continue to expect a free cash outflow in 2018, before rights issue and disposal proceeds. This reflects an expected £130m cash outflow from the final elimination of period end cash management activity, a £130m cash outflow on continued reduction in deferred income and around £300m spend in relation to known commitments, including the Connaught settlement, the separation of Capita Asset Services (including a pension contribution), restructuring costs, professional fees, contingent and deferred considerations, litigation and other items.

Looking further ahead, we are on track to deliver at least £200m of sustainable free cash flow in 2020, before exceptional and restructuring charges and additional pension contributions.

Net debt

Net debt at 30 June 2018 was £729.5m (H1 2017: £1,595.5m). As at 30 June 2018, we had £1,356.4m of private placement bond debt which matures over the period up to 2027. In addition, we have £100.0m of bank debt which matures in 2019, and an undrawn £600m revolving credit facility of which £81m matures in August 2020 and £519m in August 2021.

Capita's adjusted net debt to adjusted EBITDA[1] ratio at 30 June 2018 was 1.5 times and interest cover[1] was 7.2 times. Our leverage target is between 1-2x adjusted net debt to adjusted EBITDA, prior to the adoption of IFRS 16. We expect leverage at the end of December 2018 to be toward the bottom end of this range, subject to the completion of the ParkingEye disposal.

Our Board

Nick Greatorex has informed the Board of his intention to step down as Chief Financial Officer. Nick will remain with the Company and assist with an orderly transition over the coming months. A search for his successor is underway and a further announcement will be made in due course. Further, in response to the recommendations of the new UK Corporate Governance Code, the Board have agreed to appoint up to two employees to the Board, and we are now working on the selection criteria and process to achieve that.

Outlook

Trading in the first half was in line with our full year guidance, which remains unchanged on an underlying basis. Our guidance of between £270m and £300m underlying pre-tax profits, before significant new contracts, restructuring costs and implementation costs of the strategy, for the year ending 31 December 2018 included a full year's contribution of around £25m from businesses which are now reported as business exits in non-underlying items. If we adjust for these disposals, underlying pre-tax profits guidance, before significant new contracts, restructuring costs and implementation costs of the strategy, on a comparable basis is between £250m and £275m for the year ending 31 December 2018. This guidance excludes any potential positive accounting benefit from the end of our contract with Prudential.

Our 2020 targets of £175m cost savings, double digit underlying EBIT margins and at least £200m of sustainable annual free cash flow, before exceptional and restructuring charges and additional pension contributions, remain unchanged.

Forward looking statements

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

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

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

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

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

Principal risks and uncertainties

The Directors have considered the principal risks and uncertainties affecting the Group's financial position and prospects in 2018 and out 12 months beyond the reporting date. As described on pages 38 to 43 of the Group's annual report for 2017, the Group continues to be exposed to a number of risks and has well established systems and procedures in place to identify, assess and mitigate those risks.

The principal risks include those arising from: significant failures in systems of control; lack of corporate financial stability; failures in information security controls; disruption to operational IT; legal/regulatory actions; failure to meet financial expectations; failure to innovate; impact of increased business complexity; impact of political/ client strategy risk; impact of reputational risk; ineffective talent management; inadequate acquisition, contracting and delivery management; and a failure to deliver the planned transformation plan.

Financial stability continues to be monitored closely following the Rights issue. Whilst Capita has made significant progress in addressing the short term leverage issues, there is still a level of transformative action married with further measures to strengthen the Capita balance sheet to be completed.

As a technology-driven services company, Capita must operate a resilient technical infrastructure. The Board has applied focus on the programme to improve the resilience of our key IT systems to date and this will continue to remain an area of essential remediation.

The Directors continue to review the principal risks on an ongoing basis and confirm that no further principal risks have been identified since 23 April 2018.

Statement of Directors' responsibilities

The Directors confirm, to the best of their knowledge, that this condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union and that the Half Year Management Report includes a fair review of the information required by Rules 4.2.4, 4.2.7 and 4.2.8 of the Disclosure and Transparency Rules of the United Kingdom Financial Conduct Authority.

The names and functions of the Directors of Capita plc are as listed in the Group's annual report for 2017. A list of current Directors is maintained on the Group website: www.capita.com.

By order of the Board

J Lewis
Chief Executive Officer
31 July 2018

N Greatorex
Chief Financial Officer
31 July 2018

Half year condensed consolidated income statement

for the 6 months ended 30 June 2018

	Notes	**30 June 2018** Underlying (note 3) £m	**30 June 2018** Business exits (note 4) £m	**30 June 2018** Specific items (note 6) £m	**30 June 2018** Total £m	30 June 2017 Underlying (note 3) £m	30 June 2017 Business exits (note 4) £m	30 June 2017 Specific items (note 6) £m	30 June 2017 Total £m
Continuing operations:									
Revenue		**1,978.7**	**33.9**	**—**	**2,012.6**	2,065.9	61.4	—	2,127.3
Cost of sales		**(1,515.8)**	**(14.3)**	**—**	**(1,530.1)**	(1,524.3)	(49.7)	—	(1,574.0)
Gross profit		**462.9**	**19.6**	**—**	**482.5**	541.6	11.7	—	553.3
Administrative expenses		**(354.8)**	**(9.6)**	**(51.4)**	**(415.8)**	(313.2)	(75.6)	(101.9)	(490.7)
Operating profit		**108.1**	**10.0**	**(51.4)**	**66.7**	228.4	(63.9)	(101.9)	62.6
Net finance costs	8	**(27.6)**	**—**	**(9.4)**	**(37.0)**	(33.4)	—	2.1	(31.3)
Profit/(loss) on disposal	4	**—**	**12.6**	**—**	**12.6**	—	(3.7)	—	(3.7)
Profit before tax		**80.5**	**22.6**	**(60.8)**	**42.3**	195.0	(67.6)	(99.8)	27.6
Income tax credit / (expense)	9	**14.1**	**(2.2)**	**11.9**	**23.8**	(36.0)	(0.1)	12.2	(23.9)
Profit for the period from continuing operations		**94.6**	**20.4**	**(48.9)**	**66.1**	159.0	(67.7)	(87.6)	3.7
Discontinued operations:									
Profit for the period	5	**—**	**—**	**4.4**	**4.4**	—	25.8	—	25.8
Total profit for the period		**94.6**	**20.4**	**(44.5)**	**70.5**	159.0	(41.9)	(87.6)	29.5
Attributable to:									—
Owners of the Company		**87.4**	**20.4**	**(42.3)**	**65.5**	152.5	(41.9)	(85.5)	25.1
Non-controlling interests		**7.2**	**—**	**(2.2)**	**5.0**	6.5	—	(2.1)	4.4
		94.6	**20.4**	**(44.5)**	**70.5**	159.0	(41.9)	(87.6)	29.5
Earnings/(loss) per share[1]	10								
Continuing operations:									
– basic		**6.96p**	**1.62p**	**(3.72)p**	**4.86p**	13.99p	(6.21)p	(7.85)p	(0.07)p
– diluted		**6.89p**	**1.61p**	**(3.68)p**	**4.82p**	13.97p	(6.20)p	(7.84)p	(0.07)p
Total operations:									
– basic		**6.96p**	**1.62p**	**(3.37)p**	**5.21p**	13.99p	(3.84)p	(7.85)p	2.30p
– diluted		**6.89p**	**1.61p**	**(3.33)p**	**5.17p**	13.97p	(3.83)p	(7.84)p	2.30p

[1] Earnings per share presented for the period to 30 June 2017 were restated to reflect the rights issue completed in the period (see notes 10, 18)

The accompanying notes form part of these condensed consolidated financial statements.

Half year condensed consolidated statement of comprehensive income
for the 6 months ended 30 June 2018

	30 June 2018		30 June 2017	
	£m	**£m**	£m	£m
Profit for the period		**70.5**		29.5
Other comprehensive income/(expense)				
Items that will not be reclassified subsequently to profit or loss				
Actuarial gain/(loss) on defined benefit pension schemes	**98.4**		(25.5)	
Income tax effect	**(16.7)**		4.3	
		81.7		(21.2)
Items that will or may be reclassified subsequently to profit or loss				
Exchange differences on translation of foreign operations		**(2.6)**		1.9
Net investment hedge		**—**		(2.4)
(Loss)/Gain on cash flow hedges	**(4.0)**		2.8	
Reclassification adjustments for losses included in the income statement	**0.4**		—	
Income tax effect	**0.7**		(0.5)	
		(2.9)		2.3
		(5.5)		1.8
Other comprehensive income/(expense) for the period net of tax		**76.2**		(19.4)
Total comprehensive income for the period net of tax		**146.7**		10.1
Attributable to:				
Owners of the Company		**141.7**		5.7
Non-controlling interests		**5.0**		4.4
		146.7		10.1

The accompanying notes form part of these condensed consolidated financial statements.

Half year condensed consolidated balance sheet

at 30 June 2018

	Notes	30 June 2018 £m	31 December 2017 £m
Non-current assets			
Property, plant and equipment		**214.1**	219.3
Intangible assets		**1,713.1**	1,812.1
Contract fulfilment assets	13	**272.2**	252.5
Financial assets	17	**114.5**	132.3
Deferred taxation		**175.5**	159.3
Trade and other receivables		**28.5**	28.0
		2,517.9	2,603.5
Current assets			
Financial assets	17	**35.6**	88.7
Disposal group assets held for sale	4	**109.7**	5.9
Trade and other receivables		**862.5**	775.8
Cash		**945.9**	921.7
Income tax receivable		**5.0**	25.6
		1,958.7	1,817.7
Total assets		**4,476.6**	4,421.2
Current liabilities			
Trade and other payables		**668.6**	755.2
Deferred income	14	**1,104.3**	1,201.2
Overdrafts	17	**362.5**	443.3
Financial liabilities	17	**291.3**	265.6
Disposal group liabilities held for sale	4	**47.1**	1.4
Provisions	15	**77.2**	164.1
		2,551.0	2,830.8
Non-current liabilities			
Trade and other payables		**15.5**	17.0
Deferred income	14	**331.2**	314.0
Financial liabilities	17	**1,356.2**	1,721.7
Deferred taxation		**12.2**	12.2
Provisions	15	**49.8**	48.5
Employee benefits		**289.3**	406.8
		2,054.2	2,520.2
Total liabilities		**4,605.2**	5,351.0
Net liabilities		**(128.6)**	(929.8)
Capital and reserves			
Issued share capital	18	**34.5**	13.8
Share premium	18	**1,143.3**	501.3
Employee benefit trust and treasury shares	18	**(11.2)**	(0.2)
Capital redemption reserve		**1.8**	1.8
Foreign currency translation reserve		**(3.0)**	(0.4)
Cash flow hedging reserve		**(1.0)**	1.9
Retained deficit		**(1,367.2)**	(1,517.2)
Deficit attributable to owners of the Company		**(202.8)**	(999.0)
Non-controlling interests		**74.2**	69.2
Total deficit		**(128.6)**	(929.8)

The accompanying notes form part of these condensed consolidated financial statements.

Half year condensed consolidated statement of changes in equity

for the 6 months ended 30 June 2018

	Issued share capital	Share premium	Employee benefit trust & treasury shares	Capital redemption reserve	Retained earnings/ (deficit)	Foreign currency translation reserve	Cash flow hedging reserve	Total	Non-controlling interests	Total equity/ (deficit)
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2017, restated[1]	13.8	501.3	(0.2)	1.8	(1,131.8)	(6.2)	—	(621.3)	68.4	(552.9)
Profit for the period	—	—	—	—	25.1	—	—	25.1	4.4	29.5
Other comprehensive (expense)/income	—	—	—	—	(21.2)	(0.5)	2.3	(19.4)	—	(19.4)
Total comprehensive (expense)/income for the period	—	—	—	—	3.9	(0.5)	2.3	5.7	4.4	10.1
Share-based payment	—	—	—	—	3.5	—	—	3.5	—	3.5
Movement in put option held by non-controlling interest	—	—	—	—	8.1	—	—	8.1	—	8.1
Equity dividends declared	—	—	—	—	(137.1)	—	—	(137.1)	—	(137.1)
At 30 June 2017	13.8	501.3	(0.2)	1.8	(1,253.4)	(6.7)	2.3	(741.1)	72.8	(668.3)
At 1 January 2018	**13.8**	**501.3**	**(0.2)**	**1.8**	**(1,517.2)**	**(0.4)**	**1.9**	**(999.0)**	**69.2**	**(929.8)**
Profit for the period	**—**	**—**	**—**	**—**	**65.5**	**—**	**—**	**65.5**	**5.0**	**70.5**
Other comprehensive income	**—**	**—**	**—**	**—**	**81.7**	**(2.6)**	**(2.9)**	**76.2**	**—**	**76.2**
Total comprehensive income for the period	**—**	**—**	**—**	**—**	**147.2**	**(2.6)**	**(2.9)**	**141.7**	**5.0**	**146.7**
Shares issued/(purchased) (note 18)	**20.7**	**642.0**	**(11.0)**	**—**	**—**	**—**	**—**	**651.7**	**—**	**651.7**
Share-based payment	**—**	**—**	**—**	**—**	**4.0**	**—**	**—**	**4.0**	**—**	**4.0**
Movement in put option held by non-controlling interests	**—**	**—**	**—**	**—**	**(1.2)**	**—**	**—**	**(1.2)**	**—**	**(1.2)**
At 30 June 2018	**34.5**	**1,143.3**	**(11.2)**	**1.8**	**(1,367.2)**	**(3.0)**	**(1.0)**	**(202.8)**	**74.2**	**(128.6)**

[1]Restatement was due to the adoption of IFRS 15 in 2017

The accompanying notes form part of these condensed consolidated financial statements.

Half year condensed consolidated cash flow statement

for the 6 months ended 30 June 2018

	Notes	30 June 2018 Underlying (note 16) £m	30 June 2018 Business exits (note 4) £m	30 June 2018 Specific items (note 6) £m	30 June 2018 Total £m	30 June 2017 Underlying (note 16) £m	30 June 2017 Business exits (note 4) £m	30 June 2017 Specific items (note 6) £m	30 June 2017 Total £m
Cash flows from operating activities									
Operating profit before interest and taxation		108.1	10.0	(51.4)	66.7	228.4	(63.9)	(101.9)	62.6
Adjustments for non-cash items:									
Depreciation and amortisation		41.4	1.0	47.8	90.2	43.3	8.0	63.9	115.2
Share-based payment expense		4.0	—	—	4.0	3.5	—	—	3.5
Employee benefits		6.9	—	—	6.9	17.7	—	—	17.7
Other		1.3	—	3.6	4.9	(1.1)	—	0.7	(0.4)
Working capital movements:									
Trade and other receivables		(74.0)	(1.0)	—	(75.0)	(30.0)	0.5	—	(29.5)
Trade and other payables		(84.9)	—	0.2	(84.7)	(63.2)	—	—	(63.2)
Deferred income and contract fulfilment assets		(94.8)	—	—	(94.8)	87.6	—	—	87.6
Contribution into pension scheme		(12.0)	—	—	(12.0)	(12.3)	—	—	(12.3)
Movement in provisions	15	9.4	(1.0)	(9.0)	(0.6)	(32.3)	49.2	37.3	54.2
Income tax refunded		14.8	—	—	14.8	16.0	—	—	16.0
Net interest paid		(16.7)	—	(7.6)	(24.3)	(28.7)	—	—	(28.7)
Asset services settlement provision cash paid		—	—	—	—	—	9.0	—	9.0
Cash generated from/(used by) continuing operations		(96.5)	9.0	(16.4)	(103.9)	228.9	2.8	—	231.7
Cash generated from/(used by) discontinued operations	5, 16	—	(97.4)	—	(97.4)	—	13.6	—	13.6
Net cash inflow/(outflow) from operating activities		(96.5)	(88.4)	(16.4)	(201.3)	228.9	16.4	—	245.3
Cash flows from investing activities									
Purchase of property, plant and equipment		(37.1)	(11.6)	—	(48.7)	(30.5)	—	—	(30.5)
Purchase of intangible assets		(18.4)	(2.4)	—	(20.8)	(19.2)	—	—	(19.2)
Free cash flow		*(152.0)*	*(102.4)*	*(16.4)*	*(270.8)*	*179.2*	*16.4*	—	*195.6*
Free cash flow from continuing operations		*(152.0)*	*(5.0)*	*(16.4)*	*(173.4)*	*179.2*	*2.8*	—	*182.0*
Free cash flow from discontinued operations		—	*(97.4)*	—	*(97.4)*	—	*13.6*	—	*13.6*
Acquisition of subsidiary undertakings, net of cash acquired					—				(12.5)
Proceeds on disposal of subsidiary undertakings, net of cash disposed	4				16.7				16.4
Deferred consideration paid					(11.1)				(0.8)
Contingent consideration paid					(13.4)				(3.8)
Put option cancellation fee	17				(6.8)				—
Investing activities used by discontinued operations	5				—				(7.5)
Net cash outflow from investing activities					(84.1)				(57.9)
Purchase of shares	18				(11.0)				—
Issue of share capital net of issue costs	16, 18				671.1				—
Repayment of PPN, net of financing costs	16				(307.5)				(39.9)
Settlement of swaps	16				61.1				(79.7)
Repayment of term loan	16				—				(30.0)
Other	16				(0.2)				(1.8)
Net cash inflow/(outflow) from financing activities					413.5				(151.4)
Net increase in cash and cash equivalents					128.1				36.0
Cash and cash equivalents at the beginning of the period					478.4				565.8
Impact of movement in exchange rates					(1.4)				(3.2)
Cash and cash equivalents at 30 June					605.1				598.6
Cash at bank and in hand					945.9				1,122.6
Cash held by disposal group held for sale and discontinued operations					21.7				53.3
Overdraft					(362.5)				(577.3)
Total					605.1				598.6

Notes to the half year condensed consolidated financial statements
for the 6 months ended 30 June 2018

1 Corporate information

Capita plc is a public limited company incorporated in England and Wales whose shares are publicly traded. The half year condensed consolidated financial statements of the Company and its subsidiaries ('the Group') for the 6 months ended 30 June 2018 were authorised for issue in accordance with a resolution of the Directors on 31 July 2018.

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

(a) Basis of preparation

The half year condensed consolidated financial statements for the 6 months ended 30 June 2018 have been prepared in accordance with the Disclosure and Transparency Rules (DTR) of the Financial Conduct Authority and with IAS 34 Interim Financial Reporting.

The half year condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2017, which have been prepared in accordance with IFRSs as adopted by the European Union.

The half year condensed consolidated financial statements do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2017 were approved by the Board of Directors on 23 April 2018 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, contained a material uncertainty in relation to going concern, and did not contain any statement under Section 498 of the Companies Act 2006.

The half year condensed consolidated financial statements for the 6 months ended 30 June 2018 have been reviewed by the Group's auditors pursuant to the Auditing Practices Board guidance on Review of Interim Financial Information.

(b) Judgements and estimates

In preparing these half year condensed consolidated financial statements, management make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at the year ended 31 December 2017 other than those additional areas which have arisen as a consequence of the adoption of IFRS 9 Financial Instruments.

(c) Significant accounting policies

The accounting policies adopted in preparation of the half year condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017, except for the adoption of IFRS 9 Financial Instruments. In addition, the Group has adopted the new amendments to standards and new IFRIC as detailed below.

Initial adoption of IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. With the exception of hedge accounting, which the Group applied prospectively, the Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018. There has been no restatement to the comparative balances for the period beginning 1 January 2017 as there are no requirements under the standard to restate comparatives.

The Group has performed an assessment to understand the requirements of IFRS 9 and how these differ from IAS 39 and has concluded there is no significant impact on the condensed consolidated financial statements from the date of adoption. There were no differences between previous carrying amounts and consequently no adjustment has been made to opening retained earnings.

(i) Classification and measurement

Under IFRS 9, the Group on initial recognition measures a financial asset, other than certain trade receivables, at its fair value plus, in the case of a financial asset that is not measured at fair value through profit or loss, transaction costs.

Debt financial instruments are subsequently measured at fair value through profit or loss ("FVTPL"), amortised cost, or fair value through other comprehensive income ("FVTOCI"). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's debt financial assets are as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade and other receivables, insurance asset recoverable, investment loans and deferred consideration receivable.

Other financial assets are classified and subsequently measured, as follows:

- Financial assets at FVTPL comprise derivative instruments not in a hedging relationship, unlisted equity investments and investments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVTOCI. Under IAS 39, the Group's unlisted equity investments were classified as available for sale ("AFS") financial assets. Cost was applied as the basis for measurement as it represents the best indicator of fair value. This treatment will be carried forward under IFRS 9.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39.

(ii) Impairment

The Group's impairment losses for financial assets have remained largely the same under the IFRS 9 forward-looking expected credit loss ("ECL") approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables and certain IFRS 15 contract assets, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers trade receivables in default when contractual payments are 180 days past due. However, in certain cases, the Group may also consider trade receivables to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

For other financial assets held at amortised cost, an assessment is made at each reporting period as to the probability of default events within the next 12 months and provision is made for any expected credit losses. The 12 month ECL requirement is the proportion of the lifetime ECLs associated with the probability of default in the next 12 months. The Group further assesses whether the credit risk has increased significantly since initial recognition of the asset. If so it will need to provide for lifetime ECLs rather than 12 month ECLs. The main indicator that the Group applies in assessing whether there has been a significant increase in credit risk is where the counter parties fail to make payments as they fall due in respect of these other financial assets held at amortised cost.

(iii) Hedge accounting

The Group has applied the IFRS 9 hedge accounting rules prospectively. At the date of initial application, all of the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships. Consistent with prior periods, the Group has continued to designate the change in fair value of the forward contracts, interest and cross currency swaps in the Group's cash flow and fair value hedge relationships respectively and, as such, the adoption of the hedge accounting requirements of IFRS 9 had no significant impact on the Group's condensed consolidated financial statements.

As mentioned above, in addition the Group has adopted the following new amendments, improvements and IFRIC. None of these had any material impact on the condensed consolidated financial statements of the Group.

Annual Improvements to IFRS Standards 2014 -2016 Cycle
As part of its annual improvements cycles, the International Accounting Standards Board amended various standards primarily with a view to removing inconsistencies and clarifying wording.

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
The amendments are intended to eliminate diversity in practice, are narrow in scope and address three specific areas of classification and measurement.

IFRIC 22: Foreign Currency Transactions and Advance Consideration
These amendments are intended to eliminate diversity in practice when recognising the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration received or paid in a foreign currency.

IFRS 16 Leases
IFRS 16 Leases ("IFRS 16") was issued in January 2016, replacing IAS 17 Leases ("IAS 17"), and other relevant current guidance. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 will be effective for annual periods beginning on or after 1 January 2019 with early adoption permitted for entities that apply IFRS 15.

The main impact for the Group is that IFRS 16 introduces a single lessee accounting model and requires the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset is of low value.

The Group is in the advanced stages of the assessment of the new standard and expects its implementation to have a significant impact on the Group financial statements. As at 31 December 2017, the Group held a significant number of operating leases for which the future minimum lease payments amounted to £833.0m.

The main impact on the Group financial statements will be:

- Financial liabilities and non-current assets will increase on implementation of the standard as obligations to make future payments under leases currently classified as operating leases will be recognised on the balance sheet, along with the related 'right-of-use' asset.
- On adoption, the 'right-of-use' asset is tested for impairment against its recoverable amount. The Group will also annually review the 'right-of-use' assets for impairment.
- There will be a reduction in operating costs and an increase in net finance costs as operating lease costs are replaced with depreciation and lease interest expense. This will result in an increase to the Group's EBITDA, and an increase in EBIT as a result of higher interest costs, with an overall net increase to profit before tax.
- The noted adjustments will be reflected in retained earnings on adoption date.

The total cash outflow for lease payments would not change but certain lease payments would be presented as cash flow from financing activities, as opposed to the current treatment as cash flow from operating activities, resulting in an improvement in cash outflow from operating activities and an increase in cash outflow for financing activities.

A number of leases in place at 31 December 2017 will end or not be renewed and new leases may be entered into. Further, our estimate requires several judgements, including determining the lease term, the lease payments (which may be variable) and the discount rate applicable to each lease. Determining the lease term can be complex where leases include rights of renewal or cancellation. The Group also has a number of lease arrangements where lease payments may not be fixed and may vary depending on an index or sales. These judgements will continue to be assessed until adoption. The Group is continuing to assess the precise impact of this new standard including considering the impact of applying relevant available transition expedients, and whether to early adopt.

(d) Going concern

In assessing the basis of preparation for the period ended 30 June 2018, the Directors have considered the principles of the FRC's "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting 2014", namely assessing the applicability of the going concern basis, the review period and disclosures. The Board has concluded that it is appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts.

Having taken decisive action to strengthen the balance sheet through the raising of new equity and the disposal of non-core businesses, the Board are satisfied that the Group will continue to have adequate financial resources to realise their assets and discharge its liabilities as they fall due. Accordingly, the Directors have formed the judgement that it is appropriate to prepare the half year condensed consolidated financial statements on the going concern basis. Therefore, the condensed consolidated financial statements do not include any adjustments which would be required if the going concern basis of preparation is inappropriate.

3 Underlying operating profit

	30 June 2018			30 June 2017		
	Underlying before significant new contracts and restructuring	**Significant new contracts and restructuring**	**Total underlying**	Underlying before significant new contracts and restructuring	Significant new contracts and restructuring	Total underlying
	£m	**£m**	**£m**	£m	£m	£m
Continuing operations:						
Revenue	**1,978.7**	**—**	**1,978.7**	2,065.9	—	2,065.9
Cost of sales	**(1,515.8)**	**—**	**(1,515.8)**	(1,524.3)	—	(1,524.3)
Gross profit	**462.9**	**—**	**462.9**	541.6	—	541.6
Administrative expenses	**(305.7)**	**(49.1)**	**(354.8)**	(313.2)	—	(313.2)
Operating profit	**157.2**	**(49.1)**	**108.1**	228.4	—	228.4
Net finance costs	**(27.6)**	**—**	**(27.6)**	(33.4)	—	(33.4)
Profit before tax	**129.6**	**(49.1)**	**80.5**	195.0	—	195.0

Following the adoption of IFRS 15, the Board adopted a policy to separately disclose the operating profit/loss from significant new contract wins in-period and significant restructuring, in order for users of the financial statements to obtain a proper understanding of the financial information and the performance of the business.

A new contract is assessed as that which is significant and either entirely new to the Group or a significant amendment to the scope and scale of an existing contract. Neither of these have occurred during the first six months of 2018 or 2017.

Contract terminations arising in the normal course of business and which result in the disposal of a contract fulfilment asset and/or a true-up of revenue recognised, will be included within "Underlying before significant new contracts and restructuring" and separately disclosed if considered material:

- In 2017, we concluded discussions with the Ministry of Defence in relation to the the Defence Infrastructure Organisation (DIO) contract, which is expected to end in 2019. The 2017 results for the Government Services division included a benefit from the re-shaping of the DIO contract which will not recur in 2018 (HY: £16m; FY: £22m); and
- In 2018, our general insurance contract with Marsh ended resulting in a net £9.2m benefit from the true-up of revenue recognised and disposal of related assets in the Specialist Services division.

In January 2018, we announced that the administration of Prudential's life and pension business, around 2% of Group revenue and £0.2bn in the 30 June 2018 order book disclosed in note 7, will be transferring from Capita to a new supplier later in 2018. The transfer will result in the release of deferred income on the balance sheet at the date of this termination in H2 2018, substantially off set by the disposal of contract fulfilment assets and contract related fixed assets.

The IT & Networks division benefited from a one-off supplier settlement of £9.2m in the prior period.

In preparing these financial statements, the Group undertook a comprehensive review of its major contracts to identify indicators of impairment of contract fulfilment assets. Following this review, management has taken the decision to provide against costs capitalised as contract fulfilment assets of £13.8m (30 June 2017: £nil; 31 December 2017: £14.1m) within underlying cost of sales. This position will be reversed on the Group achieving certain milestones within the underlying contracts. These amounts are recognised in underlying before significant new contracts and restructuring. Refer to note 13 for further details of the review.

In January 2018, the Group announced a broadened transformation plan. In the period to 30 June 2018, a charge of £49.1m (2017: £nil) was recognised in relation to fees to professional services firms (£15m) and restructuring costs associated with this programme.

4 Business exits

2018 business exits

Business exits are businesses that have been exited during the year or are in the process of being disposed of. None of these business exits meet the definition of "discontinued operations" as stipulated by IFRS 5, which requires disclosure and comparatives to be restated where the relative size of a disposal or business closure is significant, which is normally understood to mean a reported segment. Accordingly, the separate presentation described below does not fall within the requirements of IFRS 5 concerning discontinued operations.

During the period, we disposed of three small businesses - Capita Specialist Insurance Solutions, Projen (which was held for sale as at 31 December 2017) and Medicals Direct Group. Their results are all included within business exits for the period.

As at 30 June 2018, the Group was in an active process to sell Supplier Assessment Services (including Constructionline) and ParkingEye. Both businesses have met the held for sale criteria within IFRS 5 and as such are treated as disposal groups held for sale at this date, and their results are all included within business exits for the period.

Income statement impact

		Non-trading			
	Trading £m	Cash £m	Non-cash £m	Total £m	Total £m
Revenue	**33.9**	**—**	**—**	**—**	**33.9**
Cost of sales	**(14.3)**	**—**	**—**	**—**	**(14.3)**
Gross profit	**19.6**	**—**	**—**	**—**	**19.6**
Administrative expenses	**(7.9)**	**(1.7)**	**—**	**(1.7)**	**(9.6)**
Operating profit/(loss)	**11.7**	**(1.7)**	**—**	**(1.7)**	**10.0**
Profit on business disposal	**—**	**12.6**	**—**	**12.6**	**12.6**
Profit before tax	**11.7**	**10.9**	**—**	**10.9**	**22.6**
Income tax expense	**(2.2)**	**—**	**—**	**—**	**(2.2)**
Profit for the period	**9.5**	**10.9**	**—**	**10.9**	**20.4**

Trading revenue and costs represent the current period trading performance of those businesses being exited or disposed. The trading operating profit for the six months ended 30 June 2017 for those businesses disclosed as 2018 business exits was £10.8m.

There are no cumulative income or expenses included in other comprehensive income relating to the disposal group.

The profit on disposal of £12.6m arises from the disposal of net assets of £8.3m for £22.6m consideration (£19.9m gross cash in the period and £2.7m deferred consideration) and costs of disposal of£(1.7)m. Cash proceeds of £19.9m net of cash disposed amounted to £16.7m.

Non-trading administrative expenses comprise £(1.7)m of disposal and closure costs.

As at 30 June 2018, the Group was in an active process to sell Supplier Assessment Services, including Constructionline, and ParkingEye, and both businesses are treated as disposal groups held for sale at this date.

Balance sheet impact - assets and liabilities of disposal groups held for sale - continuing operations	Notes	**As at 30 June 2018 £m**	As at 31 December 2017 £m
Property, plant and equipment		**16.7**	—
Intangible assets		**64.6**	1.5
Trade and other receivables		**6.7**	4.4
Cash at bank and in hand		**21.7**	—
Assets held for sale		**109.7**	5.9
Trade and other payables		**(40.5)**	(1.4)
Deferred income	14	**(4.3)**	—
Provisions	15	**(0.1)**	—
Deferred tax liability		**(2.2)**	—
Liabilities held for sale		**(47.1)**	(1.4)

2017 business exits

In the 6 months to 30 June 2017, the disposal of the specialist recruitment businesses was completed, along with the disposal of part of the Capita Europe business, and the closure of an events business, and their results are all included within business exits for the period. As at 30 June 2017, the Group was in an active process to sell a non core property business as well as the Asset Services division (which is disclosed as a discontinued operation in note 5) and as such both were treated as disposal groups held for sale at this date.

Income statement impact		**Non-trading**			
	Trading £m	**Cash £m**	**Non-cash £m**	**Total £m**	**Total £m**
Revenue	61.4	—	—	—	61.4
Cost of sales	(49.7)	—	—	—	(49.7)
Gross profit	11.7	—	—	—	11.7
Administrative expenses	(11.2)	(56.4)	(8.0)	(64.4)	(75.6)
Operating loss	0.5	(56.4)	(8.0)	(64.4)	(63.9)
Loss on business disposal	—	16.3	(20.0)	(3.7)	(3.7)
Loss before tax	0.5	(40.1)	(28.0)	(68.1)	(67.6)
Income tax expense	(0.1)	—	—	—	(0.1)
Loss for the period	0.4	(40.1)	(28.0)	(68.1)	(67.7)

Trading revenue and costs represent the current period trading performance of those businesses being exited or disposed.

Non-trading disposal and closure costs include the costs of exiting businesses and stranded costs such as property lease and redundancy payments. These include costs in respect of the disposal of the Capita Asset Services division as at 30 June 2017.

The loss on disposal of £(3.7)m arises from the disposal of net assets of £20.1m for £17.0m cash consideration and costs of disposal of £(0.6)m.

Non-trading administrative expenses comprise of separation costs, accelerated depreciation and amortisation, and provisions in respect of disposal and closure costs. These include costs in respect to the disposal of Capita Asset Services.

5 Discontinued operations

In the 2017 annual report, we disclosed that the Group disposed of the majority of the Capita Asset Services Division in November 2017. At 30 June 2017 the disposal process met the criteria to be treated as held for sale and the disposal met the definition of a discontinued operation as stipulated by IFRS 5. The following presentation, and that included in other notes, follows the requirements of IFRS 5.

	30 June 2018			30 June 2017		
Discontinued operations	**Trading £m**	**Non-trading £m**	**Total £m**	Trading £m	Non-trading £m	Total £m
Revenue	**—**	**—**	**—**	157.9	—	157.9
Cost of sales	**—**	**—**	**—**	(56.4)	—	(56.4)
Gross profit	**—**	**—**	**—**	101.5	—	101.5
Administrative expenses	**—**	**4.4**	**4.4**	(70.7)	(0.6)	(71.3)
Operating profit	**—**	**4.4**	**4.4**	30.8	(0.6)	30.2
Net finance costs	**—**	**—**	**—**	—	0.6	0.6
Profit before tax	**—**	**4.4**	**4.4**	30.8	—	30.8
Income tax expense	**—**	**—**	**—**	(5.0)	—	(5.0)
Profit for the period	**—**	**4.4**	**4.4**	25.8	—	25.8

Non-trading items in 2018 include release of funds and legal provisions; and 2017 include amortisation on acquired intangibles within administrative expenses, and fair value movements on available for sale assets in net finance costs.

Cash flows from/(used in) discontinued operations	**30 June 2018 £m**	30 June 2017 £m
Cash outflow for contribution to pension scheme	**(17.0)**	—
Cash (outflow)/inflow from other operating activities	**(80.4)**	13.6
Net cash generated from/(used by) discontinued operations	**(97.4)**	13.6
Net cash outflow from investing activities	**—**	(7.5)
Net cash (outflow) / inflow for period from discontinued operations	**(97.4)**	6.1

As part of the sale of Capita Asset Services businesses to Link Administration Holdings, it was agreed with the trustees of The Capita Pension and Life Assurance Scheme that a cash contribution of £17.0m would be made to the Scheme. This was paid in January 2018. Cash flows from other operating activities includes £61.4m relating to the payment of the Asset Services indemnity provision (see note 15) and £19.0m separation costs incurred in relation to the disposal.

6 Specific items

Included within the specific items column are:

	Notes	6 months to 30 June 2018 Cash in year £m	Cash in future £m	Non-cash £m	Total £m	6 months to 30 June 2017 Cash in year £m	Cash in future £m	Non-cash £m	Total £m
Administrative expenses - continuing:									
Amortisation of acquired intangibles		—	—	47.8	47.8	—	—	63.9	63.9
Capita Asset Services indemnity and settlement provision	15	—	—	—	—	—	37.0	—	37.0
Litigation and claims	15	—	—	3.7	3.7	—	—	—	—
Contingent consideration movements		—	—	(0.1)	(0.1)	—	—	(0.1)	(0.1)
Professional fees and stamp duty on acquisitions		—	—	—	—	0.8	0.3	—	1.1
Total administrative expenses - continuing		—	—	51.4	51.4	0.8	37.3	63.8	101.9
Operating loss - continuing		—	—	51.4	51.4	0.8	37.3	63.8	101.9
Net finance (income)/expense - continuing	8				9.4				(2.1)
Income tax credit - continuing					(11.9)				(12.2)
Loss for the period - continuing					48.9				87.6
Administrative expenses - discontinued:									
Capita Asset Services indemnity and settlement provision	15	(4.6)	0.2	—	(4.4)	—	—	—	—
Total administrative expenses - discontinued	5	(4.6)	0.2	—	(4.4)	—	—	—	—
Operating loss - discontinued		(4.6)	0.2	—	(4.4)	—	—	—	—
Net finance income - discontinued					—				—
Income tax discontinued					—				—
Profit for the year - discontinued					(4.4)				—
Total loss for the period					44.5				87.6

The above items are presented as specific items as the Board have concluded that it is appropriate to do so. These amounts are material, and require separate disclosure in order for the users of the condensed consolidated financial statements to obtain a proper understanding of the financial information and the underlying performance of the business. The tax impact of the above items is a £11.9m credit (30 June 2017: £12.2m credit). These items are discussed below:

Continuing:

Amortisation of acquired intangible assets: the Group carries on its consolidated balance sheet significant balances related to acquired intangible assets. The amortisation of these assets, and any impairment charges, are reported separately as they distort the in-year trading results and performance of the acquired businesses is assessed through the underlying operational results.

Capita Asset Services indemnity and settlement provision: these costs at 30 June 2017 relate to the litigation and regulatory review concerning the Connaught Income series 1 Fund ("The Fund") (see note 15), which is historical in nature and tied to previous acquisitions. These are included in specific items due to their size and nature.

Litigation and claims: this charge relates to the derecognition of an insurance asset which was recognised within specific items in a prior period. The original claim to which the asset related was recognised in specific items due to its nature and size.

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

Acquisition-related costs and stamp duty: these costs incurred with acquisitions in 2017 are not included in the assessment of business performance which is based on the underlying results. IFRS requires certain costs incurred in connection with acquired businesses to be recorded within the condensed consolidated income statement. These charges are not included in the internal assessment of business performance which as above is based on the underlying operational results. These charges are therefore separately disclosed as specific items.

Discontinued:

Capita Asset Services indemnity and settlement provision: these releases in 2018 relate to the litigation and regulatory review concerning the Connaught Income series 1 Fund ("The Fund") (see note 15) following a third party calculation of the liability being less than the amount provided. This relates to the Capita Asset Services businesses disposed of in the second half of 2017. These are included in discontinued specific items to be consistent to the disclosure in the 2017 annual report and accounts.

7 Segmental information

The Group's operations are managed separately according to the nature of the services provided, with each segment representing a strategic business division offering a different package of client outcomes across the markets the Group serves.

As announced in the 2017 Annual Report, the Group in 2018 introduced a new simplified divisional structure around five markets: Software, People Solutions, Customer Management, Government Services, and IT and Networks. Capita has also formed a sixth division, Specialist Services, which includes those businesses which either (a) are not within Capita's key growth markets and/or (b) have little in common with other divisions and/or (c) are at an early phase in their development but may be scaled up in the future. These businesses are mostly stand-alone operations and are being managed on a portfolio basis in order to maximise value. The divisions are supported by a common set of group capabilities including operations, sales and marketing, technology and support functions, and are reported separately as 'Group trading and central services'.

Comparative information has been restated accordingly. The Board believe the changes improve accountability and transparency across the Group.

	Software	People Solutions	Customer Management	Government Services	IT and Networks	Specialist Services	Group trading and central services	Total underlying	Business Exits	Specific Items	Total
6 months to 30 June 2018	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Continuing operations											
Long-term contractual	**178.9**	**146.7**	**283.4**	**341.5**	**137.8**	**325.9**	**8.8**	**1,423.0**	**—**		**1,423.0**
Short-term contractual	**17.2**	**18.8**	**116.1**	**1.7**	**32.8**	**100.8**	**13.3**	**300.7**	**33.9**		**334.6**
Transactional (point in time)	**4.1**	**86.4**	**0.9**	**43.8**	**27.0**	**92.2**	**0.6**	**255.0**	**—**		**255.0**
Total segment revenue	**200.2**	**251.9**	**400.4**	**387.0**	**197.6**	**518.9**	**22.7**	**1,978.7**	**33.9**		**2,012.6**
Trading revenue	**225.0**	**324.8**	**454.9**	**393.5**	**279.8**	**559.9**	**48.5**	**2,286.4**	**—**		**2,286.4**
Inter-segment revenue	**(24.8)**	**(72.9)**	**(54.5)**	**(6.5)**	**(82.2)**	**(41.0)**	**(25.8)**	**(307.7)**	**—**		**(307.7)**
Total underlying segment revenue	**200.2**	**251.9**	**400.4**	**387.0**	**197.6**	**518.9**	**22.7**	**1,978.7**	**—**		**1,978.7**
Business exits	**—**	**—**	**—**	**—**	**—**	**33.9**	**—**		**33.9**		**33.9**
Total segment revenue	**200.2**	**251.9**	**400.4**	**387.0**	**197.6**	**552.8**	**22.7**				**2,012.6**
Underlying operating profit before significant contracts and restructuring	**48.8**	**16.0**	**15.7**	**12.6**	**21.5**	**85.7**	**(43.1)**	**157.2**			**157.2**
Significant contracts and restructuring	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(49.1)**			**(49.1)**
Underlying operating profit	**48.8**	**16.0**	**15.7**	**12.6**	**21.5**	**85.7**	**(43.1)**	**108.1**	**—**		**108.1**
Business exits	**—**	**—**	**—**	**—**	**—**	**11.7**	**—**		**11.7**		**11.7**
Total trading result	**48.8**	**16.0**	**15.7**	**12.6**	**21.5**	**97.4**	**(43.1)**				**119.8**
Non-trading items:											
Business exits - non trading									**(1.7)**		**(1.7)**
Specific items - See note 6										**(51.4)**	**(51.4)**
Operating profit/(loss)								**108.1**	**10.0**	**(51.4)**	**66.7**
Net finance costs								**(27.6)**	**—**	**(9.4)**	**(37.0)**
Loss on business disposal								**—**	**12.6**	**—**	**12.6**
Profit/(loss) before tax								**80.5**	**22.6**	**(60.8)**	**42.3**
Income tax (expense)/credit								**14.1**	**(2.2)**	**11.9**	**23.8**
Profit/(loss) for the period - continuing operations								**94.6**	**20.4**	**(48.9)**	**66.1**
Profit/(loss) for the period - discontinued operations								**—**	**—**	**4.4**	**4.4**
Profit/(loss) for the period - total								**94.6**	**20.4**	**(44.5)**	**70.5**

6 months to 30 June 2017	Software £m	People Solutions £m	Customer Management £m	Government Services £m	IT and Networks £m	Specialist Services £m	Group trading and central services £m	Total underlying £m	Business Exits £m	Specific Items £m	Total £m
Continuing operations											
Long -term contractual	181.1	141.1	291.5	372.4	148.1	315.9	4.3	1,454.4	—		1,454.4
Short-term contractual	17.5	21.5	122.7	2.2	31.8	139.8	—	335.5	0.9		336.4
Transactional (point in time)	4.0	93.4	—	49.7	38.0	90.9	—	276.0	60.5		336.5
Total segment revenue	202.6	256.0	414.2	424.3	217.9	546.6	4.3	2,065.9	61.4		2,127.3
Trading revenue	219.2	327.2	467.3	437.8	298.4	598.2	40.0	2,388.1	—		2,388.1
Inter-segment revenue	(16.6)	(71.2)	(53.1)	(13.5)	(80.5)	(51.6)	(35.7)	(322.2)	—		(322.2)
Total underlying segment revenue	202.6	256.0	414.2	424.3	217.9	546.6	4.3	2,065.9	—		2,065.9
Business exits	—	61.4	—	—	—	—	—		61.4		61.4
Total segment revenue	202.6	317.4	414.2	424.3	217.9	546.6	4.3				2,127.3
Underlying operating profit before significant contracts and restructuring	55.2	29.1	35.2	37.6	33.4	82.8	(44.9)	228.4			228.4
Significant contracts and restructuring	—	—	—	—	—	—	—	—			—
Underlying operating profit	55.2	29.1	35.2	37.6	33.4	82.8	(44.9)	228.4	—		228.4
Business exits	—	—	0.1	0.2	—	0.2	—		0.5		0.5
Total trading result	55.2	29.1	35.3	37.8	33.4	83.0	(44.9)				228.9
Non-trading items:											
Business exits - non trading									(64.4)		(64.4)
Specific items - See note 6										(101.9)	(101.9)
Operating profit/(loss)								228.4	(63.9)	(101.9)	62.6
Net finance costs								(33.4)	—	2.1	(31.3)
Loss on business disposal								—	(3.7)	—	(3.7)
Profit/(loss) before tax								195.0	(67.6)	(99.8)	27.6
Income tax (expense)/credit								(36.0)	(0.1)	12.2	(23.9)
Profit/(loss) for the period - continuing operations								159.0	(67.7)	(87.6)	3.7
Profit/(loss) for the period - discontinued operations								—	25.8	—	25.8
Profit/(loss) for the period - total								159.0	(41.9)	(87.6)	29.5

The tables below show the order book for each division, categorised into long-term contractual (contracts with length greater than 2 years) and short-term contractual (contracts with length less than 2 years). The length of the contract is calculated from the start of the service commencement date. The figures represent the aggregate amount of currently contracted transaction price allocated to the performance obligations that are unsatisfied or partially unsatisfied. Revenue expected to be recognised upon satisfaction of these performance obligations as of 30 June 2018 is as follows:

Order book 30 June 2018	**Software £m**	**People Solutions £m**	**Customer Management £m**	**Government Services £m**	**IT and Networks £m**	**Specialist Services £m**	**Group trading and central services £m**	**Total £m**
Long-term contractual	**513.7**	**708.9**	**2,031.5**	**2,297.1**	**397.7**	**1,595.7**	**3.6**	**7,548.2**
Short-term contractual	**41.2**	**3.1**	**8.4**	**—**	**—**	**100.3**	**—**	**153.0**
Total	**554.9**	**712.0**	**2,039.9**	**2,297.1**	**397.7**	**1,696.0**	**3.6**	**7,701.2**

The table below shows the time bands of the expected timing of revenue to be recognised on long-term contractual as of 30 June 2018:

Time bands of long- term contractual in order book	Software	People Solutions	Customer Management	Government Services	IT and Networks	Specialist Services	Group trading and central services	Total
30 June 2018	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
< 1 year	**276.4**	**220.4**	**558.5**	**484.8**	**193.0**	**412.6**	**0.5**	**2,146.2**
1-5 years	**216.3**	**443.8**	**1,331.5**	**1,164.1**	**143.1**	**780.6**	**2.2**	**4,081.6**
> 5 years	**20.9**	**44.8**	**141.5**	**648.2**	**61.7**	**402.5**	**0.8**	**1,320.4**
Total	**513.6**	**709.0**	**2,031.5**	**2,297.1**	**397.8**	**1,595.7**	**3.5**	**7,548.2**

The order book represents the consideration to which the Group will be entitled to receive from the customers when the Group satisfies the remaining performance obligations in the contracts. However, the total revenue that will be earned by the Group will also include volumetric revenue, new wins, scope changes and anticipated contract extensions. These elements have been excluded from the figures in the tables above as they are not contracted. In addition, revenue from contract extensions is also excluded in the order book unless they are pre-priced extensions whereby the Group has a legal binding obligation to deliver the performance obligations during the extension period. The total revenue related to pre-priced extensions that has been included in the tables above amounted to £551m. 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 £7.5bn revenue to be earned on long-term contractual, £4.5bn relates to material contracts to the Group. This amount excludes revenue that will be derived from frameworks (transactional (point in time) contracts) and non-contracted volumetric revenue from these material contracts, which together are expected to contribute an additional £1.5bn of revenue to the Group over the life of these contracts.

In January 2018, we announced that the administration of Prudential's life and pension business, around 2% of Group revenue and £0.2bn in the 30 June 2018 order book disclosed above, will be transferring from Capita to a new supplier later in 2018.

8 Net finance costs

	6 months to 30 June 2018 £m	6 months to 30 June 2017 £m
Interest receivable	**(0.6)**	(0.1)
Private placement loan notes[1]	**20.0**	18.8
Fixed rate interest rate swaps - realised	**—**	3.2
Bank loans and overdrafts	**3.4**	6.8
Net interest cost on defined benefit pension schemes	**4.8**	4.7
Interest payable	**28.2**	33.5
Underlying net finance costs	**27.6**	33.4
Fixed rate interest rate swaps – mark-to-market	**—**	(0.5)
Discount unwind on public sector subsidiary partnership payment	**0.8**	1.0
Non-designated foreign exchange forward contracts – mark-to-market	**3.6**	(1.6)
Fair value hedge ineffectiveness[2]	**(3.7)**	(1.0)
Private placement loan notes prepayment[3]	**8.7**	—
Specific items net finance (income)/costs	**9.4**	(2.1)
Total net finance costs	**37.0**	31.3

[1] Included in Underlying Private Placement loan notes interest is £2.0m of additional coupon interest at a rate of 0.75% per annum
[2] Fair value hedge ineffectiveness includes the costs of the early termination of fair value hedges related to the early repayment of the Private Placement Notes, ineffectiveness from changes in currency basis, and the movement in mark-to-market valuations on hedge derivatives from the perceived change in the credit worthiness of the counterparties to those instruments.
[3] Private Placement loan notes prepayment cost includes the make-whole costs paid to noteholders on early repayment of principal on the Private Placement loan notes from the proceeds of the rights issue.

9 Tax

The underlying income tax credit for the half year of £14.1m resulted in an underlying negative tax recovery rate of 17.5% (H1 2017: income tax charge of £36.0m and tax rate 18.5%), which was favourably impacted by a specific one-off deferred tax credit arising from a re-assessment of the recognition of deferred tax balances on tax losses since the year end. Prior to the recognition of this deferred tax credit, the underlying tax rate for the half year was 18.9%.

10 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.

The weighted average number of ordinary shares for the period to 30 June 2017 has been restated to reflect the rights issue completed in the period (see note 18). The adjustment to the weighted average number of ordinary shares reflects the bonus element of the rights issue. All other factors remain unchanged.

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

The following reflects the earnings and share data used in the basic and diluted earnings/(loss) per share computations:

	30 June 2018		30 June 2017	
	Continuing operations	**Total operations**	Continuing operations	Total operations
	£m	**£m**	£m	£m
Underlying profit attributable to shareholders	**87.4**	**87.4**	152.5	152.5
Total profit/(loss) attributable to shareholders:				
Profit for the period	66.1	70.5	3.7	29.5
Less: Non-controlling interests	(5.0)	(5.0)	(4.4)	(4.4)
	61.1	**65.5**	(0.7)	25.1

	30 June 2018 m	Restated 30 June 2017 m	Reported 30 June 2017 m
Weighted average number of ordinary shares (excluding trust and treasury shares) for basic earnings per share	**1,256.1**	1,089.9	665.3
Dilutive potential ordinary shares:			
Employee share options	**11.7**	1.4	1.4
Weighted average number of ordinary shares (excluding trust and treasury shares) adjusted for the effect of dilution	**1,267.8**	1,091.3	666.7

				Restated		Reported	
		30 June 2018		30 June 2017		30 June 2017	
		Continuing operations p	**Total operations p**	Continuing operations p	Total operations p	Continuing operations p	Total operations p
Basic earnings / (loss) per share	– underlying	**6.96**	**6.96**	13.99	13.99	22.92	22.92
	– reported	**4.86**	**5.21**	(0.07)	2.30	(0.11)	3.77
Diluted earnings / (loss) per share	– underlying	**6.89**	**6.89**	13.97	13.97	22.87	22.87
	– reported	**4.82**	**5.17**	(0.07)	2.30	(0.11)	3.76

11 Dividends

The Board does not recommend the payment of an interim dividend in 2018.

12 Goodwill

Goodwill acquired through business combinations has been allocated to Cash-Generating Units ("CGUs"), for impairment testing purposes, on the basis of the expected benefit that will accrue to the individual CGU through synergies realised from the acquisitions and integration with the Group as a whole. These represent the lowest level within the Group at which goodwill can be allocated on a reasonable and consistent basis.

The objective of the new strategy announced in April 2018 is to become a more focussed and predictable business with improved returns, stronger client relationships and sustainable free cash flow. Since April, the Group has put in place a new organisational structure, which is comprised of six divisions: Software, People Solutions, Customer Management, Government Services, IT and Networks, and Specialist Services. Following this re-organisation, the Group has reviewed the historical assessment of CGUs and the allocation of goodwill. Reflecting the way management now exercises oversight and monitors the Group’s performance, the Board concluded that the lowest level at which goodwill is monitored is at the divisional level for three divisions, and at a sub-divisional level for the other three divisions, and goodwill has been reallocated to these new CGUs or groups of CGUs. As at 30 June 2018, the Group has 9 CGUs or CGU groups for the purpose of impairment testing of goodwill. The opening goodwill balance has been reallocated for comparable purposes. As the transformation programme progresses, and the Board will continue to assess the level at which management exercises 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 Cash-Generating Units

The following table shows the allocation of goodwill to CGUs.

				Government Services		IT and Networks		Specialist Services		
	Software	People Solutions	Customer Management	Central Government	Local Government	IT Services	Network Services	Specialist Regulated Services	Specialist Services	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2018	**275.6**	**203.5**	**138.6**	**8.7**	**33.8**	**117.7**	**108.5**	**—**	**481.5**	**1,367.9**
Additions	—	—	—	—	—	—	—	—	—	—
Fair value adjustment	—	—	—	—	—	—	—	—	—	—
Disposals	—	—	—	—	—	—	—	—	—	—
Held for sale	—	—	—	—	—	—	—	—	(50.9)	(50.9)
Exchange movement	—	—	(0.1)	—	—	—	—	—	—	(0.1)
Impairment	—	—	—	—	—	—	—	—	—	—
At 30 June 2018	**275.6**	**203.5**	**138.5**	**8.7**	**33.8**	**117.7**	**108.5**	**—**	**430.6**	**1,316.9**

In preparing these interim condensed consolidated financial statements, the Group undertook a review to identify indicators of impairment of goodwill. Consideration was given to post-year end performance against forecasts used in the year end impairment testing and where this gave rise to an indicator of potential impairment, further review was performed. No impairments were identified as at 30 June 2018.

13 Contract fulfilment assets

	Total
	£m
As at 1 January 2018	**252.5**
Additions	61.5
Transfers from current contract fulfilment assets	15.0
Impairment and derecognition	(13.8)
Utilised during the year - underlying	(43.0)
As at 30 June 2018	**272.2**

In preparing these half year condensed consolidated financial statements, management undertook a review to identify indicators of impairment of contract fulfilment assets. Management determined whether or not the contract fulfilment assets and capitalised costs to obtain a contract were impaired by:

- comparing the carrying amount of the asset to the remaining amount of consideration that the Group expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, management used the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price were removed for the impairment test; and/or
- assessing if the costs incurred in generating or enhancing resources exceed the expected net present value to the Group of these resources.

If a contract or specific performance obligation exhibited marginal profitability or other indicators of impairment, judgement was applied to ascertain whether or not the future economic benefits from these contracts were sufficient to recover these assets. In performing this impairment assessment, management is required to make an assessment of the costs to complete the contract. The ability to accurately forecast such costs involves estimates around cost savings to be achieved over time, anticipated profitability of the contract, as well as future performance against any contract-specific KPIs that could trigger variable consideration or service credits.

Contract fulfilment asset provisions for impairment of £13.8m were identified as at 30 June 2018 relating to assets capitalised in the period (30 June 2017: £nil, 31 December 2017: £14.1m) within underlying cost of sales (see note 3). The review resulted in the derecognition of £nil (30 June 2017: £nil; 31 December 2017: £9.9m) of contract fulfilment assets as no further economic benefits are expected to flow from the Group's use of the assets.

14 Deferred income

	Notes	Non-current £m	Current £m	Total £m
As at 1 January 2018		**314.0**	**1,201.2**	**1,515.2**
Transfer from non-current to current		**(244.3)**	**244.3**	**—**
Contract cash received in the period		**261.5**	**1,675.7**	**1,937.2**
Recognised as revenue in the period		**—**	**(2,012.6)**	**(2,012.6)**
Transfer to held for sale	4	**—**	**(4.3)**	**(4.3)**
As at 30 June 2018		**331.2**	**1,104.3**	**1,435.5**

The Group's deferred income balances solely relate to revenue from contracts with customers. Movements in the deferred income balances were driven by transactions entered into by the Group within the normal course of business in the period, other than the accelerated revenue recognised of £10.0m relating to the ending of our general insurance contract with Marsh (2017: £22.0m from the re-shaping of the DIO contract).

15 Provisions

	Restructuring provision £m	Business exit provision £m	Asset Services indemnity provision £m	Claims and litigation provision £m	Property provision £m	Other £m	Total £m
At 1 January 2018	**10.6**	**37.0**	**69.1**	**64.3**	**22.5**	**9.1**	**212.6**
Utilisation	**(8.2)**	**(21.6)**	**(61.4)**	**(9.0)**	**(0.3)**	**(2.9)**	**(103.4)**
Provided/(released) in the period - net	**16.3**	**1.7**	**(4.6)**	**2.9**	**1.8**	**(0.2)**	**17.9**
Transfer to held for sale	**—**	**—**	**—**	**—**	**(0.1)**	**—**	**(0.1)**
At 30 June 2018	**18.7**	**17.1**	**3.1**	**58.2**	**23.9**	**6.0**	**127.0**

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

Judgement is required in measuring and recognising provisions related to pending litigation or other outstanding claims subject to negotiated settlement, mediation and arbitration, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the financial settlement. Because of the inherent uncertainty in this evaluation process, actual losses may be different from the originally estimated provision. Where practicable, the range of reasonably possible outcomes and sensitivities of the carrying amounts to the methodology, assumptions and estimates, the reason for the sensitivity, the expected resolution of uncertainties and the range of reasonable possible alternatives, are provided below. Where no reliable basis of estimation can be made no provision is recorded, however, contingent liabilities disclosures are given when there is a greater than a remote probability of outflow of economic benefits.

Restructuring provision: The provision represents the cost of reducing role count where there is a constructive obligation created through communication to affected employees which has crystallised a valid expectation that roles are at risk, and the onerous nature of property lease provisions (net of any sub-letting opportunity) on a discounted basis, where due to the reduced requirement for space there is additional surplus capacity. As the Group's review of its property portfolio continues, additional onerous property leases may be identified.

Business exit provision: The provision relates to the cost of exiting businesses through disposal or closure including professional fees related to business exits and the costs of separating the businesses being disposed.

Asset Services indemnity provision: In 2017 the Group agreed a full and final settlement with the Financial Conduct Authority ("FCA") regarding the Connaught Income Series 1 Fund ("The Fund"). Capita Financial Managers Limited ("CFM") was the Operator of the Fund until September 2009, when it was replaced by an unrelated company as Operator, following which CFM had no further involvement with the Fund. The Fund went into liquidation in 2012 and its liquidator brought a claim against both former Operators, which for its part, Capita settled in 2016 for a sum of £18.5m.

The FCA undertook a formal review of the activities of both Operators and announced that its conclusion is that CFM did not meet all of its regulatory requirements in the period April 2008 to September 2009. To ensure that investors receive appropriate redress and to bring this matter to a close enabling the smooth disposal of CFM, CFM and Capita agreed a full and final settlement with the FCA. In reaching this settlement, the full cooperation which CFM has given to the FCA during the course of its investigation has been acknowledged.

CFM agreed to a further £66.0m being made available for the benefit of the Fund's investors, with Capita agreeing to fund this amount. The FCA considered this payment would be sufficient to return the amount originally invested, taking into account any interest, distributions and other payments that have already been received, with the intention of placing investors as closely as possible back into the position they would have been in if they had never invested in the Fund.

This settlement allowed for the available funds to be directed towards the Fund's Investors. Given the circumstances, the FCA did not consider that it would be appropriate to require CFM to pay a financial penalty.

Capita made provision for the redress payment and associated legal costs of £66.8m as at 31 December 2017. CFM and the FCA subsequently reached agreement, on the basis of third party calculations of the liability due, such that the final amount of the redress payment will not exceed £61.4m, and accordingly £4.6m of the provision has been released.

Capita completed the disposal of its Asset Services businesses, including CFM, to the Link Group on 3 November 2017. Capita plc, as part of the sale of the Capita Asset Services businesses, has provided an indemnity against certain legacy claims. The provisions held, namely the Asset Services settlement provision which includes provisions for Arch Cru, Connaught and other legacy claims, have therefore been retained within the Group.

Giving due consideration to these claims, the Group provided £69.1m (including the £66.8m above) at 31 December 2017. A provision of £3.1m remains as at 30 June 2018 and is expected to unwind within the next 12 months.

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

In the period, the Group has settled a number of liabilities which it had provided for in previous years. Additionally, it has provisions, which originate due to the nature of the Group's activities and revised existing provisions where more information on the progress of the claim has become apparent.

Included in the amounts provided for, £30.0m relates to two claims:

1. a contract within the Group's Real Estate & Infrastructure business that was notified to the Group during 2017. The related contract was delivered in 2007; and
2. a contract within the Group's Employee Benefits business where more information on the progress of the claim has become apparent. The related contract was delivered in 2009.

The Group's exposure to claims is mitigated by having in place a number of large insurers providing cover for the Group's activities, albeit insurance recoveries are only recognised as an asset at the point the recovery is virtually certain. An asset has been recognised of £1.3m as at 30 June 2018 in respect of recoveries under an indemnity, no other recovery assets have been recognised.

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

Property provision: Includes a provision, on a discounted basis, for the difference between the market value of property leases acquired in 2011 with the Ventura and Vertex Private Sector acquisitions and the lease obligations committed to at the date the leases were signed by the previous owners. This is in accordance with IFRS 3 (revised) which requires the use of fair value measurement. The remaining property provision is made on a discounted basis for the future rent expense and related cost of leasehold property (net of estimated sub-lease income) where the space is vacant or currently not planned to be used for ongoing operations. The expectation is that this expenditure will be incurred over the remaining periods of the leases which range from 1 to 24 years.

Other provision: 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 a period of 1 to 10 years.

16 Additional cash flow information

	Notes	30 June 2018 Underlying before significant new contracts and restructuring £m	30 June 2018 Significant new contracts and restructuring £m	30 June 2018 Total underlying £m	30 June 2017 Underlying before significant new contracts and restructuring £m	30 June 2017 Significant new contracts and restructuring £m	30 June 2017 Total underlying £m
Cash flows from operating activities							
Operating profit before interest and taxation		**157.2**	**(49.1)**	**108.1**	228.4	–	228.4
Adjustment for non cash items:							
Depreciation and amortisation		**41.4**	**–**	**41.4**	43.3	–	43.3
Share based payment expense		**4.0**	**–**	**4.0**	3.5	–	3.5
Employee benefits		**6.9**	**–**	**6.9**	17.7	–	17.7
Other		**1.3**	**–**	**1.3**	(1.1)	–	(1.1)
Working capital movements:							
Trade and other receivables		**(74.0)**	**–**	**(74.0)**	(30.0)	–	(30.0)
Trade and other payables		**(88.6)**	**3.7**	**(84.9)**	(63.2)	–	(63.2)
Deferred income and contract fulfilment assets		**(94.8)**	**–**	**(94.8)**	87.6	–	87.6
Contribution into pension scheme		**(12.0)**	**–**	**(12.0)**	(12.3)	–	(12.3)
Movement in provisions	15	**1.3**	**8.1**	**9.4**	(16.9)	(15.4)	(32.3)
Income tax refunded		**14.8**	**–**	**14.8**	16.0	–	16.0
Net interest paid		**(16.7)**	**–**	**(16.7)**	(28.7)	–	(28.7)
Cash generated from/(used by) continuing operations		**(59.2)**	**(37.3)**	**(96.5)**	244.3	(15.4)	228.9
Cash flows from investing activities							
Purchase of property, plant and equipment		**(37.1)**	**–**	**(37.1)**	(30.5)	–	(30.5)
Purchase of intangible assets		**(18.4)**	**–**	**(18.4)**	(19.2)	–	(19.2)
Free cash flow		**(114.7)**	**(37.3)**	**(152.0)**	194.6	(15.4)	179.2

Reconciliation of net cash flow to movement in net debt

	Net debt at 1 January 2018 £m	Cash movement in net debt pre rights issue £m	Rights issue [2] £m	Debt repayment[3] £m	Non-cash movement [4] £m	Net debt at 30 June 2018 £m
Cash, cash equivalents and overdrafts	**478.4**	**(296.4)**	**671.1**	**(246.6)**	**(1.4)**	**605.1**
Other loan notes	**(0.3)**	**–**	**–**	**–**	**–**	**(0.3)**
Private placement loan notes[1]	**(1,664.0)**	**–**	**–**	**307.5**	**0.1**	**(1,356.4)**
Currency swaps in relation to USD denominated private placement loan notes[1]	**176.8**	**–**	**–**	**(60.6)**	**4.4**	**120.6**
Interest rate swaps in relation to GBP denominated private placement loan notes[1]	**5.4**	**–**	**–**	**(0.5)**	**(1.4)**	**3.5**
Term loan	**(100.0)**	**–**	**–**	**–**	**–**	**(100.0)**
Finance leases	**(0.2)**	**–**	**–**	**0.2**	**–**	**–**
Underlying net debt	**(1,103.9)**	**(296.4)**	**671.1**	**–**	**1.7**	**(727.5)**
Deferred consideration	**(13.1)**	**11.1**	**–**	**–**	**–**	**(2.0)**
Net debt	**(1,117.0)**	**(285.3)**	**671.1**	**–**	**1.7**	**(729.5)**

[1] The sum of these items held at fair value equates to the underlying value of the Group's private placement loan note's debt of £1,232.3m (31 December 2017: £1,481.8m).

[2] The rights issue raised gross funds of £700.7m. The total amount capitalised to share capital and share premium was £662.7m (£700.7m less issuance costs of £38.0m). As at 30 June 2018, £8.4m of issuance costs remain in payables, resulting in net cash flow proceeds from rights issue amounting to £671.1m.

[3] The repayment of private placement loan notes of £307.5m includes financing arrangement costs of £3.1m. The currency swaps related to the USD denominated private placement loan notes were settled as a result of the repayment and resulted in cash of £60.6m.

[4] Non-cash movement relates to foreign exchange on cash, fair value changes on the swaps, amortisation of loan notes issue costs and the amortisation of the discount on the Euro debt issue.

	Net debt at 1 January 2017 £m	Cash flow movements £m	Non-cash flow movements £m	Net debt at 30 June 2017 £m
Cash, cash equivalents and overdrafts	565.8	36.0	(3.2)	598.6
Other loan notes	(0.3)	—	—	(0.3)
Private placement loan notes[1]	(1,961.7)	39.9	66.8	(1,855.0)
Currency swaps in relation to USD denominated private placement loan notes[1]	357.9	(4.9)	(72.8)	280.2
Interest rate swaps in relation to GBP denominated private placement loan notes[1]	7.7	—	(1.2)	6.5
Term loan	(650.0)	30.0	—	(620.0)
Finance leases	(2.3)	1.8	—	(0.5)
Underlying net debt	(1,682.9)	102.8	(10.4)	(1,590.5)
Fixed rate interest rate swaps	(85.1)	84.6	0.5	—
Deferred consideration	(10.8)	5.8	—	(5.0)
Net debt	(1,778.8)	193.2	(9.9)	(1,595.5)

[1] The sum of these items held at fair value equates to the underlying value of the Group's private placement loan note's debt of £1,568.3m (31 December 2016: £1,596.1m).

17 Financial instruments

Carrying values and fair values of financial instruments

The following table analyses by classification and category the Group's financial instruments (excluding short term debtors, creditors and cash in hand) that are carried in the condensed consolidated financial statements. The carrying values are a reasonable approximation of fair value other than 12 fixed rate loan notes totalling £559.2m (31 December 2017: £604.4m) included below in the loan note value of £1,356.4m (31 December 2017: £1,664.0m), with a carrying value of £559.2m (31 December 2017: £604.4m) and a fair value of £571.2m (31 December 2017: £629.2m). The fair value of these loan notes has been calculated by discounting the expected future cash flows at prevailing interest rates and this fair value measurement would be categorised within level 2 of the fair value hierarchy.

As at 30 June 2018	At fair value through the income statement	At amortised cost	Derivatives used for hedging	Other financial liabilities	Total
	£m	£m	£m	£m	£m
Current financial assets					
Unlisted equity securities	1.2	—	—	—	1.2
Deferred consideration	—	3.0	—	—	3.0
Cash flow hedges	—	—	2.8	—	2.8
Non-designated foreign exchange forwards and swaps	2.6	—	—	—	2.6
Currency swaps in relation to USD denominated loan notes	—	—	26.0	—	26.0
	3.8	3.0	28.8	—	35.6
Non-current financial assets					
Unlisted equity securities	5.3	—	—	—	5.3
Deferred consideration	—	0.6	—	—	0.6
Cash flow hedges	—	—	1.4	—	1.4
Non-designated foreign exchange forwards and swaps	2.0	—	—	—	2.0
Interest rate swaps in relation to GBP denominated loan notes	—	—	3.5	—	3.5
Currency swaps in relation to USD denominated loan notes	—	—	101.7	—	101.7
	7.3	0.6	106.6	—	114.5
Current financial liabilities					
Overdrafts	—	—	—	362.5	362.5
Private placement loan notes	—	—	—	72.5	72.5
Term loan	—	—	—	100.0	100.0
Cash flow hedges	—	—	1.9	—	1.9
Non-designated foreign exchange forwards and swaps	0.2	—	—	—	0.2
Contingent consideration	—	—	—	1.6	1.6
Public sector subsidiary partnership payment	—	—	—	9.4	9.4
Put options of non-controlling interests	—	—	—	105.7	105.7
	0.2	—	1.9	651.7	653.8
Non-current financial liabilities					
Other loan notes	—	—	—	0.3	0.3
Private placement loan notes	—	—	—	1,283.9	1,283.9
Cash flow hedges	—	—	0.8	—	0.8
Non-designated foreign exchange forwards and swaps	0.6	—	—	—	0.6
Currency swaps in relation to USD denominated loan notes	—	—	7.1	—	7.1
Contingent consideration	—	—	—	12.5	12.5
Deferred consideration	—	—	—	2.0	2.0
Public sector subsidiary partnership payment	—	—	—	37.9	37.9
Put options of non-controlling interests	—	—	—	11.1	11.1
	0.6	—	7.9	1,347.7	1,356.2

As at 31 December 2017	Available-for-sale	At fair value through the income statement	Loans and receivables	Derivatives used for hedging	Other financial liabilities	Total
	£m	£m	£m	£m	£m	£m
Current financial assets						
Available-for-sale assets	0.4	—	—	—	—	0.4
Deferred consideration	—	—	3.0	—	—	3.0
Insurance asset recoverable	—	—	5.0	—	—	5.0
Cash flow hedges	—	—	—	4.0	—	4.0
Non-designated foreign exchange forwards and swaps	—	4.1	—	—	—	4.1
Currency swaps in relation to USD denominated loan notes	—	—	—	72.2	—	72.2
	0.4	4.1	8.0	76.2	—	88.7
Non-current financial assets						
Available-for-sale assets	4.2	—	—	—	—	4.2
Deferred consideration	—	—	2.2	—	—	2.2
Cash flow hedges	—	—	—	3.8	—	3.8
Non-designated foreign exchange forwards and swaps	—	3.6	—	—	—	3.6
Interest rate swaps in relation to GBP denominated loan notes	—	—	—	5.4	—	5.4
Currency swaps in relation to USD denominated loan notes	—	—	—	113.1	—	113.1
	4.2	3.6	2.2	122.3	—	132.3
Current financial liabilities						
Overdrafts	—	—	—	—	443.3	443.3
Private placement loan notes	—	—	—	—	224.1	224.1
Cash flow hedges	—	—	—	1.6	—	1.6
Non-designated foreign exchange forwards and swaps	—	0.3	—	—	—	0.3
Contingent consideration	—	—	—	—	12.1	12.1
Deferred consideration	—	—	—	—	11.1	11.1
Obligations under finance leases	—	—	—	—	0.2	0.2
Public sector subsidiary partnership payment	—	—	—	—	9.4	9.4
Put options of non-controlling interests [2]	—	—	—	—	6.8	6.8
	—	0.3	—	1.6	707.0	708.9
Non-current financial liabilities						
Private placement loan notes	—	—	—	—	1,439.9	1,439.9
Other loan notes	—	—	—	—	0.3	0.3
Term loan	—	—	—	—	100.0	100.0
Cash flow hedges	—	—	—	1.1	—	1.1
Currency swaps in relation to USD denominated loan notes	—	—	—	8.5	—	8.5
Contingent consideration	—	—	—	—	12.5	12.5
Deferred consideration	—	—	—	—	2.0	2.0
Public sector subsidiary partnership payment	—	—	—	—	41.8	41.8
Put options of non-controlling interests	—	—	—	—	115.6	115.6
	—	—	—	9.6	1,712.1	1,721.7

[1] The 31 December 2017 comparatives have not been restated under IFRS 9. The comparatives are still classified under the IAS 39 classification as permitted by IFRS 9.

[2] It was agreed with the counterparty to one of the put options over non-controlling interests to cancel the option for cash consideration of £6.8m.

The fair value of financial instruments has been calculated by discounting the expected future cash flows at prevailing interest rates, except for unlisted equity securities. The valuation models incorporate various inputs including foreign exchange spot and forward rates and interest rate curves. Under IFRS 9 unlisted equity securities are held at FVTPL (2017 - IAS 39: available-for-sale assets) but are still carried at cost as the best indicator of fair value. The Group may enter into derivative financial instruments with multiple counterparties, all of which are financial institutions with investment grade credit ratings.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

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

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

As at 30 June 2018, the Group held the following financial instruments measured at fair value:

	30 June 2018 £m	31 December 2017 £m
Assets measured at fair value		
Non-designated foreign exchange forwards and swaps	**4.6**	7.7
Cash flow hedges	**4.2**	7.8
Foreign exchange swaps held for foreign net investment	**—**	—
Interest rate swaps in relation to GBP denominated loan notes	**3.5**	5.4
Currency swaps in relation to USD denominated loan notes	**127.7**	185.3
Liabilities measured at fair value		
Private placement loan notes	**785.2**	1,059.6
Cash flow hedges	**2.7**	2.7
Non-designated foreign exchange forwards and swaps	**0.8**	0.3
Foreign exchange swaps held for foreign net investment	**—**	—
Currency swaps in relation to USD denominated loan notes	**7.1**	8.5
Fixed rate interest rate swaps	**—**	—
Public sector subsidiary partnership payment	**47.3**	51.2
Put options of non-controlling interests	**116.8**	122.4
Contingent consideration	**14.1**	24.6

During both periods the Group only had Level 2 assets or liabilities measured at fair value apart from contingent consideration, the public sector subsidiary partnership payment and the put options of non-controlling interests which are Level 3 liabilities. It is the Group's policy to recognise transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer occurred. During the 6 months ended 30 June 2018, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into or out of Level 3 fair value measurements.

Contingent consideration arises in business acquisitions where the Group has agreed to pay the vendors additional consideration dependent on the achievement of performance targets in the periods post-acquisition. These performance periods are of up to 3 years in duration and will be settled in cash on their payment date on achieving the performance criteria. The Group makes provision for such contingent consideration for each acquisition based on an assessment of its fair value at the acquisition date. Contingent consideration has been calculated based on the Group's expectation of what it will pay in relation to the post-acquisition performance of the acquired entities by weighting the probability of a range of payments to give an estimate of the final obligation. A sensitivity analysis was performed on the expected contingent consideration of £14.1m. The sensitivity analysis performed adjusted the probability of payment of the contingent amounts. A 10% increase in the probability of contingent consideration being paid results in an increase in potential contingent consideration of £1.8m. A 10% decrease in the probability of the contingent consideration being paid results in a decrease in potential contingent consideration of £1.6m.

The public sector subsidiary partnership payment liability is an estimate of the annual preferred payments to be made by Axelos Limited (the partnership formed with the Cabinet Office) to the Cabinet Office in years 2018 to 2023. The amount is sensitive to movements in profitability, however there is a cap above which further movement does not impact value. In all reasonably plausible scenarios the cap is reached and therefore the sensitivity is nil. This payment is funded by AXELOS Limited and the carrying value of £47.3m has been derived by discounting the expected payment to arrive at its present value.

The put options of the non-controlling interests are measured at fair value based on the expected redemption value of the shares that will be paid in cash by the Group. This value is determined by reference to the expected date of exercise of the options, which is then discounted to arrive at a present value. The sensitivity of the valuation to movements in both the discount rate and the cash flows that have been used to calculate it, are as follows: a 10% increase/decrease in the earnings potential of the business results in a £12.6m increase/decrease in the valuation; a 1% increase/decrease in the discount rate applied to the valuation results in a £0.9m decrease/£0.9m increase in the valuation.

On 20 April 2018, Capita agreed the following with the holders of its US Private Placement Notes:

- the introduction of a permanent minimum basket size of £50m in relation to subsidiary indebtedness and permitted liens, replacing the temporary waiver, in line with the corresponding baskets under Capita's other financing arrangements;
- the carve-out of up to £100m worth of bonds and guarantees from the definition of indebtedness;
- certain restructuring costs to be excluded from the calculation of the covenant test, and certain assets to be excluded from the restrictions on disposals; and
- the flexibility to increase the leverage covenant from 3.0x to 3.5x if Capita would otherwise breach the covenant as a result of first-year losses from significant new contract wins as a result of the adoption of IFRS 15.

In return for these amendments to the terms of the US Private Placement Notes, the noteholders received the following:

- the prepayment of £150m of principal of the Private Placement Notes (plus a make-whole payment) from the proceeds of the rights issue together with an offer to prepay US Private Placement notes that would fall due for scheduled repayment in July or September 2018;
- the application of 50% of the net proceeds from future disposals to the prepayment of principal of the Private Placement Notes, with payment of make-whole, until such time as an estimated £315m of Private Placement Notes have been pre-paid; and
- a coupon uplift of 75 basis points.

The coupon uplift and restrictions on disposals will remain in place until Capita has repaid a total of £520m in principal under the US Private Placement Notes and satisfies a one time only test of leverage being less than 1.5x at the end of a testing period and for two further periods on a look-forward basis.

In June 2018, following receipt of the rights issue proceeds, £304m of US Private Placement debt was prepaid of which £153m was due to mature in the third quarter of 2018, together with £3.1m of financing arrangement costs, and £8.7m of associated prepayment costs.

Following completion of the Supplier Assessment Services disposal on 10 July 2018, under the terms of the agreement reached with the US Private Placement lenders, the company will repay a further £70m of the US Private Placement debt, and will incur associated costs which we estimate to be £2m.

The following table shows the reconciliation from the opening balances to the closing balances for level 3 fair values:

	Contingent consideration	Subsidiary partnership payment	Put options of non-controlling interests
	£m	£m	£m
At 31 December 2017	**24.6**	**51.2**	**122.4**
Profit and loss movement - administrative expenses	(0.1)	—	—
Discount unwind - net finance costs	—	0.8	—
Movements in put options recognised in equity	—	—	1.2
Put option cancellation fee	—	—	(6.8)
Utilised	(10.4)	(4.7)	—
At 30 June 2018	**14.1**	**47.3**	**116.8**

18 Issued share capital and share premium

Allotted, called up and fully paid	Share capital (m)	Share capital £m	Share premium £m	Treasury shares (m)	Treasury shares £m	Employee benefit trust shares (m)	Employee benefit trust shares £m
Ordinary shares of $2^{1}/_{15}$p							
At 1 January 2018	**670.1**	**13.8**	**501.3**	**2.9**	**(0.1)**	**1.6**	**(0.1)**
Shares issued	**1,001.0**	**20.7**	**642.0**	**—**	**—**	**10.4**	**(11.0)**
At 30 June 2018	**1,671.1**	**34.5**	**1,143.3**	**2.9**	**(0.1)**	**12.0**	**(11.1)**

In May 2018, the Group offered a rights issue to existing shareholders on the basis of 3 shares for every 2 fully paid ordinary shares held. The issue was fully subscribed and resulted in the issue of 1,001,032,281 ordinary shares at £0.70 per share. Gross proceeds of £700.7m were received resulting in an increase in share premium of £642.0m after expenses as shown in the half year condensed consolidated statement of changes in equity.

In the 6 months to June 2018, the Group did not purchase any Treasury shares and allotted nil (2017: 0.3m) shares with an aggregate nominal value of £nil (2017: £4,420). The total consideration received in respect of these shares was £nil (2017: £nil).

The Group will use shares held in the employee benefit trust ("EBT") in order to satisfy future requirements for shares under the Group's share option and long-term incentive plans. During the period, the EBT allotted 32,367 (2017: 69,337) ordinary $2^{1/15}$p shares with an aggregate nominal value of £669 (2017: £1,434) to satisfy exercises under the Group's share option and long-term incentive plans. The total consideration received in respect of these shares was £nil (2017: £nil). The Group acquired 3.2m (2017: nil) ordinary $2^{1/15}$p shares paying average market price of £1.87 per share with the total value of £6.0m (2017: £nil). Further, the Group exercised its rights under the rights issue, purchasing 7.2m of shares at £0.70 per share, paying £5.0m.

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

19 Capital commitments

At 30 June 2018, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £8.7m (31 December 2017: £8.8m).

20 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Compensation of key management personnel (including Directors of the parent company):

	6 months 30 June 2018 £m	6 months 30 June 2017 £m
Short-term employment benefits	**3.7**	4.2
Post-employment benefits	**0.1**	0.2
Share-based payments	**0.3**	0.4
	4.1	4.8

Gains on share options exercised in the period by key management personnel totalled £nil (30 June 2017: £0.4m).

On 23 September 2014, the Secretary of State for the Department for Energy and Climate Change granted Smart DCC Ltd (DCC), a wholly-owned subsidiary of the Group, a licence to establish and manage the smart metering communications infrastructure, governed by the Smart Energy Code. Each year the Group reassess whether it has control over DCC as required under IFRS 10. The Group's ability to control the relevant activities of DCC is restricted by DCC's operating licence. The power that the Group has over DCC's relevant activities by virtue of owning it is limited (given the restrictions in the licence). That power is held by the board of DCC where the Group has minority representation in compliance with the licence. The Group has therefore not consolidated DCC within its Group accounts.

During the period, the Group rendered administrative services to Smart DCC Ltd, a wholly-owned subsidiary which is not consolidated. The Group received £28.1m (2017: £23.2m) of revenue for these services. The services are procured by Smart DCC on an arm's length basis under the DCC licence. The services are subject to review by Ofgem to ensure that all costs are economically and efficiently incurred by Smart DCC.

The following companies are substantial shareholders in the Company and therefore a related party of the Company (in each case, for the purposes of the Listing Rules of the UK Listing Authority). The number of shares held on 20 July 2018 was as below:

Shareholder	No. of shares	% of voting rights
Veritas Asset Management LLP [1]	202,698,133	12.15
Invesco Ltd	164,717,268	9.87
Woodford Investment Management LLP	161,504,995	9.15
Investec Asset Management Ltd	150,247,817	9.01
BlackRock, Inc.	69,246,191	4.15
Coltrane Asset Management, L.P.	58,488,712	3.51
Marathon Asset Management LLP	52,761,558	3.16

[1] This includes the holding of Veritas Funds PLC.

21 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 £86.5m (31 December 2017: £88.4m).

As discussed in the 31 December 2017 annual report and accounts, one of the Group's major life and pensions clients is conducting a strategic review, the outcome of which is uncertain but could result in the continuation of the contract with amended terms or the termination of the contract. If the operation is terminated, the Group will incur associated costs, including the costs of transferring the service provided, and the impairment of associated contract assets, offset by the release of contract liabilities. As the outcome of the client's review is uncertain, the Group has not made any provision for a future outflow of funds that might result from the eventual outcome.

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

The Capita Group entities are parties to legal actions and claims which arise in the normal course of business. The Group throughout the year 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.

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

22 Post balance sheet events

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

In July 2018, the Group completed the disposal of Supplier Assessment Services, including Constructionline, and announced the sale of ParkingEye. Both have been disclosed as held for sale within business exits as at 30 June 2018. The disposal of ParkingEye is subject to certain approvals and is expected to complete later in 2018.

Following completion of the Supplier Assessment Services disposal on 10 July 2018, under the terms of the agreement reached with the US Private Placement lenders, the company will repay a further £70m of the US Private Placement debt, and will incur associated costs which we estimate will be £2m.

In January 2018, we announced that the administration of Prudential's life and pension business, around 2% of Group revenue and £0.2bn in the 30 June 2018 order book disclosed in note 7, will be transferring from Capita to a new supplier later in 2018. At the end of July 2018, the Prudential formally agreed the terms of the termination agreement. This removes the possibility that the initial contract will extend beyond this point, and in line with the Group's IFRS15 policy this will trigger the unwind of deferred income and the impairment of any contract specific assets where relevant. These entries will be recorded in the second half and will be recorded within underlying profits. This will be finalised following a review of all contract assets and liabilities, and full details will be included in the 2018 year end accounts.

INDEPENDENT REVIEW REPORT TO CAPITA PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated balance sheet, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

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

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

Directors' responsibilities

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

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

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

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

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

31 July 2018

Appendix 1 - Alternative Performance Measures (APMs) used in the half yearly report for the 6 months to 30 June 2018

The Group presents various APMs as the Directors believe that these are useful for users of the financial statements in helping to provide a balanced view of, and relevant information on, the Group's financial performance, position and cash flows. These APMs are mainly measures which disclose the 'underlying' performance of the Group excluding business exits and specific items.

The Group separately presents intangible amortisation, impairment of goodwill and acquired intangibles, acquisition contingent consideration movements, the financial impact of business exits or businesses in the process of being exited, acquisition expenses (if material), movements in the mark-to-market valuation of certain financial instruments and other specific items in the income statement which, in the Directors' judgement, need to be disclosed separately (see notes 4, 5 and 6) by virtue of their nature, size and incidence, in order for users of the financial statements to obtain a proper understanding of the financial information and the underlying performance of the business.

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

APMs presented	**30 June 2018**	30 June 2017	% change	Source or calculation
Revenue - Continuing operations				
Total revenue as reported	**£2,012.6m**	£2,127.3m	(5.4)%	Line item in income statement
Deduct: Business exit	**(£33.9m)**	(£61.4m)		Business exits in income statement
1. Underlying revenue	**£1,978.7m**	£2,065.9m	(4.2)%	
Deduct: Business exit		(£40.1m)		Revenue from businesses exited in H1 2018 (excluding discontinued operations)
2. Underlying revenue on a like-for-like basis	**£1,978.7m**	£2,025.8m	(2.3)%	Underlying revenue excluding results from businesses exited in both periods
Deduct: 2017 acquisitions	**(£2.6m)**			Additional contribution in H1 2018 of acquisitions acquired in 2017
Deduct: 2018 acquisitions	**—**			Contribution in H1 2018 of acquisitions acquired in H1 2018
3. Underlying organic revenue	**1,976.1**	£2,025.8m	(2.4)%	Underlying revenue excluding businesses exited and acquired
Prior year underlying revenue on a like-for-like basis	**£2,025.8m**			From Line 2 above
Total acquisitions	**£2.6m**			H1 2017 acquisitions plus H1 2018 acquisitions
4. Growth from acquisitions	**0.1 %**			Total acquisitions divided by prior year underlying revenue on a like-for-like basis
Profit - Continuing operations				
Operating profit as reported	**£66.7m**	£62.6m		Line item in income statement
Add back: Business exit	**(£10.0m)**	£63.9m		Business exits in income statement
Add back: Specific items	**£51.4m**	£101.9m		Specific items in income statement
5. Underlying operating profit	**£108.1m**	£228.4m	(52.7)%	
6. Underlying operating margin [KPI]	**5.5 %**	11.1%		Underlying operating profit / underlying revenue
Add back: Significant new contracts and restructuring	**£49.1m**	£0.0m		Line item in note 3 - Underlying operating profit
7. Underlying operating profit before significant new contracts and restructuring	**£157.2m**	£228.4m	(31.2)%	Underlying operating profit excluding businesses exited
Profit before tax as reported [KPI]	**£42.3m**	£27.6m		Line item in income statement
Add back: Business exit	**(£22.6m)**	£67.6m		Business exits in income statement
Add back: Specific items	**£60.8m**	£99.8m		Specific items in income statement
8. Underlying profit before tax [KPI]	**£80.5m**	£195.0m	(58.7)%	
9. Underlying earnings per share [KPI]	**6.96p**	13.99p	(50.3)%	Line item in income statement and note 10 - earnings per share
Cash flow - Continuing operations				
10. Underlying free cash flow [KPI]	**(£152.0m)**	£179.2m	(184.8)%	Line item in Cashflow Statement
11. Free cash flow after business exits and specific items [KPI]	**(£173.4m)**	£182.0m	(195.3)%	Line item in Cashflow Statement

APMs presented (continued)		30 June 2018	Restated 31 December 2017	Restated 30 June 2017	Source or calculation
Gearing					
Underlying EBIT		**£327.1m**	£447.4m	£482.8m	Underlying operating profit - rolling 12 month
Add back: operating profit for Held for Sale		**£10.2m**	£0.0m	£0.0m	Rolling 12 month
Add back: operating profit Held for Sale - discontinued		**£0.0m**	£0.0m	£30.8m	Rolling 12 month
Deduct: non-controlling interest		**(£15.0m)**	(£14.1m)	(£14.8m)	Underlying EBIT attributable to non-controlling interests - rolling 12 month
Deduct: acquisition costs		**(£0.6m)**	(£1.7m)	(£4.6m)	Annualised result from line items in note 6 - specific items
Add back: Significant new contracts and restructuring		**£67.0m**	£17.9m	£0.0m	Annualised result from line items in note 3 - underlying operating profit - rolling 12 month
Add back: (profit)/loss on disposal of non-current assets		**£1.8m**	£0.5m	£0.8m	Annualised result from line item in note 16 - additional cash flow information - rolling 12 month
Add back: share based payment charge		**£3.4m**	£2.9m	£0.0m	Rolling 12 month result from line item in note 16 - additional cash flow information (note: charge only)
Add back: non-current service pension charge		**£0.6m**	£0.8m	£2.8m	Rolling 12 month
Add back: amortisation on purchased intangibles		**£22.8m**	£19.9m	£1.5m	Rolling 12 month result from line item in note 16 - additional cash flow information
Adjusted EBITA	a	**£417.3m**	£473.6m	£499.3m	
Add back: pre-acquisition underlying profit		**£0.3m**	£0.3m	£1.4m	Rolling 12 month
Add back: depreciation		**£59.7m**	£63.5m	£104.5m	Rolling 12 month result from line item in note 16 - additional cash flow information
Adjusted EBITDA	b	**£477.3m**	£537.4m	£605.2m	
12. Underlying interest charge		**(£67.3m)**	(£64.4m)	(£64.9m)	Line item in the income statement on a rolling 12 month basis
Interest cost attributable to pensions		**£9.3m**	£9.2m	£4.7m	Rolling 12 month
Borrowing costs	c	**(£58.0m)**	(£55.2m)	(£60.2m)	Underlying interest charge excluding pension interest - rolling 12 month
13. Interest cover[2]	a/c	**7.2x**	8.6x	8.3x	Adjusted EBITA / Borrowing costs
Equity attributable to shareholders	d	**(£202.8m)**	(£999.0m)	£408.2m	Line item on balance sheet
15% of equity attributable to shareholders	e	**(£30.4m)**	(£149.9m)	£61.2m	
Contingent obligations under bonds and guarantees greater than £100m[1]	f	**-**	-	-	
Money Market Funds	h	**-**	£14.0m	-	
Net debt	i	£729.5m	£1,117.0m	£1,595.5m	Line item in note 16 - additional cash flow information
Adjusted net debt	j = f+h +i	**£729.5m**	£1,131.0m	£1,595.5m	
14. Adjusted net debt to Adjusted EBITDA ratio [KPI] 2017 value restated [1][2]	j/b	**1.53x**	2.10x	2.64x	
14. Adjusted net debt to Adjusted EBITDA ratio [KPI] 2017 value as reported			2.27x	2.86x	
Return on capital employed (ROCE)					
Underlying operating profit	A	**£394.1m**	£465.3m	£457.0m	Operating profit excluding business exits, specific items and restructuring cost (note 3) - rolling 12 month
Tax rate	B	**9.0 %**	17.7 %	18.5 %	2018 tax rate impacted by one off deferred tax credit - see Note 9 - rolling 12 month
Tax	C = A x B	**£35.5m**	£82.4m	£84.5m	Underlying operating profit multiplied by tax rate
Underlying operating profit after tax	D = A - C	**£358.6m**	£382.9m	£372.5m	Underlying profit less tax
Current period net liabilities	E	**(£128.6m)**	(£929.8m)	(£668.3m)	Line in balance sheet
Current period underlying net debt	F	**£727.5m**	£1,103.9m	£1,590.5m	Line item in note 16 - additional cash flow information
Adjustments to capital employed	G	**£1,298.5m**	£1,359.7m	£1,385.9m	Includes post-tax impact of accumulated acquired intangible amortisation, fixed rate swaps, put options and pensions
Capital employed incl Acquisitions	M^1 = E +F+G	**£1,897.4m**	£1,533.8m	£2,308.1m	
Less acquisition spend in the period	H	**(£1.2m)**	(£18.8m)	(£19.8m)	Consideration paid - cash acquired + debt acquired - rolling 12 month
Current period capital employed	I = E+F +G+H	**£1,896.2m**	£1,515.0m	£2,288.3m	Used as current period capital employed balance in average capital employed pre-acquisition 'N'
Prior period net liabilities	J	**(£668.3m)**	(£552.9m)	(£337.3m)	
Prior period underlying net debt	K	**£1,590.5m**	£1,682.9m	£1,796.7m	
Comparative prior period adjustments	L	**£1,385.9m**	£1,280.3m	£1,129.9m	Includes post-tax impact of accumulated acquired intangible amortisation, fixed rate swaps, put options and pensions
Prior period capital employed incl acquisitions	M^2 = J +K+L	**£2,308.1m**	£2,410.3m	£2,589.3m	Used as prior period capital employed balance in average capital employed pre-acquisition 'N'
Average capital employed pre-acquisitions	$N = (I+M^2)/2$	**£2,102.2m**	£1,962.7m	£2,438.8m	

Weighted average acquisition spend in the period	O	**£33.4m**	£35.8m	£12.8m	Pro rata number of months post-acquisition (including contingent and deferred consideration payments)
Average capital employed incl acquisitions	P = N +O	**£2,135.6m**	£1,998.5m	£2,451.6m	
15. ROCE [KPI]	Q = D / P	**16.8 %**	19.2 %	15.2 %	

(1) As noted in the 2017 Annual Report & Accounts, on 20 April 2018, Capita agreed various amendments with the noteholders under its US Private Placement Notes. This included the carve-out of up to £100m worth of bonds and guarantees from the definition of indebtedness. For covenant test purposes, this is prospective from 30 June 2018, but for the Group's Alternative Performance Measures, the comparatives have been restated to be presented on a consistent basis. In addition, the comparatives have been restated to include results of Held for Sale businesses at the relevant Balance Sheet dates.

(2) Adjusted net debt to adjusted EBITDA and interest cover, are calculated based on the Group's debt instrument with the narrowest headroom at the testing point.