Capita plc
Full Year Results 2019

Summary

We have made good progress with the transformation

- Creating a purpose-led organisation to drive long-term sustainable success
- Significant progress in fixing legacy issues and reducing 'cost of poor quality'
- Rebuilding trust with our colleagues and clients
- More investment needed than initially thought

Positioning ourselves for growth

- Focusing investment on software products and in-demand transformation capabilities
- Launch of Capita Consulting to drive origination, pipeline and pull-through revenue

2019 results

- Revenue decline reducing: revenue growth in H2 in four out of six divisions, order intake of £2.2bn in 2019
- Profit before tax of £275m: underpinned by strong cost-saving programme and one-offs
- Cash generation impacted by investment in delivering operational improvements

2020 outlook updated

- Generating modest organic growth and sustainable free cash flow[1] of at least £160m - both in line with current market expectations[2]
- Exploring non-core disposals to further simplify the portfolio and recycle capital

Confidence in long term unchanged

- Continue to build a more focused, sustainable business for the long term with growing free cash flow

Jon Lewis, Chief Executive Officer, said:

"Over the past two years, we have made significant progress with our multi-year transformation at Capita to create the foundations for long-term, sustainable success.

"We have continued to simplify and strengthen the business, fix legacy issues, rebuild trust with clients, take out cost, reduce risk, and invest in our growth capability.

"Transforming an organisation of Capita's size is a complex challenge; there remains more to do and it is requiring more investment than we had expected in 2018.

"But our plan is the right one and remains unchanged. I am confident that, with the work done to date and investment made in 2019, we can deliver organic revenue growth for the first time in five years in 2020."

Year ended 31 December 2019

Financial highlights - continuing operations	Reported 2019	Reported 2018	Adjusted[1] 2019	Adjusted[1] 2018	Adjusted[1] YOY change
Revenue	**£3,678.6m**	£3,918.4m	**£3,647.4m**	£3,814.7m	(4%)
Operating profit	**£0.4m**	£34.9m	**£306.1m**	£334.4m	(8%)
(Loss)/profit before tax	**(£62.6m)**	£272.6m	**£275.0m**	£281.2m	(2%)
(Loss)/earnings per share	**(4.18)p**	17.99p	**13.09p**	16.33p	(20%)
Free cash flow	**(£213.0m)**	(£260.5m)	**(£61.3m)**	(£78.8m)	22%

Board responsibility

Lyndsay Browne will be appointed a member of the Remuneration Committee and Joseph Murphy will be appointed as a member of the Audit and Risk Committee, effective from 6 March 2020.

[1] Capita reports results on an adjusted basis to aid understanding of business performance. In 2019, International Financial Reporting Standard 16 Leases (IFRS 16), which has a material impact, has been adopted. However, to aid comparison with the prior year, the primary adjusted measures used by the Board for evaluating performance are before the impact of IFRS 16. Refer to appendix for calculation of alternative performance measures.

[2] Market consensus for Revenue growth of 0.4% and Adjusted Free Cash Flow[1] of £150m at 4 March 2020.

Investor presentation

A presentation for institutional investors and analysts hosted by Jon Lewis, CEO and Patrick Butcher, CFO, will be held today, starting at 08:30am UK time. There will be a live audio webcast of the presentation on our website www.capita.com/investors and subsequently available on demand. The presentation slides will be published on our website at 07:00am and a full transcript will be available by midday the following day.

Webcast link (Live and On-demand):

https://webcast.openbriefing.com/capita050320/

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

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Chief Executive Officer's Review

Better positioned for growth

Capita is two years into a multi-year transformation to become a truly progressive, purpose-led, responsible business. Over that period, we have made significant progress, laying the foundations for a more focused, predictable and sustainable business. We have continued to work hard to deliver on the commitments of our strategy – to simplify, strengthen and succeed. But there is more to do to achieve our goals and, while we are convinced that the plan remains the right one, not everything has worked in our favour.

We started to rebuild the organisation in 2018, reorganising our divisions and creating robust, accountable and centralised functions which define how we do things company-wide. We defined our purpose and implemented our operating model. We deleveraged our balance sheet and agreed a pension deficit reduction plan.

In 2019, we continued to simplify and strengthen the organisation, fix legacy issues, invest in our people, rebuild trust with clients, cut cost, improve controls and reduce risk. We invested significantly in our growth capability and the organisation’s products and services, particularly in consulting, digital services and software. This will allow us to stimulate, and maximise, future higher-margin growth opportunities in areas where Capita has a competitive advantage and where we can offer cross-sell opportunities within the Group.

During 2019, we also improved the operational performance that has weighed on our finances, failed to reflect our client ambitions and sapped the energy of our people for some time. We have now embedded a more disciplined approach to bidding through our contract review committee, which helps to ensure we have derisked the business for the future. The executive committee oversees contract implementation, supported by our investment in skilled programme managers. Cost competitiveness and efficiency are also now embedded throughout Capita and we achieved £105m of year-on-year savings during 2019, delivering our target of a cumulative £175m within two years. This followed changes to divisions and business units, consolidating operations and restructuring management layers, with further savings in property, procurement and technology.

In line with our drive to simplify Capita, we continued to review and assess our portfolio – to align better to our growth strategy; and decided in early 2020 to reorganise our Specialist Services division. We concluded that, following a period of change and improved performance, a number of businesses in the division would benefit from closer alignment with core Capita and should be moved into other divisions. Some of the other businesses in the division are now being prepared for disposal, with the proceeds earmarked to help strengthen the organisation.

However, while good progress is being made, there is still more that needs to be done and we are having to invest more than we initially thought to fully transform Capita. In 2019, as well as investing in growth, we invested more to fix and restructure internal systems and processes, and to address issues of complexity, poor quality and technological deficit; it remains vital to build the right foundations for Capita to drive sustainable growth. At the same time, the external trading environment continued to be challenging.

It means that our progress has yet to be fully evidenced in our financial performance. Revenue and profit for 2019 were in line with our expectations. We have reduced the revenue decline during the last year, and four of our six divisions grew in the second half. I am, however, disappointed that we are updating our guidance for free cash flow and that we now expect to hit at least £160m in 2020, in line with market consensus, and grow thereafter. We recognise that the benefits due to many stakeholders, especially our investors, still need to come through. But I am confident that, by investing more now, we are enhancing our ability to deliver sustainable growth.

We are evolving as a consulting, digital services and software business, and positioning ourselves to benefit from these growth markets. We are investing significant resources to drive future growth. We are leveraging our experience to address client and market demand. As we said at the half year, securing returns on our investments in the form of organic revenue growth and cash generation is our key priority for 2020. Our transformation plan remains the right one.

Building for the future

Capita is aiming to become a leading player in digital transformation and we are using our core skills and client relationships to position ourselves in this strong, growing market where Capita has a competitive advantage. Global spend on digital transformation is predicted by market research company IDC to exceed £1.5trn by 2022 – and it is this market we are tapping into.

Fundamental to this approach is the newly launched Capita Consulting business which gives us a front-end capability, an incremental revenue stream and insight into the key strategic business challenges of our clients. This will in turn allow us to create pull-through for other Capita services and maximise opportunities across the whole of the organisation. It provides the potential to cross sell products and move away from one-off solutions, while allowing us to build relationships with our clients, better understand their needs and offer them innovative solutions. The consulting business already has 30 partner-level consultants, supported by 270 analytical and technical consultants, many incorporated from small, existing consultancies within Capita. It is partnering with our well-established network of cloud technology providers, fintechs, start-ups and subject experts to help deliver operational transformation.

But the business is different from other established consultancies because, at Capita, we are practitioners – with 30 years' experience and deep understanding of designing, building and running the systems of hundreds of businesses. We expect Capita Consulting to help drive long-lasting relationships with our clients, to help better prioritise which services to develop for those clients, and to form a key pillar of our medium and long-term growth strategies. Our consulting team has already been working collaboratively in this way with a major client to assist them with their cyber security requirements. We have also been selected as a partner to support another client transform to an agile leadership model, while our consultants are helping a south London borough design and build digital services to transform residents' experiences and outcomes.

We are committed to helping our clients take full advantage of current and emerging opportunities in digital transformation. We now have a much better sense of which of our products and services our clients need the most, and are focusing on six key capabilities: customer experience, data and insight, cloud platforms, automation, cyber, and the 'internet of things' (IoT). We already have strong capabilities in these areas. For example, Capita subsidiary DCC supports the UK roll-out of smart meters and is the largest IoT project in the UK. DCC has an exciting future, providing further services for the energy market, and Capita can take these skills to new projects and clients, and identify new 5G and IoT opportunities.

Automation capability is a particular focus area for the new Capita; it will drive both revenue and profit, by delivering faster, more accurate and more reliable services, while saving costs through higher levels of productivity. For this reason, in 2019 we established in Birmingham one of the UK's biggest centres of automation excellence. We have built a portfolio of automation technologies that includes robotic process automation, artificial intelligence, optical character recognition and webforms, through to machine learning and natural language processing, and we are partnering with the world's leading technology companies in this area, including UI Path and Blue Prism. Automation is already being used to help manage additional workloads for a number of the charging schemes we operate; it has also been introduced into Primary Care Support England (PCSE) services to improve the speed and accuracy of calculating pension entitlements for 37,000 GPs.

We have continued to invest in and expand our digital delivery centre in India, where we now employ 1,200 people. We are utilising the software developments made there to optimise product management, drive standardisation and reduce development lifecycles. We now have an agile, 13-week target development cycle that increases our ability to deliver client solutions more quickly. In 2019, we developed cloud-enabled versions of our SIMS, Retain, and One platforms, as well as SaaS-enabling core enterprise products, and are opening up these platforms to expand our client offerings.

Overall, the combination of our new consulting business, reorganised account management and digital competencies will allow us to move away from being mainly reactive to proactive in pursuit of new business opportunities. We will aim to be less reliant on competitive tenders and instead look to secure a higher percentage of revenues from opportunities that we co-create with client partners. This approach marks an important turning point for the new Capita – building on our deep industry expertise, while leveraging a portfolio of innovative, scalable and repeatable solutions which we design once and implement many times.

Our commitment to our people

Capita is a people-focused business and our leadership team is committed to putting our colleagues at the very centre of how we operate. As a services business, we are only as good as our ability to delight our clients and their customers; that is what drives everything we do in terms of commitment to, and investment in, our own people.

In 2019, we did much to improve the experience of working at Capita. With more engaged people delivering better service to our clients, we believe we can establish a platform for long-term, sustainable and efficient growth. Our people survey recorded a rise in employee satisfaction levels, with 72% of our employees saying they were proud to work for Capita, up from 56% two years ago, alongside a net promoter score swing of 14 points. This shows our colleagues feel increasingly engaged, which is important because we cannot expect them to delight clients and customers unless they feel valued and proud of the work they are doing.

In 2019, we became the only FTSE-listed business to have two employees from its wider workforce appointed to the board of directors. We also committed to pay all UK colleagues the 'real living wage' as a minimum from April 2020, and improved our UK maternity, paternity and shared parental leave policies. We launched our centre for learning and development, Capita Academy, providing more training opportunities and apprenticeships, as well as a performance management and development framework to ensure colleagues have clear objectives and opportunities to develop their careers. In December, we implemented Workday, our people management and data tool to oversee all internal HR processes.

Importantly, we recruited industry-leading talent to head up four of our six divisions to continue to enhance a senior leadership team capable of driving significant change: Aimie Chapple joined us as Executive Officer for Customer Management alongside Mark Cook in Technology Solutions, Chantal Free in People Solutions, and Andy Start in Government Services.

Our commitment to our clients and customers

In 2019, we continued to focus on delivering for our client partnerships. We are investing in the relationships we enjoy with a wide range of public and private sector partners, while creating new partnerships and broadening our reach. Our priority over the past two years has been to get closer to our markets, improve our services to existing clients and better understand their requirements, and strive for operational excellence. This has been reflected in vastly improved service:

we are hitting more than 92% of all our major contractual key performance indicators; and achieving better customer net promoter scores, with Government Services, for example, improving last year by 34 points.

Standout service delivery last year included the design, implementation and ongoing operation of the technology for Transport for London's ultra-low emission zone (ULEZ). This project is helping to reduce levels of pollution in the capital and has already reduced emissions of nitrogen oxides by approximately 29% since it was introduced in April 2019; it is a great example of Capita's ability to create and deliver complex, critical, digital infrastructure. We also achieved several important strategic business wins, including a £525m contract with the Ministry of Defence to manage 53 fire stations in the UK, Cyprus and the Falkland Islands, and to construct and manage a new fire and rescue training facility in Gloucestershire. Our stronger relationships, client insight, investment in account management and improved service delivery enabled us to extend existing contracts with clients such as The Co-Operative Bank, the Department for Work and Pensions, Energia, Liberata, the National Trust, and Southern Water. Our renewal rates (by contract value) showed a healthy improvement in 2019; excluding People Solutions, where we have more to do, the renewal rate was 91%. Group order intake for the year was £2.2bn.

We also focused on improving the performance of our three previously 'challenging' contracts, reducing losses on them, and delivering a transformed service to our clients. Our reset Recruiting Partnering Project (RPP) contract with the British Army is on track to hit its regular soldier annual recruitment target for the first time since the start of the contract in 2012, while we improved a range of other aspects of the contract. We have also improved performance relating to our contracts with NHS England (PCSE) and mobilcom-debitel, hitting significantly higher monthly key performance indicators and reducing the needless financial drain of penalty payments.

Our commitment to our suppliers and partners

As a purpose-led, responsible organisation, Capita exists to create better outcomes for all stakeholders, including our 26,000 suppliers and partners, with whom we seek to build lasting relationships, treating them fairly and paying promptly, while encouraging them to deliver.

In June, we published our first supplier charter to ensure our dealings with our suppliers conform to best practice. The charter sets out the core principles by which Capita does business, while outlining what we expect from our suppliers in return. It covers a range of business and operational areas from health and safety to human rights, diversity and inclusion, cyber security, and how any breaches of the charter principles are reported.

We are signatories to the Government's prompt payment code, reporting our payment practices and performance every six months. In 2019, we spent £2.1bn with suppliers, paying 97% of them within 60 days, surpassing the requirements of the prompt payment code. The Federation of Small Businesses has paid tribute to the example set by us and the "positive changes Capita has made on this important agenda".

In 2020, we will continue to strengthen our relationships with suppliers - with particular focus on our approach to, and payment terms with, small and medium-sized enterprises (SMEs). They make up approximately 46% of all our suppliers and are strategically important to us. Capita supports the Government's aspiration that a third of companies' external supplier spend goes to micro and SME businesses by 2022; and we are taking positive action to further increase our own spend with smaller businesses.

Our commitment to our investors

Revenue and profits were in line with our expectations, with cost reductions offsetting investments, lost revenues and lower margins on some contract renewals. Some of the benefits of the transformation work, such as profit improvements on the three 'challenging' contracts were reflected in the results. While our core businesses have largely shown growth in the second half, it has been slower than we had hoped. As in 2018, the results were improved by some one-off items, as is to be expected in a complex Group in transition.

Adjusted revenue for the year was £3,647.4m, a decline from 2019, as the benefit of contract wins was outweighed by contract losses, many of which occurred in 2018. This was coupled with a decline in scope and volume, due to high competition and market pressures in Technology Solutions, and lower volumes in our Life and Pensions contracts and in our Real Estate and Infrastructure business. There was also lower transactional revenue, mainly in Specialist Services.

Adjusted profit before tax was £275.0m, also down compared with last year, in line with expectations, as margin mix, investment and contract losses outweighed new wins and cost savings. Adjusted free cash flow in 2019 was an outflow, as we had expected. The balance sheet was significantly strengthened in 2018, but net debt is at the upper end of our desired range, as a result of lower conversion of profit to cash, and more investment being required to fix contracts and lay the foundations for growth.

Our commitment to society

Capita employs 61,000 people globally, and we are acutely mindful of the responsibility we have to support individuals and the communities we serve - and be a force for good in society. We aim to help restore the connection between companies and a public that has grown increasingly mistrustful of big business. As we drive to be a truly responsible business, we recently became a founder signatory of the Good Business Charter and gained Fair Tax Mark accreditation.

In 2019, to ensure we could make as great an impact as possible to drive positive change, we formulated our responsible business strategy, which is aligned with the UN's sustainable development goals in the areas of social mobility and youth unemployment, digital exclusion, gender equality, climate change, business governance and ethics. To drive social mobility, we launched two new charity partnerships with Teach First and Young Enterprise, supporting more than 7,000 young people to gain skills that make them more employable.

We sought to make a number of changes to the way we work to minimise our negative impact on the environment. We focused on investing in energy efficiency – upgrading heating, lighting and air-conditioning systems across the business – and also on reducing our non-essential travel. We reduced our carbon footprint over the year by 5.9% (based on emissions per headcount).

The way ahead

Transforming an organisation of Capita's size into a more predictable, lower-risk business is a complex challenge and, while we have made significant progress, there remains much to do to meet our goals. Capita is in a stronger position than it was two years ago. Our people are more engaged, we are successfully delighting the great majority of our clients, have boosted levels of trust, have reduced risk in the business, and we are doing business the right way. I am grateful to all my colleagues at Capita and would like to thank them for their continued hard work, commitment and dedication.

I believe 2020 will be another year of progress at Capita. We are investing in our growth capability and are committed to delivering better outcomes. We are continuing to build a more focused, sustainable business for the long term, with growing free cash flow. My confidence in our purpose-led, multi-year transformation plan remains unchanged.

Divisional performance review

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

Software

Capita is one of the UK's largest software companies; and our specialist enterprise software products serve sector-specific and cross-sector markets in the UK and overseas. Our software, deep industry expertise and functional IP supports critical public services and business processes. They also form a differentiating component of Capita's wider digitally enabled services offering.

More than 70% of our revenue is recurring and more than 80% of licence revenue is spread over the term of our client relationships, irrespective of whether it is a perpetual licence or a 'pay as you go', software as a service (SaaS) model.

Our markets and growth drivers

We are a UK top-10 provider of enterprise software products and the market is expected to grow at around 4–5% in 2020. We have market-leading positions in sectors such as education and emergency services and are a top-three provider in local government.

Overall market growth is being driven by software's deepening role in every aspect of business and consumer life. The drive for automation and demand for apps to engage with end-users is set to continue. We are focusing on cross-selling opportunities in existing and adjacent markets, and strategic expansion into new markets. With continued pressure on education budgets, and increasing demand for access to cloud services, we are expanding our offerings of complementary cloud products to schools. The growth of cloud solutions has increased the accessibility of our products and allowed us to offer alternative commercial models for clients.

Our strategy

Our strategic priorities are focused on creating a specialised software products business, investing in our core products, and providing best-in-class solutions for clients in our UK and targeted international markets.

The division is transforming 29 siloed businesses into a single software business. We are aiming to invest in using reusable components and standard architectures, supported by scaled, integrated, shared service functions and our digital delivery centre in India. We are investing in both existing and new products and markets to defend and grow the business, with the aim of achieving market level revenue growth in 2020.

Financial performance

Divisional financial summary	2019	2018	% change
Adjusted revenue (£m)	375.4	379.9	(1.2)%
Adjusted operating profit (£m)	102.9	109.6	(6.1)%
Adjusted operating margin (%)	27.4%	28.8%	
Order book (£m)	578.4	554.9	4.2%

Adjusted revenue in 2019 fell by 1.2% to £375.4m, with year-on-year growth in the second half offset by annualising 2018 contract losses in the first half. Notable contract wins included a number of emergency service contracts and work to support delivery of the next generation of smart meters. There was an encouraging improvement in order intake despite a slowdown in orders during the fourth quarter, particularly in local government.

Adjusted operating profit decreased by 6.1% to £102.9m, due to the changes in revenue, and investments in improving products, sales and marketing, including in the US, which were partly offset by benefits from transformation cost savings.

Cost and operational excellence

Many of the changes required to create a streamlined division are now in place. We have built a best-in-class digital delivery centre to produce standardised, repeatable software. It is supporting the rest of Capita in creating scaled, integrated, shared service functions. It has also allowed us to move to an agile delivery platform with releases every 13 weeks, providing value adding enhancements to clients on a regular basis. We will continue to drive consolidation and efficiency alongside productivity benefits to clients.

Investing in growth

During 2019, we ensured we had clearer propositions in the marketplace and focused more on finding solutions to client problems in markets where we have experience and through data-driven insight. Over the past two years we have been reducing technological debt from prior under-investment and this is now starting to normalise.

New product development in 2019 included a well-received lite version of Retain, our resource planning software, with a cloud release in 2020. There were a number of developments in education software including Reading Cloud, Parental Engagement and SIMS 8, which is now live in a number of primary schools with a pipeline of further interest. Robotic process automation will also support SIMS migration for our clients who need it. Reading Cloud now supports more than eight million students and allows us to enter the schools' literacy market with the launch of Literacy 360 in 2020. We have also now built a sales team in North America and are focusing on pipeline build and lead conversion. 911 Eye is proving popular and is currently with 13 police forces in the US, while we continue to pursue further opportunities.

Strategic priorities 2018–2020:

- Accelerate investment in key products and platforms.

- Transform the software lifecycle operations across all products.
- Create a software development centre of excellence for production of standardised software.
- Create a market-aligned, high-performing sales force and marketing capability.
- Selective sales drive in UK vertical, horizontal and international markets.

2019 progress against strategic priorities:

- Investment in products such as SIMS, Retain, Payment Facilitator and One Housing.
- Delivered cost savings through standardisation and further business integration.
- Grew digital delivery centre in India to 1,200 employees.
- Cross-Capita collaboration, supporting new contracts. [erratum: illustrative reference deleted in version]

People Solutions

People Solutions solves complex people issues for large public and private clients across the entire employment lifecycle. Our market-leading portfolio of solutions range from sourcing the hardest to reach talent, such as IT and cyber security, delivering learning to a large number of employees across all sectors, to administrating payroll and pensions to a significant portion of the UK workforce. We are focused on developing and delivering digitally enabled, consultancy-led solutions that drive better outcomes for our clients and deliver a consumer-grade experience to their employees and end-users.

In the second half of the year, we reassessed the leadership requirements of the division and appointed a new Executive Officer, Chantal Free, to lead the division through its next phase of transformation as it returns to growth.

Our markets and growth drivers

People are at the centre of our clients' stated business strategies, creating significant growth opportunities for our business. According to NelsonHall, the market for people services is expected to grow at a rate of 5% through to 2023. The key market growth drivers are: (i) our clients' needs for financial sustainability; (ii) a better employee experience to execute on their strategy; and (iii) the necessity to have access to skills to enable them to be fit for a digital future. Our divisional pillars help clients address these issues: the pensions business helps with financial sustainability; HR Solutions addresses the employee experience need; and Learning and Resourcing are at the heart of the access to skills services.

Our strategy

Our strategy focuses on a rejuvenated account management model that aims to retain and grow existing accounts, driving profitable growth. Profitability improvements will be delivered by instilling operational excellence processes and mindsets into our existing operations, as well as financial prudence in investments and expenditure. The partnership with Capita Consulting, advising clients on their digital transformation journey, is also a significant opportunity for profitable growth.

Financial performance

Divisional financial summary	2019	2018	% change
Adjusted revenue (£m)	500.5	494.6	1.2%
Adjusted operating profit (£m)	34.9	45.0	(22.4)%
Adjusted operating margin (%)	7.0%	9.1%	
Order book (£m)	497.2	715.3	(30.5)%

Adjusted revenue increased in 2019 by 1.2% to £500.5m, reflecting growth in our Managed Learning and Apprenticeships and point solutions such as IT Recruitment and Employed Resourcing model, which resulted from IR35 regulatory changes, offsetting contract attrition in our Managed Resourcing Operations and Pensions business.

Adjusted operating profit declined by 22.4% to £34.9m, reflecting change in revenue mix in our Resourcing and Learning businesses, challenged implementations in our Pensions business and capacity investment lag in our Pensions consultancy business to deliver future growth. We also increased investment to improve SLA performance and support client retention, particularly in Pensions Administration. Savings in operational excellence and technology were reinvested in strategic initiatives.

Cost and operational excellence

We have made progress on the integration of People Solutions and have driven cost efficiencies across the division, which will drive incremental benefits and service enhancements. We expect additional investment in 2020 to continue our transformation journey.

Our army recruitment programme (RPP) contract saw significant improvement, where the process review, technology advances and partnership with the client produced vastly improved outcomes. Following a successful advertising campaign, we have received the highest levels of applications to join the British Army in more than five years, and we are on track to deliver our regular soldier and officer targets for the recruitment year to 31 March 2020. We also rolled out a new process that includes clinical triage, which has made the candidate journey more rapid and bespoke. Inability to meet recruiting targets could lead to reduced contract profitability and require an assessment as to whether associated contract assets were generating sufficient profits to support the carrying value.

Investing in growth

During 2019 we invested in the development of our first truly digital products: Vetting and Onboarding. These investments are our model for our digital strategy going forward, affording our clients the opportunity to buy a positive employee experience. They reached MVP stage at the end of 2019, and will launch in 2020. They will deliver greater value to our clients through speed, efficiency and improved employee engagement.

We signed several new contracts in 2019, including: the provision of resourcing services for the Home Office; learning services for Network Rail; and screening services for Nestlé.

We have also taken advantage of the opportunities presented by the market stimulated by changes in the regulatory environment, including: IR35, apprenticeships levy and guaranteed minimum pension (GMP) equalisation. Furthermore, we have continued to invest in upgrading our core business process outsourcing platforms (learning and pensions software).

Strategic priorities 2018–2020:

- Integrate and enhance solutions to align to key client challenges.
- Invest in core products and technology platforms to deliver a better user experience.
- Integrate solutions both intra and inter-divisionally, leveraging the Group's investment in the creation of Capita Consulting. Connect existing standalone solutions to solve our clients' complex issues through clearly articulated client value propositions (CVPs).

2019 progress against strategic priorities:

- Invested in new digital solutions for Vetting and Onboarding which will be launched in the first half of 2020. Both products reached minimum viable product (MVP) stage by 31 December 2019 and the first live client has been trialled on the new Vetting platform.
- Invested in improving client experience in pensions administration with an improvement in service-level agreement (SLA) performance (and reduction in cost of failure).
- Developed CVPs which connect our offerings.
- Improved performance of RPP through collaborative and effective strategic partnership approach.

Customer Management

Capita is a leading provider of multi-channel customer engagement services, in the UK, Germany and Switzerland. We primarily serve customers in the retail, utility and telecommunications sectors, from a mix of locations in Europe, India and South Africa. The division also provides remediation, complaints management and collections services.

Our approach is to build partnerships, based on shared outcomes and value, while continuing to deliver transactional supply where this helps our clients to meet customer demands. The value we bring to our clients is increasingly built around transforming the customer experience through the application of digital services underpinned by data insight and analytics. These enable us to manage complex, high-value interactions, automate repetitive tasks and use technology and capability to drive positive quality improvement.

Our markets and growth drivers

Capita competes with a range of local and global players for transactional contracts, typically priced on a price per full-time equivalent (FTE) hour basis, and a smaller number of strategic players for outcome-based contracts. We are the largest provider of customer management services in the UK. According to NelsonHall, the UK market is estimated to be worth £4bn a year and is expected to grow at approximately 4% a year through to 2022.

Our strategy

We have a differentiated strategy and core-value proposition in our markets; our approach is customer experience-led, tech-enabled and underpinned by contracted commitment to business outcomes. We are building capability to 'make great customer experience happen'. Our commercial model increasingly includes a commitment to client outcomes, such as improvements in the net promoter score, revenue generation, customer acquisition and cost-to-serve. This commitment to outcomes is core to our differentiation in the marketplaces we serve. Our operational scale allows us to derive meaningful insight from our customer interaction data, driving business improvement across our operations. Automation and digital augmentation is increasingly a solution to clients who want faster and closer interaction with customers.

Financial performance

Divisional financial summary	2019	2018	change %
Adjusted revenue (£m)	802.4	802.6	—%
Adjusted operating profit (£m)	54.9	41.7	31.7%
Adjusted operating margin (%)	6.8%	5.2%	
Order book (£m)	1,723.7	2,012.2	(14.3)%

Adjusted revenue for 2019 was flat year on year at £802.4m. Following a 1% decline in the first half, revenue increased by 1% in the second half thanks to wins and scope increases with existing clients such as Southern Water and British Gas.

Adjusted operating profit increased by 32% to £54.9m, mainly due to strong cost management, including the increasing use of resources in India and South Africa.

Cost and operational excellence
Cost improvement was delivered in 2019, particularly from operating model initiatives and procurement. We have started to leverage our global delivery centres in India, South Africa and Poland, offering efficiencies and innovative solutions to our customers. We invested significantly in capability and skills, as well as in our people, where better training and improved financial and working conditions have improved attrition and customer service.

The transformation of our customer services contract with mobilcom-debitel continues to progress well. We have been successfully driving the transformation programme through implementation of the new Capita-built mobile app, initiatives to shift the volume to digital channels and the increase in automation and self-services. We continue to expect to reach the inflection point and break even on the contract in 2020. Inability to achieve this key milestone could lead to reduced contract profitability and a risk of impairment of the associated contract assets. During 2019, the O2 contract saw the best performance in both sales and service during the history of the partnership, reflecting the growing impact of work jointly undertaken to develop the target operating model.

Investing in growth
Clients are seeking partnerships which are characterised less by FTE numbers and more by a range of value-adding services. This increasingly complex service offering provides opportunities for players with deeper outsourcing capabilities.

During the year, we won, renewed and extended a number of contracts. This included the extension of contracts with:

- The National Trust – worth £46m over five years.
- British Gas – to November 2020, the contract has since been extended further to June 2024.

During the year, we applied data and analytics technology to existing clients, where examples include producing analytics on caller data and delivering insight on social media mentions. In the second half of 2019, we rolled out a like-for-like chat operation based in Pune and Mumbai; this will be followed in 2020 by the introduction of messaging, in-chat payments and automated services. Our investment in technology to date has provided the opportunity to build new relationships where automation is the focus from the outset, and further investment is expected in 2020 as we seek to build on our consulting experience.

Strategic priorities 2018–2020:

- Invest in our infrastructure to ensure consistent, high-quality service delivery, including facilities, core technology and tools.
- Build new digital platforms to support all channels and customers on behalf of clients.
- Build enhanced data and analytical platforms and capabilities to enable the business to drive insights from customer interactions into our client engagements.
- Implement a stronger operating framework to standardise our operational routines and transfer best practice across our operations, both on and offshore.
- Invest in improved consultative selling capability to increase origination, pipeline and order book.
- Standardise best practice, improve our infrastructure, invest in people, increase our use of technology and offshoring.
- Diversify and accelerate growth in some of our secondary sectors, notably financial services, and travel and leisure.

2019 progress against strategic priorities:

- Built omni-channel, data and analytical platforms and new automation technologies.
- Invested in people and improved infrastructure.
- Increased our use of technology and offshoring through the global delivery centre.
- New framework in place for digital customer experience value proposition.

Government Services

Capita is a strategic partner to government in the application of digital transformation to improve the productivity of government operations and the citizen experience of public services. We do this in a socially responsible way to make public services better for citizens and government employees, and to help our clients to release resources so that they can be deployed back into frontline service priorities. We believe that quality public services, innovatively designed and powered by technology, are critical to delivering safer, greener and healthier communities that support everyone, including society's most vulnerable.

Our markets and growth drivers
Capita is one of the largest providers to government in the UK with an estimated market share of 13%. Within this we have top-three leadership positions in several focused sectors where we have deep, proven experience and expertise, including education, health, transport, defence, central and local government. Governments globally are under pressure to deliver a greater quantity of services at better quality to citizens, driving counteracting forces for the sector. On the downside, they have reset interactions with traditional outsourcers – resulting in the disaggregation of services and

insourcing. Conversely, there continues to be strong demand for innovative digital solutions that allow government to deliver their goals for improved productivity and better citizen experience. Government departments are actively engaging with the private sector to reflect this: reshaping contracts at renewal, but also awarding new work and renewing existing relationships. In particular local government markets have seen significant reshaping of the landscape.

During 2019, Brexit substantially affected the volume of new initiatives. With the election of a strong majority government, we are starting to see indications of an acceleration of decision making and the potential for new opportunities in support of emerging policies.

Our strategy
Our strategy is to focus our business around the aforementioned six core market sectors where we have a leading position; offer a refined set of value propositions developed on top of a defined and controlled stack of underlying replicable digital products and capabilities; invest in a full-lifecycle digital transformation capability; and focus on excellence in our transformation and operational service delivery performance.

Financial performance

Divisional financial summary	2019	2018	% change
Adjusted revenue (£m)	777.9	780.5	(0.3)%
Adjusted operating profit (£m)	58.8	40.3	45.9%
Adjusted operating margin (%)	7.6%	5.2%	
Order book (£m)	2,328.4	2,187.5	6.4%

Adjusted revenue was broadly flat in 2019 at £777.9m. Prior-year losses of our contracts with the Home Office supporting the immigration sector and the Defence Infrastructure Organisation, and a decline in local government, were offset by growth in contracts such as smart metering and by increased scope in our Transport for London (TfL) contract. Adjusted operating profit increased significantly to £58.8m with the impact of contract losses being offset by performance improvements on contracts such as Primary Care Support England (PCSE), one-off contract-related items, and efficiency improvements.

Operational excellence
In 2019, we continued to devote resource to our service quality, which improved with over 95% of key performance indicators green, while we also returned to green strategic supplier rating with the Cabinet Office. Operational service delivery on our PCSE contract with NHS England continues to improve. A small proportion of the contract, which administered cervical screening, was transferred back to the NHS in August 2019. We started the rollout of our transformed solutions for ophthalmic payments, pharmacy market entry and performer list at the end of the year, with positive feedback. We continue to expect to reach the inflection point and break even on the contract in 2020. Inability to achieve this key milestone could lead to reduced contract profitability and a risk of impairment of the associated contract assets. We successfully introduced the ultra-low emission zone (ULEZ) for TfL, including vehicular image capture and processing, billing and a mobile payments app, data management, enforcement and customer call centre operations.

Investing in growth
2019 was a successful year when we managed to offset some major contract losses with new business wins. These included: a £525m contract to modernise and support improvement to the operational effectiveness of the Ministry of Defence's fire and rescue service (DFRP) with the mobilisation for this contract going well; and a £145m extension of our contracts with the Department for Work and Pensions (DWP), and the Department of Communities in Northern Ireland, to deliver Personal Independence Payment (PIP) assessments. Smaller contracts with Charnwood, Bexley, and the extension of the Ministry of Justice Technology Transition Programme contract were also won.

Our growth model going forward focuses on understanding the problems of our clients in government and helping them to transform their business with scalable digital products and solutions. Growth will come from investment in scalable and repeatable products and solutions. We have invested in robotic process automation and artificial intelligence, and they will be used to drive further productivity gains with the savings used to invest in our client value propositions. We also expect a strong benefit from our colleagues in Capita Consulting, who have deep knowledge of the industry verticals that we are targeting, as well as the tools we use to deliver services.

Strategic priorities 2018–2020:
- Develop existing core service capabilities as repeatable product propositions to drive growth.
- Continuous programme of operational excellence to improve service delivery and create headroom for reinvestment.
- Transformation of business model to a consulting, transformation and digital services company.

2019 progress against strategic priorities:
- Major contract wins in DFRP and PIP.
- Return to green supplier status with Cabinet Office.
- Continued improvement in performance of challenging contracts, including PCSE.
- Successful implementation of ULEZ.

- Delivery of cost-out targets.

Technology Solutions

As part of our strategy to simplify and strengthen, we have renamed IT & Networks as Technology Solutions. Capita is a top-10 service provider of digital IT and connectivity solutions in the UK, focused on the mid-sized enterprise market.

We consult, transform and deliver digital solutions to help businesses improve, realise their digital strategies and provide better business outcomes. We have strategic partnerships with leading global IT vendors, have invested in our portfolio of hosted platforms and operate our own UK-wide network and data centres.

Our markets and growth drivers
Technology Solutions operates in a broad and fast changing market. The market in the UK was estimated to be worth £54bn in 2019 and is expected to grow at a CAGR of 2.6%, according to Teknowlogy group. In 2019, the market reached an inflection point where spending on the high-growth Fast/Digital IT segment, such as cloud, cyber, artificial intelligence and data analytics, overtook spending on legacy IT, such as traditional data centres, workplace and server applications services.

Our strategy
Our strategy is to create innovative technology solutions, underpinned by a comprehensive range of services which address the needs of our enterprise clients; such as how to benefit from robotic process automation technologies. Our new automation hub can provide consulting solutions that improve business processes, whether they are human, digital or hybrid.

Growth, resilience and ‘Value for IT’ are our strategic objectives. We are developing repeatable propositions to meet our clients’ needs, with a focus on creating improved customer experience and expanding our client base. We have already started to increase the standardisation, robustness and security of the platforms and processes that underpin our products. We are also continuing the simplification of technology operations, platforms, products and suppliers to generate efficiency savings, strengthen our capabilities and ultimately deliver greater value to our clients.

Our expertise in business process improvement – complemented by consulting – allows us to address emerging opportunities. This combination of expertise in technology with a robust and integrated product offering helps clients extract value out of their legacy systems, while adopting and gaining benefit from the latest digital, cloud-enabled technologies.

Financial performance

Divisional financial summary	2019	2018	% change
Adjusted revenue (£m)	429.3	439.7	(2.4)%
Adjusted operating profit (£m)	50.7	53.8	(5.8)%
Adjusted operating margin (%)	11.8%	12.2%	
Order book (£m)	389.7	380.4	2.4%

Adjusted revenue decreased by 2.4% to £429.3m, with the benefit of new work with Transport for London (TfL) offset by other contract losses and reduced transactional business in LAN and voice networking solutions. Adjusted operating profit decreased by 5.8% to £50.7m, as savings from simplifying the division were offset by lower margins and increased costs in networking solutions. These lower margins in networking solutions are caused by high competition and market pressures, and while we continue to win new revenue, albeit not at the expected level of growth, the margin pressure is expected to continue until we move to provision of our digital transformation propositions. Excluded from 2019 adjusted profit is a charge of £41.4m from the impairment of goodwill (refer to note 12).

Cost and operational excellence
Cost improvements have been delivered across the division, with operational effectiveness initiatives – such as common processes, consolidating service desks and an increase in the use of offshoring – resulting in significant savings. We have also turned around and stabilised several challenging contracts, and increased our customer satisfaction. These outcomes have been achieved through a combination of activities, such as: focusing on strengthening relationships and delivering results for our customers; our ongoing programme to modernise our infrastructure and automate workloads; our enhanced operational efficiency measures; reskilling and training our workforce; and our One-ITS programme to consolidate five businesses into one.

Investing in growth
We have invested significantly in the development of our Fast/Digital IT propositions – in cloud, cyber security, software defined network monitoring, internet of things and robotics process automation – to provide new digital offerings to our clients. We have and will continue to strengthen our partnerships with key technology providers, combining our consulting and delivery expertise with their technologies.

In 2019, we saw strong performance in our TfL contract with additional large project wins on the back of the core network contract. Our Northern Ireland Education contract was also extended for a further two years. Other major wins included long-term contract renewals with Liberata and Energia, and new business supporting the outsourced Defence Fire Risk Management Organisation.

Strategic priorities 2018-2020:

- Consolidate multiple standalone IT businesses into a single, integrated division.
- Upgrade and consolidate data centres to create an enhanced, resilient and secure client infrastructure.
- Invest in key client propositions across networks, cloud, cyber and digital.
- Develop our people.

2019 progress against strategic priorities:

- Successfully brought to market new client propositions to the market for cloud, cyber, SD-WAN and digital.
- Consolidated five standalone IT businesses into a single, integrated unit through our One-ITS programme.
- Completed phase one and two of our data centre consolidation and cloud migration programme to create an enhanced, resilient and secure client infrastructure.
- Invested and developed our people's capabilities and work environment, resulting in reduced attrition and increased employee satisfaction scores.

Specialist Services

Specialist Services comprises a portfolio of businesses and delivers a range of service offerings through joint ventures, trading businesses and traditional IT-enabled legacy BPO contracts. The division includes those businesses which either are not within Capita's growth markets and/or have little in common with our other divisions. The businesses are actively managed on a portfolio basis in order to maximise value.

Our markets and growth drivers

Specialist Services includes a range of businesses serving public and private clients across multiple vertical sectors, which are generally mature. Our closed book Life Insurance administration business is in structural decline as books run off and some customers, with legacy IT systems, are switching to suppliers who can provide a single digital platform for all their life books.

Our strategy

Due to the varied nature of the activities in the division, each Specialist Services business has its own strategy uniquely tailored to their service offerings and the needs of their clients.

We enjoy strong market positions in many of the verticals sectors, with strong brands and positive client perception of our services. This provides an ongoing opportunity to make better use of Capita's wider client base, and to simplify and strengthen the portfolio. The focus across the portfolio is on operational excellence and cost optimisation. In line with our drive to simplify Capita, we have continued to review our portfolio – and decided in early 2020 to reorganise our Specialist Services division. We have concluded that a number of businesses in the division would benefit from closer alignment with core Capita and should be moved into other divisions. Some of the other businesses are earmarked for disposal, with the proceeds to be recycled to strengthen the organisation.

Financial performance

Divisional financial summary	2019	2018	% change
Adjusted revenue (£m)	**744.5**	887.3	(16.1)%
Adjusted operating profit (£m)	**141.7**	128.6	10.2%
Adjusted operating margin (%)	**19.0%**	14.5%	
Order book (£m)	**1,191.7**	1,226.4	(2.8)%

In 2019, adjusted revenue fell by 16.1% to £744.5m, reflecting the contract losses in 2018 of Prudential UK (life) and Marsh (general insurance) and a decline in the structurally challenged Life and Pensions business, this was partly offset by one-off contract related items.

Adjusted operating profit increased by 10.2% to £141.7m as we offset the revenue losses with cost savings and one-off contract related items, and by winning profitable and cash-backed new business.

Cost and operational excellence

We made significant cost savings during the year mainly through IT rationalisation and productivity gains across the division. We did this while retaining clients and adding new business. In the Life and Pensions business, in particular we have driven out IT efficiencies to mitigate the structural decline in certain contracts.

We were particularly pleased with the new contract extension with The Co-operative Bank where our more collaborative and values-based approach was recognised by our client, as well as recognising Capita's core competencies in digital transformation.

Investing in growth

We have continued to invest in product development, IT infrastructure and client portals, and in security and compliance to support existing contracts and future revenue growth.

During the year the division invested in key products: for example, AXELOS's launch of its new qualification, ITIL 4 Foundation; a new digital platform in Capita Travel and Events; a digital platform update at Optima; and IT and cyber protection in our Life and Pensions business.

New sales wins in 2019 included:

- Real Estate and Infrastructure won two major contracts in the year – the next stage of support to 'Future Luton', London Luton Airport owner's expansion plans with specialist aviation, planning and multi-disciplinary design and management services. We were also appointed to be part of Network Rail's design services framework, securing several lots that enable us to deliver consultancy services to support upgrade and maintenance projects for control period 6.
- An extension to our current scope of business with Zurich UK to service a new protection product. This will drive better customer outcomes, cost savings and support Zurich UK's growth, assisted by the introduction of digital capabilities.
- A number of new contracts for Travel and Events with some well-known clients such as the BBC.

Strategic priorities 2018–2020:

- Manage as a portfolio and focus on continuing value optimisation.
- Rationalise service lines, processes, properties and IT.
- Make use of cross-sell opportunities within portfolio and wider Capita.

2019 progress against strategic priorities

- Continued to manage the division as a portfolio of separate businesses, focusing on value optimisation.
- Investment in a number of product/service enhancements.
- Delivered significant cost savings and cash generation.

Financial review

This preliminary announcement is extracted from Capita's financial statements for the year ended 31 December 2019 and the basis of its preparation can be found in the notes to the statements in this announcement.

Overview

2019 was the second year in Capita's multi-year transformation and a lot has been achieved. There are many signs of progress on our journey towards becoming a simpler, stronger, more successful company generating free cash flow in a sustainable, predictable manner. However, as these results show, progress has been slower and more expensive than we had hoped, partly because we have chosen to invest for the long term and partly because some of the challenges could not have been fully scoped in early 2018.

Revenue and profits were in line with expectations, with cost reductions offsetting investments, lost revenue and lower margins on some contract renewals. Some of the benefits of the transformation work, such as profit improvements on the three 'challenging' contracts are reflected in the results. While our core businesses have largely shown growth in the second half, it has been slower than we had hoped. As in 2018, the results have benefited from some one-off items, as expected in a complex group in transition. These included contract related items arising on contract terminations, settlements and modifications, and other Group-wide items, including lower bonuses compared to the prior year.

The cost and cash management controls and programmes implemented over the last two years give us a better base and will continue to provide positive returns in 2020. Interest has reduced following the deleveraging in 2018.

The balance sheet was significantly strengthened in 2018 but net debt is at the top end of our range as a result of lower conversion of EBITDA to cash, and more investment being required to fix contracts and lay the foundations for growth. The group has the liquidity it needs to continue the transformation journey. We expect this liquidity to further improve following the introduction of new funds to replace the current debt that matures over the next 18 months. As part of our drive for simplification, we decided recently to seek to dispose of a number of non-core businesses, the proceeds from which will be recycled to strengthen the Group.

However, as we said at the half year, securing returns on our investments in the form of positive revenue growth and free cash flow generation is the priority for 2020.

Summary of financial performance

Financial highlights

	Adjusted[1] results – continuing operations			Reported results – continuing operations		
	Adjusted[1] 2019	Adjusted[1] 2018	Adjusted[1] YOY change	Reported 2019	Reported 2018	Reported YOY change
Revenue	**£3,647.4m**	£3,814.7m	(4)%	**£3,678.6m**	£3,918.4m	(6)%
Operating profit	**£306.1m**	£334.4m	(8)%	**£0.4m**	£34.9m	(99)%
Profit/(loss) before tax	**£275.0m**	£281.2m	(2)%	**£(62.6)m**	£272.6m	(123)%
Earnings/(loss) per share	**13.09p**	16.33p	(20)%	**(4.18)p**	17.99p	(123)%
Free cash flow	**£(61.3)m**	£(78.8)m	22%	**£(213.0)m**	£(260.5)m	18%
Net debt*	**£790.6m**	£466.1m		**£1,353.2m**	£466.1m	

* Net debt in respect of adjusted results is headline net debt[1]

Adjusted results

Capita reports results on an adjusted basis to aid understanding of business performance. In 2019, International Financial Reporting Standard 16 Leases (IFRS 16), which has a material impact, especially on net debt, has been adopted. However, to aid comparison with the prior year, the primary adjusted measures used by the Board for evaluating performance are before the impact of IFRS 16. Reconciliations between adjusted and reported operating profit, profit before tax and free cash flow are provided on the following pages.

Adjusted revenue[1] bridge by key driver	£m
Year ended 31 December 2018	**3,814.7**
One-offs	(48.0)
Year ended 31 December 2018 rebased	**3,766.7**
Contract losses	(213.6)
Scope and volume changes	(21.2)
Transactional	(30.5)
Contract wins	106.7
One-offs	39.3
Year ended 31 December 2019	**3,647.4**

As expected, adjusted revenue[1] reduced year on year by around 4%. The adjusted revenue[1] bridge details the movements, many of which we have communicated previously:

- one-off gains in 2018 on the termination of the Prudential and Marsh contracts;
- contract losses, which includes the flow through from contracts lost in 2018, of £105m, such as the Prudential, Marsh and Defence Infrastructure Organisation contracts, and a further £109m of contract losses in 2019, including in local government and in some other divisions. Delays in local authorities taking back work meant that the impact of these losses were lower than expected in 2019, but the majority of these have now come to an end;
- scope and volume change revenue has decreased due to high competition and market pressures in Technology Solutions, and lower volumes in our Life and Pensions contracts and Real Estate and Infrastructure business;
- lower transactional revenue, mainly in Specialist Services;
- contract wins which included £67m from the annualised impact of previous wins and £40m of new contract wins in 2019. This however was not as much as expected, particularly in the second half of the year, which explains the emphasis we put on the importance of revenue growth in 2020; and
- as happened in 2018, a number of one-offs arose from termination payments and deferred income releases associated with contract terminations and modifications (detailed further below).

Adjusted profit before tax[1] bridge by key driver

	£m
Year ended 31 December 2018	**281.2**
One-offs	(15.2)
Year ended 31 December 2018 rebased	**266.0**
Contract wins	14.0
Contract improvement	31.5
Net contract movements	(97.2)
One-offs – contract related	28.2
Transformation cost savings	105.0
Cost change	(40.2)
Investments	(73.7)
One-offs – other Group cost items	41.4
Year ended 31 December 2019	**275.0**

Adjusted profit before tax[1] declined in 2019, in line with expectations. The adjusted profit before tax[1] bridge breaks out the revenue and cost impacts on profit. The margin from contract wins and the benefits from improved performance on three 'challenging contracts' are offset by the combined impact of contract losses and scope and volume reductions described earlier. The cost savings were offset by cost inflation (mainly inflationary pay increases focused on lower paid staff), and investment in strengthening functions, such as growth. A range of other Group-wide actions, such as lower bonus accruals, resulted in adjusted profit before tax[1] being in line with expectations.

The cost competitiveness programme delivered £105.0m of savings in 2019, and cumulative savings of £175m, which were used to increase investment in strengthening functions and build the platforms for growth as well as to partially offset the decline in revenue. The savings have been generated through simplifying the organisation, reducing management layers and rationalising the IT and property portfolios. As we leverage investments of over £10m that we have made in automation and our existing offshore capabilities, there is more to come.

The adjusted revenue[1] and adjusted profit before tax[1] declines were offset by a number of one-off benefits. These items are not excluded from adjusted results as they are normal course of business, not associated with the transformation plan. These included:

- One-off contract related items (£28.2m) relating to release of deferred income and write-off of contract assets arising on contract terminations, settlements and modifications. Where a contract is terminated early, all deferred revenue is recognised in the year of termination, which would have been deferred over the expected life of the contract in line with the Group IFRS 15 policy. Similarly, any associated contract assets are written off in the year of termination, unless there are alternative uses on other contracts. In addition, exit fees were paid to Capita on the termination of customer contracts which contained provisions to compensate the Group for exit costs and future profit in the event of early termination.
- Other Group-wide items benefiting profit (£41.4m) included lower bonuses compared to the prior year (£24.4m) and other Group items.

Adjusted operating profit to adjusted free cash flow[1]	2019 £m	2018 £m
Adjusted operating profit[1]	**306.1**	334.4
Add: depreciation, amortisation of intangible assets, impairment of property, plant and equipment and share of earnings in associates	88.4	90.9
Adjusted EBITDA	**394.5**	425.3
Contractual working capital movement (deferred income, contract fulfilment assets and accrued income)	(228.7)	(217.0)
Cash from trading operations*	**165.8**	208.3
Other working capital and other movements	(7.2)	(26.4)
Cash generated by operations before non-recourse receivable financing	**158.6**	181.9
Non-recourse receivables financing cleared	—	(110.0)
Cash generated by operations	**158.6**	71.9
Interest	**(32.7)**	(39.0)
Taxation	**(5.4)**	26.6
Net capital expenditure	**(181.8)**	(138.3)
Adjusted free cash flow[1]	**(61.3)**	(78.8)

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

Adjusted free cash flow[1] in 2019 was an outflow (£61.3m). This outflow was affected by the decline in adjusted profit before tax[1] explained above. There are also a number of items that can lead to significant differences between profit and the generation of free cash flow, including:

- Timing of profits compared to the cash received. Typically, cash receipts are aligned to costs incurred. Whereas, under IFRS 15, revenue is more evenly distributed in the early years on the contract. This typically results in lower profits in early years on contracts with significant restructuring costs or higher operating costs prior to transformation. The cash received is deferred and released as we deliver against our obligations to provide services and solutions to our clients.
- Contract terminations and modifications, which can lead to major gains or losses in the year of termination or modification, and where cash inflows/outflows have occurred in prior years.

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

Cash from trading operations declined to £165.8m (2018: £208.3m) due to reduction in adjusted EBITDA. Contractual working capital movement increased with an outflow of £78m (2018: outflow £70m) relating to contracts which were terminated or renegotiated in the year, which is not planned to reoccur in 2020; and an outflow of £150m (2018: outflow £147m) relating to continuing contracts expected to reduce in 2020 due to additional payments on account (DFRP) and reduction in transformation spend. Other working capital related cash reflected actions taken to improve working capital which will continue in to 2020.

Taxation has moved from a cash inflow in 2018 to an outflow in 2019, reflecting corporation tax repayments received in 2018 following the adoption of IFRS 15.

As expected, net capital expenditure increased in 2019 in line with the transformation objectives as the investment in property and IT infrastructure increased, and investment in technology and growth ramped up.

Period-end cash management, including non-recourse receivables financing, fully unwound in 2018.

Reported results

Adjusted operating profit[1] and adjusted profit before tax[1] excludes a number of specific items, including significant restructuring of £159.4m, the amortisation and impairment of acquired intangibles, including goodwill, of £91.3m, business exits of £68.8m and the impact of IFRS 16, to aid understanding of business performance.

Adjusted[1] to reported profit bridge

	Operating profit		(Loss)/profit before tax	
	2019 **£m**	2018 £m	**2019** **£m**	2018 £m
Adjusted[1]	**306.1**	334.4	**275.0**	281.2
Amortisation and impairment of acquired intangibles	**(49.9)**	(143.5)	**(49.9)**	(143.5)
Impairment of goodwill	**(41.4)**	(33.8)	**(41.4)**	(33.8)
Net finance costs	**—**	—	**(6.3)**	(18.8)
Contingent consideration movements	**1.4**	5.0	**1.4**	5.0
Business exit – trading	**(16.7)**	17.7	**(16.7)**	17.7
Business exit – non-trading expenses	**(52.1)**	(29.7)	**(52.1)**	(29.7)
Business exit – (gain)/loss on disposals	**—**	—	**—**	309.7
Significant restructuring	**(159.4)**	(110.0)	**(159.4)**	(110.0)
Impact of IFRS 16	**11.7**	—	**(14.0)**	—
Other	**0.7**	(5.2)	**0.8**	(5.2)
Reported	**0.4**	34.9	**(62.6)**	272.6

The Group has recognised an impairment of goodwill, of the Network Services cash-generating unit (CGU) within the Technology Solutions division. As detailed in the divisional strategy and performance section of the strategic report, post the half-year results announcement and as the market continues to change, forecast margins were impacted by high competition and market pressures, which was then reflected in the 2020 business plan. While we continue to win new revenue, albeit not at the expected level of growth, the margin pressure is expected to continue until we move to provision of our digital transformation propositions. As a consequence, the starting base from which we expect this CGU to grow is lower than expected at 30 June 2019.

Business exits are businesses that have been disposed of or exited during the year, or are in the process of being disposed of or exited. During 2019, the Group took the decision to exit a business. The exit is in progress and expected to complete in 2020. At 31 December 2019, the Group was also in an active process to dispose of a business which met the held for sale criteria and therefore treated as a disposal group held for sale. In accordance with our policy, the trading result of the businesses were included in business exits and therefore excluded from adjusted results. To enable a like-for-like comparison of adjusted results, the 2018 comparatives have been restated to exclude 2019 business exits. Further disposals are planned in 2020 as part of the simplification agenda. As these disposals did not met the definition of business exits or assets held for sale at 31 December 2019, their trading results were included within adjusted results.

In 2018, the Board launched a multi-year transformation plan to support the objectives of simplifying and strengthening Capita. The plan includes property rationalisation, procurement centralisation, transformation of support functions, including investment in growth, an organisation-wide customer relationship management system, a new human resources system (Workday) and transformation of finance, and operational excellence, including investment in automation. These activities are designed to improve the cost competitiveness of the Group and secure Capita's position in the markets it serves and strengthen governance and control. The costs of the transformation plan, including redundancy costs, are excluded from adjusted operating profit[1] as significant restructuring. Refer to note 4 for further analysis of the spend.

The aim of the finance transformation is to improve the Group's financial reporting systems, processes and controls, by increasing standardisation, automation and the quality of available data. The new financial systems were due to go live in the second half of 2019. While progress was made, we took the decision to defer the go-live as more work is required on the core processes and procedures before the system can effectively be implemented. We have reviewed the costs capitalised and assessed that £12.3m is impaired, representing areas that we expect to redesign before going live. The carrying value of the investment at 31 December 2019, post impairment, is £58.6m. Further impairment may arise should there be a material change to the Group's operating model ahead of any go-live. This impairment is included within significant restructuring. We have continued to invest in shared service centres and offshoring, and in making improvements to the Group's existing reporting systems, processes and controls.

The Group adopted IFRS 16 from 1 January 2019. The Group holds a significant number of operating leases and therefore adopting IFRS 16 has had a material impact to the Group's financial statements. The accounting standard has introduced a single lessee accounting model which requires assets and liabilities to be recognised for leases (refer to note 19. Rental costs previously recognised in operating profit have been replaced by depreciation of the assets and net finance costs on the liability. The total cash outflow for lease payments has not changed. However, payments related to the principal liability have been presented as cash outflows from financing activities, as opposed to cash outflow from operating activities under International Accounting Standards 17 Leases in our reported results.

Further detail of the specific items charged in arriving at reported operating profit for 2019 is provided in note 4.

Adjusted to reported free cash flow	2019 £m	2018 £m
Adjusted[1]	**(61.3)**	(78.8)
Pension deficit contributions	**(71.1)**	(46.9)
Significant restructuring	**(148.5)**	(100.8)
Business exits	**(19.4)**	(10.3)
Impact of IFRS 16	**90.0**	—
Other	**(2.7)**	(23.7)
Reported	**(213.0)**	(260.5)

Reported free cash flow was an outflow reflecting spend in relation to known commitments, including pension deficit contributions (which the directors consider to be debt-like in nature), restructuring costs, professional fees, contingent and deferred consideration, litigation and other items. In 2019, this was offset by the adoption of IFRS 16 as rental payments previously included in free cash flow were reclassified as financing cash flows, being repayment of the lease liability and interest.

Continued investment

Investment over three years outlined in the rights issue prospectus in April 2018 was split between targeted investments of £500m and £220m in respect of the transformation plan, a total of £720m. The table below details the cumulative investment to the end of 2019.

Cumulative investment *	Operating costs £m	Restructuring £m	Capital expenditure £m	Total £m
Maintenance	22.0	70.2	158.7	**250.9**
Organisation	34.5	117.1	34.7	**186.3**
Technology	21.7	61.6	108.7	**192.0**
Other	1.9	0.4	18.0	**20.3**
Total	**80.1**	**249.3**	**320.1**	**649.5**

* Cumulative investment represents spend in 2018 and 2019

By the end of 2019, we had invested £649.5m through a mix of operating, restructuring and capital expenditure. Looking forward to 2020, we expect to continue to invest although as the mix of work changes, capital expenditure will be a lower proportion. Overall this will result in investment nearer £800m before including 2020 investment in operating costs. We will also make the final payment in the agreed three year deficit reduction plan on our pension scheme.

Impact on net debt

Net debt at 31 December 2019 was £1,353.2m (2018: £466.1m), reflecting the above cash outflow in the year and the lease liabilities recognised on adoption of IFRS 16 (31 December 2019: £562.6m; 1 January 2019: £643.9m).

Net debt	2019 £m	2018 £m
Opening net debt	**(466.1)**	(1,117.0)
Cash movement in net debt	(241.2)	654.1
Non-cash movements	(2.0)	(3.2)
Adoption of IFRS 16	(643.9)	—
Closing net debt	**(1,353.2)**	(466.1)
Remove closing IFRS 16 impact	562.6	—
Headline net debt	**(790.6)**	(466.1)
Cash and cash equivalents net of overdrafts	122.8	642.7
Debt net of swaps	(913.4)	(1,108.8)
Headline net debt/adjusted EBITDA[1]	**2.0x**	1.1x

The Board's view is that the appropriate headline leverage ratio for Capita over the medium term should be between 1.0 and 2.0 times headline net debt to adjusted EBITDA[1] (prior to the adoption of IFRS 16). At 31 December 2019, the ratio was at the top of our range at 2.0 times (2018: 1.1 times) as a result of trading cash flows and higher investment.

The impact of IFRS 16 adoption on the Group's adjusted net debt to adjusted EBITDA[1] debt covenant ratio is neutral, as the Group covenants are on frozen GAAP, with the exception of the US private placement loan notes. The US private placement loan notes covenant test includes the income statement impact of IFRS 16 but not the balance sheet impact, and therefore adoption of IFRS 16 is favourable on this covenant measure. At 31 December 2019, the US private placement loan notes ratio was 1.7 times.

Interest cover[1] covenant was 11.2 times for the US private placement loan notes and 10.8 times for other financing arrangements (2018: 8.2 times).

As the comparatives have not been restated on the adoption of IFRS 16, the December 2018 ratio is only comparable against the other financing arrangements and therefore no comparatives are shown for the US private placement loan notes.

Capital and financial risk management

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

The Group does not rely on sources of funding that are not contractually committed. To mitigate the risk of needing to refinance in challenging conditions, the Group is diversifying its sources of committed funding and is planning to spread debt maturities to November 2027. In addition, the Group's RCF of £414.0m at 31 December 2019 (2018: £600.0m) provides flexible liquidity available to fund operations and a reasonable liquidity buffer allowing for contingencies. In December 2019, the facility was extended to 31 August 2022, extendable for a further year to 31 August 2023 with the consent of the lenders by 31 August 2021. The addition of a further bank to the facility in February 2020 resulted in the facility increasing to £452.0m.

In addition to the RCF, in February 2020 the Group agreed a backstop liquidity facility of £150.0m. The backstop liquidity facility has an initial maturity in February 2021, and is extendable at the option of the Group to a final maturity in August 2022.

At 31 December 2019, the Group had £122.8m of cash and cash equivalents net of overdrafts, and £990.7m of private placement loan notes, fixed-rate bearer notes, and Schuldschein loan. These debt instruments mature over the period to 2027, with repayment of £232.5m, £240.5m and £230.5m, net of currency swaps, in 2020, 2021 and 2022 respectively. We are taking steps to extend the average term to maturity of our debt, and thereby reduce refinancing risk, by issuing new long-term debt instruments.

As noted earlier, as part of our simplification drive, we also decided recently to dispose of a number of non-core businesses in 2020. The anticipated disposal proceeds will provide additional liquidity headroom with options available to fund future investments and reduce the Group's debt.

My priority is to manage our cash to support the transformation of Capita to the point when it is generating sustainable predictable adjusted free cash flow.

Going concern and viability assessments

In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2019, the directors are required to consider whether the Group can continue in operational existence for the foreseeable future. The Board has concluded that it is appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts to 31 August 2022 being 29 months from the date of approval of these financial statements and aligned with the expiry date of the RCF and backstop liquidity facility. The Board's assessment is set out in more detail in note 2.

In addition, as is usual, in assessing viability the Board has taken into consideration plans to introduce new funds to the Group to replace the current debt that matures over the next 18 months, with an extended maturity profile that supports the transformation programme, and disposals, both of which the directors are confident will conclude successfully in 2020.

Pensions

The next triennial valuation of Capita's main defined benefit pension scheme is due as at 31 March 2020. The previous valuation as at 31 March 2017 included the payment of deficit repair contributions totalling £176.0m, which will be fully paid by early 2021. In line with our expectations, it is anticipated that these additional contributions, along with longer-term investment returns, will eliminate the shortfall in the scheme as identified by the Trustees during that valuation. Looking forwards to the 2020 valuation, where we conclude, will be dependent upon the timely delivery of the transformation of the Group. The Company and Trustees will continue their commitment to an open dialogue between them, ensuring the financial health of the scheme is maintained in a proportionate way with all other stakeholders.

Balance sheet

The reported loss for the year combined with the actuarial loss on the Group's defined benefit pension schemes and the adoption of IFRS 16, has resulted in the Group recording consolidated net liabilities of £64.0m at the 31 December 2019 (2018: net assets £103.3m).

Contingent liabilities

The Group has been notified under a supplier contract of a potential liability relating to past services received. The basis of any liability is currently being discussed with the supplier, focusing currently on the method of any settlement. The preferred approach is to settle the potential liability, if any, via future committed spend with the supplier and accordingly the Group has not made any provision at 31 December 2019 for a future outflow of funds that might result. Refer to note 16 for the contingent liability disclosure note.

Financial outlook

In the light of the investment that has been made in building platforms for growth, we expect that revenue growth in our core businesses will translate into modest organic revenue growth for the Group in 2020. Contractual working capital outflows will reduce by more than £120m as a result of known contract movements and our planned focus on the management of debtors and creditors will generate further benefits. Capital expenditure as discussed earlier will reduce significantly in 2020 and so adjusted free cash flow is expected to be at least £160m. As a result of planned restructuring and the last of three agreed payments towards our pension deficit, net debt will rise modestly.

All of these items are before taking account of the impact of potential disposals and the impact of IFRS 16.

1 Refer to alternative performance measures in the Appendix.

Forward looking statements

This full-year results statement is prepared for and addressed only to the Company's shareholders as a whole and to no other person. The Company, its Directors, employees, agents and advisers accept and assume no liability to any person in respect of this document save as would arise under English law. Statements contained in this document 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 regarding Capita's business, financial position and results of operations, the current expectations, beliefs or opinions of the management of Capita and/or statements concerning risks and uncertainties relating to Capita's business. Forward-looking statements may be identified by the words "anticipate", "believe", "intend", "estimate", "expect", "target" and words of similar meaning. Although Capita's Directors believe the expectations reflected in such forward-looking statements are reasonable, those statements involve risk and uncertainty because they relate to future events and depend on circumstances that may or may not occur and which may cause actual results and developments to differ materially from those expressed, projected or implied by those forward-looking statements and forecasts.

No representation is made that any of the forward-looking 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 document. Capita undertakes no obligation to release any update of, or revisions to, any forward-looking statement, forecast, opinion (which are subject to change without notice) or any other information or statement contained in this trading update. Furthermore, past performance cannot be relied on as a guide to future performance.

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

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

Consolidated income statement

For the year ended 31 December 2019

	Notes	2019 £m	2018[1] £m
Continuing operations:			
Revenue	7	**3,678.6**	3,918.4
Cost of sales		**(2,683.0)**	(2,951.4)
Gross profit		**995.6**	967.0
Administrative expenses		**(995.2)**	(932.1)
Operating profit		**0.4**	34.9
Share of results in associates		**(0.6)**	—
Net finance costs	8	**(62.4)**	(72.0)
Gain on business disposal	5	**—**	309.7
(Loss)/profit before tax		**(62.6)**	272.6
Income tax credit		**3.5**	0.9
(Loss)/profit for the year from continuing operations		**(59.1)**	273.5
Discontinued operations:			
Profit for the year		**5.0**	5.6
Total (loss)/profit for the year		**(54.1)**	279.1
Attributable to:			
Owners of the Company		**(64.2)**	269.0
Non-controlling interests		**10.1**	10.1
		(54.1)	279.1
(Loss)/earnings per share	9		
Continuing: – basic		**(4.18)p**	17.99p
– diluted		**(4.18)p**	17.77p
Total operations: – basic		**(3.88)p**	18.37p
– diluted		**(3.88)p**	18.15p

Adjusted operating profit	4	**306.1**	334.4
Adjusted profit before tax	4	**275.0**	281.2
Adjusted earnings per share	9	**13.09p**	16.33p
Adjusted and diluted earnings per share	9	**13.09p**	16.13p

Consolidated statement of comprehensive income

For the year ended 31 December 2019

	2019 £m	2018[1] £m
Total (loss)/profit for the year	**(54.1)**	279.1
Other comprehensive (expense)/income		
Items that will not be reclassified subsequently to the income statement		
Actuarial (loss)/gain on defined benefit pension schemes	**(106.7)**	134.9
Income tax effect	**18.1**	(22.9)
Items that will or may be reclassified subsequently to the income statement		
Exchange differences on translation of foreign operations	**(1.2)**	2.0
Gain on cash flow hedges	**1.0**	2.0
Cash flow hedges recycled to the income statement	**(2.6)**	(2.5)
Income tax effect	**0.3**	0.1
Other comprehensive (expense)/income for the year net of tax	**(91.1)**	113.6
Total comprehensive (expense)/income for the year net of tax	**(145.2)**	392.7
Attributable to:		
Owners of the Company	**(155.3)**	382.6
Non-controlling interests	**10.1**	10.1
	(145.2)	392.7

1 The Group has initially applied IFRS16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Refer to note 19 for further details.

Consolidated balance sheet

At 31 December 2019

	Notes	2019 £m	2018[2] £m
Non-current assets			
Property, plant and equipment	10	**194.3**	213.6
Intangible assets[1]	11	**354.2**	328.7
Goodwill[1]	12	**1,177.8**	1,259.0
Right-of-use assets [2]		**480.9**	—
Investments in associates		**3.8**	—
Contract fulfilment assets	13	**275.8**	264.2
Financial assets[2]		**82.2**	109.1
Deferred taxation[2]		**181.6**	144.6
Trade and other receivables		**26.4**	26.2
		2,777.0	2,345.4
Current assets			
Financial assets[2]		**25.1**	18.2
Disposal group assets held for sale	5	**12.4**	—
Trade and other receivables[2]		**748.4**	771.7
Cash		**409.1**	957.5
Income tax receivable[3]		**4.5**	0.9
		1,199.5	1,748.3
Total assets		**3,976.5**	4,093.7
Current liabilities			
Trade and other payables[2,3]		**619.8**	668.7
Deferred income		**884.5**	980.3
Overdrafts		**286.3**	314.8
Lease liabilities[2]		**81.9**	—
Disposal group liabilities held for sale	5	**7.9**	—
Finance liabilities		**351.8**	303.1
Provisions[2]	14	**71.3**	96.8
		2,303.5	2,363.7
Non-current liabilities			
Trade and other payables		**6.0**	11.6
Deferred income		**176.5**	277.3
Lease liabilities[2]		**480.7**	—
Financial liabilities		**795.7**	1,084.2
Deferred taxation		**16.3**	15.2
Provisions[2]	14	**9.3**	19.4
Employee benefits		**252.5**	219.0
		1,737.0	1,626.7
Total liabilities		**4,040.5**	3,990.4
Net (liabilities)/assets		**(64.0)**	103.3
Capital and reserves			
Share capital		**34.5**	34.5
Share premium		**1,143.3**	1,143.3
Employee benefit trust and treasury shares		**(11.2)**	(11.2)
Capital redemption reserve		**1.8**	1.8
Other reserves		**0.6**	3.1
Retained deficit [2,3]		**(1,295.8)**	(1,135.3)
(Deficit)/surplus attributable to owners of the Company		**(126.8)**	36.2
Non-controlling interests		**62.8**	67.1
Total (deficit)/equity		**(64.0)**	103.3

1. Goodwill has been presented separately from intangible assets on the face of the balance sheet in line with our commitment to simplify the financial statements.

2 The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Refer to note 19 or further details.

3 The Group has initially applied IFRIC 23 Uncertainty over Income Tax Treatments at 1 January 2019. The cumulative effect of initially applying IFRIC 23 has been recognised in retained earnings at the date of initial application. Comparative information is not restated.

Consolidated statement of changes in equity

For the year ended 31 December 2019

	Share capital £m	Share premium £m	Employee benefit trust and treasury shares £m	Capital redemption reserve £m	Retained deficit £m	Other reserves £m	Total attributable to the owners of the parent £m	Non-controlling interests £m	Total equity/ (deficit) £m
At 1 January 2018	13.8	501.3	(0.2)	1.8	(1,517.2)	1.5	(999.0)	69.2	(929.8)
Profit for the year	—	—	—	—	269.0	—	269.0	10.1	279.1
Other comprehensive income	—	—	—	—	112.0	1.6	113.6	—	113.6
Total comprehensive income for the year	—	—	—	—	381.0	1.6	382.6	10.1	392.7
Share based payment including deferred tax	—	—	—	—	3.8	—	3.8	—	3.8
Shares issues /(purchased)	20.7	642.0	(11.0)	—	—	—	651.7	—	651.7
Equity dividends paid[3]	—	—	—	—	—	—	—	(12.2)	(12.2)
Movement in put options held by non-controlling interests	—	—	—	—	(2.9)	—	(2.9)	—	(2.9)
At 1 January 2019	**34.5**	**1,143.3**	**(11.2)**	**1.8**	**(1,135.3)**	**3.1**	**36.2**	**67.1**	**103.3**
Impact of change in accounting standards - IFRS 16[1]	**—**	**—**	**—**	**—**	**(26.8)**	**—**	**(26.8)**	**—**	**(26.8)**
Impact of change in accounting standards - IFRIC 23[2]	**—**	**—**	**—**	**—**	**6.2**	**—**	**6.2**	**—**	**6.2**
At 1 January 2019, on adoption of IFRS 16[1] and IFRC 23[2]	**34.5**	**1,143.3**	**(11.2)**	**1.8**	**(1,155.9)**	**3.1**	**15.6**	**67.1**	**82.7**
(Loss)/profit for the year	**—**	**—**	**—**	**—**	**(64.2)**	**—**	**(64.2)**	**10.1**	**(54.1)**
Other comprehensive expense	**—**	**—**	**—**	**—**	**(88.6)**	**(2.5)**	**(91.1)**	**—**	**(91.1)**
Total comprehensive (expense)/income for the year	**—**	**—**	**—**	**—**	**(152.8)**	**(2.5)**	**(155.3)**	**10.1**	**(145.2)**
Share based payment including deferred tax	**—**	**—**	**—**	**—**	**3.8**	**—**	**3.8**	**—**	**3.8**
Shares purchased	**—**	**—**	**—**	**—**	**(0.7)**	**—**	**(0.7)**	**—**	**(0.7)**
Equity dividends paid[3]	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(14.4)**	**(14.4)**
Movement in put options held by non-controlling interests	**—**	**—**	**—**	**—**	**9.8**	**—**	**9.8**	**—**	**9.8**
At 31 December 2019	**34.5**	**1,143.3**	**(11.2)**	**1.8**	**(1,295.8)**	**0.6**	**(126.8)**	**62.8**	**(64.0)**

1 The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Refer to note 19 for further details.

2 The Group has initially applied IFRIC 23 Uncertainty over Income Tax Treatments at 1 January 2019. The cumulative effect of initially applying IFRIC 23 has been recognised in retained earnings at the date of initial application. Comparative information is not restated.

3 Dividends paid and proposed: £14.4m (2018: £12.2m) relates to dividends paid in relation to non-controlling interest. No dividends were declared or paid in 2019 or 2018 on ordinary shares. No dividends are proposed on ordinary shares in 2019 (2018: £nil).

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

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

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

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

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

Other reserves – This consists of foreign currency translation reserve surplus of £0.4m (2018: £1.6m surplus) and cash flow hedging reserve surplus of £0.2m (2018: £1.5m surplus).

Non-controlling interests (NCI) – This represents the equity in a subsidiary that is not attributable directly or indirectly to the parent company.

Consolidated cash flow statement

For the year ended 31 December 2019

	Notes	2019 £m	2018[1] £m
Cash generated/(used) by operations[1]	15	**32.8**	(75.7)
Cash generated/(used) by discontinued operations		**4.7**	(99.2)
Income tax (paid)/received		**(5.4)**	25.3
Net interest paid[1]		**(58.4)**	(52.5)
Net cash outflow from operating activities		**(26.3)**	(202.1)
Cash flows from investing activities			
Purchase of property, plant and equipment	10	**(57.7)**	(89.4)
Purchase of intangible assets	11	**(124.7)**	(70.1)
Proceeds from sale of property, plant and equipment/intangible assets	10, 11	**0.4**	1.9
Additions to investments in associates		**(0.6)**	—
Deferred consideration received		**—**	5.2
Cancellation of put options		**—**	(6.8)
Deferred consideration paid		**(1.3)**	(11.1)
Contingent consideration paid		**(11.8)**	(19.8)
Purchase of financial assets		**—**	(0.9)
Net (loss)/proceeds on disposal of subsidiary undertakings		**(8.9)**	407.8
Cash disposed of with subsidiary undertakings	5	**—**	(11.2)
Net cash (outflow)/inflow from investing activities		**(204.6)**	205.6
Cash flows from financing activities			
Dividends paid to non-controlling interest		**(14.4)**	(12.2)
Purchase of shares		**(0.7)**	(11.0)
Capital element of lease rental payments[1]		**(93.7)**	(0.2)
Issue of share capital net of issue costs		**—**	662.7
Repayment of loan notes		**(96.8)**	(577.2)
Proceeds from fixed rate swaps		**10.9**	103.6
Repayment of term loan		**(100.0)**	—
Financing arrangement costs		**(1.1)**	(3.7)
Net cash (outflow)/inflow from financing activities		**(295.8)**	162.0
(Decrease)/increase in cash and cash equivalents		**(526.7)**	165.5
Cash and cash equivalents at the beginning of the period		**642.7**	478.4
Movement in exchange rates		**3.3**	(1.2)
Cash and cash equivalents at 31 December		**119.3**	642.7
Cash and cash equivalents comprise:			
Cash		**409.1**	957.5
Overdrafts		**(286.3)**	(314.8)
Overdrafts included in disposal group liabilities held for sale		**(3.5)**	—
Total		**119.3**	642.7

Adjusted cash generated from operations	15	**158.6**	71.9
Adjusted free cash flows	15	**(61.3)**	(78.8)

1 The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Refer to note 19 for further details.

Notes to the financial statements

for the year ended 31 December 2019

1 Corporate information

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

The consolidated financial statements of Capita plc for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Directors on 4 March 2020.

2 Basis of preparation, judgements and estimates and going concern

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

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

(b) Adjusted profit

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

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

(c) Judgements and estimates

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

(d) Going concern

In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2019, the Directors are required to consider whether the Group and Parent Company can continue in operational existence for the foreseeable future.

Accounting standards require that an entity considers period of at least 12 months when assessing going concern, although do not specify how far beyond 12 months from the date of approval of the financial statements an entity should consider. Given Capita's transformation plan as described earlier in the strategic report the Board has assessed a longer period and with risks and mitigations that align with the viability assessment of the Annual Report and Accounts.

The base-case projections prepared for the going concern are derived from the 2020-2022 business plans as approved by the Board. These capture the key benefits that the transformation plan will deliver, and the costs to achieve these. In recognition of the downside scenarios that the Board is obliged to consider for assessing robustly going concern, the projections have been adjusted to be necessarily more cautious in order to gauge the short to medium term resilience of the Group and Parent Company to unexpected risks arising.

The Board has applied a robust process to assess the resilience of the forecast out-turns. This assessment included applying severe but plausible downside risks as set out in the viability statement of the Annual Report and Accounts. To address these risks the Board has considered mitigating factors that could be employed that would address the impact and provide options to the Group and Parent Company.

The assessment has taken into account the Group's existing debt levels, committed funding and available liquidity. In addition to the revolving credit facility (RCF), in February 2020 the Group agreed a backstop liquidity facility of £150m. The Group's revolving credit facility matures in August 2022; and the Group's backstop facility has an initial maturity in February 2021 and is extendable at the option of the Group to a final maturity in August 2022.

The Group's committed revolving credit facility, backstop liquidity facility, and private placement loan notes are subject to compliance with covenant requirements including maximum ratios of adjusted net debt to adjusted EBITDA and interest cover. The covenants are tested semi-annually.

The Group had net debt of £1,353.2m at 31 December 2019 (2018: £466.1m) and adjusted net debt of £832.7m at 31 December 2019 (2018: £494.7m). Net debt increased in 2019 as a result of the adoption of IFRS 16 Leases (31 December 2019: £562.6m of lease liabilities). Net debt is reported in note 15. Cash flow information and is used to calculate headline leverage (adjusted net debt to adjusted EBITDA) and covenanted adjusted net debt to adjusted EBITDA ratio (refer to the alternative performance measures in the Appendix).

The Group's covenanted maximum adjusted net debt to adjusted EBITDA ratio is 3.0 times to 3.5 times depending on the debt instrument in question. The impact of IFRS 16 adoption on the ratio is neutral, as the Group covenants are calculated using GAAP applied before the adoption of IFRS 16, with the exception of the US private placement loan notes. The US private placement loan notes covenant test is favourably impacted by IFRS 16 adoption. The Group's calculation of covenanted adjusted net debt to adjusted EBITDA at 31 December 2019 was 2.2 times (2018: 1.2 times), and the US private placement loan notes ratio was 1.7 times.

The Group's minimum permitted interest cover level is 4.0 times. The interest cover covenant was 11.2 times for the US private placement loan notes and 10.8 times for other financing arrangements (2018: 8.2 times). As the comparatives have not been restated on the adoption of IFRS 16, the December 2018 ratio only provides a meaningful comparison in the case of the other financing arrangements and therefore no comparatives are shown for the US private placement loan notes.

Based on the above robust assessment the Board believes that the Group and Company will continue to have adequate financial resources to realise their assets and discharge their liabilities as they fall due. Accordingly, the Directors have formed the judgement that it is appropriate to prepare the financial statements on the going concern basis. Therefore, the financial statements do not include any adjustments which would be required if the going concern basis of preparation were deemed inappropriate.

3 Preliminary announcement

A duly appointed and authorised committee of the Board of Directors approved the preliminary announcement on 4 March 2019. The financial information set out above does not constitute the Group's consolidated financial statements for the years ended 31 December 2019 and 2018 but is derived from those accounts. Statutory accounts for 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered in due course. The auditor has reported on those accounts. Their reports for the accounts of 2019 and 2018 were (i) unqualified, (ii) did not include a reference of any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

4 Adjusted operating profit and adjusted profit before tax

The items below are excluded from the adjusted results:

		Operating profit		(Loss)/profit before tax	
	Notes	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Reported		**0.4**	34.9	**(62.6)**	272.6
Amortisation and impairment of acquired intangibles		**49.9**	143.5	**49.9**	143.5
Impairment of goodwill	12	**41.4**	33.8	**41.4**	33.8
Impairment of loans and investments		**—**	1.6	**—**	1.6
Litigation and claims		**(0.7)**	(1.8)	**(0.8)**	(1.8)
GMP and retirement age equalisation		**—**	5.4	**—**	5.4
Net finance costs	8	**—**	—	**6.3**	18.8
Contingent consideration movements		**(1.4)**	(5.0)	**(1.4)**	(5.0)
Business exit – trading		**16.7**	(17.7)	**16.7**	(17.7)
Business exit – non-trading expenses		**52.1**	29.7	**52.1**	29.7
Business exit – (gain)/loss on disposals		**—**	—	**—**	(309.7)
Significant restructuring		**159.4**	110.0	**159.4**	110.0
Impact of IFRS 16	19	**(11.7)**	—	**14.0**	—
Adjusted		**306.1**	334.4	**275.0**	281.2

1. Adjusted operating profit decreased by 8.5% (2018: 26.0%) and adjusted profit before tax decreased by 2.2% (2018: 26.4%). Adjusted operating profit of £306.1m (2018: £334.4m) was generated on adjusted revenue of £3,647.4m (2018: £3,814.7m) resulting in an adjusted operating profit margin of 8.4% (2018: 8.8%).
2. The tax charge on adjusted profit before tax is £43.5m (2018: £27.2m) resulting in adjusted profit after tax of £231.5m (2018: £254.0m).
3. The 2018 adjusted operating profit and adjusted profit before tax has been restated for business exits in 2019. This has resulted in adjusted operating profit decreasing from £335.3m to £334.4m and adjusted profit before tax decreasing from £282.1m to £281.2m.

Amortisation and impairment of acquired intangible assets: the Group recognised acquired intangible amortisation of £50.3m (2018: £86.7m) of which £0.4m relates to business exits (2018: £4.9m) and impairment of £nil (2018: £61.7m).

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

Litigation and claims: the gain in 2019 is the net movement in historical provisions for litigation and claims which were excluded from adjusted profit when originally recognised due to their age and size.

The gain of £1.8m in 2018 arises from a release of £5.5m in respect of the above provisions recognised in 2017, off-set by a loss from the derecognition of an insurance asset of £3.7m. The original claim to which the asset related was excluded from adjusted profit due to its nature and size.

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

Business exits: the trading result of businesses exited, or in the process of being exited, and the gain or loss on disposals, are excluded from the Group's adjusted results.

Significant restructuring: in January 2018, the Group announced a multi-year transformation plan. In 2019 a charge of £159.4m (2018: £110.0m) was recognised in relation to the cost of the transformation plan. The costs include the following:

- **Cost to realise cost savings and efficiencies from the transformation plan £80m (2018: £55m):** including significant reductions in overheads, the elimination of duplicate roles and management layers, and the Group's operational excellence programme which will improve the consistency of our operations, reduce spans and layers, increasing the use of off-shoring and automation, adopting lean methodologies and being smarter in terms of how we work. These costs also include engaging the Group's property expertise to rationalise and increase the utilisation of Capita's property estate, in metro centres and regionally. As the Group continues to rationalise the property estate cost associated with onerous lease commitments and dilapidation liabilities will be captured and presented as part of the transformation adjustments.
- **Professional fees £26m (2018: £31m):** incurred to support reigniting sales growth and increasing the proportion of centrally controlled spend, consolidating the supplier base and leveraging the Group's scale.
- **Transformation of central Group functions £53m (2018: £6m):** investment in programmes to improve the Group's central functions, including finance, sales, HR and IT. All costs associated with these programmes are recorded separately, excluding any costs capitalised as part of the investment and the ongoing depreciation and amortisation of such assets.

Impact of IFRS 16: the adoption of IFRS 16 has had a significant impact on the Group's financial statements and this has been excluded from adjusted profit to enable comparability of adjusted results as the comparable figures have not been restated. Details of the change in the Group's accounting policy in respect of lease accounting and an analysis of the impact of adopting IFRS 16 are set out in note 19.

5 Business exits and assets held for sale

Business exits are businesses that have been disposed of or exited during the year, or are in the process of being disposed of or exited. None of these business exits meet the definition of 'discontinued operations' as stipulated by IFRS 5, which requires disclosure and comparatives to be restated where the relative size of a disposal or business closure is significant, which is normally understood to mean a reported segment. However, the trading result of these businesses exits, and any gain or loss on disposal, have been excluded from adjusted results and to enable a like-for-like comparison of adjusted results, the 2018 comparatives have been restated to exclude 2019 business exits.

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

At 31 December 2019, the Group was in an active process to dispose of a business which met the held for sale criteria. As such it was treated as a disposal group held for sale at this date, and its results included within business exits and therefore excluded from adjusted results.

During 2019, the Group took the decision to exit a business. The exit is in progress and expected to complete in 2020. In accordance with our policy, the trading result of the business was included in business exits and therefore excluded from adjusted results.

Further disposals are planned in 2020 as part of the simplification agenda. As these disposals did not met the definition of business exits assets for sale at 31 December 2019, their trading results were included within adjusted results.

In 2018, the Group disposed of five businesses and exited one business – Capita Specialist Insurance Solutions, Projen, Medicals Direct Group, Supplier Assessment Services (including Constructionline), ParkingEye and REI Health.

		Non-trading disposal			**2019**		Non-trading disposal			2018
Income statement impact	**Trading £m**	**Cash £m**	**Non-cash £m**	**Total £m**	**Total £m**	Trading £m	Cash £m	Non-cash £m	Total £m	Total £m
Revenue	**31.2**	**—**	**—**	**—**	**31.2**	103.7	—	—	—	103.7
Cost of sales	**(28.0)**	**—**	**—**	**—**	**(28.0)**	(54.2)	—	—	—	(54.2)
Gross profit	**3.2**	**—**	**—**	**—**	**3.2**	49.5	—	—	—	49.5
Administrative expenses	**(19.9)**	**—**	**(52.1)**	**(52.1)**	**(72.0)**	(31.8)	(1.0)	(28.7)	(29.7)	(61.5)
Operating (loss)/profit	**(16.7)**	**—**	**(52.1)**	**(52.1)**	**(68.8)**	17.7	(1.0)	(28.7)	(29.7)	(12.0)
Gain on business disposal	**—**	**—**	**—**	**—**	**—**	—	367.4	(57.7)	309.7	309.7
(Loss)/profit before tax	**(16.7)**	**—**	**(52.1)**	**(52.1)**	**(68.8)**	17.7	366.4	(86.4)	280.0	297.7
Taxation	**3.0**	**3.0**	**—**	**3.0**	**6.0**	(3.3)	(23.4)	—	(23.4)	(26.7)
(Loss)/profit after tax	**(13.7)**	**3.0**	**(52.1)**	**(49.1)**	**(62.8)**	14.4	343.0	(86.4)	256.6	271.0

Trading revenue and costs represent the current year trading performance of those businesses up to the point of being disposed or exited. Trading expenses primarily comprise of payroll costs of £19.8m (2018: £19.5m) and IT costs of £17.3m (2018: £27.9m).

Non-trading administrative expenses primarily comprise of closure costs of £nil (2018: £1.0m), goodwill impairment of £35.3m (2018: £24.3m), acquired intangible amortisation of £nil (2018: £4.9m), impairment of property, plant and equipment of £14.7m (2018: £nil) which is partially offset by releases of provisions of £2.8m (2018: £0.5m).

Balance Sheet – disposal group

	2019 £m
Property, plant and equipment	**0.2**
Deferred tax asset	**0.1**
Intangibles	**2.9**
Trade and other receivables	**9.2**
Assets held for sale	**12.4**
Trade and other payables[1]	**4.4**
Overdraft	**3.5**
Liabilities held for sale	**7.9**

1. Trade and other payables includes income tax payable of £0.4m.

Business exit cash flows
Business exited generated operating cash outflows of £19.2m (2018: cash inflows of £9.0m).

2018 disposals
In 2018 the gain on disposal of £309.7m arises from the disposal of net assets of £69.0m for £400.7m consideration and costs of disposal of £22.0m. Cash proceeds of £400.7m net of cash disposed amounted to £389.5m.

	2018		
Gain on business disposal	Cash £m	Non-cash £m	Total £m
Property, plant and equipment	—	19.9	19.9
Intangible assets	—	12.4	12.4
Goodwill	—	50.9	50.9
Trade and other receivables	—	8.5	8.5
Deferred tax asset	—	0.1	0.1
Trade and other payables	—	(26.8)	(26.8)
Deferred income	—	(4.6)	(4.6)
Income tax payable	—	(1.5)	(1.5)
Deferred tax liability	—	(0.9)	(0.9)
Provisions	—	(0.2)	(0.2)
Cash disposed of	11.2	—	11.2
Total net assets disposed of	11.2	57.8	69.0
Cash purchase consideration received	400.7	—	400.7
Costs of disposal – paid and accrued	(22.0)	—	(22.0)
Proceeds, less costs, on disposal	378.7	—	378.7
Gain on business disposal	367.5	(57.8)	309.7

6 Contract accounting

At 31 December 2019, the Group had the following results and balance sheet items related to long-term contracts:

	Notes	**2019 £m**	2018 £m
Long-term contractual adjusted revenue		**2,615.4**	2,728.4
Deferred income		**1,061.0**	1,257.6
Contract fulfilment assets	13	**275.8**	264.2
Onerous contract provisions	14	**6.1**	7.4

Background
The Group operates a number of diverse businesses. The majority of the Group's revenue is from contracts greater than two years in duration (long-term contractual), 72% of Group adjusted revenue in 2019 (2018: 72%).

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

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

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

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

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

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

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

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

The major contracts contributed £1.4billion (2018: £1.3billion) or 39% (2018: 35%) of Group adjusted revenue. Non-current contract fulfilment assets as at 31 December 2019 were £275.8m, of which £80.7m (2018: £55.2m) related to major contracts with on-going transformational activities. The remainder relates to contracts post transformation and includes non-major contracts.

The major contracts, both pre and post transformation, are rated according to their financial risk profile, which is linked to the level of uncertainty over future assumptions. For those that are in the high and medium rated risk categories the associated non-current contract fulfilment assets in aggregate were £52.4m at 31 December 2019 (2018: £37.5m). The recoverability of these assets is dependent on no significant adverse change in the key contract assumptions arising in the next financial year. The deferred income associated with these contracts was £243.6m at 31 December 2019 (2018: £336.3m) and is forecast to be recognised as performance obligations continue to be delivered over the life of the respective contracts.

Following these reviews, contract fulfilment asset provisions for impairment of £9.6m (2018: £22.2m) were identified and recognised within adjusted cost of sales, of which, £2.2m (2018: £22.2m) relates to contract fulfilment assets added during the period. There were no material onerous contract provisions recognised in the period.

Given the quantum of the relevant contract assets and liabilities management has considered the nature of the estimates noted above and concluded that it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year may be different from management's assumptions and could require a material adjustment to the carrying amounts of contract assets and onerous contract provisions. However, as noted above, £80.7m of non-current contract fulfilment assets relates to major contracts with on-going transformational activities and £52.4m of non-contract fulfilment assets relates to the highest and medium rated risk category. Due to the level of uncertainty, combination of variables and timing across numerous contracts, it is not practical to provide a quantitative analysis of the aggregated judgements that are applied, and management do not believe that disclosing a potential range of outcomes on a consolidated basis would provide meaningful information to a reader of the accounts. Due to commercial sensitivities, Capita does not specifically disclose the amounts involved on any individual contract. Additional information, which does not form part of the financial statements, on the results and performance of the underlying divisions including the outlook on certain contracts is set out in the divisional performance review.

7 Revenue including segmental revenue

The Group's operations are managed separately according to the nature of the services provided, with each segment representing a strategic business division offering a different package of client outcomes across the markets the Group serves. A description of the service provision for each segment can be found in the strategic report on pages 20-31 of the Annual Report 2019.

The tables below present revenue for the Group's business segments for the years 2019 and 2018. As discussed in the strategic report of the Annual Report 2019, a new Consulting division was created in 2019. For segmental reporting, Consulting is aggregated within the 'Group trading and central services' segment. The division was formed following the transfer of businesses from the Software segment and the recruitment of additional resources. During 2019, there were transfers of businesses between the Specialist Services and Technology Solutions segments. Comparative information has been restated accordingly.

Adjusted revenue, excluding results from businesses exited in both years (adjusting items), was £3,647.4m (2018: £3,814.7m), an organic decline of 4.4% (2018: 6.7%).

Year ended 31 December 2019	Notes	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central services £m	Total adjusted £m	Adjusting items £m	Total reported £m
Continuing operations											
Long-term contractual		**331.8**	**313.3**	**552.6**	**673.7**	**297.1**	**432.2**	**14.7**	**2,615.4**	**23.5**	**2,638.9**
Short-term contractual		**37.9**	**34.8**	**248.1**	**14.6**	**41.5**	**183.9**	**2.4**	**563.2**	**0.4**	**563.6**
Transactional (point in time)		**5.7**	**152.4**	**1.7**	**89.6**	**90.7**	**128.4**	**0.3**	**468.8**	**7.3**	**476.1**
Total segment revenue		**375.4**	**500.5**	**802.4**	**777.9**	**429.3**	**744.5**	**17.4**	**3,647.4**	**31.2**	**3,678.6**
Trading revenue		**434.7**	**700.5**	**919.0**	**802.7**	**631.8**	**828.1**	**65.6**	**4,382.4**	**—**	**4,382.4**
Inter-segment revenue		**(59.3)**	**(200.0)**	**(116.6)**	**(24.8)**	**(202.5)**	**(83.6)**	**(48.2)**	**(735.0)**	**—**	**(735.0)**
Total adjusted segment revenue		**375.4**	**500.5**	**802.4**	**777.9**	**429.3**	**744.5**	**17.4**	**3,647.4**	**—**	**3,647.4**
Business exits – trading	5	**—**	**5.5**	**—**	**—**	**—**	**25.7**	**—**	**—**	**31.2**	**31.2**
Total segment revenue		**375.4**	**506.0**	**802.4**	**777.9**	**429.3**	**770.2**	**17.4**	**—**	**—**	**3,678.6**

Year ended 31 December 2018	Notes	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central services £m	Total adjusted £m	Adjusting items £m	Total reported £m
Continuing operations											
Long-term contractual		337.4	296.4	571.2	657.9	298.5	540.4	26.6	2,728.4	45.3	2,773.7
Short-term contractual		34.7	38.0	229.5	29.2	55.2	200.5	—	587.1	47.7	634.8
Transactional (point in time)		7.8	160.2	1.9	93.4	86.0	146.4	3.5	499.2	10.7	509.9
Total segment revenue		379.9	494.6	802.6	780.5	439.7	887.3	30.1	3,814.7	103.7	3,918.4
Trading revenue		425.9	644.9	912.8	810.0	679.5	959.2	78.3	4,510.6	—	4,510.6
Inter-segment revenue		(46.0)	(150.3)	(110.2)	(29.5)	(239.8)	(71.9)	(48.2)	(695.9)	—	(695.9)
Total adjusted segment revenue		379.9	494.6	802.6	780.5	439.7	887.3	30.1	3,814.7	—	3,814.7
Business exits – trading	5	—	5.9	—	—	—	97.8	—	—	103.7	103.7
Total segment revenue		379.9	500.5	802.6	780.5	439.7	985.1	30.1	—	—	3,918.4

Geographical location

The table below presents revenue by geographical location.

	2019			2018		
	United Kingdom £m	**Other £m**	**Total £m**	United Kingdom £m	Other £m	Total £m
Revenue	**3,358.4**	**320.2**	**3,678.6**	3,609.7	308.7	3,918.4

Order book

The tables below show the order book for each division, categorised into long-term contractual (contracts with length greater than two years) and short-term contractual (contracts with length less than two years). The length of the contract is calculated from the start of the service commencement date. The figures represent the aggregate amount of currently contracted transaction price allocated to the performance obligations that are unsatisfied or partially unsatisfied. The Group's order book has declined as contract wins in the year have not offset revenue recognised in the year. Revenue expected to be recognised upon satisfaction of these performance obligations is as follows:

Order book 31 December 2019	**Software £m**	**People Solutions £m**	**Customer Management £m**	**Government Services £m**	**Technology Solutions £m**	**Specialist Services £m**	**Group trading and central functions £m**	**Total £m**
Long-term contractual	**496.7**	**497.2**	**1,697.2**	**2,328.4**	**344.0**	**1,108.0**	**2.9**	**6,474.4**
Short-term contractual	**81.7**	**—**	**26.5**	**—**	**45.7**	**83.7**	**7.6**	**245.2**
Total	**578.4**	**497.2**	**1,723.7**	**2,328.4**	**389.7**	**1,191.7**	**10.5**	**6,719.6**

Order book 31 December 2018	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central functions £m	Total £m
Long-term contractual	554.9	715.3	2,012.2	2,187.5	380.4	1,224.1	19.7	7,093.7
Short-term contractual	—	—	—	—	—	2.3	—	2.3
Total	554.9	715.3	2,012.2	2,187.5	380.4	1,226.4	19.7	7,096.0

The table below shows the time bands of the expected timing of revenue to be recognised on long-term contractual at 31 December 2019:

Time bands of long-term contractual in order book	**Software £m**	**People Solutions £m**	**Customer Management £m**	**Government Services £m**	**Technology Solutions £m**	**Specialist Services £m**	**Group trading and central functions £m**	**Total £m**
< 1 year	**176.5**	**289.7**	**559.0**	**408.0**	**141.8**	**266.8**	**2.0**	**1,843.8**
1–5 years	**285.6**	**205.2**	**1,056.6**	**1,260.1**	**155.6**	**558.8**	**0.9**	**3,522.8**
> 5 years	**34.6**	**2.3**	**81.6**	**660.3**	**46.6**	**282.4**	**—**	**1,107.8**
Total	**496.7**	**497.2**	**1,697.2**	**2,328.4**	**344.0**	**1,108.0**	**2.9**	**6,474.4**

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 non-contracted 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 £605.4m (2018: £508.0m). The amounts presented do not include orders for which neither party has performed and each party has the unilateral right to terminate a wholly unperformed contract without compensating the other party.

Of the £6.7billion (2018: £7.1billion) revenue to be earned on long-term contractual, £4.4billion (2018: £4.1billion) relates to major contracts to the Group. This amount excludes revenue that will be derived from frameworks (transactional (point in time) contracts), non-contracted volumetric revenue, non-contracted scope changes and future unforeseen volume changes from these major contracts, which together are expected to contribute an additional £1.8billion (2018: £2.1billion) of revenue to the Group over the life of these contracts.

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

Deferred Income

The Group's deferred income balances solely relate to revenue from contracts with customers. Revenue recognised in the reporting period that was included in the deferred income balance at the beginning of the period was £1,119.3m (2018: £1,220.8m).

Segmental Profit

The table below presents profit by segment.

Year ended 31 December 2019	Notes	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central services £m	Total adjusted £m	Adjusting items £m	Total reported £m
Adjusted operating profit	4	**102.9**	**34.9**	**54.9**	**58.8**	**50.7**	**141.7**	**(137.8)**	**306.1**	**—**	**306.1**
Restructuring	4	**(5.8)**	**(34.2)**	**(7.9)**	**(2.6)**	**(6.8)**	**(7.2)**	**(94.9)**	**—**	**(159.4)**	**(159.4)**
Business exits – trading	5	**—**	**(11.8)**	**—**	**—**	**—**	**(4.9)**	**—**	**—**	**(16.7)**	**(16.7)**
Total trading result		**97.1**	**(11.1)**	**47.0**	**56.2**	**43.9**	**129.6**	**(232.7)**	**306.1**	**(176.1)**	**130.0**
Non-trading items:											
Business exits – non-trading	5								**—**	**(52.1)**	**(52.1)**
Other adjusting items	4								**—**	**(77.5)**	**(77.5)**
Operating profit									**306.1**	**(305.7)**	**0.4**

Year ended 31 December 2018	Notes	Software £m	People Solutions £m	Customer Management £m	Government Services £m	Technology Solutions £m	Specialist Services £m	Group trading and central services £m	Total adjusted £m	Adjusting items £m	Total reported £m
Adjusted operating profit	4	109.6	45.0	41.7	40.3	53.8	128.6	(84.6)	334.4		334.4
Restructuring	4	(9.5)	(12.5)	(11.8)	(6.3)	(4.4)	(14.4)	(51.1)	—	(110.0)	(110.0)
Business exits – trading	6	—	(3.7)	0.3	—	—	21.1	—	—	17.7	17.7
Total trading result		100.1	28.8	30.2	34.0	49.4	135.3	(135.7)	334.4	(92.3)	242.1
Non-trading items:											
Business exits – non-trading	6								—	(29.7)	(29.7)
Other adjusting items	4								—	(177.5)	(177.5)
Operating profit/(loss)									334.4	(299.5)	34.9

Geographical location

The table below presents revenue by geographical location, and carrying amount of non-current assets by location of those assets.

	2019			2018		
	United Kingdom £m	**Other £m**	**Total £m**	United Kingdom £m	Other £m	Total £m
Non-current assets	**1,792.8**	**55.9**	**1,848.7**	2,040.3	51.4	2,091.7

8 Net finance costs

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

	2019 £m	2018 £m
Interest receivable	**(3.6)**	(2.6)
Private placement loan notes	**28.1**	40.4
Cash flow hedges recycled to the income statement	**(2.6)**	(2.5)
Bank loans and overdrafts	**4.2**	8.5
Net interest cost on defined benefit pension schemes	**4.4**	9.4
Interest payable	**34.1**	55.8
Net finance costs included in adjusted profit	**30.5**	53.2
Discount unwind on public sector subsidiary partnership payment	**1.3**	1.7
Non-designated foreign exchange forward contracts – mark-to-market	**2.1**	5.1
Interest on lease liabilities[1]	**25.7**	—
Fair value hedge ineffectiveness[2]	**2.8**	(3.9)
Private placement loan notes prepayments costs[3]	**—**	15.9
Net finance costs excluded from adjusted profit	**31.9**	18.8
Total net finance costs	**62.4**	72.0

1 The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Refer to note 19 for further details.

2. Fair value hedge ineffectiveness includes ineffectiveness from changes in currency basis, and the movement in mark-to-market valuations on hedge derivatives from the perceived change in the credit worthiness of the counterparties to those instruments. 2018 included early termination costs paid to noteholders on early repayment of private placement loan notes.

3. Private placement loan notes prepayment costs includes make-whole costs paid to noteholders on early repayment of principal in 2018.

9 Earnings/(loss) per share

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

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

		2019		2018	
		Continuing operations p	**Total operations p**	Continuing operations p	Total operations p
Basic earnings per share	– adjusted	**13.09**	**13.09**	16.33	16.33
	– reported	**(4.18)**	**(3.88)**	17.99	18.37
Diluted earnings per share	– adjusted	**13.09**	**13.09**	16.13	16.13
	– reported	**(4.18)**	**(3.88)**	17.77	18.15

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

	2019		2018	
	Continuing operations £m	**Total operations £m**	Continuing operations £m	Total operations £m
Adjusted profit for the period	**231.5**	**231.5**	254.0	254.0
Less: Non-controlling interest	**(14.7)**	**(14.7)**	(14.9)	(14.9)
Adjusted profit attributable to shareholders	**216.8**	**216.8**	239.1	239.1
Reported (loss)/profit for the period	**(59.1)**	**(54.1)**	273.5	279.1
Less: Non-controlling interest	**(10.1)**	**(10.1)**	(10.1)	(10.1)
Total (loss)/profit attributable to shareholders	**(69.2)**	**(64.2)**	263.4	269.0

	2019 m	2018 m
Weighted average number of ordinary shares (excluding trust and treasury shares) for basic earnings per share	**1,656.1**	1,463.9
Dilutive potential ordinary shares:		
Employee share options	**—**	18.3
Weighted average number of ordinary shares (excluding trust and treasury shares) adjusted for the effect of dilution	**1,656.1**	1,482.2

At 31 December 2019 25,313,414 options were excluded from the diluted weighted average number of ordinary shares calculation because their effect would have been anti-dilutive. Under IAS 33 - Earnings per Share, potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations. The Group made a loss in the current year from continuing operation hence the diluted (loss)/profit per share for each component of continuing operations needs to be the same amount as the basic (loss)/profit per share.

The earnings per share figures are calculated based on earnings attributable to ordinary equity holders of the parent company, and therefore excludes non-controlling interest. The earnings per share is calculated on an adjusted and total reported basis. The earnings per share for business exits, specific items and the impact of IFRS 16 are bridging items to adjusted and total reported earnings per share.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements. To adjust for the dilutive impact of the rights issue in 2018, Capita granted an additional 1.639 share options for every share option that an employee held to ensure that the fair value remained unchanged after dilution.

10 Property, plant and equipment

	2019			2018		
	Leasehold improvement, land and buildings £m	**Plant and machinery £m**	**Total £m**	Leasehold improvements, land and buildings £m	Plant and machinery £m	Total £m
Cost						
At 1 January	**103.0**	**175.7**	**278.7**	77.1	195.0	272.1
Additions	**18.0**	**39.7**	**57.7**	33.1	56.3	89.4
Disposal of business	**—**	**—**	**—**	—	(22.8)	(22.8)
Disposals – included in adjusted profit	**(2.4)**	**(4.6)**	**(7.0)**	(0.6)	(19.7)	(20.3)
Transfer to assets held for sale	**(0.2)**	**—**	**(0.2)**	—	—	—
Asset retirements	**—**	**—**	**—**	(5.9)	(33.1)	(39.0)
Exchange movement	**(0.3)**	**(4.2)**	**(4.5)**	(0.7)	—	(0.7)
At 31 December	**118.1**	**206.6**	**324.7**	103.0	175.7	278.7
Depreciation and impairment:						
At 1 January	**41.8**	**23.3**	**65.1**	32.7	20.1	52.8
Depreciation charged during the year	**9.6**	**50.7**	**60.3**	9.7	50.4	60.1
Disposal of business	**—**	**—**	**—**	—	(2.9)	(2.9)
Disposals – included in adjusted profit	**(2.2)**	**(3.8)**	**(6.0)**	(0.6)	(10.8)	(11.4)
Impairment – included in adjusted profit	**—**	**—**	**—**	6.1	—	6.1
Impairment – business exit	**—**	**14.7**	**14.7**	—	—	—
Asset retirements	**—**	**—**	**—**	(5.9)	(33.1)	(39.0)
Exchange movement	**(1.9)**	**(1.8)**	**(3.7)**	(0.2)	(0.4)	(0.6)
At 31 December	**47.3**	**83.1**	**130.4**	41.8	23.3	65.1
Net book value						
At 1 January	**61.2**	**152.4**	**213.6**	44.4	174.9	219.3
At 31 December	**70.8**	**123.5**	**194.3**	61.2	152.4	213.6

At 31 December 2019, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £6.7m (2018: £10.7m), relating to building improvement on a leased property and software upgrades.

11 Intangible assets

	2019			2018		
	Intangible assets acquired in business combinations £m	**Capitalised/ purchased intangible assets £m**	**Total £m**	Intangible assets acquired in business combinations £m	Capitalised/ purchased intangible assets £m	Total £m
Cost						
At 1 January	**552.5**	**254.0**	**806.5**	715.3	214.5	929.8
Subsidiaries acquired	**—**	**—**	**—**	2.7	—	2.7
Business disposal	**—**	**—**	**—**	(48.7)	(7.3)	(56.0)
Additions	**—**	**124.7**	**124.7**	—	70.1	70.1
Disposals – included in adjusted profit	**—**	**(2.7)**	**(2.7)**	—	(5.1)	(5.1)
Transfer to assets held for sale	**—**	**(0.1)**	**(0.1)**	—	—	—
Asset retirement	**(179.2)**	**(12.2)**	**(191.4)**	(123.3)	(18.8)	(142.1)
Exchange movement	**(2.3)**	**(0.7)**	**(3.0)**	6.5	0.6	7.1
At 31 December	**371.0**	**363.0**	**734.0**	552.5	254.0	806.5
Amortisation and impairment						
At 1 January	**425.8**	**52.0**	**477.8**	438.0	47.6	485.6
Amortisation charged during the year	**50.3**	**31.1**	**81.4**	86.7	27.9	114.6
Impairment – excluded from adjusted profit	**—**	**13.8**	**13.8**	61.7	—	61.7
Business disposal	**—**	**—**	**—**	(41.3)	(3.9)	(45.2)
Disposals – included in adjusted profit	**—**	**(1.5)**	**(1.5)**	—	(0.7)	(0.7)
Asset retirement	**(179.2)**	**(12.2)**	**(191.4)**	(123.3)	(18.8)	(142.1)
Exchange movement	**—**	**(0.3)**	**(0.3)**	4.0	(0.1)	3.9
At 31 December	**296.9**	**82.9**	**379.8**	425.8	52.0	477.8
Net book value (NBV)						
At 1 January	**126.7**	**202.0**	**328.7**	277.3	166.9	444.2
At 31 December	**74.1**	**280.1**	**354.2**	126.7	202.0	328.7

Intangible assets acquired in business combinations include brands (NBV 2019: £8.8m, 2018: £17.5m), IP software and licences (NBV 2019: £28.7m, 2018: £38.7m), contracts and committed sales (NBV 2019: £15.9m, 2018: £21.6m) and clients lists and relationships (NBV 2019: £20.7m, 2018: £48.9m).

Intangible assets capitalised or purchased include capitalised software development (NBV 2019: £237.0m, 2018: £161.6m) and other intangibles (NBV 2019: £43.1m, 2018: £40.4m).

The aim of the finance transformation is to improve the Group's financial reporting systems, processes and controls, by increasing standardisation, automation and the quality of available data. The new financial systems were due to go live in the second half of 2019. While progress was made, we took the decision to defer the go-live as more work is required on the core processes and procedures before the system can effectively be implemented. We have reviewed the costs capitalised and assessed that £12.3m is impaired, representing areas that we expect to redesign before going live. The carrying value of the investment at 31 December 2019, post impairment, is £58.6m. Further impairment may arise should there be a material change to the Group's operating model. This impairment is included within significant restructuring. We have continued to invest in shared service centres and offshoring, and in making improvements to the Group's existing reporting systems, processes and controls.

12 Goodwill

	2019 Total £m	2018 Total £m
Cost		
At 1 January	**2,020.6**	2,071.2
Business disposal	**—**	(50.9)
Transfer to assets held for sale	**(2.8)**	—
Exchange movement	**(1.7)**	0.3
At 31 December	**2,016.1**	2,020.6
Accumulated impairment		
At 1 January	**761.6**	703.3
Impairment – excluded from adjusted profit	**41.4**	33.8
Impairment – business exit	**35.3**	24.3
Exchange movement	**—**	0.2
At 31 December	**838.3**	761.6
Carrying amount		
At 1 January	**1,259.0**	1,367.9
At 31 December	**1,177.8**	1,259.0

Cash-generating units

Reflecting the way management exercises oversight and monitors the Group's performance, the lowest level at which goodwill is monitored is at the divisional level for four divisions (Software, People Solutions, Customer Management and Consulting (see below)), and at a sub-divisional level for the other three divisions (Government Services, Technology Solutions and Specialist Services), and goodwill is allocated to these CGUs or groups of CGUs. As at the 31 December 2019, the Group has 10 CGUs or groups of CGUs for the purpose of impairment testing.

A new Consulting division was created in 2019 in line with the Group's strategy. This new division forms its own stand-alone CGU for goodwill testing. The division was formed following the transfer of businesses from the Software segment and the relevant goodwill has been reallocated to reflect this transfer. Reallocations have also been made between Specialist Services and IT Services to reflect a restructuring of certain businesses between the two CGUs in 2019.

As the transformation plan progresses, the Board will continue to assess the level at which management exercise oversight and monitors the Group's performance to ensure the allocation to CGUs remains appropriate.

Carrying amount of goodwill allocated to groups of CGUs:

					Technology Solutions				
CGU	Software £m	People Solutions £m	Customer Management £m	Central Government £m	IT Services £m	Network Services £m	Specialist Services £m	Consulting £m	Total £m
1 January 2019	275.6	203.5	138.7	8.7	117.7	108.5	406.3	—	**1,259.0**
Restructures	**(20.7)**	**—**	**—**	**—**	**91.5**	**—**	**(91.5)**	**20.7**	**—**
Transfer to assets held for sale	**—**	**—**	**—**	**—**	**—**	**—**	**(2.8)**	**—**	**(2.8)**
Exchange movement	**—**	**—**	**(1.7)**	**—**	**—**	**—**	**—**	**—**	**(1.7)**
Impairment - business exit	**—**	**(3.8)**	**—**	**—**	**—**	**—**	**(31.5)**	**—**	**(35.3)**
Impairment	**—**	**—**	**—**	**—**	**—**	**(41.4)**	**—**	**—**	**(41.4)**
31 December 2019	**254.9**	**199.7**	**137.0**	**8.7**	**209.2**	**67.1**	**280.5**	**20.7**	**1,177.8**

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

Business exits

As set out in note 5, one business in Specialist Services that the Group intends to dispose of in 2020 has met the criteria to be treated as held for sale as at 31 December 2019. A portion of the goodwill relating to this business has been reclassified to assets held for sale, and the remaining amount impaired within business exits.

One business within People Solutions has met the criteria to be treated as a business exit as at 31 December 2019. Goodwill relating to this business has been impaired within business exits.

The impairment test

The Group's impairment test compares the carrying value of each CGU with its recoverable amount. The recoverable amount of a CGU is the higher of fair value less cost of disposal, and value in use. As the Group continues to implement the Group-wide transformation plan, described earlier in the strategic report, it has been determined that for 2019, fair value less costs of disposal will generate the higher recoverable amount. The valuation of CGUs under fair value less costs of disposal also assumes that a third party acquirer would undertake a similar transformation plan to derive similar benefits in the business going forward. Fair value less costs of disposal have been estimated using discounted cash flows. The fair value measurement was categorised as a Level 3 fair value based on the inputs in the valuation technique used.

In undertaking the annual impairment review, the Directors considered both external and internal sources of information, and any observable indications that may suggest that the carrying value of goodwill may be impaired.

The enterprise value of each CGU is dependent on the successful implementation of the transformation plan. The objective of the new strategy announced in April 2018 is to become a more focused and predictable business with improved returns, stronger client relationships and sustainable free cash flow. If the transformation plan fails to drive improved returns and sustainable free cash flow in one or more of the CGUs, then this may give rise to an impairment of goodwill in future periods.

As set out in the Chief Financial Officer's review in the strategic report, although 2019 adjusted operating profit was in line with expectations, one-off gains offset a lower than planned level of growth in the second half of 2019, meaning the Group entered 2020 at a lower level than expected and reliant on an increased level of growth. In relation to Network Services, post the half year results announcement and as the market continues to change, forecast margins were impacted by high competition and market pressures, which was then reflected in the 2020 business plan. Whilst we continue to win new revenue, albeit not at the expected level of growth, the margin pressure is expected to continue until we move to provision of our digital transformation propositions. The impact of this was an impairment to the Network Services CGU of £41.4m.

In 2018, the deterioration of the local government market for large BPO contracts resulted in an impairment charge of Local Government goodwill and acquired intangibles.

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

Forecast cash flows

The bottom-up business planning process completed in early 2020 and the resulting three year business plan for 2020, 2021 and 2022 was approved by the Board. For the 2019 impairment test, the business plan for 2020-2022 was used to derive the cash flow forecasts for the purpose of the impairment test. Other than for movements in deferred income and contract fulfilment assets, cash flows are adjusted to exclude working capital movements as the corresponding balances are not included in the CGU carrying amount. The cash flows include forecast capital expenditure and restructuring, as well as an allocation of the costs of central functions. For the purpose of goodwill impairment testing, the business plan cash flow forecasts have been further risk adjusted using historical performance to reflect additional contingencies relating to unsolutioned revenues, contract terminations, losses and renewal forecasts, and additional contract specific contingencies.

The Board have considered an appropriate methodology to apply in allocating the costs of the central functions, which is a key sensitivity. Forecast CGU level 2021 EBITDA measures have been used for this purpose, as these are seen to represent a steady state forecast for the Group and an appropriate approximation of the attention and focus of the Group's central functions. As the transformation plan delivers, the Board will assess any changes required to ensure the allocation methodology continues to reflect the efforts of the central functions.

The long-term growth rate is based on inflation forecasts by recognised bodies and this has been applied to forecast cash flows for years four and five (2023 and 2024) and for the terminal period. The 2019 long-term growth rate is 1.6% (2018: 1.5%).

Discount rates

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

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

	Software	People Solutions	Customer Management	Central Government	Local Government	IT Services	Network Services	Specialist Regulated Services	Specialist Services	Consulting
2019	**11.5%**	**10.9%**	**10.7%**	**10.2%**	**15.6%**	**9.9%**	**9.9%**	**10.3%**	**10.6%**	**10.6%**
2018	12.7%	12.1%	11.9%	11.4%	16.8%	11.1%	11.1%	11.5%	11.8%	—

As set out above, discount rates used in 2019 are 1.2% lower than those for 2018. The key drivers for this decrease are changes in market assumptions for UK corporate bond yields and risk-free rates, and a decrease in the levered beta of peer group comparators.

Sensitivity analysis

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

The table below shows how the enterprise value would be impacted (with all other variables being equal) by an increase in discount rate of 1%, or a decrease of 1% in the long-term growth rate (for the terminal period) for the Group in total and each of the CGUs, or if the severe but plausible downsides applied to the base-case projections for assessing going concern and viability, without mitigations. These include trading downside risks which assume the transformation plan is not successful in delivering the anticipated revenue growth and assumes a downside that also incorporates revenue attrition. The severe downside has incorporated potential adverse financial impacts that could arise from incidents such as data breaches, cyber-attacks, controls failures and an assessment of the potential fines and penalties for any non-compliance with laws and regulations. We have also considered the impact of all of the scenarios together and disclosed the impact on impairment in the final column.

	1% increase in discount rate £m	Long-term growth rate decrease by 1% £m	Severe but plausible downside £m	Combination sensitivity £m	Increase in 2019 impairment using combination scenario £m
Software	(69.0)	(51.8)	(315.4)	(379.3)	(37.2)
People Solutions	(46.4)	(34.8)	(266.3)	(299.5)	(129.0)
Customer Management	(64.5)	(50.1)	(294.4)	(353.1)	—
Central Government	(40.2)	(33.1)	(214.4)	(243.8)	—
IT Services	(43.9)	(33.7)	(184.9)	(224.2)	(93.0)
Network Services	(9.4)	(7.4)	(172.4)	(158.5)	(79.0)
Specialist Services	(67.8)	(50.6)	(142.6)	(229.5)	—
Consulting	(74.7)	(56.1)	(265.8)	(339.9)	—
Total	**(415.9)**	**(317.6)**	**(1,856.2)**	**(2,227.8)**	**(338.2)**

Management continue to monitor closely the performance of all CGUs and consider the impact of any changes to the key assumptions. Given the Group is in the middle of a multi-year transformation there is a higher range of potential future outcomes. A number of these downsides would give rise to a larger impairment.

13 Contract fulfilment assets

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

	2019 £m	2018 £m
At 1 January	**264.2**	252.5
Additions	**114.3**	113.8
Prior year reclassification from current contract fulfilment assets	**—**	25.4
Impairment	**(9.6)**	(22.2)
Derecognition	**(2.0)**	(17.4)
Utilised during the year	**(90.7)**	(87.9)
Exchange movement	**(0.4)**	—
At 31 December	**275.8**	264.2

Impairment: In 2019, the Group recognised an impairment of £9.6m (2018: £22.2m) within adjusted cost of sales, of which, £2.2m (2018: £22.2m) relates to contract fulfilment assets added during the year.

Derecognition: In 2019, £2.0m (2018: £17.4m) was derecognised in relation to in year business exits. In the prior year, derecognition related to the Prudential and Marsh contracts which were terminated during 2018 and the Group had no further use for the assets.

14 Provisions

	Restructuring provision £m	Business exit provision £m	Asset services indemnity provision £m	Claim and litigation provision £m	Property provision £m	Other £m	Total £m
At 1 January 2019	12.0	17.5	3.0	46.4	19.9	17.4	116.2
IFRS 16 adoption reclassification to right-of-use assets[1]	**(3.5)**	**—**	**—**	**—**	**(11.7)**	**—**	**(15.2)**
Provisions provided for in the year	**22.5**	**2.1**	**—**	**21.6**	**3.7**	**8.2**	**58.1**
Provisions released in the year	**(2.3)**	**(5.6)**	**—**	**(11.7)**	**(0.8)**	**(3.9)**	**(24.3)**
Utilisation	**(22.6)**	**(6.5)**	**—**	**(15.1)**	**(2.8)**	**(7.2)**	**(54.2)**
Reclassification between categories	**—**	**3.0**	**(3.0)**	**—**	**—**	**—**	**—**
At 31 December 2019	**6.1**	**10.5**	**—**	**41.2**	**8.3**	**14.5**	**80.6**

1 On adoption of IFRS 16 (effective 1 January 2019), all leases within the scope of the standard were recognised as right-of-use assets and lease liabilities on the Group's balance sheet. This resulted in the reclassification of restructuring and property provisions of £15.2m against these right-of-use assets. Refer to note 19 for further details.

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

Restructuring provision: The provision represents the cost of reducing role count where communication to affected employees has crystallised a valid expectation that roles are at risk, there are likely to unwind over a period of 1 to 2 years. Additionally, it reflects the onerous nature leasehold property costs where properties are exited as a result of the transformation plan, these provisions are likely to unwind over a period of 1 to 25 years.

Business exit provision: The provision relates to the cost of exiting businesses through disposal or closure including professional fees related to business exits and the costs of separating the businesses being disposed. These are likely to unwind over a period of 1 to 5 years.

Capita Asset Services indemnity provision: Capita completed the disposal of its Asset Services businesses to the Link Group on 3 November 2017 and provided an indemnity against certain legacy claims. The remaining £3.0m provision has been transferred to business exit provisions. Due to the nature of these claims, the Group cannot give an estimate of the period over which this provision will unwind.

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

Property provision: The property provisions remaining after the IFRS 16 adoption reclassification to right-of-use assets relate to unavoidable running cost of leasehold property where the space is vacant or currently not planned to be used for ongoing operations and for dilapidation costs. The expectation is that this expenditure will be incurred over the remaining periods of the leases which range from 1 to 26 years.

Other provisions: Relates to provisions in respect of other potential exposures arising due to the nature of some of the operations that the Group provides, the most significant of which are in respect of immaterial onerous contracts of £6.1m (2018: £7.4m). These are likely to unwind over a period of 1 to 10 years.

15 Cash flow information

	Notes	2019 Adjusted £m	2019 Reported £m	2018[1] Adjusted[2] £m	2018[1] Reported £m
Cash flows from operating activities:					
Operating profit[1]	4	**306.1**	**0.4**	334.4	34.9
Adjustments for non-cash items:					
Depreciation[1]		**58.1**	**159.5**	57.5	60.1
Amortisation of intangible assets	11	**30.9**	**81.4**	27.3	114.6
Share based payment expense		**3.0**	**3.0**	3.4	3.4
Employee benefits		**11.2**	**11.2**	12.3	17.7
Loss on sale of property, plant and equipment/intangible assets		**1.8**	**1.8**	11.4	11.4
Contingent consideration		**—**	**(1.4)**	—	(5.4)
Impairment of property plant and equipment	10	**—**	**14.7**	6.1	6.1
Impairment of intangible assets	11	**—**	**13.8**	—	61.7
Impairment of goodwill	12	**—**	**76.7**	—	58.1
Impairment of loans and investments	4	**—**	**—**	—	1.6
Impairment of right-of-use assets		**—**	**0.9**	—	—
Other adjustments:					
Movement in provisions[1]		**(6.0)**	**(19.0)**	2.8	(9.1)
Pension deficit contribution		**—**	**(71.1)**	—	(42.0)
Other contributions into pension schemes		**(17.0)**	**(17.0)**	(16.1)	(21.0)
Movements in working capital:					
Trade and other receivables[1]		**(7.0)**	**2.4**	97.4	89.3
Non-recourse receivables financing		**—**	**—**	(110.0)	(110.0)
Trade and other payables[1]		**(10.6)**	**(14.8)**	(97.2)	(91.7)
Deferred income		**(198.1)**	**(198.1)**	(243.7)	(243.7)
Contract fulfilment assets (non-current)		**(13.8)**	**(11.6)**	(13.7)	(11.7)
Cash generated/(used) by operations		**158.6**	**32.8**	71.9	(75.7)
Adjustments for free cash flows:					
Income tax (paid)/received		**(5.4)**	**(5.4)**	26.6	25.3
Net interest paid		**(32.7)**	**(58.4)**	(39.0)	(52.5)
Purchase of property, plant and equipment		**(57.6)**	**(57.7)**	(73.0)	(89.4)
Purchase of intangible assets		**(124.6)**	**(124.7)**	(67.2)	(70.1)
Proceeds from sale of property, plant and equipment/intangible assets		**0.4**	**0.4**	1.9	1.9
Free cash flow		**(61.3)**	**(213.0)**	(78.8)	(260.5)

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

2 The 2018 adjusted cash flow has been restated for business exits in 2019. This has resulted in adjusted cash generated by operations increasing from £69.8m to £71.9m and adjusted free cash outflow decreasing from £82.5m to £78.8m.

Adjusted free cash flow and cash generated from operations

	Free cash flow 2019 £m	Free cash flow 2018 £m	Cash generated from operations 2019 £m	Cash generated from operations 2018 £m
Reported	**(213.0)**	(260.5)	**32.8**	(75.7)
Pension deficit contributions	**71.1**	46.9	**71.1**	46.9
Significant restructuring	**148.5**	100.8	**148.5**	100.8
Business exits	**19.4**	10.3	**19.2**	(9.0)
Impact of IFRS 16	**(90.0)**	—	**(115.7)**	—
Other	**2.7**	23.7	**2.7**	8.9
Adjusted	**(61.3)**	(78.8)	**158.6**	71.9

Pension deficit contributions: in November 2018, the Group agreed a deficit recovery plan with the Trustees of the Capita Pension and Life Assurance Scheme (the 'Scheme'). The payments under the agreed deficit recovery plan total £176.0m, of which £71.1m was paid in 2019 (2018: £42.0m). In 2019, no further contributions were made following closure of the Scheme in 2017 to future accrual for the majority of members of the Scheme (2018: £4.5m). These payments have been excluded from adjusted cash flows as the Group treats them as a debt like item.

Significant restructuring: in April 2018, the Group announced a multi-year transformation plan. In the period to 31 December 2019, a cash outflow of £148.5m (2018: £100.8m) was incurred in relation to the cost of the transformation plan, and restructuring costs relating to Capita's previously announced cost reduction plan.

Business exits: the cash flows of businesses exited, or in the process of being exited, and the proceeds on disposals, are disclosed outside the adjusted results. The 2018 results have been restated for those businesses exited, or in the process of being exited, in 2019 to enable comparability of the adjusted results.

Impact of IFRS 16: at 1 January 2019 the Group has initially applied IFRS 16, using the modified retrospective approach. This has resulted in a change in the presentation of lease principal payments from cash flows from operations to cash flows from financing activities. To improve the comparability of the Group's cash flow statement, the impact of IFRS 16 has been excluded from the adjusted results.

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

Reconciliation of net cash flow to movement in net debt

	Net debt at 1 January 2019 £m	Lease liability adjustment[2] £m	Cash flow movements £m	Non-cash movement[3] £m	Net debt at 31 December 2019 £m
Cash, cash equivalents and overdrafts	**642.7**	**—**	**(523.2)**	**3.3**	**122.8**
Other loan notes	**(0.3)**	**—**	**—**	**—**	**(0.3)**
Private placement loan notes[1]	**(1,108.0)**	**—**	**97.9**	**19.4**	**(990.7)**
Cross-currency interest rate swaps[1]	**99.6**	**—**	**(10.9)**	**(11.4)**	**77.3**
Interest rate swaps[1]	**1.9**	**—**	**—**	**(0.9)**	**1.0**
Term loan	**(100.0)**	**—**	**100.0**	**—**	**—**
Lease liabilities[2]	**—**	**(643.9)**	**93.7**	**(12.4)**	**(562.6)**
Total net liabilities from financing activities	**(1,106.8)**	**(643.9)**	**280.7**	**(5.3)**	**(1,475.3)**
Deferred consideration	**(2.0)**	**—**	**1.3**	**—**	**(0.7)**
Net debt	**(466.1)**	**(643.9)**	**(241.2)**	**(2.0)**	**(1,353.2)**

1 The sum of these items held at fair value equates to the underlying value of the Group's private placement loan note's debt of £915.5m (2018: £1,006.5m). Cash flow movement in private placement loan notes includes both repayment of private placement notes of £96.8m and finance arrangement costs of £1.1m.

2 Lease liabilities relates to amounts due by the Group where the Group is a Lessee. Lease liability adjustment comprises the unwinding of the discounted lease payments. Refer to note 19 for further details on the impact of IFRS 16 on the Group.

3 Non-cash movement relates to foreign exchange on cash, fair value changes on the swaps, amortisation of loan notes issue costs, amortisation of the discount on the Euro debt issue and the IFRS 16 modifications, additions and terminations to our leases.

	Net debt at 1 January 2018 £m	Cash flow movements: Rights issue £m	Cash flow movements: Cash flow movements £m	Non-cash movement £m	Net debt at 31 December 2018 £m
Cash, cash equivalents and overdrafts	478.4	671.1	(505.6)	(1.2)	642.7
Other loan notes	(0.3)	—	—	—	(0.3)
Private placement loan notes	(1,664.0)	—	580.9	(24.9)	(1,108.0)
Cross-currency interest rate swaps	176.8	—	(103.6)	26.4	99.6
Interest rate swaps	5.4	—	—	(3.5)	1.9
Term loan	(100.0)	—	—	—	(100.0)
Finance leases[1]	(0.2)	—	0.2	—	—
Total net liabilities from financing activities	(1,582.3)	—	477.5	(2.0)	(1,106.8)
Deferred consideration	(13.1)	—	11.1	—	(2.0)
Net debt	(1,117.0)	671.1	(17.0)	(3.2)	(466.1)

1 Capita has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Refer to note 19 for further details.

16 Contingent liabilities

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

The Group has provided, through the normal course of its business, performance bonds and bank guarantees of £58.1m (2018: £84.0m).

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

Capita completed the disposal of its Capita 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 Group has been notified under a supplier contract of a potential liability relating to past services received. The basis of any liability is currently being discussed with the supplier, focusing currently on the method of any settlement. The preferred approach is to settle the potential liability, if any, via future committed spend with the supplier and accordingly the Group has not made any provision at 31 December 2019 for a future outflow of funds that might result. Additionally, there is currently no reliable estimate of any eventual outcome, and to disclose a potential range would be prejudicial given the early stage of the discussions with the supplier.

The 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. The disparate nature of the Group entities heightens the risk that not all potential claims are known at any point in time. Under the transformation plan, the support functions including commercial and legal are being strengthened and a Chief General Counsel has been appointed. This enhances the current processes in place to assess the likelihood of historical claims arising.

17 Related-party transactions

Compensation of key management personnel

	2019 £m	2018 £m
Short-term employment benefits	**9.3**	11.9
Pension	**0.2**	0.2
Share-based payments	**2.6**	—
	12.1	12.1

Gains on share options exercised in the year by Capita plc Executive Directors were £nil (2018: £nil) and by key management personnel £0.1m (2018: £nil), totalling £0.1m (2018: £nil).

During the year, the Group rendered administrative services to Smart DCC Ltd, a wholly-owned subsidiary which is not consolidated. The Group received £83.4m (2018: £64.3m) 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.

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

At 31 December 2019, the Company had received notifications in accordance with the Disclosure Guidance and Transparency Rules (DTRs) that the following were interested in the Company's shares:

Shareholder	Number of shares	% of voting rights at 31 December 2019	Number of shares direct	Number of shares indirect
Investec Asset Management Ltd	194,275,289	11.64	—	194,275,289
RWC Asset Management LLP[1]	186,951,093	11.20	—	186,951,093
Invesco Ltd	182,100,179	10.91	—	182,100,179
Veritas Asset Management LLP[2]	116,588,466	6.99	—	116,588,466
Schroders Investment Management Ltd	101,030,829	6.05	—	101,030,829
Coltrane Asset Management L.P.	83,888,589	5.02	5,140,000	78,748,589
BlackRock Inc.	74,230,358	4.45	—	74,230,358
Marathon Asset Management LLP	64,756,810	3.88	—	64,756,810
Veritas Funds PLC	55,009,900	3.30	—	55,009,900
Vanguard Group Inc.	54,711,874	3.28	54,711,874	—
Jupiter Asset Management Limited	53,573,060	3.21	—	53,573,060
Norges Bank Investment Management[3]	50,283,099	3.05	—	50,283,099

1 Includes 302,284 voting rights arising from the holding of certain financial instruments.
2 Includes the holding of Veritas Funds PLC.
3 Includes 695,170 voting rights arising from the holding of certain financial instruments.

On 14 February 2020, notification in accordance with the DTRs was received from Invesco Ltd that it held indirectly 166,767,761 shares, being 9.99% of voting rights. At 2 March 2020, no further notifications had been received under the DTRs in relation to interests in the Company's shares.

18 Post balance sheet events

On 8 January 2020, as part of the property rationalisation, under IFRS 16, the Group extinguished a property lease liability (31 December 2019: £20.9m) and acquired the freehold for £30.7m cash. This resulted in a derecognition of £7.1m of the right of use asset, a £3.0m addition to freehold property, and a charge to significant restructuring of £9.2m. There are no post balance sheet events that have an adjusting effect on the financial statements.

19 Adoption of IFRS 16 Leases

Adoption method

On adoption of IFRS 16 (effective 1 January 2019) the Group has elected to grandfather the assessment of which arrangements are leases. Contracts not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16.

Under the transition rules, the Group has applied IFRS 16 using the modified retrospective approach, with the cumulative effect of applying the standard recognised in retained earnings on 1 January 2019. Comparative information presented for 2018 has not been restated.

At transition

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for all the leases on its balance sheet.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases:

- applied the exemption not to recognise right-of-use assets and liabilities for leases of low value or for which the lease term ends within 12 months of the date of initial application, on a lease-by-lease basis
- relied on previous assessments on whether leases are onerous for impairment of right-of-use assets
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease
- applied the exemption not to separate non-lease components such as service charges from lease rental charges

Under transition rules for leases classified as operating leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate at 1 January 2019.

Right-of-use assets are measured at cost, which comprised the initial amount of the lease liability adjusted for any lease payments made at or before the adoption date, less any lease incentives received at or before the adoption date and less any onerous lease provisions (reclassified on the opening balance sheet).

For a selection of material long-term leases, the Group has applied the modified retrospective method one approach, as if IFRS 16 had always been applied using the incremental borrowing rate at the date of initial application. Under this method, the difference between the right-of-use asset and lease liability was recorded in retained earnings.

At 1 January 2019 the Group had no lease commitments previously classified as finance leases under IAS 17.

The Group is not required to make any adjustments on transition to IFRS 16 for which it acts as a lessor, except for subleases. Under IFRS 16, the Group assessed the classification of subleases with reference to the right-of-use asset, not the underlying asset. This resulted in certain leases being classified as finance leases under IFRS 16 and recognition of a finance lease receivable (recorded within line item financial assets on the consolidated balance sheet).

Impact of adopting IFRS 16
On adoption:

A summary of the impact on the Group of adopting IFRS 16 is as follows:

	Notes	As reported 31 December 2018 £m	IFRS 16 impact £m	At adoption 1 January 2019 £m
Non-current assets				
Property, plant and equipment		213.6	—	213.6
Goodwill		1,259.0	—	1,259.0
Intangible assets		328.7	—	328.7
Right-of-use assets	a	—	568.2	568.2
Contract fulfilment assets		264.2	—	264.2
Financial assets	b	109.1	14.1	123.2
Deferred taxation	c	144.6	5.4	150.0
Trade and other receivables		26.2	—	26.2
		2,345.4	587.7	2,933.1
Current assets				
Financial assets	b	18.2	3.0	21.2
Trade and other receivables	d	771.7	(14.9)	756.8
Cash		957.5	—	957.5
Income tax receivable		0.9	—	0.9
		1,748.3	(11.9)	1,736.4
Total assets		4,093.7	575.8	4,669.5
Current liabilities				
Trade and other payables	d	668.7	(26.1)	642.6
Deferred income		980.3	—	980.3
Overdrafts		314.8	—	314.8
Lease liabilities	e	—	95.3	95.3
Financial liabilities		303.1	—	303.1
Provisions	d	96.8	(6.4)	90.4
		2,363.7	62.8	2,426.5
Non-current liabilities				
Trade and other payables		11.6	—	11.6
Deferred income		277.3	—	277.3
Lease liabilities	e	—	548.6	548.6
Financial liabilities		1,084.2	—	1,084.2
Deferred taxation		15.2	—	15.2
Provisions	d	19.4	(8.8)	10.6
Employee benefits		219.0	—	219.0
		1,626.7	539.8	2,166.5
Total liabilities		3,990.4	602.6	4,593.0
Net assets/(liabilities)		103.3	(26.8)	76.5
Capital and reserves				
Issued share capital		34.5	—	34.5
Share premium		1,143.3	—	1,143.3
Employee benefit trust and treasury shares		(11.2)	—	(11.2)
Capital redemption reserve		1.8	—	1.8
Other reserves		3.1	—	3.1
Retained deficit	f	(1,135.3)	(26.8)	(1,162.1)
Surplus/(deficit) attributable to owners of the Company		36.2	(26.8)	9.4
Non-controlling interests		67.1	—	67.1
Total equity		103.3	(26.8)	76.5

a Right-of-use assets: non-current assets have been impacted due to recognition of right-of-use assets on 1 January 2019. The right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the adoption date less any lease incentives received at or before the adoption date (reclassified on the opening balance sheet).

b Finance lease receivable: Financial assets have been impacted by recognition of finance lease receivables where the Group acts as an intermediate lessor and has classified the sub lease as a finance lease because the sub-lease is for a substantial amount of the remaining term of the head lease. The finance lease receivables have been classified between current and non-current.

c Deferred tax asset: Under IFRS 16, a lease liability was recognised on the balance sheet from 1 January 2019, which will be recognised through the income statement in subsequent periods. Right-of-use assets were also recognised on the balance sheet from 1 January 2019, which will be charged to the income statement in subsequent periods. Under IAS 12, the tax base of the net liability is the amount that will be deductible for tax purposes. A temporary difference is therefore created in relation to the net liability.

The impact of these changes is recognised for tax purposes via a tax adjustment which spreads over the weighted average lease period at 1 January 2019. Under the principles of IAS 12, a net movement of £5.4m is reflected as a transitional adjustment, arising from an increase in deferred tax assets as a result of the transition to IFRS 16.

d Reclassification of balance sheet items: As noted above in a, the right-of-use asset is initially measured at cost plus lease payments made at or before the adoption date (prepayments), less any lease incentives received (rent free accruals) and less onerous provisions existing at the adoption date. These balances have been reclassified to right-of-use asset on adoption.

e Lease liabilities: Financial liabilities have been impacted due to the recognition of lease liabilities. This liability is initially measured at the present value of the lease payments that are not paid at the adoption date, discounted using the Group’s incremental borrowing rate. The lease payments comprise fixed payments, including in-substance fixed payments such as service charges and variable lease payments that depend on an index or a rate, initially measured using the minimum index or rate at commencement date. The lease liabilities have been classified between current and non-current.

f Retained deficit: For a selection of material long-term leases, the Group applied the modified retrospective method one approach, where the right-of-use asset is calculated from the lease inception and depreciated - resulting in a charge to retained deficit representing the different between the right-of-use asset and the finance lease liability.

In calculating the lease liability to be recognised on adoption, the Group used a weighted average incremental borrowing rate at 1 January 2019 of 4.6%. The below outlines the difference between the Group's operating lease commitment at 31 December 2018 and the lease liability recognised on adoption:

Lease liabilities recognised	1 January 2019 £m
Operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial statements	736.0
Discounted using the incremental borrowing rate at 1 January 2019	(113.5)
Extension and termination options reasonably certain to be exercised	21.4
	643.9
of which:	
Current	95.3
Non-current	548.6

In the period:
The impact to the income statement for the period to 31 December 2019 is as follows:

Consolidated income statement	Expected adoption impact for the year ending 31 December 2019 £m	Actual adoption impact for the year ending 31 December 2019 £m
EBITDA	112 - 117	110.9
Depreciation expense	99 - 104	(99.2)
Operating profit	12 - 14	11.7
Net finance costs on lease liabilities	(26) - (28)	(25.7)
Profit before tax	(12) - (14)	(14.0)

As a result of adopting IFRS 16, rental costs which were previously recognised in operating profit have been replaced by right-of-use asset depreciation and net finance costs on the finance lease liability. As the asset is depreciated on a straight line basis over the lease term and the interest is accrued using the effective interest rate method, while EBITDA has improved, profit is reduced in the earlier years as a result of applying IFRS 16.

Although IFRS 16 has no impact on the Group's total cash flow, outflows from financing activities increase while cash outflows from operating activities decrease, as recognition of rental costs, previously recognised solely as cash outflows from operations are now apportioned between finance charges and reduction of the lease obligation.

Due to the Group transformation plan, which includes a rationalisation of Capita's properties, the Group's lease portfolio is expected to change over the next few years. Any changes to the lease portfolio will be accounted for when transacted as required under IFRS 16 and our Group policy. Costs and impairments on the right-of-use assets arising from the property programme will be excluded from adjusted profit in line with the current Group policy.

20 Preliminary announcement

Copies of the announcement can be obtained from the Company's registered office at 30 Berners Street, London W1T 3LR, or on the Company's corporate website www.capita.com/Investors.

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

Appendix - alternative performance measures

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

	2019	2018	Source
Revenue - continuing operations			
Reported revenue	**£3,678.6m**	£3,918.4m	Line item in income statement
Deduct: business exit	**(£31.2m)**	(£103.7m)	Line item in note 5
1. Adjusted revenue	**£3,647.4m**	£3,814.7m	

Operating profit - continuing operations			
Reported operating profit	**£0.4m**	£34.9m	Line item in income statement
Adjusting items in note 4	**£305.7m**	£299.5m	
2. Adjusted operating profit[1]	**£306.1m**	£334.4m	
Adjusted operating profit margin	**8.4%**	8.8%	Adjusted operating profit/adjusted revenue

		2019	2018	Source
ROCE-Pre IFRS 16				
Adjusted operating profit[1]	a	**£306.1m**	£334.4m	Note 4
Adjusted tax rate	b	**15.8%**	9.7%	
Tax	c = a x b	**£48.4m**	£32.4m	Adjusted operating profit multiplied by tax rate
Adjusted operating profit after tax	d = a - c	**£257.7m**	£302.0m	Adjusted operating profit less tax
Current year net (liabilities)/assets	e	**(£23.2m)**	£103.3m	Line information in balance sheet excluding the impact from adoption of IFRS 16
Current year net debt before IFRS 16	f	**£1,353.2m**	£464.1m	Line item in note 15 – cash flow information, net debt excluding the impact of deferred consideration and finance leases that arose from the adoption of IFRS 16
Adjustments to capital employed	g	**£1,262.0m**	£1,276.5m	Includes post-tax impact of accumulated acquired intangible amortisation, fixed rate swaps, put options and pensions
	m^1 = e+f+g	**£2,028.7m**	£1,843.9m	Used in 2019 average capital employed
Less: acquisition spend in year	h	**£—m**	£—m	Consideration paid - cash acquired + debt acquired
Current year capital employed	i = e+f+g+h	**£2,028.7m**	£1,843.9m	
Prior year net liabilities	j		(£929.8m)	
Prior year adjusted net debt	k		£1,103.9m	
Comparative prior year adjustments	l		£1,359.7m	Includes post-tax impact of accumulated acquired intangible amortisation, fixed rate swaps, put options and pensions
Prior year capital employed	m^2 = j+k+l		£1,533.8m	Used in 2018 average capital employed
Average capital employed	n = (i+m)/2	**£1,936.3m**	£1,688.9m	
3. ROCE [KPI]	q = d/n	**13.3%**	17.9%	

		2019	2018	Source
Headline gearing				
Adjusted profit before tax[1]		**£275.0m**	£281.2m	Line information in note 4
Add back: adjusted net finance costs		**£30.5m**	£53.2m	Line information in note 8
Add back: adjusted depreciation and impairment on property, plant and equipment		**£58.1m**	£63.6m	Line information in note 15
Add back: adjusted amortisation		**£30.9m**	£27.3m	Line information in note 15
Adjusted EBITDA	a	**£394.5m**	£425.3m	
Net Debt		**£1,353.2m**	£466.1m	Line information in note 15
IFRS 16 impact		**(£562.6m)**	£—m	Line information in note 15
Headline net debt	b	**£790.6m**	£466.1m	
4. Headline net debt to adjusted EBITDA ratio [KPI]	b/a	**2.0x**	1.1x	Headline net debt/adjusted EBITDA

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

		2019	2018	Source
Covenants [4]				
Adjusted operating profit [1]		**£306.1m**	£335.3m	Line information in note 4
Add: business exit – trading		**(£16.7m)**	£16.8m	Line information in note 5
Add: share of earnings in associates		**(£0.6m)**	£—m	Line information in income statement
Deduct: non-controlling interest		**(£18.1m)**	(£12.5m)	Adjusted EBIT attributable to NCI
Add back: share-based payment charge		**£3.0m**	£3.4m	Line information in note 15
Add back: non-current service pension charge		**£4.2m**	£9.5m	
Add back: amortisation and impairment on purchased intangibles		**£31.1m**	£27.9m	Line information in note 11
Adjusted EBITA	a1	**£309.0m**	£380.4m	
Add: IFRS 16 impact		**£11.7m**	£—m	Line information in note 4
Adjusted EBITA (including IFRS 16)	a2	**£320.7m**	£380.4m	
Adjusted EBITA		**£309.0m**	£380.4m	Line item above
Deduct business exit – trading sold		**£—m**	(£19.7m)	Trading profit for businesses sold
Add back: depreciation and impairment on property, plant and equipment		**£75.0m**	£65.2m	See note 10
Covenant calculation – adjusted EBITDA	b1	**£384.0m**	£425.9m	
Add: IFRS 16 impact		**£110.9m**	£—m	See note 19
Covenant calculation – adjusted EBITDA (including IFRS 16)	b2	**£494.9m**	£425.9m	
Adjusted interest charge		**(£30.5m)**	(£53.2m)	Line information in note 8
Interest cost attributable to pensions		**£4.4m**	£9.4m	Line information in note 8
Cash flow hedges recycled to the income statement		**(£2.6m)**	(£2.5m)	Line information in note 8
Borrowing costs	c1	**(£28.7m)**	(£46.3m)	
5.1 Interest cover (US PP covenant)	a2/c1	**11.2x**		Adjusted EBITA/Borrowing costs with adjusted EBITA including the impact of IFRS 16 and borrowing costs excluding the impact of IFRS 16
5.2 Interest cover (other financing agreements)	a1/c1	**10.8x**	8.2x	Adjusted EBITA/Borrowing costs with both variables excluding IFRS 16
Net debt		**£1,353.2m**	£466.1m	Line information in note 15
Restricted cash[2]		**£42.1m**	£28.6m	Cash that may not be applied against net debt for covenant calculation purposes
Remove IFRS 16 impact		**(£562.6m)**	£—m	Line information in note 15
Adjusted net debt (excluding IFRS 16)	d1	**£832.7m**	£494.7m	
6.1 Adjusted net debt to post IFRS 16 adjusted EBITDA ratio (US PP covenant)[3]	d1/b2	**1.7x**		Adjusted net debt/adjusted EBITDA with adjusted net debt excluding the impact of IFRS 16 and adjusted EBITDA including the impact of IFRS 16
6.2 Adjusted net debt to adjusted EBITDA ratio [KPI] (other financing agreements)	d1/b1	**2.2x**	1.2x	Adjusted net debt/adjusted EBITDA with both variables excluding IFRS 16

1 Adjusted operating profit excludes items that are separately disclosed and considered to be outside the underlying operating results for the particular period under review and against which the Group's performance is assessed.
2 Restricted cash includes cash required to be held under FCA regulations, cash held in foreign bank accounts and cash represented by non-controlling interests and joint ventures.
3 As noted in the Group's annual report 2018, 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.
4 To enable the reader to understand the covenant information we submit to our external lenders the 2018 comparatives have not been restated.