

Capita plc

Full Year Results 2022

A turnaround in our underlying financial performance, with increased adjusted revenue growth, profitability, free cash flow and a material reduction in net debt.

Revenue is growing with increasing momentum (adjusted growth 4% in H2 2022, 1% in H1 2022):

- Increase in adjusted revenue¹ growth. Revenue increased 2.4% to £2.8bn (2021: 0.1% growth)
 - Capita Public Service grew by 2.5%, Capita Experience grew by 0.9%, a strong turnaround following the 10% decline in 2021; Portfolio increased by 10.3%
- Strong sales performance in Capita Experience, 71% growth in TCV from prior year; Capita Public Service pipeline increased as contract awards delayed from 2022 into 2023 - expect sales acceleration in 2023
- Order book of £5.8bn; book to bill at 1.0x (2021: 1.2x); strong weighted pipeline (£2.2bn) with 50% of pipeline from growth with existing and new clients
- Customer net promoter score +6 points improvement to +35; employee net promoter score +15 points improvement
- Group well positioned for sustainable revenue growth

A step change in profitability

- £197m increase in adjusted profit before tax¹ reflecting revenue growth and reduction in restructuring costs, contract-related provisions and impairments
- Reported profit before tax of £61m (2021: £286m) as a result of reduced profits associated with disposals and current year non-cash goodwill impairment

Positive free cash flow and material reduction in net debt

- Positive free cash flow before the impact of business exits¹ of £29m (2021 outflow: £219m); strong increase in cash generated by operations from increased operating profit, reduced pension contributions and cessation of deferred VAT repayments
- £397m reduction in net financial debt and leases (IFRS 16) to £482m (2021: £880m) funded by operating cash flow and disposals
- Net financial debt (pre-IFRS 16) of £85m as a result of our successful disposal programme; net financial debt/adjusted EBITDA (pre-IFRS 16) 0.5x (2021: 3.7x)
- Gross proceeds of c.£485m achieved in 2022, total receipts from disposal programme now over £1.3bn

Year ended 31 December 2022

Financial highlights - continuing operations	Reported 2022	Reported 2021	Reported YOY change	Adjusted ¹ 2022	Adjusted ¹ 2021	Adjusted ¹ YOY change
Revenue	£3,014.6m	£3,182.5m	(5.3%)	£2,845.8m	£2,777.8m	2.4%
EBITDA	£235.7m	£222.3m	6%	£238.8m	£143.0m	67%
Profit/(loss) before tax	£61.4m	£285.6m	(79%)	£73.8m	£(122.8)m	n/a
Earnings/(loss) per share	4.47p	13.33p	(66%)	6.20p	(7.74)p	n/a
Cash generated from/(used by) operations ²	£117.8m	£(148.5)m	n/a	£116.5m	£(109.7)m	n/a
Free cash flow ²	£24.5m	£(264.3)m	n/a	£29.0m	£(218.6)m	n/a
Net debt	£(482.4)m	£(879.8)m	£397.4m	£(482.4)m	£(879.8)m	£397.4m
Net financial debt (pre-IFRS 16)	£(84.9)m	£(431.4)m	£346.5m	£(84.9)m	£(431.4)m	£346.5m

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

² Cash generated from operations adjusted results and free cash flow adjusted results are free cash flow before business exits and cash generated from operations before business exits respectively. (refer to note 9)

Outlook - Core Capita

- In 2023 we expect further acceleration of revenue growth in Capita Public Service based on strong pipeline and continued revenue stability in Capita Experience. Medium term outlook of mid-single digit revenue growth in both divisions
- Core Capita (excluding Capita Portfolio businesses) EBIT margin (2022: 2.9%) expected to at least double over the medium term helped by revenue growth and mix coupled with ongoing efficiency delivery
- Expect cash generated by operations in 2023 to be broadly in line with 2022. Increasing investment in digital solutions in a disciplined and focused manner - capital expenditure expected to be £50-60m in 2023. Incremental growth in free cash flow over the medium term from continued profit growth, reduction in pension deficit payments and interest costs
- Net financial debt (pre-IFRS 16)/EBITDA target remains $\leq 1.0x$ (2022: 0.5x) and expect reduced level of net financial debt following completion of disposal programme

Jon Lewis, Chief Executive Officer said:

"This was an important year for Capita in which we demonstrated the financial benefits of our strategy to focus on the two core markets we serve best.

"Revenue growth accelerated, we improved profitability and generated positive free cash flow; and our successful disposals programme has meant we have significantly strengthened the balance sheet.

"Amid a challenging macroeconomic environment, we believe we have a resilient business. We expect to continue to deliver improving financial performance, while providing excellent operational performance for our clients.

"None of this would have been possible without the considerable contribution of our 50,000 colleagues around the world, whom I would like to thank for all their continued hard work, commitment and professionalism."

¹ Capita reports results on an adjusted basis to aid understanding of underlying business performance, for example adjusting for business disposals. Refer to alternative performance measures (APMs) in the Appendix.

Investor presentation

A presentation for institutional investors and analysts hosted by Jon Lewis, CEO and Tim Weller, CFO, will be held at 65 Gresham Street, London EC2V 7NQ at 09:00am UK time, 2 March 2023. There will also be a live audio webcast (link below) which will subsequently be available on demand. The presentation slides will be published on our website at 07:00am and a full transcript will be available the following day.

Participant webcast:

<https://webcast.openbriefing.com/capfy22/>

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Chief Executive Officer's review

Summary

Following the completion in 2021 of the Group's transformation, 2022 was an important year of stabilisation for Capita and we are pleased to report that the Group delivered an acceleration in adjusted revenue growth, an improvement from last year's adjusted loss before tax to a profit of £74m following cessation of restructuring spend, and positive free cash flow in line with expectations.

At the start of 2022, we set out our six corporate priorities: to live our purpose; invest in our colleagues; grow the business; deliver for our clients; deliver sustainable free cash flow; and reduce net debt. We made progress against each of these priorities which has provided a firm foundation for the success of the business moving forwards. Our strategy is delivering and we achieved a turnaround in our financial performance in 2022.

The Group's organisational structure now prioritises client needs alongside operational delivery, and we were pleased to have seen a six-point increase in customer net promoter score (cNPS) over the year to +35 points.

We are also creating a more compelling working environment for our colleagues, with an increase of 15 points in our employee net promoter score (eNPS). But there is still more to do in this area, and we have a comprehensive plan to deliver further progress in 2023.

We are on a path to sustainable free cash flow generation, having delivered positive free cash flow in 2022 and having continued to strengthen the balance sheet following the completion of further disposals of non-core businesses, achieving gross disposal proceeds of c.£485m, which has substantially reduced our net debt.

Market conditions and dynamics have changed significantly over the past year, for both businesses and consumers. But we believe Capita remains a resilient business, notwithstanding the challenging macroeconomic environment, as we use our know-how, digital tools and process expertise to deliver cost-effective solutions to clients and customers.

I would like to thank our colleagues throughout the organisation for their continued hard work, commitment and professionalism.

The foundation that Capita now has in place, following our transformation and stabilisation phases, will allow us to accelerate our growth further in 2023 and beyond.

Living our purpose

Creating better outcomes for all key stakeholders is Capita's purpose and is our licence to operate. It underpins everything we do as a business.

We align ourselves to the five principles of a purpose-driven business within the Blueprint for Better Business. These include being honest and fair with clients and suppliers, being a good citizen, being a responsible and responsive employer, being a guardian for future generations, and having a purpose which delivers long-term sustainable performance.

Globally, we have introduced purpose-related remuneration metrics and objectives, to embed further our purpose-driven behaviours across the Group; these are set by the new ESG Committee of the Board and approved by the Remuneration Committee prior to final Board approval.

Diversity was a key focus during 2022 and, as a Group, we have set multi-year targets for gender and ethnic equality, diversity and inclusion in senior leadership. The Group is ahead of these targets with 42% female senior leadership (globally) and 14% ethnic diversity in UK senior leadership, including 3% Black representation at the end of 2022.

In addition, our Board and Executive Committee are both currently 44% female and 22% ethnically diverse, well above the diversity levels of most UK boards and executive teams.

Employee engagement and investing in our colleagues was a corporate priority in 2022. We paid specific attention to better communication, investment in training, and development of the career path framework. We have a compelling employee value proposition and we saw a +15 point improvement in eNPS in 2022.

We are committed to remaining a virtual-first organisation. Our hybrid working model allows a large proportion of our colleagues to work remotely all or part of the time. This has helped improve employee recruitment, while unlocking career opportunities for the economically inactive and supporting the UK Government's Levelling Up agenda. In 2022, 85% of employees gave our hybrid working model as a reason to stay with Capita, and we have seen a positive effect on both productivity and absenteeism.

However, similar to our competitors in the outsourcing market, colleague attrition remains a key challenge for the Group. We are working to identify the drivers of attrition and take meaningful action to reduce it to a sustainable level. This year we introduced the career path framework to both help employees' development and shape their future progress, creating long and fulfilling careers at Capita. The rollout of the career path framework across the Group will be completed in 2023.

Attrition rates have improved in a number of areas such as within our Technology and Software Solutions (TSS) function and Public Service, but there are still some parts of Experience where they remain high. Addressing and reducing attrition across the Group represents a significant future cost-saving opportunity.

We are committed to helping our employees navigate the cost-of-living crisis, particularly our lower-earning colleagues. We have confirmed our commitment and retained our status as a real living wage accredited employer in the UK; and, through our 2023 annual salary review process, pay rises will be heavily weighted towards the lower earners in the organisation, with the highest earners being asked to forgo a basic pay increase.

For colleagues based outside the UK, we have a similar and fair approach, paying colleagues in line with our global pay principles. In order to support our colleagues further, we have also launched a number of financial wellbeing initiatives including direct financial support, such as salary advances, and the Level app which provides support for financial budgeting.

During 2022, we continued to develop and embed our health, safety and wellbeing policies and standards for all our colleagues within the divisions and business units. We are driving assurance programmes around our requirements, growing the wellbeing and health components of our new occupational health services and increasing the digital transformation of the tools we use to care for our employees. In 2022 our annual employee wellbeing index improved by 4%, we also introduced SafetyNet providing guidance and support to teams dealing with complex issues related to wellbeing, safeguarding or vulnerability.

Elsewhere within the Group, we launched Project Compass to provide ex-offenders with meaningful employment upon leaving prison. We also joined forces with a social impact firm to assist military veterans with finding jobs to help fill the UK's digital skills gaps on their return to civilian life. We were pleased to retain our status as a gold award employer under the Armed Forces Covenant.

Outside the UK, we made a donation at the start of the Ukraine war to the Red Cross, while our colleagues in Poland have supported refugees with donations and hosted refugee families. In South Africa we funded a learners programme to help underprivileged groups to tackle digital exclusion.

More widely, across our contract bids, we have seen our clients placing a greater emphasis on ESG in their tender appraisal processes. This is an area where we typically score well, reflecting our success in transforming Capita into a truly purpose-driven, responsible business.

We previously outlined our plans to take our carbon footprint to net zero by 2035, ahead of the UK Government's target of 2050. Our three-phased approach aims to see us reach Scope 1 net zero by 2025 and Scope 2 and 3 net zero by 2030. During the year, the Science Based Targets initiative verified the Group's 2035 net zero target as compliant with the highest standards of target-setting methodology and Capita was awarded a climate change A list award by the Carbon Disclosure Project (CDP).

We reduced our Scope 1 and 2 emissions by 45% compared with our 2019 base line. We are pleased to be certified as ESG low risk by Sustainalytics, a leading independent ESG and corporate governance research, ratings and analytics firm. Our newly created ESG Committee provides additional strategic oversight, accountability and guidance to ensure we maintain our high standards.

Our performance on supplier metrics has been maintained; for example, 99% of all suppliers were paid within UK Government guidelines of 60 days, a one percentage point increase from 2021. We were also slightly ahead of our 33% target spend with SME suppliers.

Markets and clients

We are a leading provider of business process services, driven by data, technology and people. Both our Public Service and Experience divisions have strong positions in their markets – as the UK Government's largest IT outsourcing supplier² and as the UK's leading customer services provider³.

Both markets are growing at around 5%²⁺³ per annum. Some sub-sectors within the markets are growing at much higher rates, as both the public and private sectors invest in digital transformation to drive efficiency, amid economic uncertainty and fiscal strain, and deliver better citizen and customer service. Our overall value proposition remains strong in the current macroeconomic climate where we can drive efficiency and productivity for the benefit of customers and citizens.

Our deep sector process knowledge and market vertical divisional structure, combined with the breadth and depth of the Group's client base, provide stability and resilience. The divisions, led by our dedicated client partners, are also generating a better-quality pipeline, enabling us to accelerate revenue growth.

We are taking a proactive approach to mitigating the pressures of rising inflation and in 2022, we believe this resulted in no material profit impact from inflation on the Group. To provide future protection, we have focused efforts on ensuring we have robust contractual protection in place against inflation. Where protection does not currently exist, we have seen success from commercial dialogue with clients to ensure we are being fairly remunerated in changing market conditions. We also have embedded cost-reduction programmes across the Group to help offset inflationary pressures.

Digital transformation

There is a major market opportunity across both core divisions to be more cost effective and win more business, as we improve our digital capabilities.

Both core divisions are highly ranked by TechMarketView and Information Services Group for their client delivery. We remain on a journey in which we are transitioning from providing traditional business process outsourcing (BPO) to business process services (BPS), where services and process delivery are digitally enabled.

In 2022, the UK Government published its roadmap for digital and data, outlining its intention to spend up to an additional £8bn by 2025 on digital, data and technology transformation. As our mix of work shifts from traditional BPO to digital BPS, we see incremental margin opportunity from processes becoming standardised and repeatable, with greater contract stickiness. Previous investments are starting to yield benefits with the UK Government, for the first time, regarding us as a digital service provider alongside delivering complex outsourcing scopes of work.

To support our digital offerings, we continue to embed our TSS capability. With 4,200 employees, TSS brings a single resource pool to deliver secure, resilient and predictable digital solutions for Capita's businesses and clients. We view this as the digital heart of Capita.

We have aligned TSS partners with divisional Service Delivery Managers to ensure greater insight into our clients' requirements, while ensuring we have a pan-Capita digital roadmap with broader capabilities across the Group. Our TSS capabilities contributed to client satisfaction improvements across Capita Public Service and Experience in 2022. The new shared-service structure has also seen a strong improvement in TSS employee engagement in 2022, with attrition rates halving.

Operationally, the creation of a shared service technology delivery function facilitated a significant step-up in new daily software releases, delivering 33% more releases compared with 2021, and helped reduce the cost of service-credits across the contract portfolio.

Our strengthened balance sheet underpins our ability to increase investment in digital solutions. This year we invested in a new pensions platform in our Financial Services vertical to facilitate wider user self service. Within Public Service, our digital technology stack will be an area of continued investment in 2023 and beyond, positioning us for improved opportunities going forwards.

To underpin the Group's increase in digital BPS in 2023 we will be investing in a number of areas, including consolidation of our networks, improving our automation tools, and growing our cloud and hosting capabilities, data analytics and software engineering. This will enable us to meet the demands of clients, help deliver user-centric solutions and accelerate benefit delivery.

The Group continues to strengthen digital capability within our client offerings, as we invest in our technology stack and capabilities. We have partnered with world-leading technology providers such as Amazon Web Services (AWS), Salesforce and Microsoft to support the build of standardised scalable platforms, improving our ability to deploy automation, AI and analytics, and, in turn, delivering better customer service outcomes.

Growing our business

In 2022, the Group won contracts with a total contract value (TCV) of £2,853m (2021: £3,420m) the reduction reflecting the scale and lumpy nature of timing of contract award phasing in Public Service, partially offset by a strong performance in Experience.

Experience had a particularly strong year, with a 71% increase in TCV sold, reflecting very high levels of contract retention and growth with existing clients. The book to bill ratio for the division was 1.2x, the highest it has been for a number of years. New contract wins included broad customer experience support provision for ScottishPower for five years, which uses AI conversational technology and data analytics to deliver better outcomes and efficiencies.

Renewed contracts included a five-year renewal with the BBC (providing TV licensing collection, management and administration), a seven-year contract extension with freenet AG (providing customer services support for the German telecommunications and digital services company), and multiple contracts within the financial services industry, reflecting our strength in that area. The renewal rate in the division remains extremely high at 99% of all renewals bid for.

Public Service saw a 50% reduction in TCV sold, compared with the prior year, following the £925m win of the Royal Navy training contract in 2021. Our client renewal rate remains very high at 91% across renewals bid for. There was success in the year in each vertical, including renewals with NHS England, Barnet Council and with the Department for Work and Pensions. We also secured growth with existing clients, including TfL Road User Charging and the Royal Navy on the Submarine Training Centre. The book to bill for the division for the year was 0.8x.

Wider market conditions across 2022, including changes within the UK Government, resulted in a number of significant contract tender processes seeing timeline slippage, particularly in areas of new business. Across the year, more than £3bn of TCV opportunities saw their closing date move from 2022 to 2023. Our 2023 unweighted pipeline is £7.5bn, with 70% of this reflecting new clients and new business. The weighted pipeline for 2023 is £2.2bn, split broadly 50:50 between Experience and Public Service.

The remaining businesses within Portfolio contributed £264m of TCV, which was a slight increase from that signed in 2021 on a like-for-like basis. The book to bill for the division remains above 1.0x.

At 31 December 2022, the Group's order book stood at £5,805m, reducing £310m from 31 December 2021 with £2,110m order book additions, indexation and scope changes, £2,132m revenue recognised and £288m from business disposals and contract terminations.

Delivery for our clients and cost efficiency

Consistently delivering for our clients is the cornerstone of our success. Effective, efficient client delivery and getting it right first time, reduces excess cost and allows us to grow revenue.

Our cNPS improved in 2022 by six points, with the overall score now at +35 points. We saw improvements in all divisions, reflecting our efforts to deliver for our clients and their customers throughout the business. In a few cases where KPI performance was not met consistently we actively engaged in remediation actions. This has helped improve our overall external stakeholder reputational scores, where we saw the highest annual score the Group has achieved since tracking began three years ago.

To allow more consistent delivery across both core divisions, we have established a flexible and agile workforce, which can be scaled up and down. We have created a single delivery organisation in each division, with common technology stacks and processes with a high level of agility. We are applying the same digital technology to our clients and ourselves to drive cost reduction and consistency of service delivery.

We had a strong and predictable operational performance in 2022, hitting customer KPIs consistently across the year. There were a number of notable achievements across the contract portfolio, including:

- Maintaining our 100% success delivery record for both time and cost on the Royal Navy training contract. The strength of this partnership has allowed us to bid for additional scopes of work such as the Submarine Training Centre.
- A smooth start to our work on the new ScottishPower contract in June, transferring 400 people to Capita from the previous service provider with no impact on operational performance.
- Flexible scaling of service delivery teams in our Experience division around client peak demand periods for retail sales across the year.

The challenging market conditions, and higher levels of employee attrition in some areas, increased cost pressure for the Group over the year but, developing a more agile workforce has enabled us to increase our ability to meet resource demands, and we have seen an improvement in our eNPS.

We are experiencing one of the tightest labour markets of all time, but managed to recruit a significant number of people in 2022 to meet market demand. We now have the appropriate resources to grow and maximise revenue opportunities.

More broadly, we see margin opportunity in improving commercial terms on our existing contracts and from solutions that have a higher digital underpin and are more scalable.

Our property portfolio and usage are a continued area of focus for management as we maintain our virtual first working model. In 2022, we permanently closed 19 properties and consolidated an additional 19, resulting in a 23% reduction in our total square footage over the past two years, reducing our annual lease payments by £22m.

Financial results - revenue and profit

Adjusted revenue¹ growth accelerated in 2022 by 2.4% across the whole year with 4% growth in the second half as we delivered adjusted revenue¹ of £2,845.8m (2021: £2,777.8m). New contract wins included the Northern Ireland teachers IT device refresh contract and the Turing Scheme, as well as the annualised benefit of the Royal Navy training contract and price increases/indexation. The impact of these new awards was partially offset by prior-year losses, and reductions in contract scope and volume, mainly in the Financial Services vertical in Experience. Portfolio performed well, as businesses recovered from the Covid-19 related activity restraints of 2021.

Reported revenue declined by 5% to £3,014.6m as the core business growth was more than offset by the disposal of non-core businesses.

Adjusted profit before tax¹ increased to £73.8m (2021 loss: £122.8m). The improvement in profit reflected the cessation of major restructuring spend in 2021 (£147.5m), the non-repetition of the closed book Life & Pensions provisions booked in 2021 (£43.1m) and the benefit from revenue growth and cost efficiencies over the year. This was partially offset by the Group's commitment to repay £4.9m of furlough income received in 2021.

Reported profit before tax decreased, principally reflecting the reduction in disposal gains, following the ESS and Axelos sales completed in 2021 (2021 gain: £285.6m). In 2022, we made a disposal gain of £166.9m, primarily from the sale of Pay360. We recognised a £169.0m (2021: £11.5m) non-cash goodwill impairment in respect of businesses within the Portfolio division.

Financial results - free cash flow and net debt

We delivered positive free cash flow, before the impact of business exits¹ of £29.0m (2021 outflow: £218.6m) and free cash flow was positive at £24.5m (2021 outflow: £264.3m). The swing to positive free cash flow generation reflected a reduction in pension deficit payments from £155.5m to £38.6m and deferred VAT repayments from £104.1m to £14.9m, together with an underlying improvement in operating cash flow conversion.

Net debt reduced further to £482.4m in 2022 (2021: £879.8m), as we continued to strengthen the balance sheet. Pre-IFRS 16 net financial debt reduced to £84.9m (2021: £431.4m). The reduction was achieved through our successful disposals programme, with c.£485m of gross proceeds received in 2022 from the sales of Pay360, the Technology and Property pillars, Capita Translation and Interpreting, as well as those announced in 2021.

Our disposals programme has enabled us to meet £440m of debt maturities in 2021 and 2022. We continue to reduce other financial obligations, including in respect of our pension deficit through additional contributions, and our property footprint which yielded a further reduction in lease liabilities of £40m.

While market conditions have been challenging in some areas, we continued to see good interest in the businesses remaining to be sold within Portfolio. Operationally, we have maintained our strong delivery for clients in this area. The division now has £249.8m revenue and £26.9m of profit, before the allocation of Group overheads in 2022.

The closed book Life & Pensions business unit, which sits in Experience, continues to negatively affect the Group's cash performance, as the costs of servicing a small number of legacy contracts significantly outweigh client cash receipts. The cash outflow from this business unit is forecast to remain broadly unchanged. However, we continue to deliver operationally well for these clients and, while we support those that remain core to our Financial Services vertical, these contracts are an area of continued focus from management as we look to reduce the adverse cash flow impact on the Group.

Outlook

While the current economic and broader political environments create some uncertainty, we believe that the transformation of Capita that we completed in 2021, and the financial turnaround of the business we delivered in 2022, places the business in a strong position to deliver successfully moving forwards.

We expect that our market positioning, transformed business model and focus on opportunities in the digitally enabled BPS space will enable us to continue to accelerate revenue growth into 2023 and to deliver profit growth and positive free cash flow over the medium term.

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

² TechMarketView

³ Everest

Divisional performance review

The following divisional financial performance is presented on an adjusted revenue¹ and adjusted operating profit¹ 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.

Public Service

Capita Public Service is the number one² strategic supplier of Software and IT Services (SITS) and business process services (BPS) to the UK Government.

Public Service is structured across five market verticals: Education & Learning; Local Public Services; Health & Welfare; Defence, Fire & Security; and Justice, Central Government & Transport; as well as the non-consolidated Smart DCC subsidiary.

Our markets and growth drivers

Government spending in the UK with private sector organisations is c. £176bn². Our current core addressable market is c. £13.9bn² growing at c.5%² per annum. Digital BPS is a fast-growing area, while BPO is currently shrinking, reflecting the Government's focus on digitally-enabled transformation.

While broader market dynamics and macroeconomics are expected to continue to be challenging during 2023, Public Service is well positioned, benefiting from its breadth of coverage, domain understanding and scale, together with sales and delivery capabilities in each vertical, offering efficient solutions and cost savings during times of fiscal strain.

In 2022, the UK Government published the Roadmap for Digital and Data outlining its intention to spend up to an additional £8bn by 2025 to accelerate digital, data and technology transformation in order to better respond to future macroeconomic challenges.

Our placement on digital frameworks and the shift in the BPS market to become more digital and data-enabled provides an opportunity as the Government seeks more cost-efficient and effective services, while improving overall citizen experience.

Across the variety of services that Public Service provides, we compete with a number of other providers within this fragmented market including but not limited to Fujitsu, Atos, Sopra Steria, CGI, TCS, Cognizant, Accenture, DXC Technology, BJSS, Cap Gemini, Kainos, Serco and Maximus.

Our strategy

Our strategy is to create better outcomes, using our consult-transform-deliver approach.

Public Service is executing on a digital strategy transformation programme, materially investing in our digital capabilities to create a preferred technology stack and IT ecosystem, alongside our traditional BPO business. This investment will underpin our ambition to transform the way we work, in line with the UK Government's evolving demand for digital solutions.

We look to leverage our vast experience of delivering and integrating end-to-end processes by deploying our digital capability in partnership with our UK Government clients to help them increase their operational efficiency and improve the outcomes for UK citizens.

In 2022, we reinforced our position as an important strategic supplier to the UK Government, reflecting continuous improvements in our delivery and strengthened balance sheet. As Capita has won and delivered more digital transformation and IT contracts across the public sector, the Government now regards us as a digital service provider alongside delivering traditional, complex outsourcing scopes of work.

Our strength is in understanding our clients' needs and problems with our deep sector knowledge and client partners in our chosen verticals working with relevant Government departments. We've invested in our coverage on Government frameworks, through which companies are able to bid for Government contracts, and we are now included on frameworks representing market access of up to £9.5bn.

We are working with the Government to understand how it expects the transition to digital delivery to be completed, with opportunities in our Health & Welfare, and Defence, Fire & Security, and Justice, Central Government & Transport verticals.

We saw success in this journey across a variety of contracts in 2022. In May, we were appointed as HMRC's new automation and innovation partner to develop, deploy and support robotic software and other automation tools in order to simplify processes and drive operational efficiency.

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

During the year, we set up a client advisory board to improve our understanding of Government bid processes and requirements to help us become an even more effective service provider. In the long term, we expect this to improve win rates, our origination of bids and our cNPS, as we see further alignment in our offerings.

Growth

Across the year, we intensified our customer focus through client partnering, with a professionalised sales force, to deliver high growth alongside strong operational outcomes.

Public Service won contracts with £1,218m (2021: £2,422m) TCv. The total TCv won decreased from the prior year reflecting the somewhat lumpy nature of the Government large contract sales pipeline and, in particular, the benefit in 2021 from the £925m Royal Navy training contract award. We saw certain material bid timelines pushed into 2023, particularly in the second half of the year, following a number of changes within the UK Government. As a result, the division's weighted pipeline has increased by £419m to £1,652m, and the 2022 book to bill ratio was 0.8x.

At 31 December 2022, the total unweighted pipeline was £7,858m, a decrease of £291m from December 2021, reflecting the TCv won in the year and the number of additions to the pipeline across the year.

We continue to see strong performance on contract renewals with a 91% win rate across renewals bid for, with extensions with NHS England, Barnet Council, the Department for Work and Pensions, and the Northern Ireland Education Authority. On all opportunities bid for, we saw a success rate of 67%.

The order book at 31 December was £2,985m, a decrease of £301m since 31 December 2021, as revenue recognised was not offset by order book additions in the year.

Cost and operational excellence

Across the year, we focused on further embedding the operating model introduced in 2021 to ensure it met our clients' needs across a broad range of services with improved cross-sell opportunities. There have been natural efficiencies from the division's matrix operating model and we're now looking at the digital tools and investments to reduce future costs, as we enhance the scalability of solutions.

The division's standalone cNPS improved by nine points from 2021 to an overall score of +33, including many of our key clients, reflecting the commitment to client delivery and consistent outcomes achieved during the year.

In 2022 our operational delivery remained consistently strong across the contract portfolio, with strong performance against all contract KPIs; for example, we delivered on all the key milestones on the Royal Navy training contract and have now started running the Royal Navy's Maritime Composition Training System. In addition, we launched the Aviation Fire Programme at the Fire Service College, while the Job Entry Targeted Support contract delivered in 18 months more than 1.5x the target number of job starts. Within our Smart DCC subsidiary there are now 10 million first generation meters connected to the DCC secure nationwide network.

This consistent performance has reduced the financial burden on the division, with the major contracts now delivering improving profit and cash flow, alongside growth opportunities such as the Submarine Training Centre and with our TfL Road User Charging contract.

We've now commenced investment to underpin efficient operations in future years, automating common operational activities, with financial payback expected from 2023. We are increasingly using shared service centres to provide resourcing flexibility and to ensure we service our contracts consistently.

Financial performance

Divisional financial summary	2022	2021	% change
Adjusted revenue ¹ (£m)	1,445.3	1,410.4	2.5%
Adjusted operating profit ¹ (£m)	91.5	93.2	(1.8)%
Adjusted operating margin ¹ (%)	6.3%	6.6%	
Adjusted EBITDA ¹ (£m)	130.0	138.7	(6.3)%
Cash generated from operations before business exits ¹ (£m)	95.4	66.5	43.5%
Order book (£m)	2,985.0	3,286.3	(9.2)%

Adjusted revenue¹ increased by 2.5% to £1,445.3m, reflecting the annualisation of the Royal Navy training contract and additional growth opportunities within the contract and wins such as the Northern Ireland teachers IT refresh contract. Revenue also benefited from additional volumes in the Justice, Central Government & Transport vertical and the running of the first full test cycle of primary school curriculum assessments in England for the Standards and Testing Agency (STA), following cancellation of the previous year's test cycle due to Covid restrictions. There were contract handbacks in the year within our Local Public Services vertical, as well as the cessation of our contract with The Pensions Regulator.

Adjusted operating profit¹ decreased by 1.8% to £91.5m, reflecting the mix of work and reduced margin on the British Army Recruiting Partnering Project (RPP) contract as it moved into the next phase of service delivery. This was offset by the non-recurrence of significant restructuring spend in 2021 (£5m) and margin from contract wins and increases in volumes. The division also benefited from the mutual conclusion of the Electronic Monitoring Service transformation programme in 2021 which resulted in £9m of costs being incurred in the prior year.

Cash generated from operations before business exits¹ increased by 43.5% to £95.4m reflecting the working capital benefit from contracts moving into the operational phase, offset by utilisation of customer contract provisions in 2022. The 2021 cash flow was impacted by the repayment of deferred VAT from 2020.

Outlook

In 2023, we expect accelerated revenue growth, particularly in our Education & Learning, and Defence, Fire & Security verticals, as volumes on existing contracts and transactional revenue increase.

Improvements in the division's operating margin are expected to be achieved, as we continue to win work at appropriate rates of return and efficiencies are realised from our simplified organisation and technology investment.

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

² TechMarketView

Experience

Experience is one of western Europe's leading customer experience businesses. It is the market leader in the UK and ranks fifth in Germany and Europe.

Experience is now structured around four core industry verticals: Financial Services; Technology Media & Telco (TMT); and, following the separation of our Multi-industry vertical, Energy & Utilities and Retail.

Our markets and growth drivers

The global customer experience market is worth £277bn² a year and the outsourced element is growing at c.5%² per annum. Around 28%² of the market is currently outsourced.

We are the largest provider of customer experience services in the UK and Ireland, with a market share of around 12%³. Our competitors within the customer experience segment are mostly global and include peers such as Teleperformance, Webhelp, Concentrix and Majorel.

The market continues to trend towards self-service and automation, with clients looking to utilise omni-channel offerings, with increased multilingual capabilities and capacity and agents working remotely both on and offshore.

The changing economic landscape poses an opportunity for Experience, particularly within our Financial Services and Energy & Utilities industry verticals, as institutions in these sectors have a key role to play in helping vulnerable customers through periods of uncertainty, and empathetic human intervention is required for those who need it most.

Our strategy

The long-term strategy of the core business is to be a leading customer experience service provider delivering better outcomes for our clients through a consultative approach underpinned by data and technology.

Experience has an extensive blue-chip customer list and we've increasingly seen our customer base diversify, with wins this year in the FinTech sector.

In 2022 we introduced a single divisional operating model, with more consistent leadership and improved rigour across the service delivery process. Using our matrix operating model, we are able to meet resourcing needs with an agile and flexible workforce available to serve across various contracts as demand requires, such as for peak sale periods. Our operating model helps us stay competitive within the market and allows us to manage resources around client demands with an end-to-end delivery model.

We are a trusted partner and adviser for clients, with omni-channel delivery options allowing for both self-service and human-contact options based on the nature of the experience required. The division has an advanced toolkit of services including speech analysis and real-time feedback to ensure customers get the best outcomes seamlessly.

Our service-delivery options across different geographies offer our clients flexibility and provide a growth opportunity going forward. In 2022, alongside expanding our operations in India and Durban, South Africa, we expanded into additional cities in Poland to support delivery of our services in 35 different languages with 24/7 support. These sites will be important strategic hubs for our future growth and further expansion of our multilingual capabilities.

Growth

At 31 December 2022, the total unweighted pipeline was £4,082m, a decrease of £1,388m from 31 December 2021. The division won TCv of £1,371m, an increase of 71% from 2021. Significant wins in the year included renewals with the BBC (providing TV licensing collection, management and administration) and with freenet AG (providing customer services support for the German telecommunications and digital services company) within our international business in TMT. There were multiple wins within the Financial Services vertical, reflecting our strength in this area.

The weighted pipeline at 31 December 2022 stood at £1,114m (2021: £1,566m) reflecting the TCv won during the year. The divisional book to bill was 1.2x, an improvement from 0.7x in 2021, an important milestone on the division's business-improvement journey.

Renewal rates continue to remain high for the division, with 99% of bids successful as we continue to deliver operationally for clients. Renewals are important in order to maintain a consistent revenue base, but we are also focused on revenue growth from new scopes of work and growth on account where our historical win rates have not been as strong. Our win rate in the division was 52% across all opportunities. Our 2023 pipeline is diverse, with a mixture of new scopes of work and growth on account.

Challenged end-markets meant that we saw a number of significant deal timelines slip into 2023; these included a number of new clients in the TMT vertical and renewals within our Energy & Utilities and Retail industry verticals.

The order book at year end was £2,527m, an increase of £255m since 31 December 2021, reflecting the contract wins in the year which more than offset revenue recognised in the year.

Cost and operational excellence

Throughout 2022, our matrix structure delivered operational excellence while delighting clients, as evidenced by our consistent KPI performance and +10 point improvement in cNPS, to an overall score of +19.

As with many competitors in our markets, employee attrition remained high, and we adapted our business model across the year, while taking action to address the higher level of attrition. We moved to using a demand-led resource model, allowing us to resource all full-time employee requirements on our contracts. Attrition will remain a key area of focus in 2023, as well as being an area of further cost-reduction opportunity, as we seek to reduce attrition levels and improve employee retention.

We delivered well for our clients during the year; for example, after winning the ScottishPower contract in June, we transferred 400 people from the previous service provider to Capita Experience with no impact on functionality or service delivered to customers. Working with another client in the energy sector, we more than doubled the existing team to improve customer service, responding to the additional volume requirements during the ongoing energy crisis, reducing response times by 30% and improving quality scores by 10%.

In addition, we worked with Marks & Spencer deploying conversational AI, outperforming the previous incumbent with a 10% increase in customers able to self serve. We also worked with an existing customer on a consulting basis to

categorise all incoming calls across their entire estate and use data analytics to improve and add value to the overall customer experience. This type of consulting engagement is an important growth area for the division, as we boost our BPO and BPS services, while improving the end-customer journey.

We have seen further volume attrition within our closed book Life & Pensions business unit, in line with our expectations. The business unit is forecast to be loss-making with a consistent cash outflow in future years, with a provision held reflecting this. We continue to deliver operationally well for these clients but remain focused on resolving the structural challenge in this area to reduce ongoing cash losses.

Elsewhere in the regulated services business, Pensions Administration continues to perform well and activity levels improved further in 2022. Within the Financial Services vertical, we invested in our mortgage business to create a customer-focused IT platform and ecosystem, allowing an end-to-end service to clients, which supports our growth ambitions in this area.

Financial performance

Divisional financial summary	2022	2021	% change
Adjusted revenue ¹ (£m)	1,150.7	1,140.9	0.9%
Adjusted operating profit ¹ (£m)	38.5	8.9	332.6%
Adjusted operating margin ¹ (%)	3.3%	0.8%	
Adjusted EBITDA ¹ (£m)	113.4	93.2	21.7%
Cash generated from/(used by) operations before business exits ¹ (£m)	30.7	(4.8)	n/a
Order book (£m)	2,526.7	2,271.8	11.2%

Adjusted revenue¹ increased by 0.9% to £1,150.7m, reflecting price increases and wins in the year including ScottishPower and international wins in Germany and Switzerland which offset the final-year impact of prior-year losses. The division saw lower volumes with continued attrition within the closed book Life & Pensions contracts.

Adjusted operating profit¹ increased by 332.6% to £38.5m. The result in 2021 was impacted by the recognition of provisions and impairments in our closed book Life & Pensions business (£43m) and completion of the Group's significant restructuring where the division incurred £12m of expense in 2021.

Cash generated from operations before business exits¹ increased by £35.5m to £30.7m with an improvement in working capital benefiting the division's operating cash conversion. The division's cash performance in 2021 was impacted by the repayment of deferred VAT from 2020 together with restructuring spend and recognition of contract-related provisions.

Outlook

While improvements were made during 2022, Experience continues to lag behind Public Service in its business-improvement journey.

In 2023, we expect revenue to be broadly in line with 2022, reflecting continued reductions from contract losses and volume attrition within closed book Life & Pensions, offset by growth from new wins and growth on account delivered across our market verticals. As we have simplified our go-to-market offering and become more efficient and effective, we expect to deliver mid single-digit growth over the medium term.

As revenue growth becomes more established, operating leverage is expected to drive further margin improvement.

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

² Everest

³ NelsonHall

Portfolio

Portfolio comprises the remaining non-core businesses which the Group is looking to exit.

Since the division was formed in 2021 we have made significant progress with the Portfolio disposal programme, helping us simplify and focus the Group for future growth. This year the division raised more than £330m gross proceeds from completed disposals.

Our markets and growth drivers

Portfolio is made up of a range of businesses which service public and private sector clients across multiple, generally mature, markets and sectors.

We enjoy strong positions in many of the markets where we operate, with strong brands and positive client perception of our services.

Our strategy

The division is organised into pillars comprising businesses of similar characteristics: People, Software, Business Solutions, Travel, and the Fera joint venture with the UK Government, to allow for efficient management and to facilitate smooth transaction processes.

During 2022, we successfully completed the disposals of the Technology and Property pillars, as well as Capita Translation and Interpreting within the Business Solutions pillar together with those announced in 2021, achieving gross proceeds of c. £330m from these disposals.

Cost and operational excellence

The pillars within Portfolio continue to deliver a strong operational service for clients and the division has seen its fourth consecutive improvement in its annual cNPS score.

During the year, our travel business, Agiito, won a number of awards, including being recognised in the Top 50 Business Travel Agencies. Within our Fera business, we opened an expert insect bioconversion research and development facility to support the needs of global clients across the industry.

We are working to ensure ongoing cost efficiency in the division ahead of the completion of the disposal programme, through successful vacancy management and redeployment of employees across the wider Group.

Financial performance

Divisional financial summary	2022	2021	change %
Adjusted revenue ¹ (£m)	249.8	226.5	10.3%
Adjusted operating profit/(loss) ¹ (£m)	16.2	(0.1)	n/a
Adjusted operating margin ¹ (%)	6.5%	—%	
Adjusted EBITDA ¹ (£m)	35.6	24.3	46.5%
Cash generated from operations before business exits ¹ (£m)	17.1	21.2	(19.3)%
Order book (£m)	293.5	557.3 ²	(47.3)%

Adjusted revenue¹ increased by 10.3% to £249.8m; as pillars within Portfolio continue to recover from subdued trading during the Covid-19 pandemic, particularly within our Agiito and Enforcement businesses.

Adjusted operating profit¹ increased from break even to £16.2m, reflecting revenue growth and the benefit from the non-repeat of £2.3m significant restructuring costs incurred in 2021. This more than offset the cost of operational investment in some pillars.

Cash generated from operations before business exits¹ decreased by 19.3% to £17.1m driven by working capital requirements as the division recovers from Covid-19, which more than offset the improvement in EBITDA.

Outlook

We are targeting for the majority of the remaining businesses within Portfolio to be disposed of during the first half of 2023, depending on general market conditions.

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

² Includes businesses subsequently disposed of in 2022

Chief Financial Officer's review

This preliminary announcement is extracted from Capita's financial statements for the year ended 31 December 2022 and the basis of its preparation can be found in the notes to the financial statements in this announcement.

Overview

Improved adjusted revenue¹ growth was in line with our expectations, with an acceleration across the year from 1% in the first half to 4% in the second half. This was driven by strong growth in the Public Service and Portfolio divisions and stabilisation of revenues in the Experience division.

Public Service revenue growth was underpinned by new wins such as the Northern Ireland teachers IT refresh contract and annualisation of the Royal Navy training contract offset by revenue reductions in some Local Public Service contracts. Experience revenue was impacted by significant prior year contract losses, offset by new wins, including those in International and with ScottishPower.

Growth in our transactional business was mainly driven by Portfolio, including the Travel and Enforcement businesses, which continued their recovery following Covid-related constraints.

From 1 January 2022, the Board has limited the items excluded from the adjusted results to business exits, amortisation and impairment of acquired intangibles, impairment of goodwill and certain fair value adjustments which impact net finance income/expense. This presentation provides a more representative measure of the underlying performance of the business following completion of the Group-wide transformation. The comparatives have been re-presented on the same basis, with significant restructuring (£147.5m), contract-related provisions and impairments (£43.1m) and certain litigation and claims (credit £2.3m) now included within adjusted results for the year ended 31 December 2021.

The increase in adjusted profit before tax¹ reflects the above change in presentation, and therefore benefits from the reduction in restructuring costs and contract-related provisions and impairments, as well as the benefit of revenue growth. In 2021, the Group received £4.9m of funding under the coronavirus job retention scheme made available by the Government to help ease the employment impact of Covid-19. In May 2022, we announced the Group's intention to repay the 2021 furlough-related income at the end of the Group's publicly stated disposal programme and no later than the end of June 2023. An accrual has been recognised for this repayment in the year ended 31 December 2022.

The decrease in reported profit before tax arose as the increase in adjusted profit before tax¹ was more than offset by an increase in impairments of goodwill, a reduction in operating profit from business exits and a lower gain on the sale of businesses.

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

Cash generated from operations before business exits¹ increased by £226.2m to £116.5m benefiting from the improvement in adjusted profit¹ explained above, a reduction in repayments in respect of the Government's VAT deferral scheme and a £43.6m reduction in pension deficit contributions as the Group reverts to the agreed deficit contributions set as part of the 2020 triennial funding agreement with the pension scheme trustees.

Free cash flow before business exits¹ for the year ended 31 December 2022 was an inflow of £29.0m (2021: £218.6m outflow). The improvement primarily reflected the above increase in cash generated from operations before business exits¹, and a reduction in net interest paid in respect of leases and private placement loan notes.

As part of our drive for simplification of the business, and strengthening the balance sheet, we continue to seek to dispose of a number of non-core businesses. During the year we completed the disposal of eight businesses, realising total proceeds net of disposal costs of £463.4m (including settlement of intercompany balances on completion) with net cash proceeds of £387.9m reflecting the cash held in the disposed entities on completion.

These disposals form part of the Board-approved disposal programme. The sale processes have been launched for the remaining pillars in the Portfolio division. The Group expects to use the proceeds from this disposal programme to repay debt, to make accelerated deficit reduction contributions to the Group's defined benefit pension scheme and to invest in driving growth in the remaining core businesses. During the year, we repaid £226.7m of private placement notes and made pension deficit contributions of £38.6m (£30.0m regular contributions and £8.6m acceleration of agreed contributions triggered by disposals).

Liquidity as at 31 December 2022 was £405.2m, made up of £288.4m of the undrawn element of our committed revolving credit facility (RCF) and £116.8m of unrestricted cash and cash equivalents net of overdrafts. In July 2022, we extended the RCF to 31 August 2024.

Summary of financial performance

Financial highlights

	Reported results – continuing operations			Adjusted ¹ results – continuing operations		
	31 December 2022	31 December 2021	Reported YoY change	31 December 2022	31 December 2021	Adjusted ¹ YoY change
Revenue	£3,014.6m	£3,182.5m	(5.3)%	£2,845.8m	£2,777.8m	2.4%
Operating profit/(loss)	£(79.6)m	£(86.6)m	8%	£102.9m	£(77.7)m	n/a
EBITDA	£235.7m	£222.3m	6%	£238.8m	£143.0m	67%
Profit/(loss) before tax	£61.4m	£285.6m	(79)%	£73.8m	£(122.8)m	n/a
Earnings/(loss) per share	4.47p	13.33p	(67)%	6.20p	(7.74p)	n/a
Cash generated from/(used by) operations*	£117.8m	£(148.5)m	n/a	£116.5m	£(109.7)m	n/a
Free cash flow*	£24.5m	£(264.3)m	n/a	£29.0m	£(218.6)m	n/a
Net debt	£(482.4)m	£(879.8)m	£397.4m	£(482.4)m	£(879.8)m	£397.4m
Net financial debt (pre-IFRS 16)	£(84.9)m	£(431.4)m	£346.5m	£(84.9)m	£(431.4)m	£346.5m

* Cash generated from operations adjusted results and free cash flow adjusted results are free cash flow before business exits and cash generated from operations before business exits respectively (refer to note 9)

Adjusted results

Capita reports results on an adjusted basis to aid understanding of business performance. The Board has adopted a policy of disclosing separately those items that it considers are outside the underlying operating results for the particular period under review and against which the Group's performance is assessed internally. In the directors' judgement, these items need to be disclosed separately by virtue of their nature, size and/or incidence for users of the financial statements to obtain an understanding of the financial information and the underlying in-period performance of the business.

In accordance with the above policy, the trading results of business exits, along with the non-trading expenses and gain or loss on disposals, have been excluded from adjusted results. To enable a like-for-like comparison of adjusted results, the 2021 comparatives have been re-presented to exclude 2022 business exits. As at 31 December 2022, the following businesses met this threshold and were classified as business exits and therefore excluded from adjusted results in both 2022 and 2021: ESS, AXELOS, Life Insurance and Pensions Servicing business in Ireland, AMT Sybex, Secure Solutions and Services, the Speciality Insurance business, Trustmarque, Real Estate and Infrastructure Consultancy, Optima Legal Services, Pay360 and Capita Translation and Interpreting.

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

Adjusted revenue

Adjusted revenue ¹ bridge by division	Public Service £m	Experience £m	Portfolio £m	Total £m
Year ended 31 December 2021	1,410.4	1,140.9	226.5	2,777.8
Net growth	34.9	9.8	23.3	68.0
Year ended 31 December 2022	1,445.3	1,150.7	249.8	2,845.8

Adjusted revenue¹ growth of 2.4% was in line with expectations. The adjusted revenue¹ was impacted by the following:

- **Public Service (2.5% growth):** growth from contract wins, including a contract to supply laptops to teachers in Northern Ireland as well as the annualised benefit of the Royal Navy training contract, increased growth in existing contracts in Central Government, and completion of a full test cycle on STA, offsetting hand-backs in Local Government;
- **Experience (0.9% growth):** stabilisation in revenue, with the impact of significant prior year contract losses offset by positive revenue contributions in particular from new client wins in International and with ScottishPower; and
- **Portfolio (10.3% growth):** growth in transactional revenue mainly from Travel and Enforcement following the turnaround in these Covid-19 impacted businesses.

Order book

The Group's consolidated order book was £5,805.2m at 31 December 2022 (2021: £6,115.4m). Additions from contract wins, scope changes and indexation in 2022 (£2,110.2m), including the BBC and frenet AG extensions within Experience and Personal Independence Payments and TfL Road User Charging within Public Service, were offset by the reduction from revenue recognised in the year (£2,132.3m), contract terminations (£8.1m) and business disposals (£280.0m).

Adjusted profit before tax

Adjusted profit before tax ¹ bridge by division	Public Service £m	Experience £m	Portfolio £m	Capita plc £m	Total £m
Year ended 31 December 2021	93.2	8.9	(0.1)	(224.8)	(122.8)
Net growth/(reduction)	(1.7)	29.6	16.3	152.4	196.6
Year ended 31 December 2022	91.5	38.5	16.2	(72.4)	73.8

Adjusted profit before tax¹ increased in 2022. The adjusted profit before tax¹ was driven by the following:

- **Public Service:** benefits from the wins in 2022, the annualised benefit of the Royal Navy training contract and the non-recurrence of Electronic Monitoring programme costs in 2021; offset by a reduction on the British Army recruitment (RPP) contract resulting from transition to the next phase of service delivery;
- **Experience:** flow through of prior year losses including 3UK, William Hill and in the closed book Life & Pensions business. 2021 was impacted by provisions and impairments in the closed book Life & Pensions business and completion of significant restructuring;
- **Portfolio:** benefits from post Covid-19 recovery in transactional businesses and the non-repeat of 2021 restructuring costs; offset by operational investment in certain businesses; and
- **Capita plc:** benefits from the end of the transformation programme (2021 included £128.0m of significant restructuring) and efficiencies realised; offset by the effect of the announced intention to repay the 2021 furlough-related income.

Cash generated from operations and free cash flow

Adjusted operating profit to free cash flow before business exits ¹	2022 £m	2021 £m
Adjusted operating profit/(loss)¹	102.9	(77.7)
Add: depreciation/amortisation and impairment of property, plant and equipment and intangible	135.9	220.7
Adjusted EBITDA¹	238.8	143.0
Working capital	(32.7)	(113.6)
Non-cash and other adjustments	(44.7)	38.6
Operating cash flow before business exits¹	161.4	68.0
Deferred VAT repayment	(14.9)	(104.1)
Pension deficit contributions	(30.0)	(73.6)
Cash generated from/(used by) operations before business exits¹	116.5	(109.7)
Net capital expenditure	(43.6)	(51.2)
Interest/tax paid	(43.9)	(57.7)
Free cash flow before business exits¹	29.0	(218.6)

Adjusted EBITDA¹ increased by 67% reflecting the improvement in adjusted profit¹ explained above and the significant reduction in depreciation, amortisation and impairment of property, plant and equipment and intangible assets, largely driven by the Group's property rationalisation programme.

Cash generated from operations before business exits¹ benefited from the improvement in adjusted EBITDA¹, a lower working capital outflow compared with 2021, materially lower deferred VAT repayments and pension deficit contributions; offset by a reduction in non-cash and other adjustments.

The lower working capital outflow arises from contracts moving into the operational phase and increased utilisation of non-recourse trade receivables financing in 2022.

The reduction in non-cash and other adjustments reflects utilisation of customer contract provisions in 2022 compared with provision recognition in 2021, and the utilisation of the remaining restructuring provision.

Free cash flow before business exits¹ for the year ended 31 December 2022 was an inflow of £29.0m (2021: outflow £218.6m). The improvement reflected the above increase in cash generated from operations before business exits¹, and a reduction in capital expenditure, and net interest paid in respect of leases and the Group's private placement loan notes.

Adjusted operating cash conversion¹ increased to 68% (2021: 48%).

Reported results

Adjusted to reported profit

As noted above, to aid understanding of our underlying performance, adjusted operating profit¹ and adjusted profit before tax¹ exclude a number of specific items, including the amortisation and impairment of acquired intangibles and goodwill, and the impact of business exits.

Reported to adjusted¹ profit bridge

	Operating profit/(loss)		Profit/(loss) before tax	
	2022 £m	2021 £m	2022 £m	2021 £m
Reported	(79.6)	(86.6)	61.4	285.6
Amortisation and impairment of acquired intangibles	5.1	7.7	5.1	7.7
Impairment of goodwill	169.0	11.5	169.0	11.5
Net finance costs	—	—	(3.4)	1.4
Business exits	8.4	(10.3)	(158.3)	(429.0)
Adjusted	102.9	(77.7)	73.8	(122.8)

Impairment of goodwill

In preparing its half yearly condensed consolidated financial statements at 30 June 2022, and these consolidated financial statements at 31 December 2022, the Group undertook detailed impairment reviews.

At 30 June 2022 a goodwill impairment of £92.5m was recognised in respect of the People and Property CGUs, and at 31 December 2022 a further goodwill impairment of £76.5m was recognised in respect of the People, Travel and Business Solutions CGUs, in the Group's Portfolio division. The impairments reflected the difference between the expected net proceeds at disposal and the cash flows the Group had previously projected it would generate if it held these businesses into perpetuity. The difference has arisen due to the potential for acquirers factoring in additional investment and costs required to run the businesses on a standalone basis, coupled with general macroeconomic conditions.

Refer to note 10 for further details.

Business exits

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

In addition, business exits include the exit costs, including professional fees, salary costs and separation planning costs, relating to further planned disposals for which the held-for-sale and business exit criteria were not met at 31 December 2022.

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

At 31 December 2022 business exits primarily comprised:

Business	Disposal completed on
AMT Sybex	1 January 2022
Secure Solutions and Services	3 January 2022
Trustmarque	31 March 2022
Speciality Insurance	29 April 2022
Real Estate and Infrastructure Consultancy	22 September 2022
Optima Legal Services	30 November 2022
Pay360	1 December 2022
Capita Translation and Interpreting	29 December 2022

Further businesses are planned for disposal as part of the Group's simplification strategy. However, given the status of the relevant disposal processes, the businesses did not meet the criteria to be classified as assets held-for-sale at 31 December 2022 and, accordingly their trading results are included within adjusted results.

Further detail of the specific items charged in arriving at reported operating profit and profit before tax for 2022 is provided in note 5.

Taxation

The income tax credit for the year of £14.6m (2021: charge £61.5m) and the adjusted income tax credit for the year of £31.8m (2021: charge £4.0m) reflects the recognition of additional deferred tax assets of £36.7m (net of a £16.7m change in the deferred tax asset estimate due to the reduction in future taxable profits on disposal of taxable entities, reflected in the tax arising on business exits). These losses mainly arose due to the adoption of IFRS 15, Covid-19 related downward pressures on the profits and tax deductible restructuring costs in previous years.

Free cash flow to free cash flow before business exits

Free cash flow to free cash flow before business exits	2022 £m	2021 £m
Free cash flow	24.5	(264.3)
Business exits	(4.1)	(36.2)
Pension deficit contributions triggered by disposals	8.6	81.9
Free cash flow before business exits	29.0	(218.6)

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

Movements in net debt

Net debt at 31 December 2022 was £482.4m (2021: £879.8m). The substantial reduction in net debt reflects the benefit of the Group's positive free cash flow generation, the proceeds from disposals, coupled with the impact of the ongoing programme of leased property estate exits.

Net debt	2022 £m	2021 £m
Opening net debt	(879.8)	(1,077.1)
Cash movement in net debt	438.2	232.1
Non-cash movements	(40.8)	(34.8)
Closing net debt	(482.4)	(879.8)
Remove closing IFRS 16 impact	397.5	448.4
Net financial debt (pre-IFRS 16)	(84.9)	(431.4)
Cash and cash equivalents net of overdrafts	177.2	101.5
Financial debt net of swaps	(262.1)	(532.9)
Net financial debt /adjusted EBITDA¹ (both pre-IFRS 16)	0.5x	3.7x
Net debt (post-IFRS 16)/adjusted EBITDA¹	2.0x	4.1x

Net financial debt (pre-IFRS 16) reduced by £346.5m to £84.9m at 31 December 2022, resulting in a net financial debt to adjusted EBITDA¹ (both pre-IFRS 16) ratio of 0.5x. Over the medium term, following the completion of our Portfolio divestment programme, we will be targeting a net financial debt to adjusted EBITDA¹ (both pre-IFRS 16) ratio for Capita of ≤1.0x.

The Group was compliant with all debt covenants at 31 December 2022.

Capital and financial risk management

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

Liquidity	2022 £m	2021 £m
Revolving credit facility (RCF)	288.4	385.7
Less: drawing on committed facilities	—	(40.0)
Undrawn committed facilities	288.4	345.7
Net cash, cash equivalents net of overdrafts	177.2	101.5
Less: restricted cash*	(60.4)	(54.8)
Liquidity	405.2	392.4

* Restricted cash includes cash required to be held under FCA regulations and cash held in foreign bank accounts.

In July 2022, the Group signed an extension of the £300m forward start RCF with its lending banks for a further twelve months to August 2024. The new facility commenced on 31 August 2022 upon the expiry of the previous RCF and provides the Group with committed liquidity for the cash fluctuations of the business cycle and an allowance for contingencies, and incorporates provisions such that it will partially reduce in quantum as a consequence of specified transactions. The RCF was not drawn upon at 31 December 2022 and had a total committed value of £288.4m.

In addition, the Group has in place a non-recourse invoice discounting facility, utilisation of which has become economically more favourable than drawing under the RCF as prevailing interest rates have increased. As such, the Group has increased its use of the facility across the year with the value of invoices sold under the facility at 31 December 2022 of £44.4m (2021: £16.4m).

At 31 December 2022, the Group had £177.2m of cash and cash equivalents net of overdrafts, and £285.5m of private placement loan notes and fixed-rate bearer notes. These debt instruments mature over the period to 2027, with repayment of £66.3m of maturities in 2023 which are expected to be funded through the Group's existing facilities, cash and cash equivalents and from the proceeds of the Group's ongoing divestment programme without the need to obtain new financing. As such, a measured approach will be taken to any potential refinancing with time taken to implement a longer-term debt solution at the appropriate moment.

Going concern

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

The Group and Parent Company continue to adopt the going concern basis in preparing these consolidated financial statements as set out in Section 1 to the consolidated financial statements.

Viability assessment

The Board's assessment of viability over the Group's three-year business planning time horizon is summarised in the viability statement.

Pensions

Contributions during the year to the Capita Pension and Life Assurance Scheme (the Scheme) have been in line with the contribution schedule agreed with the Trustee of the Scheme following the 31 March 2020 triennial valuation. This includes the acceleration of deficit reduction contributions (£8.6m) triggered due to the disposal of Capita entities during the year.

The net defined benefit pension position for accounting purposes moved from a small net asset at the start of the year (£5.8m) to a larger net asset by 31 December 2022 (£39.6m). The main reasons for this movement were the £38.6m of deficit funding contributions paid into the Scheme (plus a net £0.2m deficit funding contribution in respect of other schemes). Both the value attributed to the pension liabilities and the value of the assets fell materially over the year predominantly due to the material increase in the yields available on both long-dated Government and corporate bonds. Due to the investment strategy adopted by the Trustee of the Scheme the impact of these changes has been broadly hedged so that the value of the assets has moved to a similar degree to the value of the liabilities. Despite the economic events in Q3 2022 that led the Bank of England to purchase Government bonds, the Scheme's Fiduciary Manager confirmed that the Scheme had sufficient liquid assets to meet collateral calls to maintain its hedged positions throughout the year, as well as confirming that there is sufficient buffer against future adverse movements.

The valuation of the Scheme liabilities (and assumptions used) for funding purposes (the actuarial valuation) are specific to the circumstances of the Scheme. It differs from the valuation and assumptions used for accounting purposes, which are set out in IAS 19 and shown in these financial statements. The main difference is in assumption principles being used based in the different regulatory requirements of the valuations. Management estimates that at 31 December 2022 the net asset of the Scheme on a funding basis (ie the funding assumption principles adopted for the full actuarial valuation at 31 March 2020 updated for market conditions at 31 December 2022) was approximately £40.0m (2021: net asset £40.0m) on a technical provisions basis. The Trustee of the Scheme has also agreed a secondary more prudent funding target to enable it to reduce the reliance the Scheme has on the covenant of the Group. On this basis, at 31 December 2022, the funding level was around 96% (or a net liability of £50m). The deficit of £50m is expected to be met by a mixture of the remaining deficit contributions and asset outperformance.

The next triennial valuation of the Scheme is due as at 31 March 2023, where the Trustee of the Scheme and the Company will review the contributions being paid to the Scheme. The 2023 triennial valuation is expected to be completed in 2024.

Consolidated balance sheet

At 31 December 2022 the consolidated net assets were £352.7m (2021: net assets £296.5m).

The movement is predominantly driven by the gain on the sale of businesses offset by the goodwill impairment recognised during the year, and the increase in the net pension asset referred to above.

Parent company balance sheet

The company's market capitalisation was significantly less than the net assets of the parent company at 31 December 2022 and the Directors gave consideration as to why this might be the case and whether assets on the parent company balance sheet may be impaired. The factors considered included: the differing basis of valuations (point in time nature of the market capitalisation and that third parties value the services sector on income statement multiples versus long-term view using a discounted cash flow for the basis of impairment testing under accounting standards), sum-of-the parts view and the multiples achieved on recent disposals, and that the sector may be trading at or below book value with the market making a general assessment of the sector and all companies within the sector which can ignore the liquidity profile and specific risks of an entity. Management's estimate of the value in use of the Group used in the testing of goodwill and intangibles for impairment at 31 December 2022 gave a value for the Group that exceeded the market capitalisation at that date, and supported the parent company net assets. An impairment test was performed at 31 December 2022 in respect of the parent company's investments in subsidiaries and amounts owed by subsidiary undertakings. A £7.0m impairment was identified in respect of the parent company's investments in subsidiaries, and an impairment of £30.1m was recognised in respect of amounts owed by subsidiaries.

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

Viability statement

In accordance with provision 31 of the UK Corporate Governance Code 2018, the Board has assessed the viability of the Group and Parent Company over the three-year period to 31 December 2025, aligned with the period of the Group's bottom-up business planning process. The Board believes that a three-year period provides sufficient clarity to consider the Group and Parent Company's prospects and facilitates the development of a robust base case set of financial projections against which severe but plausible downside scenario stress testing can be conducted.

The completion of the Group's multi-year transformation programme during 2021 created the platform for sustainable improving financial performance which underpins the viability of the Group and Parent Company. The Board particularly notes the following:

- The simplification and strengthening of the Group's organisation design establishing two core divisions focused on public and private sector markets providing a platform for continued revenue growth and delivery of efficiency savings.
- Adjusted revenue growth in 2022 of 2.4%.
- A significant reduction in the Group's cost base, with cumulative savings during the transformation programme of £428m.
- The ongoing successful execution of the non-core business disposal programme which has realised net cash proceeds totalling c.£1.3bn since 1 January 2018, used to repay maturing debt, to make further deficit reduction contributions to the Group's main defined benefit pension scheme and to invest in driving growth in the remaining core businesses.
- The repayment of £1.7bn of debt, including lease liabilities, since 1 January 2018.
- The extension during 2022 of the Group's revolving credit facility (RCF) to 31 August 2024 and in February 2023, the Group entering into a committed bridge facility of £50m with three of its relationship banks providing additional liquidity from 1 January 2024.
- The payment of c.£350m of deficit reduction contributions to the Group's main defined benefit pension scheme since 1 January 2018, and the commitment to a further c.£70m of deficit reduction contributions across 2023-2024, which should enable the scheme to reduce its reliance on the covenant of the Group.

The foregoing elements provide the backdrop to the three-year business plan approved by the Board in January 2023 and are key factors in the Directors' viability assessment. The main assumptions underpinning the base case financial projections in the Group's business plan are set out below:

- Further adjusted revenue growth broadly in line with market trends in each of the two core divisions.
- Operating profit margin expansion over the business plan period reflecting the benefit of operating leverage coupled with ongoing efficiency delivery.
- Completion of the portfolio disposal programme during 2023.
- The refinancing of the Group's RCF prior to its maturity in August 2024.

The most material assumptions from a viability assessment perspective, relate to the continuation of adjusted revenue growth, operating profit margin expansion, and the refinancing of the RCF. Capita has been successful in obtaining new and extended financing facilities over the last few years. As such, in concluding on viability the Board believes that it is reasonable to assume that the Group will be successful in refinancing the RCF in line with the assumptions underpinning the base case financial projections.

The three-year base case financial projections were used to assess covenant compliance and liquidity headroom under different scenarios. This analysis included assessing the sensitivity of the financial performance of the Group to changes in trading conditions in line with those considered in the severe but plausible downside case for the going concern assessment and from the crystallisation of specific risks including those set out in the principal risks section of the 2022 Annual Report and Accounts (refer to section 1 of the consolidated financial statements).

The risks applied have not been probability weighted but rather consider the impact should each risk materialise by applying a 'more likely than not' test. These wide-ranging risks are unlikely to crystallise simultaneously and there are mitigations under the direct control of the Group, including reductions in capital investment, substantially reducing and (or removing in full) bonus and incentive payments and significantly reducing discretionary spend, that can be actioned to address a combination of risk crystallisations that may occur under a severe but plausible downside. These have been considered in the Board's viability assessment.

Based on this assessment and reflecting the Board's confidence in the platform for improving financial performance resulting from completion of the transformation plan, and the Group's ability to refinance, the Board has a reasonable expectation that the Group and Parent Company will be able to continue in operation and meet their liabilities as they fall due over the period of the viability assessment.

Forward looking statements

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

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

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

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

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

Consolidated income statement

For the year ended 31 December 2022

	Notes	2022 £m	2021 £m
Continuing operations:			
Revenue	4	3,014.6	3,182.5
Cost of sales		(2,298.6)	(2,506.7)
Gross profit		716.0	675.8
Administrative expenses		(795.6)	(762.4)
Operating loss	4	(79.6)	(86.6)
Share of results in associates and investment gains		5.8	(0.6)
Net finance expense	6	(31.7)	(46.9)
Gain on business disposal	8	166.9	419.7
Profit before tax		61.4	285.6
Income tax credit/(charge)		14.6	(61.5)
Profit for the year from continuing operations		76.0	224.1
Discontinued operations:			
Profit for the year		—	3.1
Total profit for the year		76.0	227.2
Attributable to:			
Owners of the Company		74.8	224.7
Non-controlling interests		1.2	2.5
		76.0	227.2
Earnings per share			
	7		
Continuing: — basic		4.47p	13.33p
— diluted		4.40p	13.15p
Total operations: — basic		4.47p	13.52p
— diluted		4.40p	13.33p

Adjusted operating profit/(loss) ¹	5	102.9	(77.7)
Adjusted profit/(loss) before tax ¹	5	73.8	(122.8)
Adjusted earnings/(loss) per share ¹	7	6.20p	(7.74)p
Adjusted and diluted earnings/(loss) per share ¹	7	6.09p	(7.74)p

1. From 1 January 2022, the Board has limited the items excluded from the adjusted results to: business exits, amortisation and impairment of acquired intangibles, impairment of goodwill and certain mark-to-market valuation changes that impact net finance expense/income. Please refer to note 5 for further details.

Consolidated statement of comprehensive income

For the year ended 31 December 2022

	2022 £m	2021 £m
Total profit for the year	76.0	227.2
Other comprehensive expense		
Items that will not be reclassified subsequently to the income statement		
Actuarial (loss)/gain on defined benefit pension schemes	(8.9)	109.4
Tax effect on defined benefit pension schemes	2.0	(18.1)
Gain on fair value of investments	0.2	0.1
Items that will or may be reclassified subsequently to the income statement		
Exchange differences on translation of foreign operations	(0.6)	3.0
Exchange differences realised on business disposals	0.3	(2.8)
Gain on cash flow hedges	11.5	1.3
Cash flow hedges recycled to the income statement	(5.1)	0.6
Tax effect on cash flow hedges	(1.6)	2.2
Other comprehensive (expense)/ income for the year net of tax	(2.2)	95.7
Total comprehensive income for the year net of tax	73.8	322.9
Attributable to:		
Owners of the Company	72.6	320.5
Non-controlling interests	1.2	2.4
	73.8	322.9

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

Consolidated balance sheet

At 31 December 2022

	Notes	2022 €m	2021 €m
Non-current assets			
Property, plant and equipment		101.1	129.0
Intangible assets		106.0	147.3
Goodwill	10	605.9	951.7
Right-of-use assets		249.5	287.9
Investments in associates and joint ventures		0.2	0.7
Contract fulfilment assets		263.0	286.7
Financial assets		118.2	107.2
Deferred tax assets		189.5	176.0
Employee benefits		42.7	13.3
Trade and other receivables		15.8	15.7
		1,691.9	2,115.5
Current assets			
Financial assets		23.6	17.5
Disposal group assets held-for-sale	8	—	138.8
Trade and other receivables		430.4	547.1
Cash		396.8	317.6
Income tax receivable		9.9	5.9
		860.7	1,026.9
		2,552.6	3,142.4
Total assets			
Current liabilities			
Trade and other payables		492.5	542.2
Deferred income		585.1	669.8
Overdrafts		219.6	231.9
Lease liabilities		55.6	61.6
Disposal group liabilities held-for-sale	8	—	81.1
Finance liabilities		84.6	286.3
Provisions	11	75.7	126.6
		1,513.1	1,999.5
Non-current liabilities			
Trade and other payables		15.1	15.4
Deferred income		55.6	124.9
Lease liabilities		341.9	386.8
Financial liabilities		212.6	291.9
Deferred tax liabilities		6.9	5.9
Provisions	11	51.6	14.0
Employee benefits		3.1	7.5
		686.8	846.4
		2,199.9	2,845.9
Total liabilities			
Net assets			
		352.7	296.5
Capital and reserves			
Share capital		34.8	34.8
Share premium		1,145.5	1,145.5
Employee benefit trust and treasury shares		(4.2)	(8.0)
Capital redemption reserve		1.8	1.8
Other reserves		(4.5)	(9.0)
Retained deficit		(843.2)	(890.6)
		330.2	274.5
Equity attributable to owners of the Company			
Non-controlling interests		22.5	22.0
		352.7	296.5
Total equity			

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

Consolidated statement of changes in equity

For the year ended 31 December 2022

	Share capital £m	Share premium £m	Employee benefit trust and treasury shares £m	Capital redemption reserve £m	Retained deficit £m	Other reserves £m	Total attributable to the owners of the parent £m	Non-controlling interests £m	Total (deficit)/equity £m
At 31 December 2020	34.5	1,143.3	(11.2)	1.8	(1,289.5)	(13.4)	(134.5)	53.4	(81.1)
Profit for the year	—	—	—	—	224.7	—	224.7	2.5	227.2
Other comprehensive income/(expense)	—	—	—	—	91.4	4.4	95.8	(0.1)	95.7
Total comprehensive income for the year	—	—	—	—	316.1	4.4	320.5	2.4	322.9
Share-based payment net of tax effects	—	—	—	—	1.6	—	1.6	—	1.6
Reclassification	—	—	—	—	(6.4)	—	(6.4)	6.4	—
Elimination of non-controlling interest on disposal (note 8)	—	—	—	—	—	—	—	(3.4)	(3.4)
Exercise of share options under employee long term incentive plans	—	—	3.5	—	(3.5)	—	—	—	—
Shares issued	0.3	—	(0.3)	—	—	—	—	—	—
VAT refund on rights issue issuance costs	—	2.2	—	—	—	—	2.2	—	2.2
Dividends paid ²	—	—	—	—	—	—	—	(36.8)	(36.8)
Movement in put-options held by non-controlling interests ³	—	—	—	—	91.1	—	91.1	—	91.1
At 31 December 2021	34.8	1,145.5	(8.0)	1.8	(890.6)	(9.0)	274.5	22.0	296.5
Impact of change in accounting standards – amendments to IAS 37 ¹	—	—	—	—	(21.7)	—	(21.7)	—	(21.7)
At 1 January 2022 on adoption of IAS 37	34.8	1,145.5	(8.0)	1.8	(912.3)	(9.0)	252.8	22.0	274.8
Profit for the year	—	—	—	—	74.8	—	74.8	1.2	76.0
Other comprehensive income/(expense)	—	—	—	—	(6.7)	4.5	(2.2)	—	(2.2)
Total comprehensive income for the year	—	—	—	—	68.1	4.5	72.6	1.2	73.8
Share-based payment net of tax effects	—	—	—	—	5.4	—	5.4	—	5.4
Elimination of non-controlling interest at disposal	—	—	—	—	—	—	—	(0.3)	(0.3)
Exercise of share options under employee long term incentive plans	—	—	3.8	—	(3.8)	—	—	—	—
Dividends paid	—	—	—	—	—	—	—	(0.4)	(0.4)
Movement in put-options held by non-controlling interests	—	—	—	—	(0.6)	—	(0.6)	—	(0.6)
At 31 December 2022	34.8	1,145.5	(4.2)	1.8	(843.2)	(4.5)	330.2	22.5	352.7

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

2. The dividends paid to non-controlling interests in 2021 included amounts from AXELOS Limited (£36.6m) who paid £10.7m in cash with the remainder settled by the purchaser when AXELOS Limited was sold. No dividends were declared, paid or proposed in 2022 or 2021 on the Parent Company's ordinary shares.

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

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

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

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

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

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

Other reserves – This consists of the foreign currency translation reserve deficit of £8.6m (2021: £8.3m deficit) and the cash flow hedging reserve surplus of £4.1m (2021: £0.7m deficit).

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

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

Consolidated cash flow statement

For the year ended 31 December 2022

	Notes	2022 £m	Restated ¹ 2021 £m
Cash generated from/(used by) operations		117.8	(148.5)
Income tax paid		(7.9)	(17.7)
Net interest paid		(38.0)	(40.1)
Net cash inflow/(outflow) from operating activities		71.9	(206.3)
Cash flows from investing activities			
Purchase of property, plant and equipment		(20.6)	(25.6)
Purchase of intangible assets		(27.3)	(32.5)
Proceeds from sale of property, plant and equipment and intangible assets		0.5	0.1
Additions to investments held at fair value through profit and loss		(2.4)	(0.1)
Capital repayment from investments at fair value through other comprehensive income		0.2	0.3
Subsidiary partnership payment		—	(4.7)
Capital element of lease rental receipts		5.8	0.5
Total proceeds received from disposals net of disposal costs	8	463.4	510.3
Cash held by subsidiaries when sold	8	(75.5)	(25.9)
Net cash inflow from investing activities		344.1	422.4
Cash flows from financing activities			
Dividends paid to non-controlling interests		(0.4)	(10.8)
Capital element of lease rental payments		(61.8)	(82.6)
Proceeds from issue of share capital (net of issuance costs)		—	2.2
Repayment of private placement loan notes and other debt		(237.4)	(232.3)
(Repayment of)/proceeds from credit facilities		(46.0)	46.0
Proceeds from cross-currency interest rate swaps		10.1	19.7
Debt financing arrangement costs		(5.2)	(1.9)
Net cash outflow from financing activities		(340.7)	(259.7)
Increase/(decrease) in cash and cash equivalents		75.3	(43.6)
Cash and cash equivalents at the beginning of the period		101.5	141.1
Effect of exchange rates on cash and cash equivalents		0.4	4.0
Cash and cash equivalents at 31 December		177.2	101.5
Cash and cash equivalents comprise:			
Cash		396.8	317.6
Overdrafts		(219.6)	(231.9)
Cash, net of overdrafts, included in disposal group assets and liabilities held-for-sale		—	15.8
Total		177.2	101.5
Cash generated from/(used by) operations before business exits	9	116.5	(109.7)
Free cash flow before business exits	9	29.0	(218.6)

1. The 2021 cash flow has been restated to include £27.2m of cash, received from the purchasers of subsidiaries when sold to settle inter-company balances, within investing activities, which were previously included within operating activities. This results in an increase in net cash flow from investing activities by £27.2m and decrease in net cash flows from operating activities, cash generated from operations, and free cash flow by the same amount. There is no impact on the reported net movement in cash and cash equivalents.

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

Notes to the consolidated financial statements

For the year ended 31 December 2022

1.1 Corporate information

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

These consolidated financial statements of Capita plc for the year ended 31 December 2022 were authorised for issue in accordance with a resolution of the directors on 2 March 2023.

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

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with UK-adopted International Financial Reporting Standards (IFRSs) and the Disclosure and Transparency Rules of the UK's Financial Conduct Authority.

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

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

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

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

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

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

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

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

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

(b) Adjusted results

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

The Board has adopted a policy to disclose separately 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 internally. In the Board's judgement, these need to be disclosed separately by virtue of their nature, size and/or incidence, for users of the consolidated financial statements to obtain an understanding of the financial information and the underlying in-year performance of the Group. Accordingly, these items are also excluded from the discussion of divisional performance. This policy is kept under review by the Board and the Audit and Risk Committee and is discussed in the committee's report. The Board considers alternative performance measures (APMs) to be helpful to the reader, but notes that APMs have certain limitations, including the exclusion of significant recurring items, and may not be directly comparable with similarly titled measures presented by other companies.

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

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

1.2 Basis of preparation judgements and estimates, and going concern continued

(b) Adjusted results continued

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

The comparatives have been re-presented.

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

A reconciliation between reported and adjusted operating profit and profit before tax is provided in note 5, and a reconciliation between reported and free cash flow before business exits and cash generated from operations is provided in note 9.

(c) Judgements and estimates

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

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

The impact of climate change has been considered in the preparation of these financial statements across a number of areas, including our evaluation of the critical accounting estimates and judgements which are detailed below, consistent with the risks and opportunities set out in the strategic report in the Annual Report. None of these risks had a material effect on the critical accounting estimates or on the consolidated financial statements of the Group. The Group will continue developing its assessment of the impact that climate change may have on the assets and liabilities recognised and presented in its financial statements.

(d) Going concern

In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2022, the Board is required to consider whether the Group and Parent Company can continue in operational existence for the foreseeable future. The Board has concluded that it is appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts, key uncertainties, sensitivities, and mitigations as set out below.

Accounting standards require that 'the foreseeable future' for going concern assessment covers a period of at least twelve months from the date of approval of these financial statements, although those standards do not specify how far beyond twelve months a Board should consider. In its going concern assessment, the Board has considered the period from the date of approval of these financial statements to 31 August 2024 ('the going concern period') and which aligns with the expiry of the revolving credit facility (RCF).

The base case financial forecasts used in the going concern assessment are derived from the 2023-2024 business plans as approved by the Board in January 2023.

The going concern assessment considers the Group's sources and uses of liquidity and covenant compliance throughout the period under review. The value of the Group's committed RCF was £288.4m at 31 December 2022 and it expires on 31 August 2024. In February 2023, the Group executed a committed bridge facility of £50m with three of its relationship banks providing additional liquidity from 1 January 2024. The committed bridge facility has an expiry date of 31 December 2024 and is subject to covenants, which are the same as those in the RCF. Both the RCF and the £50m bridge facility incorporate provisions such that they will partially reduce in quantum as a consequence of specified transactions, including disposals, equity raises or other refinancing.

Given the track record of the Group extending the RCF in prior years, including in 2022, and the committed bridge facility executed in February 2023, the Board is confident that the RCF will be extended or refinanced and be of a sufficient quantum well ahead of its expiry in August 2024.

Financial position at 31 December 2022

As detailed further in the Chief Financial Officer's review, as at 31 December 2022 the Group had net debt of £482.4m (2021: £879.8m), net financial debt (pre-IFRS 16) of £84.9m (2021: £431.4m), liquidity of £405.2m (2021: £392.4m) and was in compliance with all debt covenants.

Board assessment

Base case scenario

Under the base case scenario, completion of the Group's transformation programme has simplified and strengthened the business and facilitates further efficiency savings enabling sustainable growth in revenue, profit and cash flow over the medium term. This enables the generation of positive free cash flows, and, when combined with the proceeds from the Board approved disposal programme and available committed facilities allows the Group to manage scheduled debt repayments. The most material sensitivity to the base case is the risk of not delivering the planned revenue growth.

As previously announced, the Board's plan is to establish an optimal capital structure to support the execution of the Group's strategy and to dispose of businesses that do not align with that strategy. The completion of the disposal programme requires agreement from third parties, and major disposals may be subject to shareholder and lender approval. Such agreements and approvals, are outside the direct control of the Company and as such, the inclusion of the effect of any potential future disposals in the Group's projections is inappropriate for going concern assessment purposes in accordance with IAS 1 Presentation of Financial Statements.

The base case projections used for going concern assessment purposes reflect business disposals completed up to the date of approval of these financial statements but do not reflect the benefit of any further disposals that are in the pipeline. The liquidity headroom assessment in the base case projections reflects the Group's existing committed financing facilities and debt redemptions and does not reflect any potential future refinancing, other than in respect of the current RCF as noted above.

The base case financial forecasts demonstrate liquidity headroom and compliance with all debt covenant measures throughout the going concern period to 31 August 2024.

1.2 Basis of preparation judgements and estimates, and going concern continued

(d) Going concern continued

Severe but plausible downside scenario

In considering severe but plausible downside scenarios, the Board has taken account of the potential adverse financial impacts resulting from the following risks:

- revenue growth falling materially short of plan;
- operating profit margin expansion not being achieved;
- additional inflationary cost impacts which cannot be passed on to customers;
- unforeseen operational issues leading to contract losses and cash outflows;
- increased interest rates;
- reduction in deferred cash consideration in respect of completed disposals;
- non-availability of the Group's non-recourse receivables financing facility; and
- unexpected financial costs and penalties linked to incidents such as data breaches and/or cyber-attacks.

The likelihood of simultaneous crystallisation of the above risks is considered by the directors to be relatively low. Nevertheless in the event that simultaneous crystallisation were to occur, the Group would need to take action to mitigate the risk of insufficient liquidity and covenant headroom. In its assessment of going concern, the Board has considered the mitigations, under the direct control of the Group, that could be implemented including reductions in capital investment, substantially reducing (or removing in full) bonus and incentive payments and significantly reducing discretionary spend. Taking these mitigations into account, the Group's financial forecasts, in a severe but plausible downside scenario, demonstrate sufficient liquidity headroom and compliance with all debt covenant measures throughout the going concern period to 31 August 2024.

Adoption of going concern basis

Reflecting the Board's confidence in the benefits expected from the completion of the transformation programme and ability to obtain further RCF financing beyond its existing committed funding facilities coupled with its ability to implement appropriate mitigations should the severe but plausible downside materialise, the Group continues to adopt the going concern basis in preparing these financial statements. The Board has concluded that the Group and Parent Company will be able to continue in operation and meet their liabilities as they fall due over the period to 31 August 2024.

2 Preliminary announcement

A duly appointed and authorised committee of the Board of Directors approved the preliminary announcement on 2 March 2023.

The financial information set out above does not constitute the Group's consolidated financial statements for the years ended 31 December 2022 or 2021 but is derived from those accounts.

Statutory accounts for 2021 have been delivered to the Registrar of Companies and those for 2022 will be delivered in due course. The auditor has reported on those accounts.

Their report for the accounts of 2022 was (i) unqualified, (ii) did not include a reference of any matters to which the auditor drew attention by way of emphasis without modifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Their report for the accounts of 2021 was (i) unqualified, (ii) contained a material uncertainty in respect of going concern to which the auditor drew attention by way of emphasis without modifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

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

It is intended that the Annual Report and Accounts will be posted to shareholders late March 2023. It will be available to members of the public at the registered office and on the Company's Corporate website <https://www.capita.com/investors> from that date.

3 Contract accounting

At 31 December 2022, the Group had the following results and balance sheet items related to long-term contracts:

	Notes	2022 £m	2021 £m
Long-term contractual revenue ¹	4	2,236.2	2,325.2
Non-current and current deferred income		640.7	794.7
Non-current contract fulfilment assets		263.0	286.7
Non-current and current onerous contract provision		52.8	45.8

1. The 2021 comparative has been re-presented to reflect the recategorisation of certain contracts between contract types (long-term contractual, short-term contractual and transactional (point-in-time)) following a review in 2022.

Background

The Group operates diverse businesses. The majority of the Group's revenue is from contracts greater than two years in duration (long-term contractual), representing 74% of Group revenue in 2022 (2021: 73%).

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

The Group recognises revenue on long-term contracts as the value is delivered to the customer, which is generally evenly over the contract term, regardless of any restructuring and transformation activity. Capita will often incur greater costs during the transformation phase with costs diminishing 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 (BAU) phase). The inflection point is when the contract becomes profitable.

3 Contract accounting continued

Contract fulfilment assets are recognised for those costs qualifying for capitalisation. The utilisation of these assets is recognised over the contract term. The timing of cash receipts from customers typically matches 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; impact of inflation; future performance against any contract-specific key performance indicators (KPIs) that could trigger variable consideration or service credits; and the outcome of any commercial negotiations.

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

- the ability to accurately estimate the costs to deliver the transformed process;
- the dependency on the customer to agree to the specifics of the transformation: for example, where they are involved in certifying 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 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. For half and full year reporting, the Audit and Risk Committee specifically reviews the material judgements and estimates, and the overall approach in respect of the Group's major contracts, including comparison against previous forecasts. Major contracts include those that are material in size or risk to the Group's results. An assessment of which contracts are major contracts is performed twice a year, and to enable comparability the prior period balances below are re-presented to reflect the same scope as the current period. 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 £1.4 billion (2021: £1.3 billion) or 49% (2021: 47%) of Group adjusted revenue. Non-current contract fulfilment assets at 31 December 2022 were £263.0m, of which £106.3m (2021: £118.6m) relates to major contracts with ongoing transformational activities. The remainder relates to contracts post transformation and includes non-major contracts.

The major contracts, both pre- and post-transformation, are rated according to their financial risk profile, which is linked to the level of uncertainty over future assumptions. For those that are in the high and medium rated risk categories the associated non-current contract fulfilment assets were, in aggregate, £40.4m at 31 December 2022 (2021: £41.9m). The recoverability of these assets is dependent on no significant adverse change in the key contract assumptions arising during the next financial year. The balance of deferred income associated with these contracts was £116.5m at 31 December 2022 (2021: £126.6m) and is forecast to be recognised as performance obligations continue to be delivered over the life of the respective contracts. Onerous contract provisions associated with these contracts were £42.5m at 31 December 2022 (2021: £39.5m).

Following these reviews, and reviews of smaller contracts across the business, contract fulfilment asset impairments of £3.8m (2021: £7.3m) were identified and recognised within cost of sales, of which £0.5m (2021: £nil) relates to contract fulfilment assets added during the period, and net onerous contract provisions of £1.7m (2021: £32.0m) were identified and recognised in cost of sales. As discussed in note 1, the adoption of the amendment to IAS 37 resulted in additional onerous contract provisions being required, as well as contract asset impairments. On adoption of the amended standard the cumulative effect was recognised as an opening balance adjustment to retained earnings.

Given the quantum of the relevant contract assets and liabilities, and the nature of the estimates noted above, management has concluded that it is reasonably possible, that outcomes within the next financial year may be different from management's current assumptions and could require a material adjustment to the carrying amounts of contract assets and onerous contract provisions. However, as noted above, £106.3m of non-current contract fulfilment assets relates to major contracts with ongoing transformational activities; and, £40.4m of non-current contract fulfilment assets and £42.5m of onerous contract provisions relate to the highest and medium rated risk category. Due to the level of uncertainty, combination of variables and timing across numerous contracts, it is not practical to provide a quantitative analysis of the aggregated judgements that are applied, and management do not believe that disclosing a potential range of outcomes on a consolidated basis would provide meaningful information to a user of the financial statements. Due to commercial sensitivities, the Group does not specifically disclose the amounts involved in any individual contract.

Certain major transformation contracts have key milestones during the next twelve months and an inability to meet these key milestones could lead to reduced profitability and a risk of impairment of the associated contract assets. These contracts include Royal Navy training and TfL Road User Charging.

Additional information on the results and performance of the underlying divisions including the outlook on certain contracts is set out in the divisional performance review.

4 Revenue and segmental information

The Group's operations are managed separately according to the nature of the services provided, with each segment representing a strategic business division offering a different package of client outcomes across the markets the Group serves. Capita plc is a reconciling item and not an operating segment. A description of the service provision for each segment can be found in the strategic report in the Annual Report.

The tables below present revenue for the Group's business segments as reported to the Chief Operating Decision Maker. The Group comprises two core trading divisions - Capita Public Service and Capita Experience - and a third division - Capita Portfolio - which comprises non-core businesses that the Group intends to exit in due course. Comparative information has been re-presented to reflect businesses exited during 2022.

Adjusted revenue, excluding results from businesses exited in both years (adjusting items), was £2,845.8m (2021: £2,777.8m), an increase of 2.4% (2021: increase 0.1%).

Year ended 31 December 2022	Notes	Capita Public Service £m	Capita Experience £m	Capita Portfolio £m	Capita plc £m	Total adjusted £m	Adjusting items £m	Total reported £m
Continuing operations								
		1,157.3	986.2	33.1	—	2,176.6	59.6	2,236.2
		236.7	150.0	37.7	—	424.4	70.4	494.8
		51.3	14.5	179.0	—	244.8	38.8	283.6
		1,445.3	1,150.7	249.8	—	2,845.8	168.8	3,014.6
		1,487.5	1,190.9	334.2	—	3,012.6	—	3,012.6
		(42.2)	(40.2)	(84.4)	—	(166.8)	—	(166.8)
		1,445.3	1,150.7	249.8	—	2,845.8	—	2,845.8
	8	—	33.3	135.5	—	—	168.8	168.8
		1,445.3	1,184.0	385.3	—	2,845.8	168.8	3,014.6

Year ended
31 December 2021 (Re-presented)¹

Continuing operations								
		1,115.3	982.2	38.5	—	2,136.0	189.2	2,325.2
		211.1	152.7	42.9	—	406.7	127.7	534.4
		84.0	6.0	145.1	—	235.1	87.8	322.9
		1,410.4	1,140.9	226.5	—	2,777.8	404.7	3,182.5
		1,443.5	1,226.9	265.4	—	2,935.8	—	2,935.8
		(33.1)	(86.0)	(38.9)	—	(158.0)	—	(158.0)
		1,410.4	1,140.9	226.5	—	2,777.8	—	2,777.8
	8	—	43.9	360.8	—	—	404.7	404.7
		1,410.4	1,184.8	587.3	—	2,777.8	404.7	3,182.5

1. The 2021 comparative figures have been re-presented to reflect the recategorisation of certain contracts between contract types (long-term contractual, short-term contractual and transactional (point-in-time)) following a review in 2022.

Geographical location

The table below presents revenue by geographical location.

	2022			2021		
	United Kingdom £m	Other £m	Total £m	United Kingdom £m	Other £m	Total £m
Revenue	2,718.6	296.0	3,014.6	2,882.4	300.1	3,182.5

4 Revenue and segmental information continued

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. Revenue expected to be recognised upon satisfaction of these performance obligations is as follows:

Order book 31 December 2022	Capita Public Service £m	Capita Experience £m	Capita Portfolio £m	Capita plc £m	Total £m
Long-term contractual	2,916.7	2,465.3	201.9	—	5,583.9
Short-term contractual	68.3	61.4	91.6	—	221.3
Total	2,985.0	2,526.7	293.5	—	5,805.2

Order book 31 December 2021	Capita Public Service £m	Capita Experience £m	Capita Portfolio £m	Capita plc £m	Total £m
Long-term contractual	3,172.8	2,170.0	417.1	—	5,759.9
Short-term contractual	113.5	101.8	140.2	—	355.5
Total	3,286.3	2,271.8	557.3	—	6,115.4

The table below shows the expected timing of revenue to be recognised on long-term contractual orders at 31 December 2022.

Time bands of expected revenue recognition from long-term contractual orders	Capita Public Service £m	Capita Experience £m	Capita Portfolio £m	Capita plc £m	Total £m
< 1 year	843.3	708.3	25.2	—	1,576.8
1–5 years	1,417.0	1,489.8	62.6	—	2,969.4
> 5 years	656.4	267.2	114.1	—	1,037.7
Total	2,916.7	2,465.3	201.9	—	5,583.9

Prior year comparative information is not presented for the expected timing of revenue recognition because it is a forward looking disclosure and therefore management does not believe that such disclosure provides meaningful information to a user of the consolidated financial statements.

The order book represents the consideration that the Group will be entitled to receive from customers when the Group satisfies its remaining performance obligations under the contracts. However, the total revenue that will be earned by the Group will also include non-contracted volumetric revenue, future indexation linked to an external metric, new wins, scope changes, and anticipated contract extensions. These elements have been excluded from the above tables because they are not contracted. Additionally, revenue from contract extensions is excluded from the order book unless they are pre-priced extensions whereby the Group has a legally binding obligation to deliver the performance obligations during the extension period. The total revenue related to pre-priced extensions included in the tables above amounted to £577.0m (2021: £668.0m). The amounts presented do not include orders for which neither party has performed, and each party has the unilateral right to terminate a wholly unperformed contract without compensating the other party.

Of the £5.6 billion (2021: £5.8 billion) revenue to be earned on long-term contracts, £4.2 billion (2021: £4.3 billion) relates to major contracts. This amount excludes revenue that will be derived from frameworks (transactional 'point-in-time' contracts), non-contracted volumetric revenue, non-contracted scope changes and future unforeseen volume changes from these major contracts, which together are anticipated to contribute an additional £0.7 billion (2021: £2.3 billion) of revenue to the Group over the life of these contracts.

The Group performs various services for a number of UK Government ministerial departments and considers these individual ministerial departments to be separate customers due to the limited economic integration between each ministerial department. 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 £831.4m (2021: £941.1m).

Movements in the deferred income balances were driven by transactions entered into by the Group within the normal course of business during the year (2021 other than the accelerated revenue recognised of £23.1m on early termination of contracts in Capita Experience and agreed reduction in scope on a contract in Capita Public Service).

4 Revenue and segmental information continued

Segmental profit

The table below presents profit by segment.

Year ended 31 December 2022	Notes	Capita Public Service £m	Capita Experience £m	Capita Portfolio £m	Capita plc £m	Total adjusted £m	Adjusting items £m	Total reported £m
Adjusted operating profit	5	91.5	38.5	16.2	(43.3)	102.9	—	102.9
Business exits – trading	8	—	4.3	10.4	—	—	14.7	14.7
Total trading result		91.5	42.8	26.6	(43.3)	102.9	14.7	117.6
Non-trading items:								
Business exits – non-trading	8					—	(23.1)	(23.1)
Other adjusting items	5					—	(174.1)	(174.1)
Operating profit/(loss)						102.9	(182.5)	(79.6)
Interest income								8.9
Interest expense								(40.6)
Share of results in associates and investment gains								5.8
Gain on business disposal								166.9
Profit before tax								61.4
Supplementary Information								
Depreciation and amortisation		38.5	67.2	19.4	3.3	128.4	10.0	138.4
Impairment of property, plant and equipment, intangible assets and right-of-use assets		—	7.7	—	(0.2)	7.5	0.4	7.9
Contract fulfilment assets utilisation, impairment and derecognition		67.2	16.3	0.8	—	84.3	1.4	85.7
Onerous contract provisions		—	1.7	—	—	1.7	—	1.7
Year ended 31 December 2021	Notes	Capita Public Service £m	Capita Experience £m	Capita Portfolio £m	Capita plc £m	Total adjusted £m	Adjusting items £m	Total reported £m
Re-presented ¹								
Adjusted operating profit	5	93.2	8.9	(0.1)	(179.7)	(77.7)	—	(77.7)
Business exits – trading	8	—	6.9	72.4	—	—	79.3	79.3
Total trading result		93.2	15.8	72.3	(179.7)	(77.7)	79.3	1.6
Non-trading items:								
Business exits – non-trading	8					—	(69.0)	(69.0)
Other adjusting items	5					—	(19.2)	(19.2)
Operating loss						(77.7)	(8.9)	(86.6)
Interest income								4.7
Interest expense								(51.6)
Share of results in associates and investment gains								(0.6)
Gain on business disposal								419.7
Profit before tax								285.6
Supplementary Information								
Depreciation and amortisation		42.2	78.8	21.8	6.6	149.4	25.1	174.5
Impairment of property, plant and equipment, intangible assets and right-of-use assets		3.3	5.5	2.6	59.9	71.3	2.6	73.9
Contract fulfilment assets utilisation, impairment and derecognition		64.5	21.8	2.0	—	88.3	19.5	107.8
Onerous contract provisions		—	32.0	—	—	32.0	—	32.0

1. 2021 adjusted results have been re-presented - please refer to note 5 for further details.

4 Revenue and segmental information continued

Geographical location

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

	2022			2021		
	United Kingdom £m	Other £m	Total £m	United Kingdom £m	Other £m	Total £m
Non-current assets	1,320.9	20.6	1,341.5	1,791.3	27.7	1,819.0

5 Adjusted operating profit and adjusted profit before tax

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 disclose separately 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 internally. In the Board's judgement, these need to be disclosed separately by virtue of their nature, size and/or incidence, for users of the consolidated financial statements to obtain an understanding of the financial information and the underlying in-year performance of the Group. Accordingly, these items are also excluded from the discussion of divisional performance. This policy is kept under review by the Board and the Audit and Risk Committee and is discussed in the committee's report. The Board considers alternative performance measures (APMs) to be helpful to the reader, but notes that APMs have certain limitations, including the exclusion of significant recurring items, and may not be directly comparable with similarly titled measures presented by other companies.

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

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

The comparatives have been re-presented on the same basis, with significant restructuring (£147.5m), certain litigation and claims (credit £2.3m) and contract related provisions and impairments (£43.1m) now included within adjusted results for the year ended 31 December 2021.

The items below are excluded from the adjusted results:

Notes	Operating profit/ (loss)		Profit/(loss) before tax	
	2022 £m	2021 £m (Re-presented ⁴)	2022 £m	2021 £m (Re-presented ⁴)
Reported	(79.6)	(86.6)	61.4	285.6
Amortisation and impairment of acquired intangibles	5.1	7.7	5.1	7.7
Impairment of goodwill	169.0	11.5	169.0	11.5
Net finance (income)/costs	6	—	(3.4)	1.4
Business exits	8	(10.3)	(158.3)	(429.0)
Adjusted	102.9	(77.7)	73.8	(122.8)

1. Adjusted operating profit increased by 232.4% (2021: increased 26.6%) and adjusted profit before tax increased by 160.1% (2021: increased 15.1%). Adjusted operating profit of £102.9m (2021: loss £77.7m) was generated on adjusted revenue of £2,845.8m (2021: £2,777.8m) resulting in an adjusted operating margin of 3.6% (2021: (2.8)%).

2. The tax credit on adjusted profit before tax is £31.8m (2021: £4.0m charge) resulting in adjusted profit after tax of £105.6m (2021: £126.8m loss).

3. The adjusted operating loss and adjusted loss before tax for 2021 have been re-presented for the impact of business exits during 2022 and the change in adjusting items. This has resulted in adjusted operating profit decreasing from £139.1m to a loss of £77.7m and adjusted profit before tax decreasing from £93.5m to a loss of £122.8m.

4. 2021 adjusted results have been re-presented - please refer to further detail above.

Amortisation and impairment of acquired intangible assets: the Group recognised acquired intangible amortisation of £5.1m (2021: £7.7m) and impairment of £nil (2021: £nil). These charges are excluded from the adjusted results of the Group because they are non-cash items generated from historical acquisition related activity.

Impairment of goodwill: the Group carries on its balance sheet significant balances related to goodwill. Goodwill is subject to annual impairment testing and any impairment charges are reported separately because they are non-cash items generated from historical acquisition related activity.

Net finance costs: net finance costs excluded from adjusted profits relate to movements in the mark-to-market value of forward foreign exchange contracts to cover anticipated future costs and therefore have no equivalent offsetting transaction in the accounting records, also refer to note 6.

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 to enable comparability of the Group's adjusted results. Individual businesses within the Portfolio Division will be treated as held-for-sale (and therefore a business exit) when the disposal is highly probable and expected to complete within twelve months of the balance sheet date.

6 Net finance costs

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

	2022 £m	2021 £m
Interest income		
Interest on cash	(1.1)	(0.4)
Interest on finance lease assets	(4.2)	(4.3)
Net interest income on defined benefit pension schemes	(3.6)	—
Total interest income	(8.9)	(4.7)
Interest expense		
Private placement loan notes ¹	12.0	17.9
Cash flow hedges recycled to the income statement	—	0.6
Bank loans and overdrafts	9.2	5.4
Interest on finance lease liabilities	22.6	23.8
Net interest expense on defined benefit pension schemes	—	1.5
Total interest expense	43.8	49.2
Net finance expense included in adjusted profit	34.9	44.5
Included within business exits		
Bank loans and overdrafts	0.2	0.7
Discount unwind on public sector subsidiary partnership payment	—	0.4
Other financial (income)/expense	—	(0.1)
Other items excluded from adjusted profits		
Non-designated foreign exchange forward contracts – mark-to-market	(3.6)	1.5
Fair value hedge ineffectiveness ²	0.2	(0.1)
Net finance (income)/expenses excluded from adjusted profit	(3.2)	2.4
Total net finance expense	31.7	46.9

1. Private placement loan notes comprise US private placement loan notes and euro fixed rate bearer notes.

2. Fair value hedge ineffectiveness arises from changes in currency basis, and the movement in a provision for counterparty risk associated with the swaps.

7 Earnings/(loss) per share

Basic earnings/(loss) per share 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 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.

		2022		2021	
		Continuing operations p	Total operations p	Continuing operations p	Total operations p
Basic earnings/(loss) per share	– reported	4.47	4.47	13.33	13.52
	– adjusted ¹	6.20	6.20	(7.74)	(7.74)
Diluted earnings/(loss) per share	– reported	4.40	4.40	13.15	13.33
	– adjusted ¹	6.09	6.09	(7.74)	(7.74)

1. 2021 adjusted results have been re-presented. Please refer to note 5 for further details.

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

	2022		2021	
	Continuing operations £m	Total operations £m	Continuing operations £m	Total operations £m
Reported profit before tax for the period	61.4	61.4	285.6	288.7
Income tax credit/(charge)	14.6	14.6	(61.5)	(61.5)
Reported profit for the period	76.0	76.0	224.1	227.2
Less: Non-controlling interest	(1.2)	(1.2)	(2.5)	(2.5)
Total profit attributable to shareholders	74.8	74.8	221.6	224.7
Adjusted profit/(loss) before tax for the period ¹	73.8	73.8	(122.8)	(122.8)
Income tax credit/(charge)	31.8	31.8	(4.0)	(4.0)
Adjusted profit/(loss) for the period ¹	105.6	105.6	(126.8)	(126.8)
Less: Non-controlling interest	(2.0)	(2.0)	(1.9)	(1.9)
Adjusted profit/(loss) attributable to shareholders ¹	103.6	103.6	(128.7)	(128.7)

1. 2021 adjusted results have been re-presented. Please refer to note 5 for further details.

7 Earnings/(loss) per share continued

	2022 m	2021 m
Weighted average number of ordinary shares (excluding trust and treasury shares) for basic earnings per share	1,671.7	1,661.9
Dilutive potential ordinary shares:		
Employee share options	30.0	23.9
Weighted average number of ordinary shares (excluding trust and treasury shares) adjusted for the effect of dilution	1,701.7	1,685.8

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

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

8 Business exits and assets held for sale

Business exits

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

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

Assets held-for-sale

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

Based on the above requirements, individual businesses within the Portfolio Division will only reach the criteria to be treated as held-for-sale when their disposal is seen to be highly probable, and expected to complete within the following twelve months. At 31 December 2022 no disposals were deemed to have met this threshold. At 31 December 2021, the disposals of three businesses (AMT Sybex software, Secure Solutions and Services (SSS), and Speciality Insurance) were deemed to have met this threshold.

2022 business exits

Business exits at 31 December 2022 primarily comprised:

Business	Disposal completed on
AMT Sybex	1 January 2022
Secure Solutions and Services	3 January 2022
Trustmarque	31 March 2022
Speciality Insurance	29 April 2022
Real estate and infrastructure consultancy	22 September 2022
Optima Legal Services	30 November 2022
Pay360	1 December 2022
Capita Translation and Interpreting	29 December 2022

Further disposals are planned as part of the simplification agenda. Since these disposals did not meet the definition of business exits or assets held-for-sale at 31 December 2022, their trading results were included within adjusted results. However, exit costs related to those disposals, which include professional fees, salary costs and separation planning costs, are included within business exit non-trading administrative expenses.

Income statement impact	2022			2021		
	Trading £m	Non-trading £m	Total £m	Trading £m	Non-trading £m	Total £m
Revenue	168.8	—	168.8	404.7	—	404.7
Cost of sales	(135.3)	—	(135.3)	(269.0)	—	(269.0)
Gross profit	33.5	—	33.5	135.7	—	135.7
Administrative expenses	(18.8)	(23.1)	(41.9)	(56.4)	(69.0)	(125.4)
Operating profit/(loss)	14.7	(23.1)	(8.4)	79.3	(69.0)	10.3
Net finance costs	(0.2)	—	(0.2)	(0.7)	(0.3)	(1.0)
Gain on business disposal	—	166.9	166.9	—	419.7	419.7
Profit before tax	14.5	143.8	158.3	78.6	350.4	429.0
Taxation	(2.8)	(14.7)	(17.5)	(16.1)	(43.0)	(59.1)
Profit after tax	11.7	129.1	140.8	62.5	307.4	369.9

Trading revenue and costs represent the current period trading performance of the above businesses up to the point of being disposed or exited, and in the comparative those businesses disposed of during 2021 (ESS, Life Insurance and Pensions Servicing business in Ireland, and the AXELOS joint venture with the UK Government). Trading expenses primarily comprise payroll costs of £96.9m (2021: £217.6m) and information technology costs of £23.2m (2021: £65.2m).

Included within non-trading administrative expenses is £nil (2021: £9.3m) of amortisation of acquired intangibles which, in accordance with the Group's policy, were excluded from the Group's adjusted results and have been reclassified to business exits because they relate to businesses sold or being exited. Other non-trading administrative expenses include: asset impairments of £nil (2021: £53.1m); disposal project costs of £14.4m (2021: £8.9m); other costs including staff and redundancy costs of £8.7m (2021: £4.7m); and, other income of £nil (2021: £7.0m).

8 Business exits, assets held for sale continued

2022 disposals

During 2022 the Group disposed of eight businesses: AMT Sybex, Secure Solutions and Services, Trustmarque, Speciality Insurance, Real estate and infrastructure consultancy, Optima Legal Services, Pay360 and Capita Translation and Interpreting. During 2021 the Group disposed of three businesses: ESS, Life Insurance and Pensions Servicing business in Ireland and AXELOS.

The assets and liabilities disposed of and the related gain on disposal are as follows:	2022 £m	2021 £m
Property, plant and equipment	0.2	0.2
Intangible assets	20.4	20.0
Goodwill	178.3	65.7
Right-of-use assets	0.2	—
Income tax recoverable and deferred tax assets	7.6	—
Contract fulfilment assets	2.8	0.1
Trade and other receivables	136.6	2.6
Cash and cash equivalents	55.9	8.2
Disposal group assets held-for-sale	143.0	120.2
Trade and other payables	(127.0)	(6.7)
Deferred income	(38.6)	(2.9)
Lease liabilities	(0.3)	—
Deferred consideration payable	—	(22.8)
Loans payable ¹	—	(26.0)
Capita group loan balances	(102.3)	(27.2)
Income tax payable and deferred tax liabilities	(0.7)	(4.3)
Provisions	(0.4)	—
Disposal group liabilities held-for-sale	(135.4)	(57.5)
Net identifiable assets sold	140.3	69.6
Non-controlling interests	(0.3)	(3.4)
	140.0	66.2
Sales price:		
received in cash	330.0	508.6
deferred receivable	10.5	—
Less: disposal costs	(33.3)	(25.5)
Net sales price	307.2	483.1
Realisation of cumulative currency translation difference	(0.3)	2.8
Gain on business disposals	166.9	419.7
Net cash inflow		
Proceeds received	330.0	508.6
Less disposal costs:		
income statement charge	(33.3)	(25.5)
change in accrued disposal costs during the year	9.9	—
Settlement of receivables due from disposed subsidiaries:		
disposal of subsidiaries in the period	102.3	27.2
disposal of subsidiaries classified as held-for-sale	54.5	—
Total proceeds received net of disposal costs paid	463.4	510.3
Total cash held by subsidiaries when sold		
Cash held by subsidiaries when sold	(55.9)	(8.2)
Cash held by subsidiaries classified as held-for-sale	(19.6)	(17.7)
Total cash held by subsidiaries when sold	(75.5)	(25.9)
Net cash inflow	387.9	484.4

1. The loan payable represents an interest bearing loan payable by AXELOS Limited to HM Government in connection with a dividend payable by this company. The loan is subject to interest at 6%pa and was settled on completion of the disposal on 29 July 2021.

Disposal costs of £7.1m, relating to businesses disposed of in the year, were recognised in prior years and are excluded from the above gain on business disposals.

8 Business exits, assets held for sale continued

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

During 2022, management identified that the net assets of a business held-for-sale at 31 December 2021 and used to assess for impairment were incorrectly determined when comparing to the expected net disposal proceeds. This resulted in an overstatement of a goodwill impairment charge recognised within business exits (£19.0m) and consequently, an understatement of assets held-for-sale at 31 December 2021. This error did not impact the adjusted results of the Group.

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

Disposal group assets and liabilities held-for-sale

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

	2022 £m	2021 £m
Property, plant and equipment	—	0.4
Intangible assets	—	14.4
Goodwill	—	44.2
Contract fulfilment assets	—	32.6
Trade and other receivables	—	10.7
Accrued income	—	5.1
Prepayments	—	5.2
Cash and cash equivalents	—	15.8
Income tax receivable and deferred tax assets	—	10.4
Disposal group assets held-for-sale	—	138.8
Trade and other payables	—	1.6
Other taxes and social security	—	1.6
Accruals	—	3.4
Deferred income	—	69.8
Income tax payable and deferred tax liabilities	—	2.3
Provisions	—	2.4
Disposal group liabilities held-for-sale	—	81.1

Business exit cash flows

Businesses exited and being exited had a cash generated from operations inflow of £9.9m (2021: cash inflow of £43.1m).

9 Cash flow information

Additional cash flow information

		2022	2022	2021	2021
		Reported £m	Before business exits £m	Restated ² Reported £m	Restated ² Before business exits £m
Cash flows from operating activities:					
Reported operating loss	5	(79.6)	(79.6)	(86.6)	(86.6)
Less: business exit operating loss/(profit)	8	—	8.4	—	(10.3)
Total operating loss		(79.6)	(71.2)	(86.6)	(96.9)
Adjustments for non-cash items:					
Depreciation		96.9	96.7	117.1	115.7
Amortisation of intangible assets		41.5	36.8	57.7	41.4
Share-based payment expense		5.4	5.4	1.2	1.2
Employee benefits		9.0	9.0	8.9	8.9
Loss on sale of property, plant and equipment and intangible assets		3.5	3.5	0.7	0.7
Amendments and early terminations of leases		(4.7)	(4.7)	—	—
Impairment of disposal group assets		—	—	44.1	—
Impairment of non-current assets		176.9	176.5	90.0	82.8
Other adjustments:					
Movement in provisions		(42.1)	(47.9)	21.9	36.2
Pension deficit contributions		(38.6)	(30.0)	(155.5)	(73.6)
Other contributions into pension schemes		(10.0)	(10.0)	(8.4)	(8.4)
Movements in working capital:					
Trade and other receivables		(41.0)	18.6	(5.2)	(10.0)
Non-recourse trade receivables financing		28.0	28.0	(5.7)	(5.7)
Trade and other payables		84.8	25.9	17.0	20.6
VAT deferral		(14.9)	(14.9)	(104.1)	(104.1)
Deferred income		(116.0)	(124.2)	(116.9)	(62.9)
Contract fulfilment assets (non-current)		18.7	19.0	(24.7)	(55.6)
Cash generated from/(used by) operations		117.8	116.5	(148.5)	(109.7)
Adjustments for free cash flows:					
Income tax paid		(7.9)	(6.5)	(17.7)	(17.7)
Net interest paid		(38.0)	(37.4)	(40.1)	(40.0)
Net cash inflows/(outflow) from operating activities		71.9	72.6	(206.3)	(167.4)
Purchase of property, plant and equipment		(20.6)	(16.8)	(25.6)	(18.7)
Purchase of intangible assets		(27.3)	(27.3)	(32.5)	(32.5)
Proceeds from sale of property, plant and equipment and intangible assets		0.5	0.5	0.1	—
Free cash flow¹		24.5	29.0	(264.3)	(218.6)

1. Definitions of the alternative performance measures and related KPIs can be found in the Appendix.

2. The 2021 cash flow has been restated to include £27.2m of cash, received from the purchasers of subsidiaries when sold to settle inter-company balances, within investing activities, which were previously included within the operating activities. This results in an increase in net cash flow from investing activities by £27.2m and decrease in net cash flows from operating activities, cash generated from operations, and free cash flow by the same amount. There is no impact on the reported net movement in cash and cash equivalents.

9 Cash flow information continued

Free cash flow and cash generated from operations (alternative performance measures - refer to Appendix)

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

These measures are analysed below:

	Free cash flow		Cash generated/(used) by operations	
	2022 £m	2021 £m	2022 £m	2021 £m
Reported	24.5	(264.3)	117.8	(148.5)
Business exits	(4.1)	(36.2)	(9.9)	(43.1)
Pension deficit contributions triggered by disposals	8.6	81.9	8.6	81.9
Before business exits	29.0	(218.6)	116.5	(109.7)

A reconciliation of net cash flow to movement in net debt is included below.

Business exits: the cash flows of businesses exited, or in the process of being exited, and the proceeds from disposals, are disclosed outside the adjusted results. The 31 December 2021 results have been re-presented for those businesses exited, or in the process of being exited, during the period from 1 January 2022 to 31 December 2022 to enable comparability of the adjusted results.

Pension deficit contributions triggered by disposals: the Trustee of the Capita Pension and Life Assurance Scheme (the Scheme) has agreed with the Group to accelerate the payment of future agreed deficit contributions on a pound for pound basis in the event of disposal proceeds being used to fund mandatory prepayments of debt. During the year, the disposal of the Trustmarque business led to accelerated deficit contributions of £5.9m being paid into the Scheme (plus up to a further £14.5m in accelerated contributions will be required to be paid by 31 March 2024). In addition, an accelerated deficit contribution of £2.7m was paid into the Scheme during the year as a result of the disposal of the Axelos business in 2021 (2021: Pension deficit contributions of £81.9m triggered by: the disposal of the ESS business which led to accelerated deficit contributions of £50.2m; and the disposal of the Parking Eye business in 2018, where actual settlement of accelerated deficit contributions of £31.7m was deferred until 2021).

Reconciliation of net cash flow to movement in net debt

Overdrafts comprise the aggregate value of overdrawn bank account balances within the Group's notional interest pooling arrangements. These aggregate overdrawn amounts are fully offset by surplus balances within the same arrangements.

At 31 December 2022, the Group's £288.4m committed revolving credit facility was undrawn (31 December 2021: £40.0m drawn).

	Net debt at 1 January £m	Cash flow movements £m	Non-cash movement ² £m	Net debt at 31 December £m
Year ended 31 December 2022				
Cash, cash equivalents and overdrafts	101.5	75.3	0.4	177.2
Other loan notes	(1.3)	0.6	—	(0.7)
Credit facilities	(46.0)	46.0	—	—
Private placement loan notes ¹	(512.9)	242.0	(14.6)	(285.5)
Cross-currency interest rate swaps ¹	28.0	(10.1)	6.9	24.8
Lease liabilities	(448.4)	84.4	(33.5)	(397.5)
Total net liabilities from financing activities	(980.6)	362.9	(41.2)	(658.9)
Deferred consideration	(0.7)	—	—	(0.7)
Net debt	(879.8)	438.2	(40.8)	(482.4)

1. The sum of these items equates to the fair value of the Group's private placement loan note's debt of £260.7m (2021: £484.9m). Cash flow movement in private placement loan notes includes both repayment of private placement loan notes of £237.4m (2021: £232.3m) and finance arrangement costs of £5.2m (2021: £1.9m).

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

	Net debt at 1 January £m	Cash flow movements £m	Non-cash movement ² £m	Net debt at 31 December £m
Year ended 31 December 2021				
Cash, cash equivalents and overdrafts	141.1	(43.6)	4.0	101.5
Other loan notes	(2.3)	1.0	—	(1.3)
Credit facilities	—	(46.0)	—	(46.0)
Private placement loan notes	(765.1)	234.2	18.0	(512.9)
Cross-currency interest rate swaps	57.5	(19.7)	(9.8)	28.0
Interest rate swaps	0.5	—	(0.5)	—
Lease liabilities ³	(508.1)	106.2	(46.5)	(448.4)
Total net liabilities from financing activities	(1,217.5)	275.7	(38.8)	(980.6)
Deferred consideration	(0.7)	—	—	(0.7)
Net debt	(1,077.1)	232.1	(34.8)	(879.8)

3. Cash flow movements in respect of lease liabilities have been re-presented to include net interest paid on finance leases (£23.6m) previously included within non-cash movement.

10 Goodwill

	2022 £m	2021 £m
Cost		
At 1 January	1,676.8	1,918.5
Disposal of businesses	(255.0)	(65.7)
Transfer to disposal group assets held-for-sale	—	(177.3)
Exchange movement	1.5	1.3
At 31 December	1,423.3	1,676.8
Accumulated impairment		
At 1 January	725.1	798.0
Disposal of businesses	(76.7)	—
Transfer to disposal group assets held-for-sale	—	(89.0)
Impairment – excluded from adjusted profit	169.0	11.5
Impairment – included in business exits	—	4.6
At 31 December	817.4	725.1
Net book value		
At 1 January	951.7	1,120.5
At 31 December	605.9	951.7

Cash-generating units

Reflecting the way management exercises oversight and monitors the Group's performance, the lowest level at which goodwill is monitored is at the divisional level for Capita Public Service and Capita Experience, and at a sub-divisional level for Capita Portfolio. At 31 December 2022 the Group has seven CGUs or groups of CGUs for the purpose of impairment testing of goodwill.

In light of the ongoing disposal processes within the Capita Portfolio division, the CGUs and groups of CGUs relating to the Capita Portfolio division have been presented in aggregate in the table below, and where relevant in this note. An aggregated disclosure of the carrying value of goodwill for the Capita Portfolio division with recoverable amount sensitivity disclosed, including the impact on the aggregate impairment charge recognised, is considered by management to provide meaningful information to the primary users of these consolidated financial statements.

Carrying amount of goodwill allocated to groups of CGUs:

CGU	Capita Public Service £m	Capita Experience £m	Capita Portfolio £m	Total £m
At 1 January	284.6	220.2	446.9	951.7
Business disposals	—	(11.9)	(166.4)	(178.3)
Impairment – excluded from adjusted profit	—	—	(169.0)	(169.0)
Exchange movement	—	1.5	—	1.5
At 31 December	284.6	209.8	111.5	605.9

Business exits

As set out in note 8, eight businesses were fully disposed of during the year. Goodwill relating to three of these businesses had been reclassified to disposal group assets held-for-sale at 31 December 2021. Goodwill relating to the other disposals is included within the Group's brought forward goodwill balances as at 1 January 2022, and has either been impaired during the course of the year, or derecognised as part of business disposals.

No businesses that the Group intends to dispose of in 2023 met the criteria to be treated as held-for-sale at 31 December 2022.

The impairment test

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

The Group's impairment test compares the carrying value of each CGU with its recoverable amount. The recoverable amount of a CGU is the higher of fair value less cost of disposal, and its value in use, where value in use would typically be the expected cash flows to be generated from operating the businesses into perpetuity.

At 31 December 2022, no planned disposals met the threshold to be classified as held-for-sale. However, the disposal of businesses aligned to the People, Business Solutions (excluding one smaller business where the disposal process is less advanced), Travel and Fera CGUs or groups of CGUs in the Capita Portfolio division were sufficiently advanced that the Board's judgement was that for impairment testing purposes the value-in-use of these CGUs or groups of CGUs should be determined based on the future cash flows of the CGUs or groups of CGUs from continuing use, up to the estimated date of disposal, plus an estimate of the sale proceeds less cost of disposal.

At 30 June 2022, a goodwill impairment of £92.5m was recognised in respect of the People and Property groups of CGUs, and at 31 December 2022, a further goodwill impairment of £76.5m was recognised in respect of the People, Travel and Business Solutions groups of CGUs. The impairments arose primarily due to the expectation of acquirers factoring in additional investment and costs required to run the businesses outside of the Group, and general macroeconomic conditions. The Property group of CGUs was disposed of in the second half of 2022.

As at 31 December 2022, the estimated recoverable amount of each remaining Group of CGUs exceeded its respective carrying value.

10 Goodwill continued

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

Forecast cash flows

The cash flow projections prepared for the impairment test are derived from the 2023-2025 business plans (BP) approved by the Board.

Global economic uncertainties continue to lead to increased judgement being applied, particularly in forecasting future financial performance.

Other than for movements in deferred income and contract fulfilment assets, cash flows are adjusted to exclude working capital movements since the corresponding balances are not included in the CGU carrying amount.

For ongoing disposals that are seen to be sufficiently advanced, forecast cash flows cover both operational cash flows up to the expected date of disposal, as well as the Board's best estimate of expected net proceeds at disposal. These have been derived from management's latest financial projections and reflect an assessment of the range of bids currently being considered by the Board, the status of these sale processes and the time horizon over which these transactions are expected to complete.

Allocation of central function costs

The Board has considered an appropriate methodology to apply when allocating central function costs. The methodology applied for the 2022 impairment test was aligned to that applied in reporting segmental performance. The costs of Capita plc, which have not been allocated as part of segmental reporting, are allocated based on 2023 forecast EBITDA.

Long-term growth rate

The long-term growth rate is based on economic growth forecasts by recognised bodies and this has been applied to forecast cash flows for years four and five (2026 and 2027) and for the terminal period. The 2022 long-term growth rate is 2.2% (2021: 1.7%).

Discount rates

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

The table below represents the pre-tax discount rates applied to the cash flows for 2022 and 2021.

	Capita Public Service	Capita Experience	Capita Portfolio				
			People	Software	Business Solutions	Travel	Fera
2022	11.8%	10.4%	14.3%	12.1%	12.1%	13.0%	11.2%
2021	13.0%	11.6%	12.4%	12.8%	13.3%	15.7%	11.9%

Sensitivity analysis

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

Sensitivity scenarios applied estimate the additional impairment required (with all other variables being equal) by: an increase in discount rate of 1%, or a decrease of 1% in the long-term growth rate (for the terminal period) for the Group in total and each of the CGUs; or, by the severe but plausible downsides applied to the base-case projections for assessing going concern and viability, without mitigations, for 2023 to 2025, and the long-term growth rate (2.2%) applied to projected cash flows for 2026, 2027, and the terminal period. We have also considered the impact of all of the scenarios together, which is also a reasonable possible alternative.

This sensitivity analysis covers CGUs where the associated business' value-in-use has been calculated based on operating the business into perpetuity (covering Capita Public Service, Capita Experience, the Portfolio Software pillar, and one smaller business within the Portfolio Business Solutions pillar where the disposal process is less far advanced). No additional impairments have been identified under any of these sensitivity scenarios, including the combination sensitivity scenario. However, for the Portfolio Software group of CGUs it is noted that the key assumption impacting the impairment test is the forecast EBITDA growth included in the BP (compound annual growth rate over the BP period in excess of 60%). The forecast EBITDA in 2025 would need to reduce by more than 45% before the group of CGUs recoverable amount would be equal to its carrying amount.

For the businesses in the Capita Portfolio division where for impairment testing purposes the value-in-use has been determined based on the future cash flows of the CGUs from continuing use up to the estimated date of disposal, plus an estimate of the net sale proceeds (being businesses aligned to the People, Business Solutions, Travel and Fera CGUs or groups of CGUs), assumptions around the expected sale proceeds are seen to be the only key assumption impacting the impairment test.

While it is the Board's intention to complete these disposals in the short-term, where there are presently no signed agreements in place with any counterparty, there are a range of possible outcomes that could occur, and the actual net proceeds received could be materially higher or lower than those assumed in the impairment assessment. Given the dependence on commercial negotiations it is not possible to quantify a reasonably possible change in this key assumption, however a change of 10% in the aggregate net proceeds would have materially altered the impairment charge recognised. The expected sales proceeds are based on the Board's best estimate, based on the knowledge existing at the time of estimation.

11 Provisions

	Restructuring provision £m	Business exit provision £m	Claims and litigation provision £m	Property provision £m	Customer contract provision £m	Other provisions £m	Total £m
At 1 January	25.6	1.5	13.2	9.7	84.7	5.9	140.6
Impact of change in accounting standards – amendments to IAS 37 ¹	—	—	—	—	18.8	—	18.8
At 1 January 2022 on adoption of IAS 37	25.6	1.5	13.2	9.7	103.5	5.9	159.4
Reclassification ²	(25.6)	—	—	21.8	(0.5)	4.3	—
Provisions in the year	—	25.0	7.6	7.0	20.6	6.0	66.2
Releases in the year	—	(1.2)	(1.4)	(7.8)	(17.1)	(3.7)	(31.2)
Utilisation	—	(14.6)	(2.4)	(11.7)	(33.0)	(5.0)	(66.7)
Disposal of subsidiaries	—	—	—	(0.3)	—	(0.1)	(0.4)
At 31 December	—	10.7	17.0	18.7	73.5	7.4	127.3
					31 December 2022 £m	31 December 2021 £m	
Current					75.7	126.6	
Non-current					51.6	14.0	
					127.3	140.6	

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

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

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

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

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

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

The customer contract provision includes £59.7m (2021: £54.5m) in respect of contracts in Capita Experience. The Group has highlighted in prior reporting the structural challenges associated with the closed book Life & Pensions contracts. These provided for upfront cash inflows to support initial transformation activities with a much lower level of cash inflow after the transformation phase was completed. Under the Group's long-term contract accounting policy, the cash flow profile of these contracts has resulted in deferral of profit into future years which is not backed by net cash flows (because the relevant cash receipts arose in the early years of contract execution). Additionally, some of the contracts contain evergreen clauses potentially allowing the customers to extend the contracts indefinitely until the run-off of the underlying life and pension books is complete.

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

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

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

This reassessment, reflecting the developments in the latter half of 2021, provided cover for contracts to extend out to 2026. This resulted in an increase to the contract provision of £39.5m at 31 December 2021. At 31 December 2022, the provision was increased to provide cover for contracts to extend out to December 2027 (ie a five year rolling period).

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

12 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 £34.0m (2021: £28.7m).

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

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

At any time there are a number of claims or notifications that need to be assessed across the Group. The disparate nature of the Group's entities heightens the risk that not all potential claims are known at any point in time.

13 Post balance sheet events

The following events occurred after 31 December 2022, and before the approval of these consolidated financial statements, but have not resulted in adjustment to the 2022 financial results:

Committed bridge facility

In February 2023, the Group entered into a committed bridge facility of £50m with three of its relationship banks providing additional liquidity from 1 January 2024. The committed bridge facility has an expiry date of 31 December 2024 and is subject to covenants, which are the same as those in the Revolving Credit Facility (RCF). Both the RCF and the £50m bridge facility incorporate provisions such that they will partially reduce in quantum as a consequence of specified transactions including disposals, equity-raises or other refinancing.

Appendix - Alternative performance measures

The Group presents various alternative performance measures (APMs) as the performance of the Group is reported and measured on this basis internally. This includes key performance indicators (KPIs) such as adjusted revenue, adjusted profit before tax, adjusted earnings per share, free cash flow before business exits, and gearing ratios.

These APMs should not be viewed as a complete picture of the Group's financial performance which is presented in the reported results. The exclusion of certain items may result in a more favourable view when costs such as acquired intangible amortisation and impairments of goodwill are excluded. These measures may not be comparable when reviewing similar measures reported by other companies.

APM	Closest equivalent IFRS measure	Definition, Purpose and Reconciliation																																																	
Income statement																																																			
Adjusted revenue	Revenue	<p>Calculated as revenue less any revenue relating to businesses that have been sold, or exited during the year or prior year; or, are in the process of being sold, or exited.</p> <p>This measure of revenue is used internally in respect of the Group's continuing business (being the Group's continuing activities, which exclude business exits) and the Board believes it is a good indication of ongoing performance.</p> <p>The table below shows a reconciliation between reported and adjusted revenue, as well as adjusted revenue growth:</p> <table border="1"> <thead> <tr> <th></th> <th>2022</th> <th>2021</th> </tr> </thead> <tbody> <tr> <td>Reported revenue per the income statement</td> <td>£3,014.6m</td> <td>£3,182.5m</td> </tr> <tr> <td>Deduct: business exits (note 8)</td> <td>£(168.8)m</td> <td>£(404.7)m</td> </tr> <tr> <td>Adjusted revenue</td> <td>£2,845.8m</td> <td>£2,777.8m</td> </tr> <tr> <td>Adjusted revenue growth</td> <td>2.4%</td> <td>0.1%</td> </tr> </tbody> </table>		2022	2021	Reported revenue per the income statement	£3,014.6m	£3,182.5m	Deduct: business exits (note 8)	£(168.8)m	£(404.7)m	Adjusted revenue	£2,845.8m	£2,777.8m	Adjusted revenue growth	2.4%	0.1%																																		
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Adjusted operating profit	Operating profit	<p>Calculated as reported operating profit excluding items determined by the Board to be outside underlying operations. These items are detailed in note 5.</p> <p>The Board believes that this measure is useful for investors because it is closely monitored by management to evaluate the Group's operating performance and to make financial, strategic and operating decisions.</p> <p>A reconciliation of reported to adjusted operating profit is provided in note 5.</p>																																																	
Adjusted operating profit margin	Operating profit margin	<p>Calculated as the adjusted operating profit divided by adjusted revenue.</p> <p>This measure is an indicator of the Group's operating efficiency.</p> <p>The table below shows the components, and calculation, of adjusted operating profit margin:</p> <table border="1"> <thead> <tr> <th></th> <th></th> <th>2022</th> <th>2021¹</th> </tr> </thead> <tbody> <tr> <td>Adjusted revenue</td> <td>a</td> <td>£2,845.8m</td> <td>£2,777.8m</td> </tr> <tr> <td>Adjusted operating profit (note 5)</td> <td>b</td> <td>£102.9m</td> <td>£(77.7)m</td> </tr> <tr> <td>Adjusted operating profit margin</td> <td>b/a</td> <td>3.6%</td> <td>(2.8)%</td> </tr> </tbody> </table>			2022	2021 ¹	Adjusted revenue	a	£2,845.8m	£2,777.8m	Adjusted operating profit (note 5)	b	£102.9m	£(77.7)m	Adjusted operating profit margin	b/a	3.6%	(2.8)%																																	
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Adjusted EBITDA	EBITDA	<p>Calculated as adjusted operating profit for the last twelve months before: depreciation, amortisation and impairment of property, plant and equipment and intangible assets; net finance costs; and the share of results in associates and investment gains (other than those already excluded from adjusted operating profit).</p> <p>The directors believe that adjusted EBITDA is a useful measure for investors because it is closely monitored by management to evaluate Group and divisional operating performance and is the basis of the measure agreed with the lenders for the purpose of measuring compliance with covenants.</p> <p>This measure has been calculated pre and post IFRS 16 to enable investors to understand the impact of the Group's lease portfolio on adjusted EBITDA.</p> <p>The table below shows the calculation of adjusted EBITDA:</p> <table border="1"> <thead> <tr> <th rowspan="2"></th> <th colspan="2">Post IFRS 16</th> <th colspan="2">Pre IFRS 16</th> </tr> <tr> <th>2022</th> <th>2021</th> <th>2022</th> <th>2021</th> </tr> </thead> <tbody> <tr> <td>Adjusted profit before tax</td> <td>£73.8m</td> <td>£(122.8)m</td> <td>£79.0m</td> <td>£(117.6)m</td> </tr> <tr> <td>Add back: adjusted net finance costs (note 6)</td> <td>£34.9m</td> <td>£44.5m</td> <td>£16.5m</td> <td>£25.0m</td> </tr> <tr> <td>Add back: adjusted depreciation and impairment of property, plant and equipment</td> <td>£45.4m</td> <td>£49.4m</td> <td>£45.4m</td> <td>£49.4m</td> </tr> <tr> <td>Add back: depreciation and impairment of right-of-use assets</td> <td>£53.3m</td> <td>£81.5m</td> <td>£—m</td> <td>£—m</td> </tr> <tr> <td>Add back: adjusted amortisation and impairment of intangibles</td> <td>£37.2m</td> <td>£89.8m</td> <td>£37.2m</td> <td>£89.8m</td> </tr> <tr> <td>Remove: Share of results in associates and investment gains (income statement)</td> <td>£(5.8)m</td> <td>£0.6m</td> <td>£(5.8)m</td> <td>£0.6m</td> </tr> <tr> <td>Adjusted EBITDA</td> <td>£238.8m</td> <td>£143.0m</td> <td>£172.3m</td> <td>£47.2m</td> </tr> <tr> <td>Adjusted EBITDA margin</td> <td>8.4%</td> <td>5.1%</td> <td>6.1%</td> <td>1.7%</td> </tr> </tbody> </table>		Post IFRS 16		Pre IFRS 16		2022	2021	2022	2021	Adjusted profit before tax	£73.8m	£(122.8)m	£79.0m	£(117.6)m	Add back: adjusted net finance costs (note 6)	£34.9m	£44.5m	£16.5m	£25.0m	Add back: adjusted depreciation and impairment of property, plant and equipment	£45.4m	£49.4m	£45.4m	£49.4m	Add back: depreciation and impairment of right-of-use assets	£53.3m	£81.5m	£—m	£—m	Add back: adjusted amortisation and impairment of intangibles	£37.2m	£89.8m	£37.2m	£89.8m	Remove: Share of results in associates and investment gains (income statement)	£(5.8)m	£0.6m	£(5.8)m	£0.6m	Adjusted EBITDA	£238.8m	£143.0m	£172.3m	£47.2m	Adjusted EBITDA margin	8.4%	5.1%	6.1%	1.7%
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Alternative performance measures continued

APM	Closest equivalent IFRS measure	Definition, Purpose and Reconciliation												
Income statement continued														
Adjusted profit before tax U	Profit before tax	<p>Calculated as profit or loss before tax excluding the items detailed in note 5 which include: business exits (trading results, non-trading expenses, and any gain/(loss) on business disposal); acquired intangible amortisation; and impairment of goodwill and acquired intangibles.</p> <p>The Board believes that this measure is useful for investors because it is closely monitored by management to evaluate the Group's operating performance and to make financial, strategic and operating decisions.</p> <p>A reconciliation of reported to adjusted profit before tax is provided in note 5.</p>												
Adjusted profit after tax U	Profit after tax	<p>Calculated as the above adjusted profit or loss before tax, less the tax credit or expense on adjusted profit or loss.</p> <p>The table below shows a reconciliation:</p> <table border="1"> <thead> <tr> <th></th> <th>2022</th> <th>2021¹</th> </tr> </thead> <tbody> <tr> <td>Adjusted profit/(loss) before tax (note 5)</td> <td>£73.8m</td> <td>£(122.8)m</td> </tr> <tr> <td>Tax on adjusted profit/(loss)</td> <td>£31.8m</td> <td>£(4.0)m</td> </tr> <tr> <td>Adjusted profit/(loss) after tax</td> <td>£105.6m</td> <td>£(126.8)m</td> </tr> </tbody> </table>		2022	2021 ¹	Adjusted profit/(loss) before tax (note 5)	£73.8m	£(122.8)m	Tax on adjusted profit/(loss)	£31.8m	£(4.0)m	Adjusted profit/(loss) after tax	£105.6m	£(126.8)m
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Adjusted effective tax rate U	Tax rate	<p>Calculated as the income tax credit or expense on the adjusted profit or loss before tax divided by the adjusted profit or loss before tax.</p> <p>The effective tax rate for 31 December 2022 is calculated from the current year elements of corporation (£12.6m) and deferred taxes (£52.5m) (2021: £(14.5)m and £60.3m respectively), which exclude one-off items.</p> <p>The Board believes that this tax rate provides an indication of the effective average tax rate across the Group on adjusted profit before tax.</p>												
Adjusted basic earnings per share U	Basic earnings per share	<p>Calculated as the adjusted profit/(loss) for the year after tax less non-controlling interests divided by the weighted average number of ordinary shares outstanding during the year.</p> <p>The Board believes that this provides an indication of basic earnings per share of the Group on adjusted profit after tax.</p> <p>For the calculation of adjusted basic earnings per share refer to note 7.</p>												
Adjusted diluted earnings per share U	Diluted earnings per share	<p>Calculated as the adjusted profit/(loss) for the year after tax less non-controlling interests divided by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would have been issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.</p> <p>The Board believes that this provides an indication of diluted earnings per share of the Group on adjusted profit after tax.</p> <p>For the calculation of adjusted diluted earnings per share refer to note 7.</p>												
Cash flows and net debt														
Cash flows generated/(used) by operations before business exits N	Cash generated / (used) by operations	<p>Calculated as the cash flows generated from operations excluding the items detailed in note 9 which includes: business exits (trading results, non-trading expenses) and pension deficit contributions which have been triggered by disposals.</p> <p>The Board believes that this measure is useful for investors because it is closely monitored by management to evaluate the Group's operating performance and to make financial, strategic and operating decisions.</p> <p>A reconciliation of reported to cash generated/(used) by operations excluding business exits is provided in note 9.</p>												
Free cash flow before business exits N	Net cash flows from operating activities	<p>Calculated as cash generated from operations after: capital expenditure; income tax and interest; and, the proceeds from the sale of property, plant and equipment and intangible assets, but before the impact of business exits.</p> <p>From 1 January 2022, the Board considers free cash flow and cash generated from operations before business exits provide a more representative measure of the sustainable cash flow of the Group.</p> <p>Free cash flow is a measure used to show how efficient the Group is at generating cash and the Board believes it is useful for investors and management to measure whether the Group has enough cash to fund operations, capital expenditure, debt and pension obligations, and dividends.</p> <p>A reconciliation of net cash flows from operating activities to free cash flow is provided in note 9 and a reconciliation of reported to free cash flow excluding business exits is provided in note 9.</p>												

Alternative performance measures continued

APM	Closest equivalent IFRS measure	Definition, Purpose and Reconciliation																																		
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Adjusted operating cash conversion N	Operating cash conversion	<p>Calculated as operating cash flow before business exits divided by adjusted EBITDA.</p> <p>The Board believes that this measure is useful for investors because it is closely monitored by management to evaluate the Group's operating performance and to make financial, strategic and operating decisions.</p> <table border="1"> <thead> <tr> <th></th> <th></th> <th>2022</th> <th>2021¹</th> </tr> </thead> <tbody> <tr> <td>Adjusted EBITDA</td> <td>a</td> <td>£238.8m</td> <td>£143.0m</td> </tr> <tr> <td>Working capital</td> <td></td> <td>£(32.7)m</td> <td>£(113.6)m</td> </tr> <tr> <td>Non-cash and other adjustments</td> <td></td> <td>£(44.7)m</td> <td>£38.6m</td> </tr> <tr> <td>Operating cash flow before business exits</td> <td>b</td> <td>£161.4m</td> <td>£68.0m</td> </tr> <tr> <td>Adjusted operating cash conversion</td> <td>b/a</td> <td>67.6%</td> <td>47.6%</td> </tr> </tbody> </table>			2022	2021 ¹	Adjusted EBITDA	a	£238.8m	£143.0m	Working capital		£(32.7)m	£(113.6)m	Non-cash and other adjustments		£(44.7)m	£38.6m	Operating cash flow before business exits	b	£161.4m	£68.0m	Adjusted operating cash conversion	b/a	67.6%	47.6%										
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Non-cash and other adjustments		£(44.7)m	£38.6m																																	
Operating cash flow before business exits	b	£161.4m	£68.0m																																	
Adjusted operating cash conversion	b/a	67.6%	47.6%																																	
Net debt	Borrowings, cash, derivatives, lease liabilities and deferred consideration	<p>Calculated as the net of the Group's: cash, cash equivalents and overdrafts; private placement loan notes debt; other loan notes; currency and interest rate swaps; lease liabilities; and deferred consideration.</p> <p>The Board believes that net debt enables investors to see the economic effect of debt, related hedges and cash and cash equivalents in total and shows the indebtedness of the Group.</p> <p>The calculation of net debt is provided in note 9.</p>																																		
Net financial debt (pre-IFRS 16)	No direct equivalent	<p>Calculated as the sum of the Group's: cash, cash equivalents and overdrafts; the fair value of the Group's private placement loan notes; other loan notes; and deferred consideration.</p> <p>The Board believes that this measure of net debt allows investors to see the Group's net debt position excluding its IFRS 16 lease liabilities.</p> <table border="1"> <thead> <tr> <th></th> <th></th> <th>2022</th> <th>2021</th> </tr> </thead> <tbody> <tr> <td>Net debt</td> <td></td> <td>£482.4m</td> <td>£879.8m</td> </tr> <tr> <td>Remove: IFRS16 impact</td> <td></td> <td>£(397.5)m</td> <td>£(448.4)m</td> </tr> <tr> <td>Net financial debt (pre-IFRS 16)</td> <td></td> <td>£84.9m</td> <td>£431.4m</td> </tr> </tbody> </table>			2022	2021	Net debt		£482.4m	£879.8m	Remove: IFRS16 impact		£(397.5)m	£(448.4)m	Net financial debt (pre-IFRS 16)		£84.9m	£431.4m																		
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Gearing: net debt to adjusted EBITDA ratio U	No direct equivalent	<p>This ratio is calculated as net financial debt (pre-IFRS 16) divided by adjusted EBITDA over a rolling twelve month period including business exits not yet completed at the balance sheet date.</p> <p>The Board believes that this ratio is useful because it shows how significant net debt is relative to adjusted EBITDA.</p> <p>This measure has been calculated including and excluding the impact of IFRS 16 leases on EBITDA and net debt because the Board believes this provides useful information to enable investors to understand the impact of the Group's lease portfolio on its gearing ratio.</p> <p>The table below shows the components, and calculation, of the net debt / net financial debt (pre-IFRS 16) to adjusted EBITDA ratio:</p> <table border="1"> <thead> <tr> <th rowspan="2"></th> <th colspan="2">Post IFRS 16</th> <th colspan="2">Pre IFRS 16</th> </tr> <tr> <th>2022</th> <th>2021²</th> <th>2022</th> <th>2021²</th> </tr> </thead> <tbody> <tr> <td>Adjusted EBITDA</td> <td>£238.8m</td> <td>£181.7m</td> <td>£172.3m</td> <td>£85.9m</td> </tr> <tr> <td>EBITDA in respect of business exits not yet completed</td> <td>£1.3m</td> <td>£32.2m</td> <td>£1.3m</td> <td>£32.2m</td> </tr> <tr> <td>Adjusted EBITDA (including business exits not yet completed)</td> <td>£240.1m</td> <td>£213.9m</td> <td>£173.6m</td> <td>£118.1m</td> </tr> <tr> <td>Net debt / net financial debt (pre-IFRS 16)</td> <td>£482.4m</td> <td>£879.8m</td> <td>£84.9m</td> <td>£431.4m</td> </tr> <tr> <td>Net debt / net financial debt (pre-IFRS 16) to adjusted EBITDA ratio</td> <td>2.0x</td> <td>4.1x</td> <td>0.5x</td> <td>3.7x</td> </tr> </tbody> </table>		Post IFRS 16		Pre IFRS 16		2022	2021 ²	2022	2021 ²	Adjusted EBITDA	£238.8m	£181.7m	£172.3m	£85.9m	EBITDA in respect of business exits not yet completed	£1.3m	£32.2m	£1.3m	£32.2m	Adjusted EBITDA (including business exits not yet completed)	£240.1m	£213.9m	£173.6m	£118.1m	Net debt / net financial debt (pre-IFRS 16)	£482.4m	£879.8m	£84.9m	£431.4m	Net debt / net financial debt (pre-IFRS 16) to adjusted EBITDA ratio	2.0x	4.1x	0.5x	3.7x
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1. 2021 adjusted results have been re-presented - please refer to note 5 for further details.

2. 2021 adjusted EBITDA has been re-presented excluding changes in business exits - please refer to note 5 for further details.

N New APM in the year

U Definition updated in the year

R Comparatives re-presented