# Capita plc

# Half Year Results 2023

**Summary**

- Acceleration in financial performance
- Good growth momentum; minimal impact from cyber incident
- Consistently strong delivery of operational KPIs
- Improved employee engagement; reduced employee attrition
- Funding position transformed with RCF extension, USPP and disposal programme close to completion
- Foundations for sustainable long term growth further strengthened

**H1 2023 Financial results**

- Adjusted revenue[1] increased by 6% to £1,402.4m (H1 2022: £1,326.0m) with growth in underlying trading and one-off benefits in Experience from Virgin Media O2 contract transition and a commercial settlement
- Adjusted profit before tax[1] increased by £8.4m to £33.1m (H1 2022: £24.7m)
- Reported loss before tax of £67.9m (H1 2022 profit: £0.1m) due to business exits, non-core Portfolio goodwill impairment and costs associated with the Group's cyber incident
- Free cash outflow excluding business exits[2*] of £53.4m (H1 2022 outflow: £16.5m) reflecting increased working capital, the cyber incident and increased digital investment
- Post-IFRS 16 net debt reduced by £165.8m to £544.6m (30 June 2022: £710.4m) driven by Portfolio disposal programme and continued rationalisation of leased property estate

**Growth momentum**

- Total contract value (TCV) won of £1,357m (H1 2022: £1,413m); book to bill maintained at 1.0x
- Secured £250m TCV on Disabled Students Allowance framework with Student Loans Company in July
- Preferred bidder on £565m TCV in Public Service for Functional Assessment Services with Department for Work and Pensions, expected to be signed in the second half of 2023
- TCV awarded at 31 July, £2.2bn; up 54%
- In year revenue increased 22% to £650m (H1 2022: £534m), strong performance in Experience

**Transformed funding position**

- RCF of £280m extended to 31 December 2026
- Issuance of £101.9m of USPP in July
- Continued progress on non-core business disposal programme
  - Completion of People pillar disposal in H1 23
  - Completion of Software and Business Solutions disposals in July, c.£45m net proceeds received

**Outlook**

- Full-year expectations remain unchanged
- On track to deliver acceleration in financial performance in 2023
- Target to double the Group EBIT margin over the medium term, underpinned by £40m cost savings by the end of 2024

**Jon Lewis, Chief Executive Officer, said:**
“I am pleased with the good progress we continued to make at Capita during the first half of the year as we accelerate our financial performance.

“Our strategy, focused on two core, growing markets is working. We have delivered increased adjusted revenue growth for the fourth successive reporting period, improving profitability, winning an increasing amount of work with new clients, and remain on track to deliver on our full-year expectations.

“We have seen an improvement in our employee net promoter score alongside reduced levels of attrition; and I would like to thank all our people for their continued hard work, commitment and professionalism.

“Our strong client relationships, long-term contracts, increasingly competitive and digitised solutions, engaged colleagues and reputation for delivery mean we have a resilient business, well positioned for further growth.”

Six months ended 30 June 2023

| Financial highlights | Reported 2023 | Reported 2022 | Reported POP change | Adjusted[1] 2023 | Adjusted[1] 2022 | Adjusted[1] POP change |
|---|---|---|---|---|---|---|
| **Revenue** | **£1,477.0m** | £1,517.2m | (3%) | **£1,402.4m** | £1,326.0m | 6% |
| **Operating (loss)/profit** | **£(35.8)m** | £(51.2)m | 30% | **£56.5m** | £39.6m | 43% |
| **EBITDA** | **£85.6m** | £115.6m | (26%) | **£115.0m** | £104.6m | 10% |
| **(Loss)/profit before tax** | **£(67.9)m** | £0.1m | n/a | **£33.1m** | £24.7m | 34% |
| **(Loss)/earnings per share** | **(5.06)p** | 1.10p | n/a | **3.34p** | 3.98p | (16%) |
| **Cash (used by)/generated from operations*** | **£(5.6)m** | £49.2m | n/a | **£21.1m** | £41.6m | (49%) |
| **Free cash flow[2]*** | **£(84.0)m** | £(16.6)m | (406%) | **£(53.4)m** | £(16.5)m | (224%) |
| **Net debt** | **£(544.6)m** | £(710.4)m | 23% | **£(544.6)m** | £(710.4)m | 23% |
| **Net financial debt (pre-IFRS 16)** | **£(166.2)m** | £(289.3)m | 43% | **£(166.2)m** | £(289.3)m | 43% |

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

[2] Following feedback from investors, the Board has revised its definition of free cash flow and free cash flow excluding business exits alternative performance measures. Both these metrics are now presented after deducting the capital element of lease payments and receipts.

* Adjusted cash generated from/(used by) operations and adjusted free cash flow adjusted results exclude the impact of business exits (refer to note 9).

**Investor presentation**

A presentation for institutional investors and analysts hosted by Jon Lewis, CEO and Tim Weller, CFO, will be held at 09:00am UK time, Friday 4 August 2023. This will be held at Capita offices at 65 Gresham Street, London EC2V 7NQ. A live webcast will also be available (www.capita.com/investors) and will subsequently be available on demand. The presentation slides will be published on our website at 07:00am and a full transcript will be available the next working day.

**Webcast link:**
https://webcast.openbriefing.com/capita0823

**For further information:**

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# Chief Executive Officer's review

## H1 2023 Summary

At the start of 2023, following completion of the Group's transformation and stabilisation phases, we announced that the platform was in place to allow the Group to accelerate its growth in the medium term.

In H1 2023, we have delivered accelerated growth, with adjusted revenues up 5.8%, after increases of 0.4% in H1 2022 and 4.4% in H2 2022. We saw an improvement in adjusted EBITDA and operating profit reflecting the early release of deferred income following the award of a new £366m contract with Virgin Media O2 and a commercial settlement in the Experience division. We have transformed the funding position of the Group with the extension of our revolving credit facility to 2026 in June and issuance of £101.9m of US private placement notes in July.

We have continued to focus on the priorities we laid out in 2022, driving a client-centric culture - acting as true partners to understand client needs and focusing on delivering our commitments to them. We are improving our effectiveness in conversion of growth opportunities and have a healthy sales/contract pipeline for the second half of the year and into 2024, particularly in Public Service.

In 2022, we also outlined the key deliverables for the Group as it moves into the acceleration phase. These were improving new client win rates, refining sales incentives and processes, reducing cost of attrition, driving further simplification, and investing in digital solutions. We've seen progress in each of these areas in H1 2023 and continue to simplify our operating model across both core divisions, which will improve margins in the medium term. When combined with our drive to reduce central overheads following completion of the Portfolio divestment programme, the operating model improvements are expected to yield efficiency savings of £40m on an annualised basis by the end of 2024.

We continue to live our purpose as a responsible business. Our colleagues are at the heart of everything Capita does and we are investing in our people and creating an environment that rewards, and allows colleagues to see the important part they play in the future success of the business. We have seen an improvement in employee net promoter score (eNPS) of +14 to an overall score of +6 and employee engagement improved 1% in the first half to 66%. I am particularly pleased we have made good progress in reducing annualised employee attrition by 3% to 28%, which was one of the key corporate priorities for 2023.

As a business, we are now stronger, simpler and more focused, and we remain on track to deliver our expectations for the full year. We expect revenue to grow and margins to improve. In the medium term, improving cash conversion and finalisation of our Portfolio disposal programme in 2023 will drive a further reduction in net debt.

The Group has a clear view of the organic investment requirements to deliver the mid-single digit growth opportunity. We have also made significant progress in reducing the pension deficit which will allow a material reduction in pension deficit contributions from 2024. We will maintain a prudent approach to our capital structure, with net financial debt to EBITDA at or below 1 times. Collectively, these lead us to expect sustainable positive free cash flow generation over the medium term. We therefore expect to reintroduce dividend payments in the next couple of years, with a modest initial pay-out.

## Cyber incident

In March, the Group experienced a cyber incident which caused disruption to some client services. We worked closely and at speed with specialist advisers and forensic experts to investigate and resolve the incident.

Based on the forensic work performed, we have confirmed that some data was exfiltrated – but from less than 0.1% of the Group's server estate. That data has been recovered and extensive steps have been taken to secure the data. Impacted customers, suppliers and employees have now been contacted and we are supporting those whose data was exfiltrated. Our investigation is now close to completion. There was minimal operational impact to the majority of our clients and their customers during the incident.

This event was a challenging experience for the Group, but we learnt a lot from the incident and are sharing our experience and learnings with our clients, suppliers and other companies.

We now expect net exceptional costs associated with the cyber incident of £20m to £25m reflecting the complexity of the forensic analysis of exfiltrated data. These costs comprise specialist professional fees, recovery and remediation costs, and investment to reinforce Capita's cyber security environment, offset by anticipated insurance receipts.

The investment to reinforce our cyber security environment is not reflective of a particular weakness in the Group's cyber security estate. We are accelerating our previously planned investment to improve our cyber security maturity. We intend that our maturity level will be audited with reference to the National Institute of Standards and Technology cyber security framework on an annual basis by one of the Big 4 accounting firms.

## Digital transformation and artificial intelligence

The Group is taking a measured and ethical approach to artificial intelligence (AI) and we are working with clients to deliver bespoke solutions as the technology continues to evolve. We expect that AI will allow us to be more productive and offer our clients superior solutions with higher-tech competencies to allow efforts to be focused on complex client needs, but where a human touch is also required.

Capita is a technology aggregator and we are working with trusted hyper-scale partners, including Microsoft, AWS, Salesforce and ServiceNow, to build solutions more cost effectively, using our deep sector process knowledge.

We have a dedicated working group focused on developing solutions with our trusted partners and we have integrated AI solutions into a large range of contracts, with further AI development to be completed over the coming months across both divisions.

For example, within the Public Service division, we're accelerating our use of AI and generative AI technology adoption across a suite of contracts:

- on our Recruiting Partnering Project (RPP) with the British Army, where we are analysing all feedback from social media campaigns to identify trends in propensity to join the army, to enable more targeted campaigns;

- for the Royal Navy contract, we are utilising a new Metaverse virtual reality for Submarine Qualification training. This provides a modernised solution which improves the training experience and enables better trained submariners to be on the front line faster;
- within Local Public Service the need to create a more sustainable public estate has driven up the use of smart building technology. This technology allows customers to manage their estates efficiently and effectively by collecting data to help clients measure, understand and improve performance of building assets; and
- we continue to explore opportunities in each market vertical, including virtual wards within Health, Welfare & Education and on our Transport for London contract in areas such as claim reviews.

Within the Experience division, AI and generative AI will drive change, but having a personalised customer service which delivers a better outcome remains the priority for the division. Building solutions with AI will be led by clients' wishes and will enable us to augment our agents, enabling our people to be more competent and capable of delighting our clients, and their customers.

AI has been implemented in the division across a number of contracts in four key capability areas:

- chatbot/conversational AI – providing unattended, intelligent contact capability enabling reductions in agent call-volume requirements;
- conversation analytics – enabling real-time and post-call conversation analytics to improve quality while detecting change in the tone and sentiment analysis of conversation;
- data observatory and analytics – providing advanced data to identify actionable trends, model customer behaviours and drive operational improvements; and
- correspondence digitisation – replacing highly manual processes to make these more efficient.

We have seen a number of successes where AI is already being used; for example on one retail client, where it was implemented within just four weeks. In this instance, conversational AI resulted in a 30% reduction in human contact required while maintaining quality scores. For another retail client, the Capita conversational AI solution resulted in a third more queries being completed compared to the existing solution.

Our vision within Experience is that AI and generative AI will enable customer contact to focus agents on value-add activities, where a human empathetic touch is essential. AI capability will be utilised where it provides real benefit and positively impacts the customer journey.

## Growth

Our growth momentum has continued from that seen in 2022 and, so far this year, the Group has secured the highest value of in-year revenue (IYR) in a six-month period in recent years.

Total contract value (TCV) won was £1,357m down 4% from £1,413m in the first half of 2022. Material contracts awarded in H1 2023 included the five year Virgin Media O2 renewal (TCV: £366m) and a further two year renewal of the Recruiting Partnering Project with the British Army (TCV: £172m). The Group also secured further expansions with Transport for London, and new scopes with the City of London Police for the Action Fraud Contact Centre which will be delivered across both Public Service and Experience. There were new logo wins with Santander and Commerzbank in Experience.

We continue to perform well on smaller deals, which typically have a shorter sales cycle, with more than 8,500 deals won with a TCV of less than £1m, in aggregate generating £238m of TCV. Book to bill (defined as the total contract value signed in the period/external revenue) has remained at 1.0x, with the Public Service division at 1.0x and Experience at 0.9x.

The in-year revenue (IYR) generated from these wins in H1 was £650m, up 22% from the same point in 2022 underpinning our confidence in our second half revenue performance.

In the first half of the year, the Public Service division was selected as the winning bidder on the Functional Assessment Services contract with the Department for Work and Pensions which replaces the Personal Independence Payments contract. In July the division also secured £250m TCV on the Disabled Students Allowance framework with the Students Loans Company. These deals have a combined TCV of more than £800m. The TCV won including these contracts was above £2bn giving a year-to-date book to bill ratio above 1.5x.

Our focus this year, alongside renewals, has been securing new logo wins and expanding our scopes for existing clients. The win rate for new logos in the first half of the year was 46% and our win rate on expanding scopes was 61%. The renewal rate for the Group reduced to 69% reflecting the loss of the Teachers' Pension contract within Financial Services in the Experience division. The renewal rate for Public Service was 100%.

The order book at 30 June 2023 was £5.6bn (31 December 2022: £5.8bn) with £1.1bn recognised in the first half, £1.0bn won in order book qualifying revenue and contract terminations of £0.1bn.

The pipeline for 2024 continues to build, particularly in Public Service and there are over £3.5bn opportunities currently within the pipeline for the second half of 2023. Key deals within the second half include renewals with the Ministry of Justice and the Health and Safety Executive, in Public Service; and a large European telco in Experience. There are also new logo opportunities within our Retail and Financial Services verticals in Experience.

## Operational delivery and efficiency

We are continuing to deliver operationally for our clients. Both divisions have maintained consistency of KPI performance, with delivery remaining above 90% in the first half. On the small number of clients where performance is not being met, we have detailed remediation plans in place to improve performance.

Key operational highlights so far this year include:

- Within Public Service, on our Royal Navy training contract, we met our latest service commencement date and assumed responsibility for engineering and maintenance support for 34 different training systems and simulators. This is the latest step in delivering better trained sailors and Royal Marines to the frontline faster;

- On the Defence, Fire and Rescue contract we delivered further modernisation and transformation of the firefighting fleet, with the commissioning of the final 138 new vehicles under the contract. This investment provides a modern, more environmentally friendly level of capability alongside a safer operating environment;
- Within the Experience division, on our Virgin Media O2 contract, we significantly increased the size of our offshore delivery team, with 1,000 full-time employees added to the team in the first half, providing additional optionality to the client to service customers with digital enablement.

At a Group level, in the medium term we are targeting to double the Core Capita EBIT margin from the 2.9% achieved in 2022. This will be delivered via revenue growth, consistent operational delivery, cost efficiency and overhead reduction. As noted above, through divisional operating model improvements coupled with our drive to reduce central overheads following completion of the portfolio divestment programme, we expect to deliver efficiency savings of £40m on an annualised basis by the end of 2024.

The reduction in the Group's property footprint continues to generate cost savings; since 2020 the Group's property lease cost has reduced by more than a third.

We remain focused on resolving the structural challenges on the closed book Life & Pensions contracts within the Experience division and are exploring options for these to be moved outside the Group. In the first half of the year, we agreed a commercial settlement and exit on two contracts within the business unit. We deliver operationally for these clients, but the current commercial terms of the contracts are such that the business unit is forecast to be loss-making and cash-consumptive for the foreseeable future.

## Our people

Improving employee attrition has been a key focus for the Group, particularly within the Experience business which, across 2022, had particularly elevated levels of attrition, partly reflecting the tightness of the labour market. Over the past year we have achieved a consistent reduction in attrition each month, with overall levels of attrition down around 3% at a Group level to an annualised 28%. Within Experience annualised attrition is improved at 33% and 19% in Public Service.

We have implemented specific measures to reduce attrition to sustainable levels, with both Group and local initiatives. We have introduced Capita-wide inductions to improve the employee onboarding process and inclusion throughout the hiring process. We also built on our fit-to-role recruitment, which has reduced attrition within the first three months of employment. We are continuing to attract talented people to deliver our growth programme, enabling us to resource growth as required.

Our career path framework (CPF) rollout has continued, and we've seen a positive response in the areas where this has been introduced as colleagues successfully map their careers throughout the organisation. The rollout of the CPF will be completed by the end of this year. Following the introduction of the CPF, we've seen an increase in the number of roles being filled via internal candidates, up from 11% in 2022 to 20% in the first half of 2023.

We have focused on ensuring employees are paid fairly for the work they do, particularly as our colleagues navigate the cost-of-living crisis. Within our annual salary review, we weighted pay increases to our lowest earners, with the highest earners asked to forgo an annual pay rise. Our half-year people survey saw a 7% increase in the number of employees who believe they are paid fairly for the work they do.

Within our half-year people survey, our eNPS has improved +14 points from the year-end position and is now +6 at the Group level which is the first time the metric has been positive since we started measuring it. We also saw a 1% improvement in employee engagement to 66%.

Our #bebrilliantbeyou recruitment campaign is yielding positive results, encouraging colleagues to build a more open and inclusive working environment; 82% of our employees feel that they can be themselves at work, higher than the UK and global benchmark.

Our people priorities for the second half of the year are finalisation of the career path framework and continuing to focus on a consistently high-quality global employee experience. We are building pride in Capita and our people through the delivery of our employee value proposition and #bebrilliantbeyou campaign.

## Financial results - revenue and profit

Adjusted revenue[1] grew by 5.8% year on year at £1,402.4m (H1 2022: £1,326.0m). Public Service grew by 2.4% to £731.0m, reflecting growth on the Royal Navy training contract and additional volumes in our Personal Independence Payments contract offset by contract hand-backs within Local Public Service and a step down in revenues in Northern Ireland from 2022 which benefitted from the teachers' laptop provision contract.

Revenue in Experience grew 9% to £617.6m, benefiting from the early release of deferred income following the award of a new contract from Virgin Media O2 and a commercial settlement in the Life & Pensions business.

The Portfolio businesses continue to perform well as the remaining pillars saw volumes continue to increase as business volumes recovered following suppressed trading at the start of 2022 due to Covid-19.

Adjusted profit before tax[1] for the half year improved by 34% to £33.1m (H1 2022: £24.7m) reflecting the revenue trends noted above and, in particular, the deferred income release and commercial settlement in the Experience division.

Reported loss before tax was £67.9m (H1 2022 profit: £0.1m) as a result of the impact of business exits, goodwill impairment of £42.2m recognised in the Portfolio business and costs associated with the Group's cyber incident.

## Financial results - free cash flow and net debt

Free cash outflow excluding business exits[1] increased to £53.4m from an outflow in 2022 of £16.5m. This reflected an increased working capital outflow which resulted from the non-cash nature of the deferred income release and commercial settlement in the Experience division coupled with repayment of the 2021 furlough-related income which we have announced previously, the cash cost of the cyber incident and increased capital expenditure on digitalisation and technology, as expected.

We have made further progress on our Portfolio disposal programme in the first half, announcing the disposal of the Software pillar, and the Page One and Enforcement businesses. These disposals completed in July, realising further gross

proceeds of £67.4m. We completed the disposal of our People pillar in the first half of the year, realising gross proceeds of £18.3m.

Pre-IFRS 16 net financial debt[1] was £166.2m (31 December 2022: £84.9m) reflecting the free cash outflow and additional pension deficit payments of £15.6m triggered by prior-year Portfolio disposals.

Post-IFRS 16 net debt was £544.6m (31 December 2022: £482.4m), reflecting the free cash outflow in the first half offset by further reduction in the Group's lease liabilities as we continue to optimise our property footprint.

We materially improved our funding position through the recently announced extension of the revolving credit facility to 2026 and issuance of £101.9m equivalent of US private placement notes.

## Full-year outlook

Our full-year expectations remain unchanged. We are on track to deliver an acceleration in financial performance in 2023, despite the continued macroeconomic uncertainty.

We expect to deliver an accelerated rate of revenue growth this year compared with that achieved in the prior year, alongside an improvement in EBIT margin, in line with our target to double the Group EBIT margin over the medium term.

We continue to expect low levels of net financial debt as we complete the remaining Portfolio disposals.

1 Refer to alternative performance measures in the appendix

# Divisional performance review

The following divisional financial performance is presented on an adjusted revenue[1] and adjusted operating profit[1] basis. Reported profit is not included, because the Board assesses divisional performance on adjusted results. The basis of preparation of the adjusted figures and KPIs is set out in the Alternative Performance Measures (APMs) summary in the appendix to this statement.

## Public Service

Capita Public Service is the number one[2] strategic supplier of Software and IT Services (SITS) and business process services (BPS) to the UK Government. The division is structured around four focused market verticals: Local Public Service & Schools; Health, Welfare & Education; Justice, Central Government & Transport; and Defence, Learning, Fire & Security.

Our current core addressable market is c.£13.9bn, growing at 5% per annum. Digital BPS is a fast-growing area, while business process outsourcing (BPO) is currently shrinking, reflecting the Government's focus on digitally enabled transformation, as it looks to deliver to citizens in a cost-effective manner.

### Operational delivery and margin improvement

The division's operational delivery continues to be extremely strong, with KPI performance of 94%. During the first half, we simplified the divisional operating model, further refining client delivery processes, while maintaining operational excellence.

Operational highlights delivered in the first half of the year include:

- Delivery of the latest Service Commencement Date on the Royal Navy training contract;
- On the Job Entry Targeted Support contract in Scotland, the contract completed more than 200% of the targeted number of job starts across the contract period;
- Within our Transport for London contract, we supported major events in the city, including the King's coronation, the London Marathon and London Pride;
- In our Education business, we met key metrics for the Standards and Testing Agency, including the core KPI to deliver more than 99.9% of exam scripts marked.

We continue to focus on and harness digital ways of working and accelerate our digital transformation, leveraging AI alongside the skills and capabilities of our people for value-added work. We're working with trusted partners to develop solutions focused on clients' needs and are progressing a number of digital proof of concepts within the division where we've aligned digital transformation to future growth opportunities.

We're exploring AI opportunities within our delivery methods such as Virtual Wards and generative AI within medical screening and claims handling within Health, Welfare & Education and have introduced 'smart building' technology within the Local Public Service & Schools vertical.

More broadly, the division is on a margin improvement journey, with a plan in place to improve pricing, including renewing on favourable terms, reducing overheads, and transitioning to a richer margin mix of work, with increased delivery of digital BPS alongside traditional BPO.

To further improve margins, the division is transforming its own capabilities through increasingly standardised, repeatable and scalable propositions; which will underpin reductions in the cost of poor quality such as service credits as our operational delivery improves.

### Growth

To date in 2023, Public Service has successfully won 6,900 opportunities with TCV won of £758m, up 33%, and IYR of £312m, unchanged from the same period last year. The book-to-bill for the division in H1 was 1.0x.

Significant wins in the first half included, a two year extension on the Recruiting Partnering Project with the British Army (TCV £172m), a new contract with the City of London Police on the Action Fraud Contact Centre (TCV £70m), and further expansions on our contract with Transport for London.

In the first half, we were selected as preferred bidder by the Department for Work and Pensions on the Functional Assessment Services contract, with a TCV of £565m which is an expanded scope on our current Personal Independence Payments contract. In July, the division secured £250m of TCV on the Disabled Students Allowance (DSA) contract with the Department for Education. Including these contracts the TCV won this year for the division was over £1.5bn.

We are consistently renewing on favourable commercial terms, alongside expanding existing scopes with clients while improving win rates on new scopes.

The unweighted pipeline for the division is £7,465m, down from £7,858m at the end of the year, reflecting the strong TCV performance so far in 2023. The divisional order book stands at £3,116m, an increase of £131m from £2,985m at year end.

| Divisional financial summary | 2023 | 2022 | % change |
|---|---|---|---|
| Adjusted revenue[1] (£m) | **731.0** | 713.6 | 2.4% |
| Adjusted operating profit[1] (£m) | **39.5** | 46.8 | (15.6)% |
| Adjusted operating margin[1] (%) | **5.4%** | 6.6% | (18.2)% |
| Adjusted EBITDA[1] (£m) | **61.1** | 65.8 | (7.1)% |
| Operating cash flow excluding business exits[1] (£m) | **52.9** | 58.1 | (9.0)% |
| Adjusted operating cash conversion[1] | **86.6%** | 88.3% | (1.9)% |
| Order book (£m) (comparative at 31 December 2022) | **3,115.5** | 2,985.0 | 4% |

Adjusted revenue[1] grew 2.4% to £731.0m, reflecting further growth on the Royal Navy training contract, additional volumes on the Personal Independence Payments contract and the benefit from indexation across the contract portfolio. This offset the non-repeat of the prior year IT device refresh contract with the Northern Ireland Education Authority and completion of the Job Entry Targeted Support Scheme contract in the first half. As expected, there have been continued revenue declines within the Local Public Service sector.

Adjusted operating profit[1] decreased 15.6% to £39.5m, impacted by increased IT spend on certain contracts as well as property relocation costs in our Capita Intelligent Communication business. This was offset by the increased volumes from the Royal Navy training and Personal Independence Payments contracts.

Operating cash flow excluding business exits[1] reduced by 9.0% to £52.9m. Adjusted operating cash conversion remained broadly in line with the prior period at 87%.

**Outlook**
We expect accelerated revenue growth in the second half, driven by new wins such as DSA and growth within the Health, Welfare & Education and Defence, Learning, Fire & Security verticals. Margin improvements are expected to be delivered across the year underpinned by revenue growth and cost efficiencies.

## Experience

Capita Experience is one of Europe's leading customer experience businesses. It is the market leader[3] in the UK and ranks fifth in Germany and Europe.

The division is structured around four chosen market sectors: Financial Services; Telecoms, Media & Technology; Energy & Utilities; and Retail. We have strong industry expertise and presence, with clients in the UK, Ireland, Germany and Switzerland, and services delivered across these geographies and in India, South Africa, Poland and Bulgaria. We operate in markets where we have a strong track record and where we see potential for growth.

The global customer experience market is worth £277bn a year and the outsourced element, currently around 28% of the market, is expected to grow at c.5% per annum.

There is an ongoing trend towards self-service and automation in customer services, with clients looking to utilise omni-channel offerings with increased multilingual capabilities and capacity, and agents working remotely from our global delivery locations.

**Operational delivery and margin improvement**
The division's operational KPI performance has been consistently strong across the first half at 93%.

Specific achievements include a number of cases of successful AI utilisation; including, for one retail client, where it was implemented within just four weeks. In this instance, conversational AI resulted in a 30% reduction in human contact required, while maintaining quality scores. A second instance involved the implementation of the Capita conversational AI solution for another retail client, resulting in one third more queries being completed compared with the existing solution.

We're working on optimising our global delivery network with multi location capability options for all clients to provide optionality. The division's India shared service centre team won two awards at the UBS Forums Shared Services Summit, showing the high quality delivery in this area.

We've continued to grow our offshoring capability, particularly in India. On the Virgin Media O2 contract we have hired more than 1,000 additional full-time employees who have been trained to ramp up services with the required skill set, in turn offering the client a high-quality, cost-effective solution. In Europe, we're expanding capabilities in Poland and Bulgaria, as we look to build on our existing multi-lingual capability.

A key objective and opportunity to improve the margin within the Experience business exists in reducing attrition. There have been improvements this year and in the first half the division introduced a five-point plan to stem attrition and retain talent, including our leadership academy and tailored advisor development journey plan.

**Growth**
To date in 2023, Experience has secured deals with TCV won of £559m and IYR has increased 50% year on year.

Key wins for the division include a five year renewal with Virgin Media O2 (TCV: £366m), a new win with Santander (TCV: £27m) and a number of renewals within the Energy & Utilities vertical. The book-to-bill for the division in H1 was 0.9x.

The unweighted pipeline for the division is £3,027m, down from £3,961m at year end, reflecting the strong TCV performance so far in 2023 and the loss of the Teachers Pension contract.

By acquiring new clients and retaining our existing clients, we will build long-term sustainable growth. Key deals lined up for the second half include major renewals in Germany and opportunities within the Retail vertical.

The divisional order book stands at £2,210m, a decrease of £317m from £2,527m at year-end. The reduction reflects the higher proportion of contracts on framework agreements, including the material Virgin Media O2 contract renewal, all of which do not qualify as order book under IFRS 15.

| Divisional financial summary | 2023 | 2022 | % change |
|---|---|---|---|
| Adjusted revenue[1] (£m) | **617.6** | 566.2 | 9.1% |
| Adjusted operating profit[1] (£m) | **39.7** | 14.5 | 173.8% |
| Adjusted operating margin[1] (%) | **6.4%** | 2.6% | 146.2% |
| Adjusted EBITDA[1] (£m) | **70.9** | 48.5 | 46.2% |
| Operating cash flow excluding business exits[1] (£m) | **24.7** | 20.7 | 19.3% |
| Adjusted operating cash conversion[1] | **34.8%** | 42.7% | (18.5)% |
| Order book (£m) (comparative at 31 December 2022) | **2,209.8** | 2,526.7 | (13)% |

Adjusted revenue[1] increased by 9.1% to £617.6m. Revenue benefitted from wins such as Scottish Power, higher volumes across the International business, and indexation, which offset further volume attrition and contract losses within the

Financial Services vertical. The division also benefitted from the previously anticipated deferred income release associated with a renewal of the Virgin Media O2 contract and a commercial settlement within the closed book Life & Pensions business.

Adjusted operating profit[1] increased by 173.8% to £39.7m benefiting from the deferred income release following the award of the Virgin Media O2 contract and commercial settlement within the closed book Life & Pensions business.

Operating cash flow excluding business exits[1] increased by 19.3% to £24.7m. Adjusted operating cash conversion was 35% with the reduction from 43% in the prior period reflecting the non-cash nature of the deferred income release and commercial settlement.

### Outlook

We expect a lower rate of revenue growth in H2, driven by the non-repeat of contractual one-offs in H1 and continued volume attrition within the closed book Life & Pensions business unit.

We remain focused on resolving the structural challenges on the closed book Life & Pensions contracts within the Experience division.

## Portfolio

Capita Portfolio comprises non-core businesses that are intended for disposal.

At the start of 2023, the division was organised into pillars comprising businesses of similar characteristics: Business Solutions, People, Software, Travel, and the FERA joint venture.

This year we have completed the disposal of the People pillar, in two separate transactions, realising gross proceeds in the first half of £18.3m.

We also announced the exchange of the Software and Business Solutions pillars. These disposals subsequently completed in July, realising gross proceeds from the deals announced of £67.4m and will be used to further strengthen the Group’s balance sheet and materially reduce debt.

| Divisional financial summary | 2023 | 2022 | % change |
|---|---|---|---|
| Adjusted revenue[1] (£m) | **53.8** | 46.2 | 16.5% |
| Adjusted operating profit[1] (£m) | **0.4** | (6.4) | n/a |
| Adjusted operating margin[1] (%) | **0.7%** | (13.9)% | n/a |
| Adjusted EBITDA[1] (£m) | **3.3** | 5.0 | (34.0)% |
| Operating cash flows excluding business exits[1] (£m) | **(7.7)** | (7.7) | —% |
| Order book (£m) (comparative at 31 December 2022) | **264.9** | 293.5 | (10)% |

Adjusted revenue[1] from the businesses not yet sold (primarily the Travel pillar and the FERA joint venture) at half year increased by 16.5% to £53.8m.

Adjusted operating profit[1] increased to £0.4m from a loss of £6.4m in H1 2022 reflecting the revenue growth and cost savings associated with the ongoing disposal programme.

Operating cash flow excluding business exits[1] was flat with an outflow of £7.7m.

### Outlook

We are targeting completion of the remaining disposals over the coming months, with the majority of related proceeds expected to be received over the next few months.

1 Refer to alternative performance measures in the appendix

2 TechMarketView

3 Everest

# Chief Financial Officer's review

| Financial highlights | Reported results | | | Adjusted[1] results | | |
|---|---|---|---|---|---|---|
| | 30 June 2023 | 30 June 2022 | POP change | 30 June 2023 | 30 June 2022 | POP change |
| Revenue | **£1,477.0m** | £1,517.2m | (3)% | **£1,402.4m** | £1,326.0m | 6% |
| Operating (loss)/profit | **£(35.8)m** | £(51.2)m | 30% | **£56.5m** | £39.6m | 43% |
| EBITDA | **£85.6m** | £115.6m | (26)% | **£115.0m** | £104.6m | 10% |
| (Loss)/profit before tax | **£(67.9)m** | £0.1m | n/a | **£33.1m** | £24.7m | 34% |
| (Loss)/earnings per share | **(5.06)p** | 1.10p | n/a | **3.34p** | 3.98p | (16)% |
| Cash (used by)/generated from operations* | **£(5.6)m** | £49.2m | n/a | **£21.1m** | £41.6m | (49)% |
| Free cash flow* | **£(84.0)m** | £(16.6)m | (406)% | **£(53.4)m** | £(16.5)m | (224)% |
| Net debt | **£(544.6)m** | £(710.4)m | 23% | **£(544.6)m** | £(710.4)m | 23% |
| Net financial debt (pre-IFRS 16) | **£(166.2)m** | £(289.3)m | 43% | **£(166.2)m** | £(289.3)m | 43% |

* Adjusted cash (used by)/generated from operations and adjusted free cash flow exclude the impact of business exits (refer to note 9).

## Overview

Adjusted revenue[1] growth of 6% reflected underlying growth as well as two specific factors in the Experience division, being the beneficial impact of the early termination of our old contract and commencement of our new contract with Virgin Media O2 and a commercial settlement in the closed book Life & Pensions business.

Public Service revenue growth was underpinned by scope increases on the Royal Navy Training contract and increased volumes on the Personal Independence Payments contract, offset by contract hand-backs in Local Public Services and a step down in revenues in Northern Ireland which benefitted from the teachers' laptop contract in the first half of 2022. Experience revenue growth was driven by the accelerated deferred income release and new contract revenue following the award of the new contract with Virgin Media O2, and a commercial settlement in the closed book Life & Pensions business.

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

The step-up in adjusted profit before tax[1] reflected the revenue trends noted above and, in particular, the Virgin Media O2 contract transition and the commercial settlement in the Experience division.

Adjusted earnings per share[1] reduced as the increase in adjusted profit before tax[1] was offset by a lower adjusted income tax credit of £22.3m (2022: £42.4m). The higher adjusted tax credit in the prior period reflected a deferred tax release following the significant increase in the defined benefit pension scheme surplus at 30 June 2022.

The decrease in reported profit before tax reflects exceptional costs incurred in resolving the cyber incident and lower gains on the sale of businesses, partially offset by the increase in adjusted profit before tax[1] and a lower impairment of goodwill.

The reduction from reported earnings per share to a reported loss per share reflects the reduction in reported profit before tax noted above, compounded by the swing from a reported income tax credit to an income tax charge. The reported tax credit in 2022 was impacted by the increase in the pension surplus noted above, with further variation year-on-year due to the impact of disposals on the estimate of deferred tax assets.

Cash generated from operations excluding business exits[1] decreased, as expected, by 49% to £21.1m, driven by the non-cash nature of deferred income releases and commercial settlement in Experience, the previously announced furlough repayment and the cash costs of the cyber incident.

Free cash flow excluding business exits[1] in the six months ended 30 June 2023 was an outflow of £53.4m (2022: outflow £16.5m). This reflects the reduction in cash generated from operations and increased capital expenditure in digitalisation and technology in both Public Services and Experience.

The decrease in reported free cash flow reflects the above reduction in free cash flow excluding business exits[1], a cash outflow from business exits, and an increase in pension deficit contributions triggered by disposals.

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 first half of 2023 we completed the disposal of the Resourcing and Security Watchdog businesses realising total proceeds net of disposal costs of £8.2m (including settlement of intercompany balances on completion) with net cash proceeds of £4.5m reflecting the cash held in the disposed entities on completion.

During June 2023, we agreed the sale of our Software, PageOne and Enforcement businesses. All three of these sales completed on 31 July 2023 realising total gross proceeds of £67.4m.

These disposals form part of the Board-approved disposal programme. The sale processes have been launched for all remaining pillars in the Portfolio division. The Group expects to use the proceeds from this disposal programme to repay debt, to make further deficit reduction contributions to the Group's defined benefit pension scheme and to invest in driving growth in the remaining core businesses. In the first half of 2023, we repaid £40.5m of private placement loan notes and made pension deficit contributions of £30.6m (£15.0m regular contributions and £15.6m acceleration of agreed contributions triggered by disposals).

We expect to incur exceptional costs of approximately £20m to £25m associated with the cyber incident detailed in the Chief Executive Officer's Review. These costs comprise specialist professional fees, recovery and remediation costs and acceleration of investment to reinforce Capita's cyber security environment, offset by anticipated insurance receipts. A charge of £21.8m has been recognised in the period ended 30 June 2023 and has been excluded from adjusted profit. This excludes any potential insurance receipt as this had not yet met the criteria for recognition at the half year. The cash outflow in respect of the cyber incident in the period was £9.2m which is included within free cash flow excluding business exits and cash generated from operations excluding business exits.

Liquidity as at 30 June 2023 was £283.6m, made up of £243.0m of our undrawn committed revolving credit facility (RCF) and £40.6m of unrestricted cash and cash equivalents net of overdrafts. In June 2023, we extended the RCF to 31 December 2026 at £284m, reducing to £250m by 1 January 2025 as a consequence of specified transactions.

In July we issued £101.9m equivalent of new US private placement loan notes across three tranches: £50m maturing 25 July 2026, USD45m maturing 25 July 2026 and USD23m maturing 25 July 2028. We expect to early settle £30.3m of Euro private placement loan notes in the second half of 2023 which were originally due in 2027.

The RCF extension and private placement loan note issuance are a demonstration of debt providers' confidence in Capita and have enabled us to extend materially the average maturity of our debt funding.

## Financial review

### 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 Board's 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.

Following feedback from investors the Board has revised its definition of free cash flow and free cash flow excluding business exits[1] alternative performance measures. From 1 January 2023, both these metrics have been presented after deducting the capital element of lease payments and receipts, as this provides a more relevant and comparable measure of the cash generated by the Group's operations and available to fund operations, capital expenditure, non-lease debt obligations, and dividends. Comparative amounts have been re-presented.

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 2022 comparatives have been re-presented to exclude business exits in the second half of 2022 and the first six months of 2023. As at 30 June 2023, the following businesses met this threshold and were classified as business exits and therefore excluded from adjusted results in both 2023 and 2022: Resourcing, Security Watchdog, PageOne, Software and Enforcement businesses.

Reconciliations between adjusted and reported operating profit, profit before tax and free cash flow excluding 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 |
|---|---|---|---|---|
| **Six months ended 30 June 2022** | 713.6 | 566.2 | 46.2 | 1,326.0 |
| Net growth | 17.4 | 51.4 | 7.6 | 76.4 |
| **Six months ended 30 June 2023** | **731.0** | **617.6** | **53.8** | **1,402.4** |

Adjusted revenue[1] growth of 6% was in line with expectations. The adjusted[1] revenue was impacted by the following:

- **Public Service (2.4% growth):** growth underpinned by scope increases on the Royal Navy Training contract and increased volumes on the Personal Independence Payments contract, offset by contract hand-backs in Local Public Services and a step down in revenues in Northern Ireland which benefitted from the teachers' laptop contract in the first half of 2022;
- **Experience (9.1% growth)**: growth was primarily driven by the accelerated release of deferred income and new contract revenue following the award of a new contract from Virgin Media O2, and a commercial settlement in the Life & Pensions business; and
- **Portfolio (16.5% growth)**: growth in transactional revenue mainly from Travel which continued its recovery following Covid-related constraints.

#### Order book

The Group's consolidated order book was £5,590.2m at 30 June 2023 (31 December 2022: £5,805.2m). Additions from contract wins and extensions in 2023 (£817.7m), including Santander within Capita Experience and Army Recruiting Partnering Project, City of London Police and TfL Road User Charging within Capita Public Service and scope changes and indexation (£148.6m), were offset by the reduction from revenue recognised in the period (£1,070.8m), contract terminations (£89.8m) and business disposals (£20.7m).

### Adjusted profit before tax

| Adjusted profit before tax[1] bridge by division | Public Service £m | Experience £m | Portfolio £m | Capita plc £m | Total £m |
|---|---|---|---|---|---|
| **Six months ended 30 June 2022** | 46.8 | 14.5 | (6.4) | (30.2) | 24.7 |
| Net growth/(reduction) | (7.3) | 25.2 | 6.8 | (16.3) | 8.4 |
| **Six months ended 30 June 2023** | **39.5** | **39.7** | **0.4** | **(46.5)** | **33.1** |

Adjusted profit before tax[1] increased in 2023. The adjusted profit before tax[1] bridge was driven by the following:

- **Public Service:** the beneficial impact of the revenue growth from the Royal Navy Training and Personal Independence Payments contracts discussed above, offset by increased IT spend on certain contracts as well as incremental property costs within our Capita Intelligent Communications business as we transitioned operating locations;
- **Experience:** reflects the Virgin Media O2 contract transition, the closed book Life & Pensions settlement, offset by flow through of prior year contract losses including Carphone Warehouse, The Co-operative Bank and continued attrition in the remaining Life & Pensions business;
- **Portfolio:** benefits from post Covid-19 recovery in transactional businesses, mainly Travel, and cost savings from a smaller overhead following the sale of the majority of the division; and
- **Capita plc:** impacted by R&D tax credits and property rate rebates in the prior year.

### Cash generated from operations and free cash flow

| Adjusted operating profit to free cash flow excluding business exits[1] | 30 June 2023 £m | 30 June 2022 £m |
|---|---|---|
| **Adjusted operating profit[1]** | **56.5** | **39.6** |
| Add: depreciation/amortisation and impairment of property, plant and equipment and intangible assets | 58.5 | 65.0 |
| **Adjusted EBITDA[1]** | **115.0** | **104.6** |
| Working capital | (65.8) | (21.9) |
| Non-cash and other adjustments | (3.9) | (26.1) |
| **Operating cash flow excluding business exits[1]** | **45.3** | **56.6** |
| Pension deficit contributions | (15.0) | (15.0) |
| Cyber incident | (9.2) | — |
| **Cash generated from operations excluding business exits[1]** | **21.1** | **41.6** |
| Net capital expenditure | (28.1) | (12.7) |
| Interest/tax paid | (19.2) | (16.1) |
| Net capital lease payments | (27.2) | (29.3) |
| **Free cash flow excluding business exits[1]** | **(53.4)** | **(16.5)** |

Adjusted EBITDA[1] increased by 10% reflecting the improvement in adjusted profit[1] explained above and the reduction in depreciation, amortisation and impairment of property, plant and equipment, right of use assets and intangible assets. This latter reduction reflects the lower level of capital investment in prior periods, and the reduction in the property portfolio which impacts on the right of use asset depreciation charge.

Cash generated from operations excluding business exits[1] reflects the non-cash nature of the deferred income and commercial settlement in the Experience division, hand-backs in Local Public Services, the direct cash flow impact of the cyber incident (£9.2m), and, the repayment of the 2021 furlough-related income which we have announced previously.

The reduction in non-cash and other adjustments reflects spend on a customer contract in the prior year.

The £15.0m of pension deficit contributions are in line with the schedule previously agreed with the scheme trustees as part of the 2021 triennial valuation.

Free cash flow excluding business exits[1] in the six months ended 30 June 2023 was an outflow of £53.4m (2022: outflow £16.5m). This reflects the reduction in cash generated from operations and increased capital expenditure in digitalisation and technology in both Public Services and Experience, partially offset by the reduction in net capital lease payments reflecting the ongoing property rationalisation process.

Operating cash conversion decreased to 39% (30 June 2022: 54%). The reduction primarily reflects the non-cash nature of the deferred income release and commercial settlement in the Experience division and the repayment of the 2021 furlough income.

## Reported results

### Adjusted to reported profit

As noted above, to aid understanding of our underlying performance, adjusted operating profit[1] and adjusted profit before tax[1] exclude a number of specific items, including the amortisation and impairment of acquired intangibles and goodwill, the impact of business exits, and in 2023, the impact of the cyber incident.

**Reported to adjusted[1] profit bridge**

| | Operating (loss)/profit | | (Loss)/profit before tax | |
|---|---|---|---|---|
| | **30 June 2023 £m** | 30 June 2022 £m | **30 June 2023 £m** | 30 June 2022 £m |
| **Reported** | **(35.8)** | (51.2) | **(67.9)** | 0.1 |
| Amortisation and impairment of acquired intangibles | **0.1** | 3.2 | **0.1** | 3.2 |
| Impairment of goodwill | **42.2** | 92.5 | **42.2** | 92.5 |
| Net finance costs | **—** | — | **2.2** | (4.5) |
| Business exits | **28.2** | (4.9) | **34.7** | (66.6) |
| Cyber incident | **21.8** | — | **21.8** | — |
| **Adjusted** | **56.5** | **39.6** | **33.1** | **24.7** |

Impairment of goodwill

In preparing these condensed consolidated financial statements, the Group undertook a review to identify indicators of goodwill impairment. Consideration was given to performance against forecasts used in the year end impairment testing and where this gave rise to an indicator of potential impairment, an impairment test was performed.

At 30 June 2023, a goodwill impairment of £42.2m was recognised. This comprised:

- £35.3m: in respect of CGUs in the Group's Portfolio division where the disposal processes of the businesses aligned to these CGUs were sufficiently advanced that the Board's judgement was that for impairment testing purposes the value in use of these CGUs should be 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 sale proceeds less cost of disposal. 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; and
- £6.9m: in respect of a business in the Business Solutions group of CGUs in Capita Portfolio. The impairment arose primarily due to a negotiated exit of an end customer, which has negatively impacted the forecast financial performance of the business.

Business exits

Business exits include the effects of businesses that have been sold 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 30 June 2023.

In accordance with our policy, the trading results of these businesses, along with the non-trading expenses and gain on disposal, were included in business exits and therefore excluded from adjusted results. To enable a like-for-like comparison of adjusted results, the 2022 comparatives have been re-presented to exclude businesses classified as business exits from 1 July 2022 to 30 June 2023.

At 30 June 2023 business exits comprised:

| Business | Status at 30 June 2023 | Disposal completed on |
|---|---|---|
| Resourcing | Sold | 31 May 2023 |
| Security Watchdog | Sold | 31 May 2023 |
| PageOne | Held-for-sale | 31 July 2023 |
| Software | Held-for-sale | 31 July 2023 |
| Enforcement | Held-for-sale | 31 July 2023 |

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 were not classified as assets held-for-sale at 30 June 2023 and, accordingly their trading results are included within adjusted results.

Cyber incident

Capita expects to incur exceptional costs of approximately £20m to £25m associated with the cyber incident, reflecting the complexity of the forensic analysis of exfiltrated data. These costs comprise specialist professional fees, recovery and remediation costs and investment to reinforce Capita's cyber security environment, offset by anticipated insurance receipts. A charge of £21.8m has been recognised in the period ended 30 June 2023. This excludes any potential insurance receipt as this had not yet met the criteria for recognition at the half year.

Following the cyber incident, Capita has been working closely with all appropriate regulatory authorities and with customers, suppliers and colleagues to notify those affected and take any remaining necessary steps to address the incident. At the date of approval of these condensed consolidated financial statements, the Group has received no material claims in relation to the cyber incident. At this stage, it is not possible to reliably estimate the value of any potential or future claim or fine/penalty against the Group and no provision has been recorded.

Further detail of the specific items charged in arriving at reported operating profit and profit before tax for 2023 is provided in note 4 to the condensed consolidated financial statements.

**Free cash flow to free cash flow excluding business exits[1]**

| | 30 June 2023 £m | 30 June 2022 £m |
|---|---|---|
| **Free cash flow** | **(84.0)** | (16.6) |
| Business exits | **15.0** | (4.2) |
| Pension deficit contributions triggered by disposals | **15.6** | 4.3 |
| **Free cash flow excluding business exits[1]** | **(53.4)** | (16.5) |

Free cash flow was lower than free cash flow excluding business exits[1] reflecting free cash flows generated by business exits, and pension deficit contributions triggered by the disposal of Pay360 and Capita Translation and Interpreting in the second half of 2022.

**Movements in net debt**

Net debt at 30 June 2023 was £544.6m (31 December 2022: £482.4m). The increase in net debt over the six months ended 30 June 2023 reflects the free cash outflow noted above offset by the continued reduction in our leased property estate.

| Net debt | 30 June 2023 £m | 31 December 2022 £m |
|---|---|---|
| **Opening net debt** | **(482.4)** | (879.8) |
| Cash movement in net debt | (37.4) | 438.2 |
| Non-cash movements | (24.8) | (40.8) |
| **Closing net debt** | **(544.6)** | (482.4) |
| Remove closing IFRS 16 impact | 378.4 | 397.5 |
| **Net financial debt (pre-IFRS 16)** | **(166.2)** | (84.9) |
| Cash and cash equivalents net of overdrafts | 94.9 | 177.2 |
| Financial debt net of swaps | (261.1) | (262.1) |
| **Net financial debt /adjusted EBITDA[1] (both pre-IFRS 16)** | **1.0x** | 0.5x |
| **Net debt (post-IFRS 16)/adjusted EBITDA[1]** | **2.3x** | 2.0x |

Net financial debt (pre-IFRS 16) increased by £81.3m to £166.2m at 30 June 2023, resulting in a net financial debt to adjusted EBITDA (both pre-IFRS 16) ratio of 1.0x. Over the medium term, following the completion of our Portfolio divestment programme, we will be targeting a net financial debt to adjusted EBITDA[1] (both pre-IFRS 16) ratio for Capita of ≤1.0x.

The Group was compliant with all debt covenants at 30 June 2023.

**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 | 30 June 2023 £m | 31 December 2022 £m |
|---|---|---|
| Revolving credit facility (RCF) | **284.0** | 288.4 |
| Less: drawing on committed facilities | (41.0) | — |
| **Undrawn committed facilities** | **243.0** | 288.4 |
| Net cash, cash equivalents net of overdrafts | 94.9 | 177.2 |
| Less: restricted cash* | (54.3) | (60.4) |
| **Liquidity** | **283.6** | 405.2 |

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

The Group's RCF provides flexible liquidity available to fund operations and was £41.0m drawn at 30 June 2023 (31 December 2022: undrawn).

In June 2023, the Group extended the RCF to 31 December 2026 at £284m, reducing to £250m by 1 January 2025. The extended facility is subject to covenants, which are the same as in the existing RCF and incorporates provisions such that it will partially reduce in quantum to £250m as a consequence of specified transactions.

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 continued its use of the facility, with the value of invoices sold under the facility at 30 June 2023 of £40.3m (31 December 2022: £44.4m).

At 30 June 2023, the Group had £94.9m of cash and cash equivalents net of overdrafts, and £230.5m of private placement loan notes and fixed-rate bearer notes. These debt instruments mature over the period to 2027.

In July the Group issued £101.9m equivalent of US private placement loan notes across three tranches: £50m maturing 25 July 2026, USD45m maturing 25 July 2026 and USD23m maturing 25 July 2028.

In the second half of 2023, the Group will repay £41.8m of private placement loan notes as scheduled, and expects to early settle £30.3m of Euro private placement loan notes which were originally due in 2027, following which the next debt maturity is January 2025.

### 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 continues to adopt the going concern basis in preparing these condensed consolidated financial statements as set out in note 1 to the condensed consolidated financial statements.

### Pensions

Contributions during the period 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 actuarial valuation. This includes the acceleration of deficit reduction contributions (£15.6m) triggered by the disposal of certain businesses in the second half of 2022.

The net defined benefit pension asset for accounting purposes increased from £39.6m at 31 December 2022 to £50.6m at 30 June 2023. The main reasons for this movement were the £30.6m of deficit funding contributions paid into the Scheme (plus a £0.4m deficit funding contribution in respect of other schemes), partially offset by the impact of actual inflation over the period being greater than expected.

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 30 June 2023 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 30 June 2023) was approximately £57m (31 December 2022: 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 30 June 2023, the funding level was around 98% (or a net liability of £25m). The deficit of £25m is expected to be met by a mixture of the remaining deficit contributions and asset outperformance.

The Scheme is undergoing its 31 March 2023 triennial actuarial valuation process which is expected to be finalised well within the regulatory timescale of 30 June 2024.

### Balance sheet

Consolidated net assets were £246.6m at 30 June 2023 (31 December 2022: net assets £352.7m).

The movement is predominantly driven by the increase in net debt set out above.

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1 Refer to alternative performance measures in the appendix

# Forward looking statements

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

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

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

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

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

# Principal risks and uncertainties

The principal risks and uncertainties faced by the Group and its approach to internal control and risk management are set out on pages 54 to 63 of the 2022 Annual Report which is available on the Group's website at www.capita.com/investors/results-reports-and-presentations.

The Executive Risk and Ethics Committee (EREC) have considered the principal risks and uncertainties of the Group and have determined that those reported in the 2022 Annual Report and Accounts remain materially the same for the remaining half of the financial year.

| Risk title | Risk description |
|---|---|
| Living our purpose | Failure to live our purpose and failure to change stakeholder perception so we are seen to live our purpose |
| Strategy | Failure to define, resource and execute the right medium-term strategy |
| Innovation | Failure to innovate and develop new value propositions for clients and customers |
| People attraction & retention | Failure to attract, develop, engage and retain the right people for current and future client propositions |
| Culture | Failure to change the culture and practices of Capita in line with our purpose and strategy |
| Data protection | Failure to protect data, information and IT systems |
| Contracts | Failure to secure new contracts/ extend existing contracts and services |
| Delighting clients | Failure to delight clients and customers and deliver contractual obligations |
| Internal control | Failure to maintain a risk-based system of internal control |
| Geopolitical climate | Failure to plan for, influence and respond to potential changes in the geopolitical climate |
| Financial stability | Failure to maintain financial stability and achieve financial targets |
| Wellbeing, health & safety | Failure of Capita to protect the wellbeing, safety, and health of all Capita's employees, the people we work with and our service users |
| Climate change | Failure to adapt Capita and its services to the impacts of climate change |

# Statement of Directors' responsibilities

The Board of directors confirms, to the best of its knowledge, that these condensed consolidated financial statements have been prepared in accordance with IAS 34 as adopted for use in the UK and that the Half Year Management Report includes a fair review of the information required by Rules 4.2.7 and 4.2.8 of the Disclosure Guidance and Transparency Rules of the United Kingdom Financial Conduct Authority.

The names and functions of the Board of directors of Capita plc are listed on the Group website at www.capita.com/our-company/about-capita/about-board.

By order of the Board

**J Lewis**
**Chief Executive Officer**
**3 August 2023**

**T Weller**
**Chief Financial Officer**
**3 August 2023**

# Condensed consolidated income statement

For the six months ended 30 June 2023

| | Notes | 30 June 2023 £m | 30 June 2022 £m |
|---|---|---|---|
| **Revenue** | 3 | **1,477.0** | 1,517.2 |
| Cost of sales | | **(1,138.4)** | (1,185.5) |
| **Gross profit** | | **338.6** | 331.7 |
| Administrative expenses | | **(374.4)** | (382.9) |
| **Operating loss** | 3 | **(35.8)** | (51.2) |
| Share of results in associates and investment gains | | **—** | 3.6 |
| Net finance expense | 5 | **(25.5)** | (14.2) |
| (Loss)/gain on business disposal | 8 | **(6.6)** | 61.9 |
| **(Loss)/profit before tax** | | **(67.9)** | 0.1 |
| Income tax (charge)/credit | 6 | **(16.8)** | 18.2 |
| **Total (loss)/profit for the period** | | **(84.7)** | 18.3 |
| **Attributable to:** | | | |
| Owners of the Company | | **(84.4)** | 18.3 |
| Non-controlling interests | | **(0.3)** | — |
| | | **(84.7)** | 18.3 |
| **(Loss)/Earnings per share** | 7 | | |
| – basic | | **(5.06)p** | 1.10p |
| – diluted | | **(5.06)p** | 1.08p |
| | | | |
| Adjusted operating profit | 4 | **56.5** | 39.6 |
| Adjusted profit before tax | 4 | **33.1** | 24.7 |
| Adjusted earnings per share | 7 | **3.34p** | 3.98p |
| Adjusted and diluted earnings per share | 7 | **3.27p** | 3.92p |

# Condensed consolidated statement of comprehensive income

| For the six months ended 30 June 2023 | Notes | 30 June 2023 £m | 30 June 2022 £m |
|---|---|---|---|
| **Total (loss)/profit for the period** | | **(84.7)** | 18.3 |
| **Other comprehensive (expense)/income** | | | |
| **Items that will not be reclassified subsequently to the income statement** | | | |
| Actuarial (loss)/gain on defined benefit pension schemes | | **(26.6)** | 136.3 |
| Tax effect on defined benefit pension schemes | | **6.1** | (34.1) |
| (Loss)/gain on fair value of investments | | **(0.1)** | — |
| **Items that will or may be reclassified subsequently to the income statement** | | | |
| Exchange differences on translation of foreign operations | | **(3.4)** | 1.1 |
| Exchange differences realised on business disposals | 8 | **—** | 0.3 |
| (Loss)/gain on cash flow hedges | | **(1.6)** | 10.3 |
| Cash flow hedges recycled to the income statement | | **(1.2)** | (1.2) |
| Tax effect on cash flow hedges | | **0.7** | (2.3) |
| **Other comprehensive (expense)/income for the period net of tax** | | **(26.1)** | 110.4 |
| **Total comprehensive (expense)/income for the period net of tax** | | **(110.8)** | 128.7 |
| **Attributable to:** | | | |
| Owners of the Company | | **(110.2)** | 128.5 |
| Non-controlling interests | | **(0.6)** | 0.2 |
| | | **(110.8)** | 128.7 |

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

# Condensed consolidated balance sheet

At 30 June 2023

| | Notes | 30 June 2023 £m | 31 December 2022 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **97.0** | 101.1 |
| Intangible assets | | **85.3** | 106.0 |
| Goodwill | 10 | **511.8** | 605.9 |
| Right-of-use assets | | **233.4** | 249.5 |
| Investments in associates and joint ventures | | **0.2** | 0.2 |
| Contract fulfilment assets | 2 | **262.8** | 263.0 |
| Financial assets | 12 | **100.2** | 118.2 |
| Deferred tax assets | | **176.0** | 189.5 |
| Employee benefits | | **54.2** | 42.7 |
| Trade and other receivables | | **14.0** | 15.8 |
| | | **1,534.9** | **1,691.9** |
| **Current assets** | | | |
| Financial assets | 12 | **26.0** | 23.6 |
| Disposal group assets held-for-sale | 8 | **81.8** | — |
| Trade and other receivables | | **491.4** | 430.4 |
| Cash | 12 | **161.3** | 396.8 |
| Income tax receivable | | **13.2** | 9.9 |
| | | **773.7** | **860.7** |
| **Total assets** | | **2,308.6** | **2,552.6** |
| **Current liabilities** | | | |
| Trade and other payables | | **495.7** | 492.5 |
| Deferred income | | **606.3** | 585.1 |
| Overdrafts | 12 | **86.8** | 219.6 |
| Lease liabilities | 12 | **54.6** | 55.6 |
| Disposal group liabilities held-for-sale | 8 | **28.8** | — |
| Financial liabilities | 12 | **88.9** | 84.6 |
| Provisions | 11 | **80.5** | 75.7 |
| | | **1,441.6** | **1,513.1** |
| **Non-current liabilities** | | | |
| Trade and other payables | | **13.3** | 15.1 |
| Deferred income | | **36.8** | 55.6 |
| Lease liabilities | 12 | **323.8** | 341.9 |
| Financial liabilities | 12 | **193.6** | 212.6 |
| Deferred tax liabilities | | **6.9** | 6.9 |
| Provisions | 11 | **42.4** | 51.6 |
| Employee benefits | | **3.6** | 3.1 |
| | | **620.4** | **686.8** |
| **Total liabilities** | | **2,062.0** | **2,199.9** |
| **Net assets** | | **246.6** | **352.7** |
| **Capital and reserves** | | | |
| Share capital | 13 | **35.2** | 34.8 |
| Share premium | 13 | **1,145.5** | 1,145.5 |
| Employee benefit trust and treasury shares | 13 | **(0.8)** | (4.2) |
| Capital redemption reserve | | **1.8** | 1.8 |
| Other reserves | | **(9.7)** | (4.5) |
| Retained deficit | | **(947.3)** | (843.2) |
| **Equity attributable to owners of the Company** | | **224.7** | **330.2** |
| Non-controlling interests | | **21.9** | 22.5 |
| **Total equity** | | **246.6** | **352.7** |

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

# Condensed consolidated statement of changes in equity

For the six months ended 30 June 2023

| | Share capital £m | Share premium £m | Employee benefit trust and treasury shares £m | Capital redemption reserve £m | Retained deficit £m | Other reserves £m | Total attributable to the owners of the parent £m | Non controlling interests £m | Total equity/ (deficit) £m |
|---|---|---|---|---|---|---|---|---|---|
| At 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 period | — | — | — | — | 18.3 | — | 18.3 | — | 18.3 |
| Other comprehensive income/(expense) | — | — | — | — | 102.2 | 8.0 | 110.2 | 0.2 | 110.4 |
| Total comprehensive income for the period | — | — | — | — | 120.5 | 8.0 | 128.5 | 0.2 | 128.7 |
| Share based payment net of deferred tax effect | — | — | — | — | 2.7 | — | 2.7 | — | 2.7 |
| Exercise of share options under employee long term incentive plans | — | — | 3.2 | — | (3.2) | — | — | — | — |
| Change in put-options held by non-controlling interests | — | — | — | — | 0.1 | — | 0.1 | — | 0.1 |
| At 30 June 2022 | 34.8 | 1,145.5 | (4.8) | 1.8 | (792.2) | (1.0) | 384.1 | 22.2 | 406.3 |
| | | | | | | | | | |
| At 31 December 2022 | **34.8** | **1,145.5** | **(4.2)** | **1.8** | **(843.2)** | **(4.5)** | **330.2** | **22.5** | **352.7** |
| Loss for the period | **—** | **—** | **—** | **—** | **(84.4)** | **—** | **(84.4)** | **(0.3)** | **(84.7)** |
| Other comprehensive expense | **—** | **—** | **—** | **—** | **(20.6)** | **(5.2)** | **(25.8)** | **(0.3)** | **(26.1)** |
| Total comprehensive expense for the period | **—** | **—** | **—** | **—** | **(105.0)** | **(5.2)** | **(110.2)** | **(0.6)** | **(110.8)** |
| Share based payment net of deferred tax effect | **—** | **—** | **—** | **—** | **2.7** | **—** | **2.7** | **—** | **2.7** |
| Exercise of share options under employee long term incentive plans (note 13) | **—** | **—** | **3.8** | **—** | **(3.8)** | **—** | **—** | **—** | **—** |
| Shares issued (note 13) | **0.4** | **—** | **(0.4)** | **—** | **—** | **—** | **—** | **—** | **—** |
| Change in put-options held by non-controlling interests | **—** | **—** | **—** | **—** | **2.0** | **—** | **2.0** | **—** | **2.0** |
| At 30 June 2023 | **35.2** | **1,145.5** | **(0.8)** | **1.8** | **(947.3)** | **(9.7)** | **224.7** | **21.9** | **246.6** |

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.

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

# Condensed consolidated cash flow statement

For the six months ended 30 June 2023

| | Notes | 30 June 2023 £m | 30 June 2022 £m |
|---|---|---|---|
| **Cash (used by)/generated from operations** | 9 | **(5.6)** | 49.2 |
| Income tax paid | | **(3.2)** | (2.5) |
| Net interest paid | | **(18.6)** | (16.2) |
| **Net cash (outflow)/inflow from operating activities** | | **(27.4)** | 30.5 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(15.0)** | (7.3) |
| Purchase of intangible assets | | **(14.4)** | (10.8) |
| Proceeds from sale of property, plant and equipment, and intangible assets | | **0.1** | 0.5 |
| Additions to investments held at fair value through other comprehensive income | | **(0.1)** | — |
| Capital repayment from investments at fair value through other comprehensive income | | **—** | 0.2 |
| Capital element of lease rental receipts | | **3.8** | 3.3 |
| Total proceeds received from disposals, net of disposal costs | 8 | **8.2** | 222.7 |
| Cash held by subsidiaries when sold | 8 | **(3.7)** | (58.4) |
| **Net cash (outflow)/inflow from investing activities** | | **(21.1)** | 150.2 |
| **Cash flows from financing activities** | | | |
| Capital element of lease rental payments | | **(31.1)** | (32.8) |
| Repayment of private placement loan notes and other debt | | **(49.2)** | (92.7) |
| Proceeds from/(repayment of) credit facilities | | **41.0** | (40.0) |
| Proceeds from cross currency interest rate swaps | | **8.2** | 10.1 |
| Debt financing arrangement costs paid | | **(1.2)** | (0.3) |
| **Net cash outflow from financing activities** | | **(32.3)** | (155.7) |
| **(Decrease)/increase in cash and cash equivalents** | | **(80.8)** | 25.0 |
| Cash and cash equivalents at the beginning of the period | | **177.2** | 101.5 |
| Effect of exchange rates on cash and cash equivalents | | **(1.5)** | (0.1) |
| **Cash and cash equivalents at 30 June** | | **94.9** | 126.4 |
| **Cash and cash equivalents comprise:** | | | |
| Cash | | **161.3** | 352.0 |
| Overdrafts | | **(86.8)** | (225.6) |
| Cash, net of overdrafts, included in disposal group assets/liabilities held-for-sale | | **20.4** | — |
| **Total** | | **94.9** | 126.4 |

| | | | |
|---|---|---|---|
| Cash generated from operations excluding business exits | 9 | **21.1** | 41.6 |
| Free cash flow excluding business exits | 9 | **(53.4)** | (16.5) |

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

# Notes to the condensed consolidated financial statements

For the six months ended 30 June 2023

## 1.1 Corporate information

Capita plc (the 'Company' or the 'Parent Company') is a public limited liability company incorporated in England and Wales whose shares are publicly traded.

These condensed consolidated financial statements as at and for the six months ended 30 June 2023 comprise the Company and its subsidiaries (together referred to as 'the Group').

These condensed consolidated financial statements were authorised for issue by the Board of directors on 3 August 2023.

These condensed 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.

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

### (a) Basis of preparation

These condensed consolidated financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the UK's Financial Conduct Authority, and with IAS 34 *Interim Financial Reporting* under UK-adopted International Financial Reporting Standards (IFRS).

These condensed 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 2022.

The Group has considered the impact of new, and amendments to, reporting standards which are effective from 1 January 2023 and concluded that they were either not applicable, or not material, to these condensed consolidated financial statements.

The Group is in the early stages of its assessment for all other standards, amendments and interpretations that have been issued by the IASB but are not yet effective.

These condensed consolidated financial statements do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2022 have been delivered to the Registrar of Companies. The auditor has reported on those accounts and their opinion was (i) unqualified, (ii) did not include any matters to which the auditor drew attention by way of emphasis of matter without modifying their opinion, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

These condensed consolidated financial statements have been reviewed by the Group's auditors pursuant to the Auditing Practices Board guidance on the Review of Interim Financial Information.

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

The Board has limited the items excluded from the adjusted results to: business exits, amortisation and impairment of acquired intangibles, impairment of goodwill, certain net finance expense/income, and the costs associated with the cyber incident in March 2023, because these metrics provide a more representative measure of the underlying performance of the business.

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

Following feedback from investors the Board has revised its definition of the free cash flow and free cash flow excluding business exits[1] alternative performance measures. From 1 January 2023, both these metrics have been presented after deducting the capital element of lease payments and receipts, because this provides a more relevant and comparable measure of the cash generated by the Group's operations and available to fund operations, capital expenditure, non-lease debt obligations, and dividends. Comparative amounts 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 4, and a reconciliation between reported and free cash flow excluding business exits and cash generated from operations is provided in note 9.

### (c) Judgements and estimates

These condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles which require the Board of 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 Board's best knowledge of the amounts, events or actions, actual results may differ.

The significant judgements and assumptions made by the Board in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2022.

The key sources of uncertainty that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are summarised below and set out in more detail in the related note:

- Contract accounting (note 2): impairment of contract fulfilment assets, and customer and onerous contract provisions
- Deferred tax asset recognition (note 6)
- Measurement of defined benefit pension obligations (note 14)

The key areas where significant accounting judgements have been made are summarised below and set out in more detail in the related note where included in the these condensed consolidated financial statements:

- Capitalisation of contract fulfilment assets (note 2)
- Measurement of goodwill (note 10)
- Identification, measurement, and disclosure of actual and potential costs related to the cyber incident (notes 4, 9 and 16)

### (d) Going concern

In determining the appropriate basis of preparation of these condensed consolidated financial statements for the six month period ended 30 June 2023, the Board is required to consider whether the Group can continue in operational existence for the foreseeable future. The Board has concluded that it is appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts, 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 condensed consolidated 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 condensed consolidated financial statements to 31 December 2024, which is just less than seventeen months from the date of approval of these condensed consolidated financial statements ('the going concern period') and aligns with a year end for the Group.

The base case financial forecasts used in the going concern assessment are derived from financial projections for 2023-2024 as approved by the Board in July 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 existing committed revolving credit facility (RCF) was £284.0m at 30 June 2023 having been extended to 31 December 2026. The original terms of the RCF are substantially unchanged and incorporates provisions such that it will partially reduce in quantum to £250m as a consequence of specified transactions.

In July the Group issued £101.9m equivalent of new US private placement loan notes across three tranches: £50m maturing 25 July 2026, USD45m maturing 25 July 2026 and USD23m maturing 25 July 2028, with an average interest rate of 9.45%. The notes rank pari passu with the existing indebtedness of the group and include financial covenants at the same level as those under the RCF. The Group expects to early settle £30.3m of Euro private placement loan notes in the second half of 2023 which were originally due in 2027.

In February 2023, the Group executed a committed bridge facility with three of its relationship banks providing additional liquidity from 1 January 2024. At 30 June 2023, the value of the committed bridge facility was £49.5m. This was cancelled in July 2023.

**Financial position at 30 June 2023**
As detailed further in the Chief Financial Officer's review, as at 30 June 2023 the Group had net debt of £544.6m (31 December 2022: £482.4m), net financial debt (pre-IFRS 16) of £166.2m (31 December 2022: £84.9m), liquidity of £283.6m (31 December 2022: £405.2m) 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. When combined with the proceeds from the Board approved disposal programme and available committed facilities this 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. The base case financial forecasts demonstrate liquidity headroom and compliance with all debt covenant measures throughout the going concern period to 31 December 2024.

Severe but plausible downside
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 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 December 2024.

Adoption of going concern basis
Reflecting the continued benefits from the transformation programme completed in 2021 coupled with the Board's ability to implement appropriate mitigations should the severe but plausible downside materialise, the Group continues to adopt the going concern basis in preparing these condensed consolidated financial statements. The Board has concluded that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2024.

## 2 Contract accounting

At 30 June 2023, the Group had the following results and balance sheet items relating to long-term contracts:

| | Note | **30 June 2023 £m** | 30 June 2022 £m | 31 December 2022 £m |
|---|---|---|---|---|
| Long-term contractual adjusted revenue | 3 | **1,103.7** | 1,060.6 | |
| Deferred income | | **643.1** | | 640.7 |
| Contract fulfilment assets (non-current) | | **262.8** | | 263.0 |
| Onerous contract provisions | | **46.0** | | 52.8 |

### Background

The majority of the Group's revenue is from contracts greater than two years in duration (long-term contractual), representing 78.7% of Group adjusted revenue for the six months ended 30 June 2023 (30 June 2022: 80.0%).

### 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 appropriate. These contracts are collectively referred to as 'major contracts' in the remainder of this note.

The major contracts contributed £0.6 billion at 30 June 2023 (30 June 2022: £0.6 billion) or 46% (30 June 2022: 43%) of the Group's adjusted revenue. Contract fulfilment assets (non-current) as at 30 June 2023 were £262.8m, of which £120.6m (31 December 2022: £109.7m) related to major contracts with on-going transformational activities. The remainder relates to contracts post transformation and includes non-major contracts.

The major contracts, both pre and post-transformation, are rated according to their financial risk profile, which is linked to the level of uncertainty over future assumptions. For those that are in the high and medium rated risk categories the associated contract fulfilment assets (non-current) in aggregate were £50.2m at 30 June 2023 (31 December 2022: £42.2m). The recoverability of these assets is dependent on no significant adverse change in the key contract assumptions arising in the next financial year. The balance of deferred income associated with these contracts was £163.6m at 30 June 2023 (31 December 2022: £118.5m) 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 £35.4m at 30 June 2023 (31 December 2022: £42.5m).

Following these reviews, and reviews of smaller contracts across the business, no contract fulfilment asset (non-current) impairments were identified (30 June 2022: £0.1m recognised within adjusted cost of sales of which none related to contract fulfilment assets (non-current) added during the period), and net onerous contract provisions of £1.7m (30 June 2022: £1.0m) were identified and recognised in adjusted cost of sales.

Given the quantum of the relevant contract assets and liabilities, and the nature of the estimates noted above, management has concluded that it is reasonably possible that outcomes in 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. As noted above, £120.6m of contract fulfilment assets (non-current) relate to major contracts with on-going transformational activities; and, £50.2m of contract fulfilment assets (non-current) and £35.4m of onerous contract provisions relate to the high and medium rated risk categories. Given 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. Management does not believe that disclosing a potential range of outcomes on a consolidated basis would provide meaningful information to a user of these condensed consolidated financial statements. Due to commercial sensitivities, the Group does not disclose amounts involved in any individual contract.

## 3 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.

The tables below present revenue and segmental profit 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 the second half of 2022 and in the first half of 2023.

**Revenue**

Adjusted revenue, excluding results from businesses exited in both periods (adjusting items), was £1,402.4m (30 June 2022: £1,326.0m), an increase of 5.8% (30 June 2022: an increase of 0.4%).

| Six months ended 30 June 2023 | 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** | | | | | | | | |
| Long-term contractual | | **597.8** | **496.1** | **9.8** | **—** | **1,103.7** | **11.2** | **1,114.9** |
| Short-term contractual | | **101.8** | **110.5** | **—** | **—** | **212.3** | **17.3** | **229.6** |
| Transactional (point-in-time) | | **31.4** | **11.0** | **44.0** | **—** | **86.4** | **46.1** | **132.5** |
| **Total segment revenue** | | **731.0** | **617.6** | **53.8** | **—** | **1,402.4** | **74.6** | **1,477.0** |
| Trading revenue | | **756.1** | **634.5** | **74.9** | **—** | **1,465.5** | **—** | **1,465.5** |
| Inter-segment revenue | | **(25.1)** | **(16.9)** | **(21.1)** | **—** | **(63.1)** | **—** | **(63.1)** |
| **Total adjusted segment revenue** | | **731.0** | **617.6** | **53.8** | **—** | **1,402.4** | **—** | **1,402.4** |
| Business exits – trading | 8 | **—** | **—** | **74.6** | **—** | **—** | **74.6** | **74.6** |
| **Total segment revenue** | | **731.0** | **617.6** | **128.4** | **—** | **1,402.4** | **74.6** | **1,477.0** |

| Six months ended 30 June 2022 (re-presented)[1] | 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** | | | | | | | | |
| Long-term contractual | | 559.3 | 490.9 | 10.4 | — | 1,060.6 | 44.0 | 1,104.6 |
| Short-term contractual | | 128.5 | 68.2 | 2.7 | — | 199.4 | 66.2 | 265.6 |
| Transactional (point-in-time) | | 25.8 | 7.1 | 33.1 | — | 66.0 | 81.0 | 147.0 |
| **Total segment revenue** | | 713.6 | 566.2 | 46.2 | — | 1,326.0 | 191.2 | 1,517.2 |
| Trading revenue | | 735.4 | 582.6 | 60.6 | — | 1,378.6 | — | 1,378.6 |
| Inter-segment revenue | | (21.8) | (16.4) | (14.4) | — | (52.6) | — | (52.6) |
| **Total adjusted segment revenue** | | 713.6 | 566.2 | 46.2 | — | 1,326.0 | — | 1,326.0 |
| Business exits – trading | 8 | — | — | 191.2 | — | — | 191.2 | 191.2 |
| **Total segment revenue** | | 713.6 | 566.2 | 237.4 | — | 1,326.0 | 191.2 | 1,517.2 |

1. The 2022 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 the second half of 2022.

### 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 present the aggregate amount of the 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 30 June 2023 | Capita Public Service £m | Capita Experience £m | Capita Portfolio £m | Capita plc £m | Total £m |
|---|---|---|---|---|---|
| Long-term contractual | **2,934.6** | **2,066.7** | **199.5** | **—** | **5,200.8** |
| Short-term contractual | **180.9** | **143.1** | **65.4** | **—** | **389.4** |
| **Total** | **3,115.5** | **2,209.8** | **264.9** | **—** | **5,590.2** |

| 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 |

The table below shows the expected timing of revenue to be recognised from long-term contractual orders at 30 June 2023:

| 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 | **744.2** | **592.0** | **21.4** | **—** | **1,357.6** |
| 1–5 years | **1,471.1** | **1,209.3** | **58.9** | **—** | **2,739.3** |
| > 5 years | **719.3** | **265.4** | **119.2** | **—** | **1,103.9** |
| **Total** | **2,934.6** | **2,066.7** | **199.5** | **—** | **5,200.8** |

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

The order book represents the consideration which the Group will be entitled to receive from customers when the Group satisfies the remaining performance obligations in the contracts. However, the total revenue that will be earned by the Group will also include non-contracted volumetric revenue, new wins, scope changes and anticipated contract extensions. These elements have been excluded from the figures in the tables above because they are not contracted. In addition, revenue from contract extensions is also excluded from the order book unless the extensions are pre-priced 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 £462.9m (31 December 2022: £577.0m). 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 £5.2 billion (31 December 2022: £5.6 billion) revenue to be earned from long-term contractual orders, £4.0 billion (31 December 2022: £4.2 billion) relates to major contracts. This amount excludes revenue that will be derived from frameworks (transactional, ie point-in-time, contracts), non-contracted volumetric revenue, non-contracted scope changes and future unforeseen volume changes from these major contracts, which together are expected to contribute an additional £0.6 billion (31 December 2022: £0.7 billion) of revenue to the Group over the life of these contracts.

### 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 £504.5m (30 June 2022: £594.7m; 31 December 2022: £744.2m).

Movements in the deferred income balances were driven by transactions entered into by the Group within the normal course of business during the six months ended 30 June 2023.

### Segmental profit

The tables below present profit of the Group's business segments. For segmental reporting, the costs of central functions have been allocated to the segments using appropriate drivers such as adjusted revenue, adjusted profit or headcount. Comparative information has been re-presented to reflect businesses exited during the second half of 2022 and the first half of 2023.

| Six months ended 30 June 2023 | 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 | 4 | **39.5** | **39.7** | **0.4** | **(23.1)** | **56.5** | **—** | **56.5** |
| Business exits – trading | 8 | **—** | **—** | **(3.1)** | **—** | **—** | **(3.1)** | **(3.1)** |
| **Total trading result** | | **39.5** | **39.7** | **(2.7)** | **(23.1)** | **56.5** | **(3.1)** | **53.4** |
| Non-trading items: | | | | | | | | |
| Business exits – non-trading | 8 | | | | | **—** | **(25.1)** | **(25.1)** |
| Other adjusting items | 4 | | | | | **—** | **(64.1)** | **(64.1)** |
| **Operating profit/(loss)** | | | | | | **56.5** | **(92.3)** | **(35.8)** |
| Interest income | | | | | | | | **4.4** |
| Interest expense | | | | | | | | **(29.9)** |
| Share of results in associates and investment gains | | | | | | | | **—** |
| Loss on business disposal | | | | | | | | **(6.6)** |
| **Loss before tax** | | | | | | | | **(67.9)** |
| **Supplementary information** | | | | | | | | |
| Depreciation and amortisation | | **20.6** | **29.2** | **2.8** | **2.6** | **55.2** | **2.6** | **57.8** |
| Impairment of property, plant and equipment, intangible assets and right-of-use assets | | **1.0** | **2.0** | **0.1** | **0.2** | **3.3** | **—** | **3.3** |
| Contract fulfilment assets utilisation, impairment and derecognition | | **31.3** | **7.2** | **1.6** | **—** | **40.1** | **0.1** | **40.2** |
| Onerous contract provisions | | **—** | **1.7** | **—** | **—** | **1.7** | **—** | **1.7** |

| Six months ended 30 June 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 | 4 | 46.8 | 14.5 | (6.4) | (15.3) | 39.6 | — | 39.6 |
| Business exits – trading | 8 | — | — | 18.3 | — | — | 18.3 | 18.3 |
| Total trading result | | 46.8 | 14.5 | 11.9 | (15.3) | 39.6 | 18.3 | 57.9 |
| Non-trading items: | | | | | | | | |
| Business exits – non-trading | 8 | | | | | — | (13.4) | (13.4) |
| Other adjusting items | 4 | | | | | — | (95.7) | (95.7) |
| Operating profit/(loss) | | | | | | 39.6 | (90.8) | (51.2) |
| Interest income | | | | | | | | 3.0 |
| Interest expense | | | | | | | | (17.2) |
| Share of results in associates and investment gains | | | | | | | | 3.6 |
| Gain on business disposal | | | | | | | | 61.9 |
| Profit before tax | | | | | | | | 0.1 |
| **Supplementary information** | | | | | | | | |
| Depreciation and amortisation | | 18.9 | 30.8 | 11.4 | 0.6 | 61.7 | 9.3 | 71.0 |
| Impairment of property, plant and equipment, intangible assets and right-of-use assets | | 0.1 | 3.2 | — | — | 3.3 | — | 3.3 |
| Contract fulfilment assets utilisation, impairment and derecognition | | 26.6 | 8.6 | 0.1 | — | 35.3 | 1.1 | 36.4 |
| Onerous contract provisions | | — | 1.0 | — | — | 1.0 | — | 1.0 |

## 4 Adjusted operating profit and adjusted profit before tax

The items below are excluded from the adjusted profit because the Board deems that these amounts are (or have been) material and require separate disclosure for users of these condensed consolidated financial statements to obtain a proper understanding of the financial information and the underlying performance of the business. The items excluded from adjusted profit are discussed further below.

| | | Operating (loss)/profit | | (Loss)/profit before tax | |
|---|---|---|---|---|---|
| | Notes | **30 June 2023 £m** | 30 June 2022 £m | **30 June 2023 £m** | 30 June 2022 £m |
| **Reported** | | **(35.8)** | (51.2) | **(67.9)** | 0.1 |
| Amortisation and impairment of acquired intangibles | | **0.1** | 3.2 | **0.1** | 3.2 |
| Impairment of goodwill | 10 | **42.2** | 92.5 | **42.2** | 92.5 |
| Net finance expense/(income) | 5 | **—** | — | **2.2** | (4.5) |
| Business exits | 8 | **28.2** | (4.9) | **34.7** | (66.6) |
| Cyber incident | | **21.8** | — | **21.8** | — |
| **Adjusted** | | **56.5** | 39.6 | **33.1** | 24.7 |

1. Adjusted operating profit of £56.5m (30 June 2022: £39.6m) was generated on adjusted revenue of £1,402.4m (30 June 2022: £1,326.0m) resulting in an adjusted operating profit margin of 4.0% (30 June 2022: 3.0%).
2. The tax impact of the profit before tax adjusting items is a £39.1m charge (30 June 2022: £24.2m charge).

**Amortisation and impairment of acquired intangible assets:** the Group recognised total acquired intangible asset amortisation of £0.1m (30 June 2022: £3.2m). These charges are excluded from the adjusted results because they are non-cash items generated from historical acquisition related activity.

**Impairment of goodwill:** the Group has significant balances related to goodwill, which are subject to impairment testing annually and when indicators of impairment are identified. Any impairment charges are reported separately because they are non-cash items generated from historical acquisition related activity.

**Net finance expense/(income):** net finance expense/(income) excluded from adjusted profits relates to movements in the mark-to-market valuation of forward foreign exchange contracts to cover anticipated future costs and therefore have no equivalent offsetting transaction in the accounting records.

**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 are treated as held-for-sale (and therefore as a business exit) when the disposal is seen to be highly probable and expected to complete within twelve months of the balance sheet date. Refer to note 8 for further details.

**Cyber incident:** As detailed in the Chief Financial Officer's review, Capita expects to incur exceptional costs of approximately £20m to £25m associated with the cyber incident. These costs comprise specialist professional fees, recovery and remediation costs and investment to reinforce Capita's cyber security environment, offset by anticipated insurance receipts. A charge of £21.8m has been recognised in the six months ended 30 June 2023. This excludes any potential insurance receipt because this had not yet met the criteria for recognition at 30 June 2023. Refer to note 9 for the cash flow impact of these costs. Please also refer to note 16 contingent liabilities.

## 5 Net finance expense

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

| | Notes | 30 June 2023 £m | 30 June 2022 £m |
|---|---|---|---|
| **Interest income** | | | |
| Interest on cash | | **(0.9)** | (0.3) |
| Interest on lease receivables | | **(2.0)** | (2.1) |
| Net interest income on defined benefit pension schemes | 14 | **(1.5)** | (0.6) |
| **Total interest income** | | **(4.4)** | (3.0) |
| **Interest expense** | | | |
| Private placement loan notes[1] | | **6.8** | 6.6 |
| Cash flow hedges recycled to the income statement | | **—** | (1.2) |
| Bank loans and overdrafts | | **7.7** | 4.8 |
| Cost of non-recourse receivables discounting facilities | 12 | **1.4** | — |
| Interest on lease liabilities | | **11.1** | 11.3 |
| Discount unwind on provisions | | **0.8** | — |
| **Total interest expense** | | **27.8** | 21.5 |
| **Net finance expense included in adjusted profit** | | **23.4** | 18.5 |
| **Included within business exits** | | | |
| Bank loans and overdrafts | | **—** | 0.3 |
| Other financial income | | **(0.1)** | (0.1) |
| **Total included within business exits** | | **(0.1)** | 0.2 |
| **Other items excluded from adjusted profits** | | | |
| Non-designated foreign exchange forward contracts - mark-to-market | | **2.3** | (5.3) |
| Fair value hedge ineffectiveness[2] | | **(0.1)** | 0.8 |
| **Total other items excluded from adjusted profits** | | **2.2** | (4.5) |
| **Total net finance expense/(income) excluded from adjusted profit** | | **2.1** | (4.3) |
| **Total net finance expense** | | **25.5** | 14.2 |

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.

## 6 Income tax

The adjusted income tax charge is based on management's best estimate of the full-year effective tax rate of 20.0%, estimated using full year profit projections excluding any discrete items. The estimated full year effective tax rate has been applied to the adjusted profit before tax for the six months ended 30 June 2023 to calculate the adjusted income tax charge for the six month period.

The tax credit on discrete items for the six months is calculated separately and relates mainly to the change in estimate of deferred tax assets. The tax impact of adjusting items has been calculated on an item-by-item basis.

The reported income tax charge for the period is £16.8m on a reported loss before tax of £67.9m (30 June 2022: reported income tax credit of £18.2m on reported profit before tax of £0.1m), and the adjusted income tax credit for the period is £22.3m on adjusted profit before tax of £33.1m (30 June 2022: adjusted tax credit of £42.4m on adjusted profit before tax of £24.7m). The most significant reconciling items, explaining the difference from the weighted average UK statutory tax rate of 23.5% for the calendar year, are the change in estimate of deferred tax assets, non-taxable profit on the disposal of businesses and non-deductible goodwill impairment.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised. The recoverability of deferred tax assets is supported by the deferred tax liabilities against which the reversal can be offset and the expected level of future profits in the countries concerned. The recognition of deferred tax assets has been based on the latest financial projections for 2023-2025, using a long-term growth rate of 1.9% and a reducing probability factor applied to future profits, consistent with the approach in recent years.

This assessment results in a change in the accounting estimate of deferred tax of £9.7m, which is due to the portfolio divestment programme (£39.1m reduction) and future forecast taxable profits alongside the increasing deferred tax liability on the defined benefit pension scheme surplus (£29.4m increase). These factors will continue to impact the accounting estimate of deferred tax in future periods. Unrecognised temporary differences have increased by £62.6m, resulting in total unrecognised temporary differences as at 30 June 2023 of £581.6m (31 December 2022: £519.0m).

The Group has an open and positive working relationship with HMRC, has a designated customer compliance manager, and is committed to prompt disclosure and transparency in dealings with HMRC and overseas tax authorities. The Group does not have a complex tax structure, supported by legal structure simplification from the entity rationalisation programme. The Group does not pursue aggressive tax avoidance activities, has a low-risk rating from HMRC, re-assessed in 2021 and has been awarded the Fair Tax Mark for its tax disclosures from 2018 to 2021. The Group has operations in a number of countries outside the UK. All Capita operations outside the UK are trading operations and pay the appropriate local taxes on these activities. Further detail, regarding Capita's tax strategy can be found on the Policies & Principles area of the Capita website (https://www.capita.com/our-company/about-capita/policies-and-principles).

## 7 Earnings per share

Basic earnings per share are calculated by dividing net profit for the period attributable to ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are calculated by dividing the net profit for the period attributable to ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the period 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.

| | | **30 June 2023** **pence** | 30 June 2022 pence |
|---|---|---|---|
| Basic (loss)/earnings per | – reported | **(5.06)** | 1.10 |
| | – adjusted | **3.34** | 3.98 |
| Diluted (loss)/earnings per | – reported | **(5.06)** | 1.08 |
| | – adjusted | **3.27** | 3.92 |

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

| | Notes | **30 June 2023** **£m** | 30 June 2022 £m |
|---|---|---|---|
| Reported (loss)/profit before tax for the period | | **(67.9)** | 0.1 |
| Income tax (charge)/credit | 6 | **(16.8)** | 18.2 |
| Reported (loss)/profit for the period | | **(84.7)** | 18.3 |
| Less: Non-controlling interest | | **0.3** | — |
| Total (loss)/profit attributable to shareholders | | **(84.4)** | 18.3 |
| Adjusted profit before tax for the period | 4 | **33.1** | 24.7 |
| Income tax (charge)/credit | | **22.3** | 42.4 |
| Adjusted profit for the period | | **55.4** | 67.1 |
| Less: Non-controlling interest | | **0.3** | (0.6) |
| Adjusted profit attributable to shareholders | | **55.7** | 66.5 |

| | **30 June 2023** **£m** | 30 June 2022 £m |
|---|---|---|
| Weighted average number of ordinary shares (excluding Employee Benefit Trust and Treasury shares) for basic earnings per share | **1,669.4** | 1,668.9 |
| Dilutive potential ordinary shares: | | |
| Employee share options | **34.9** | 28.6 |
| Weighted average number of ordinary shares (excluding Employee Benefit Trust and Treasury shares) adjusted for the effect of dilution | **1,704.3** | 1,697.5 |

At 30 June 2023 34,916,637 (30 June 2022: nil) options were excluded from the diluted weighted average number of ordinary shares used in the reported continuing operations earnings per share calculation because their effect would have been anti-dilutive. Under IAS 33 *Earnings per Share*, potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

The earnings per share figures are calculated based on earnings attributable to ordinary shareholders of the Parent Company, and therefore exclude non-controlling interest. Earnings per share are calculated on a total reported basis and an adjusted basis. Earnings per share for business exits and specific items are bridging items between total reported and adjusted earnings per share (refer to note 4).

## 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 *Non-current assets held-for-sale and discontinued operations*, which requires disclosure and comparatives to be restated where the relative size of a disposal or business closure is significant, which is normally understood to mean a reported segment.

However, the trading results 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 30 June 2022 comparatives have been re-presented to exclude businesses classified as business exits from 1 July 2022 to 30 June 2023.

### 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 where the disposal is seen to be highly probable and expected to complete within the following twelve months. At 30 June 2023, the PageOne, Software, and Enforcement business disposals were deemed to have met this threshold. At 31 December 2022 no disposals were deemed to have met the threshold to be treated as held-for-sale

### 2023 business exits

Business exits at 30 June 2023 comprised:

| Business | Status at 30 June 2023 | Disposal completed on |
|---|---|---|
| Resourcing | Sold | 31 May 2023 |
| Security Watchdog | Sold | 31 May 2023 |
| PageOne | Held-for-sale | 31 July 2023 |
| Software | Held-for-sale | 31 July 2023 |
| Enforcement | Held-for-sale | 31 July 2023 |

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 30 June 2023, 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.

| | 30 June 2023 | | | 30 June 2022 | | |
|---|---|---|---|---|---|---|
| Income statement impact | Trading £m | Non-trading £m | Total £m | Trading £m | Non-trading £m | Total £m |
| **Revenue** | **74.6** | **—** | **74.6** | 191.2 | — | 191.2 |
| Cost of sales | **(51.4)** | **—** | **(51.4)** | (138.4) | — | (138.4) |
| Gross profit | **23.2** | **—** | **23.2** | 52.8 | — | 52.8 |
| Administrative expenses | **(26.3)** | **(25.1)** | **(51.4)** | (34.5) | (13.4) | (47.9) |
| **Operating (loss)/profit** | **(3.1)** | **(25.1)** | **(28.2)** | 18.3 | (13.4) | 4.9 |
| Net finance income/(expense) | **0.1** | **—** | **0.1** | (0.2) | — | (0.2) |
| (Loss)/gain on business disposal | **—** | **(6.6)** | **(6.6)** | — | 61.9 | 61.9 |
| **(Loss)/profit before tax** | **(3.0)** | **(31.7)** | **(34.7)** | 18.1 | 48.5 | 66.6 |
| Taxation | **(1.2)** | **(37.9)** | **(39.1)** | (3.2) | (20.6) | (23.8) |
| **(Loss)/profit after tax** | **(4.2)** | **(69.6)** | **(73.8)** | 14.9 | 27.9 | 42.8 |

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 2022 (being: AMT Sybex, Secure Solutions and Services, Trustmarque, Speciality Insurance, Real estate and infrastructure consultancy, Optima Legal Services, Pay360, and Capita Translation and Interpreting). Trading expenses primarily comprise payroll costs of £68.2m (30 June 2022: £147.3m) and information technology costs of £9.4m (30 June 2022: £26.4m).

Non-trading administrative expenses comprise: impairment of £18.1m (30 June 2022: £nil); disposal project costs of £5.5m (30 June 2022: £11.2m); and other costs of £1.5m (30 June 2022: £2.2m).

Non-trading taxation relates to a change in accounting estimate of deferred tax assets, due to businesses being disposed or exited. Please refer to note 6 for further details.

**2023 disposals**

During the six months ended 30 June 2023, the Group disposed of two businesses: Resourcing and Security Watchdog. During the six months ended 30 June 2022, the Group disposed of four businesses: AMT Sybex, Secure Solutions and Services, Trustmarque and Speciality Insurance businesses. The (loss)/gain arising was determined as follows:

| | 30 June 2023 £m | 30 June 2022 £m |
|---|---|---|
| Property, plant and equipment | **0.1** | — |
| Intangible assets | **7.9** | 1.2 |
| Goodwill | **1.7** | 102.8 |
| Income tax receivable and deferred tax asset | **—** | 2.1 |
| Contract fulfilment assets | **—** | 5.1 |
| Trade and other receivables | **21.8** | 76.8 |
| Accrued income | **6.4** | 9.5 |
| Prepayments | **1.4** | 9.7 |
| Cash and cash equivalents | **3.7** | 38.8 |
| Disposal group assets held-for-sale | **—** | 141.8 |
| Trade and other payables | **(3.7)** | (94.9) |
| Accruals | **(8.1)** | (6.1) |
| Other taxes and social security | **(1.2)** | (8.7) |
| Deferred income | **(3.7)** | (27.2) |
| Income tax payable and deferred tax liability | **(0.4)** | — |
| Provisions | **—** | (0.3) |
| Capita group loan balances | **(15.0)** | (51.1) |
| Disposal group liabilities held-for-sale | **—** | (136.2) |
| **Net identifiable assets sold** | **10.9** | **63.3** |
| Sales price | | |
| - received in cash | **3.3** | 126.5 |
| - deferred receivable | **6.7** | 10.8 |
| Less: costs of disposal | **(5.7)** | (11.8) |
| **Net sales price** | **4.3** | **125.5** |
| Realisation of cumulative currency translation difference | **—** | (0.3) |
| **(Loss)/gain on business disposals** | **(6.6)** | **61.9** |
| **Net cash inflow** | | |
| Proceeds received | **3.3** | 126.5 |
| Less disposal costs: | | |
| - income statement charge | **(5.7)** | (11.8) |
| - change in accrued disposal costs during the period | **(4.4)** | 2.3 |
| Settlement of receivables due from disposed subsidiaries | | |
| - disposal of subsidiaries in the period | **15.0** | 51.1 |
| - disposal of subsidiaries classified as held-for-sale | **—** | 54.6 |
| **Total proceeds received net of disposal costs paid** | **8.2** | 222.7 |
| **Total cash held by subsidiaries when sold** | | |
| Cash held by subsidiaries when sold | **(3.7)** | (38.8) |
| Cash held by subsidiaries classified as held-for-sale | **—** | (19.6) |
| **Total cash held by subsidiaries when sold** | **(3.7)** | (58.4) |
| **Net cash inflow** | **4.5** | 164.3 |

### Disposal group assets and liabilities held-for-sale

At 30 June 2023, the PageOne, Software, and Enforcement business disposals were deemed to have met the threshold to be treated as held-for-sale. At 31 December 2022, no disposals were deemed to have met this threshold.

| | 30 June 2023<br>£m | 31 December 2022<br>£m |
|---|---|---|
| Property, plant and equipment | 1.2 | — |
| Intangibles | 9.9 | — |
| Goodwill | 31.2 | — |
| Contract fulfilment assets | 0.9 | — |
| Trade and other receivables | 9.9 | — |
| Accrued income | 1.2 | — |
| Prepayments | 1.9 | — |
| Cash and cash equivalents | 21.2 | — |
| Income tax receivable and deferred tax assets | 4.4 | — |
| Disposal group assets held-for-sale | 81.8 | — |
| Trade and other payables | 2.3 | — |
| Other taxes and social security | 2.5 | — |
| Accruals | 3.2 | — |
| Deferred income | 18.4 | — |
| Overdraft | 0.8 | — |
| Income tax payable and deferred tax liabilities | 1.1 | — |
| Provisions | 0.5 | — |
| Disposal group liabilities held-for-sale | 28.8 | — |

### Business exit cash flows

Businesses exited and being exited had a cash generated from operations outflow of £11.1m (30 June 2022: cash inflow of £11.9m).

## 9 Cash flow information

| | Note | 30 June 2023 Reported £m | 30 June 2023 Excluding business exits £m | 30 June 2022 Reported £m | 30 June 2022 Excluding business exits £m |
|---|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | | |
| Reported operating loss | 4 | **(35.8)** | **(35.8)** | (51.2) | (51.2) |
| Less: business exit operating loss/(profit) | 8 | **—** | **28.2** | — | (4.9) |
| **Total operating loss** | | **(35.8)** | **(7.6)** | (51.2) | (56.1) |
| **Adjustments for non-cash items:** | | | | | |
| Depreciation | | **41.0** | **40.7** | 49.0 | 48.2 |
| Amortisation of intangible assets | | **16.8** | **14.6** | 22.0 | 16.7 |
| Share-based payment expense | | **2.7** | **2.7** | 2.7 | 2.7 |
| Employee benefits | | **3.9** | **3.9** | 4.3 | 4.3 |
| Loss on sale of property, plant and equipment and intangible assets | | **0.1** | **0.1** | 0.7 | 0.7 |
| Amendments and early terminations of leases | | **1.2** | **1.2** | (1.1) | (1.1) |
| Impairment of non-current assets | | **63.6** | **45.5** | 95.8 | 95.8 |
| **Other adjustments:** | | | | | |
| Movement in provisions | | **(5.8)** | **(7.3)** | (28.0) | (27.8) |
| Pension deficit contributions | | **(30.6)** | **(15.0)** | (19.3) | (15.0) |
| Other contributions into pension schemes | | **(4.5)** | **(4.5)** | (4.9) | (4.9) |
| **Movements in working capital:** | | | | | |
| Trade and other receivables | | **(106.4)** | **(101.7)** | (98.8) | (30.7) |
| Non-recourse trade receivables financing | | **(4.1)** | **(4.1)** | (4.4) | (4.4) |
| Trade and other payables | | **27.6** | **33.7** | 65.9 | 9.2 |
| VAT deferral | | **—** | **—** | (14.9) | (14.9) |
| Deferred income | | **25.5** | **19.9** | 34.7 | 22.5 |
| Contract fulfilment assets (non-current) | | **(0.8)** | **(1.0)** | (3.3) | (3.6) |
| **Cash (used by)/generated from operations** | | **(5.6)** | **21.1** | 49.2 | 41.6 |
| **Adjustments for free cash flows:** | | | | | |
| Income tax paid | | **(3.2)** | **(0.6)** | (2.5) | (0.3) |
| Net interest paid | | **(18.6)** | **(18.6)** | (16.2) | (15.8) |
| **Net cash (outflow)/inflow from operating activities** | | **(27.4)** | **1.9** | 30.5 | 25.5 |
| Purchase of property, plant and equipment | | **(15.0)** | **(13.8)** | (7.3) | (2.4) |
| Purchase of intangible assets | | **(14.4)** | **(14.4)** | (10.8) | (10.8) |
| Proceeds from sale of property, plant and equipment / intangible assets | | **0.1** | **0.1** | 0.5 | 0.5 |
| Capital element of lease rental receipts | | **3.8** | **3.8** | 3.3 | 3.3 |
| Capital element of lease rental payments | | **(31.1)** | **(31.0)** | (32.8) | (32.6) |
| **Free cash flow[1]** | | **(84.0)** | **(53.4)** | (16.6) | (16.5) |

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

**Cyber incident:** In relation to the cyber incident exceptional costs referred to in note 4, the cash outflow during the period ended 30 June 2023 was £9.2m and is included within free cash flow excluding business exits, and cash generated from operations excluding business exits.

### Free cash flow and cash generated from operations

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

Following feedback from investors the Board has revised its definition of the free cash flow and free cash flow excluding business exits alternative performance measures. From 1 January 2023, both these metrics have been presented after deducting the capital element of lease payments and receipts, since this provides a more relevant and comparable measure of the cash generated by the Group's operations and available to fund operations, capital expenditure, non-lease debt obligations, and dividends. Comparative amounts have been re-presented.

These measures are analysed below:

| | Free cash flow | | Cash generated from operations | |
|---|---|---|---|---|
| | 2023 £m | 2022 £m | 2023 £m | 2022 £m |
| **Reported** | **(84.0)** | (16.6) | **(5.6)** | 49.2 |
| Business exits | **15.0** | (4.2) | **11.1** | (11.9) |
| Pension deficit contributions triggered by disposals | **15.6** | 4.3 | **15.6** | 4.3 |
| **Excluding business exits** | **(53.4)** | (16.5) | **21.1** | 41.6 |

**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 30 June 2022 results have been re-presented for those businesses exited, or in the process of being exited, during the period from 1 July 2022 to 30 June 2023 to enable comparability of the adjusted results.

**Pension deficit contributions triggered by disposals:** the Trustee of the CPLAS 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. The disposal of Pay360 and Capita Translation and Interpreting in the second half of 2022 resulted in accelerated deficit contributions totalling £15.6m in the first half of 2023. Additionally, as a result of the Trustmarque disposal in March 2022, a further £14.5m of accelerated deficit contributions is required by March 2024.

### 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. The aggregate overdrawn amounts are fully offset by surplus balances within the same arrangements.

At 30 June 2023, £41.0m of the Group's £284.0m committed revolving credit facility was drawn (31 December 2022: undrawn).

| Six months ended 30 June 2023 | Net debt at 1 January £m | Cash flow movements £m | Non-cash movement[2] £m | Net debt at 30 June £m |
|---|---|---|---|---|
| Cash, cash equivalents and overdrafts | **177.2** | **(80.8)** | **(1.5)** | **94.9** |
| Other loan notes | **(0.7)** | **0.5** | **0.1** | **(0.1)** |
| Credit facilities | **—** | **(41.0)** | **—** | **(41.0)** |
| Private placement loan notes[1] | **(285.5)** | **49.9** | **5.1** | **(230.5)** |
| Cross-currency interest rate swaps[1] | **24.8** | **(8.2)** | **(5.4)** | **11.2** |
| Lease liabilities | **(397.5)** | **42.2** | **(23.1)** | **(378.4)** |
| **Total net liabilities from financing activities** | **(658.9)** | **43.4** | **(23.3)** | **(638.8)** |
| Deferred consideration | **(0.7)** | **—** | **—** | **(0.7)** |
| **Net debt** | **(482.4)** | **(37.4)** | **(24.8)** | **(544.6)** |

1. The sum of these items equates to the fair value of the Group's private placement loan note debt: £219.3m (31 December 2022: £260.7m). The cash flow movement in private placement loan notes includes both repayment of private placement loan notes of £48.7m and finance arrangement costs of £1.2m.
2. The non-cash movement relates to: the effect of changes in foreign exchange rates on cash; fair value changes on the swaps; amortisation of loan notes issue costs; amortisation of the discount on the euro debt; and additions, terminations and foreign exchange rate effects on the Group's leases.

| Six months ended 30 June 2022 | Net debt at 1 January £m | Cash flow movements £m | Non-cash movement[2] £m | Net debt at 30 June £m |
|---|---|---|---|---|
| Cash, cash equivalents and overdrafts | 101.5 | 25.0 | (0.1) | 126.4 |
| Other loan notes | (1.3) | 0.5 | — | (0.8) |
| Credit facilities | (46.0) | 40.0 | — | (6.0) |
| Private placement loan notes | (512.9) | 92.5 | (13.4) | (433.8) |
| Cross-currency interest rate swaps | 28.0 | (10.1) | 7.7 | 25.6 |
| Lease liabilities[3] | (448.4) | 44.1 | (16.8) | (421.1) |
| Total net liabilities from financing activities | (980.6) | 167.0 | (22.5) | (836.1) |
| Deferred consideration | (0.7) | — | — | (0.7) |
| Net debt | (879.8) | 192.0 | (22.6) | (710.4) |

3. Cash flow movements in respect of lease liabilities have been re-presented to include net interest paid on finance leases (£11.3m) previously included within non-cash movement.

## 10 Goodwill

In preparing these condensed consolidated financial statements, the Group undertook a review to identify indicators of impairment of goodwill. Consideration was given to performance against the financial forecasts used in the impairment test conducted at 31 December 2022, as well as against indicative disposal proceeds for Capita Portfolio division Cash Generating Units (CGUs) where disposal processes were seen to be sufficiently advanced. Where this analysis gave rise to an indicator of potential impairment, an impairment test was performed as detailed below.

| | 2023<br>£m |
|---|---|
| **Cost** | |
| At 1 January | **1,423.3** |
| Business disposal | **(119.4)** |
| Transfer to disposal group assets held-for-sale | **(134.0)** |
| Exchange movement | **(0.9)** |
| At 30 June | **1,169.0** |
| **Accumulated impairment** | |
| At 1 January | **817.4** |
| Business disposal | **(117.7)** |
| Transfer to disposal group assets held-for-sale | **(84.7)** |
| Impairment - excluded from adjusted profit | **42.2** |
| At 30 June | **657.2** |
| **Net book value** | |
| At 1 January | **605.9** |
| At 30 June | **511.8** |

### 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 30 June 2023, the Group had five CGUs or groups of CGUs for the purpose of impairment testing of goodwill.

### Business disposal and assets held-for-sale

As set out in note 8, two businesses were sold during the period. Goodwill relating to these businesses (£1.7m) was included within the People group of CGUs in Capita Portfolio at 1 January 2023, and then derecognised as part of business disposals during the period.

The Software group of CGUs and the PageOne and Enforcement businesses within the Business Solutions group of CGUs in Capita Portfolio, which the Group intends to dispose of in 2023, met the criteria to be treated as held-for-sale at 30 June 2023.

### The impairment test

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

The disposal of businesses aligned to the Travel and Fera CGUs or group of CGUs in Capita Portfolio 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 2023, a goodwill impairment of £35.3m was recognised in respect of these CGUs or groups of CGUs in Capita Portfolio. 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.

An impairment of £6.9m has been recognised at 30 June 2023 in respect of a business in the Business Solutions group of CGUs in Capita Portfolio. As the disposal process for this business is less far advanced, the recoverable amount of the CGU, being its value-in-use, has been calculated based on operating the business into perpetuity. The goodwill impairment arose primarily due to a negotiated exit of an end customer, which has negatively impacted the forecast financial performance of the business.

#### Key inputs and sensitivities

For ongoing disposals that are seen to be sufficiently advanced (being the Travel and Fera CGUs or group of CGUs in Capita Portfolio), 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. While it is the Board's intention to complete these disposals in the short-term, where there is presently no signed agreement in place with any counterparty, the actual cash flows could differ from those assumed in the impairment assessment. It is the Board's view that there is no reasonably possible change in the expected net proceeds that would result in a material impact to the impairment currently recognised.

For the business in the Business Solutions group of CGUs in Capita Portfolio, where the disposal is less far advanced, the value-in-use, has been calculated based on operating the business into perpetuity. The key inputs to the calculation are described below:

- The cash flows were based on the most recent forecasts available
- The pre-tax discount rate used was 10.9% (31 December 2022: 12.1%)
- The long-term growth rate of 1.9% (31 December 2022: 2.2%) was applied to forecast cash flows for years four, five and the terminal period based on economic growth forecasts by recognised bodies

The remaining goodwill in respect of the Business Solutions CGU at 30 June 2023 was £2.0m. It is the Board's view that there is no reasonably possible change in the above key assumptions that would result in a material impact to the impairment currently recognised.

The Board has considered an appropriate methodology to apply when allocating central function costs. The methodology applied for the 30 June 2023 impairment test was aligned to that applied in reporting segmental performance (refer to note 3). The costs of Capita plc, which have not been allocated as part of segmental reporting, are allocated based on 2023 forecast EBITDA.

## 11 Provisions

| | Business exit provision £m | Claims and litigation provision £m | Property provision £m | Customer contract provision £m | Other provisions £m | Total £m |
|---|---|---|---|---|---|---|
| At 1 January | 10.7 | 17.0 | 18.7 | 73.5 | 7.4 | 127.3 |
| Provisions in the period | 3.8 | 8.8 | 3.2 | 7.8 | 8.2 | 31.8 |
| Releases in the period | (1.9) | (0.2) | (2.9) | (10.1) | (0.8) | (15.9) |
| Utilisation | (3.0) | (1.6) | (5.1) | (9.3) | (1.6) | (20.6) |
| Discount unwind on provisions | — | — | — | 0.8 | — | 0.8 |
| Transfer to disposal group liabilities held-for-sale | — | — | (0.5) | — | — | (0.5) |
| **At 30 June** | **9.6** | **24.0** | **13.4** | **62.7** | **13.2** | **122.9** |

| | **30 June 2023 £m** | 31 December 2022 £m |
|---|---|---|
| **Current** | 80.5 | 75.7 |
| **Non-current** | 42.4 | 51.6 |
| | **122.9** | 127.3 |

**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 23 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 £58.7m 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 inflows (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 and 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 and the period and likely costs to support the final handover of services. At 30 June 2023, the provision was increased to provide cover for contracts to extend out to June 2028 (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, including supplier audit and regulatory provisions. These are likely to unwind over periods of up to five years.

## 12 Financial Instruments

The Group's financial assets and liabilities are classified based on the following fair value hierarchy:

- Level-1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level-2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

  With the exception of current financial instruments (which have a short maturity), the fair value of the Group's level-2 financial instruments was calculated by discounting the expected future cash flows at prevailing interest rates. The valuation models incorporate various inputs including foreign exchange spot and forward rates and interest rate curves. In the case of floating rate borrowings nominal value approximates to fair value because interest is set at floating rates where payments are reset to market values at intervals of less than one year.
- Level-3: other techniques for which inputs that have a significant effect on the recorded fair value are not based on observable market data.

Other financial instruments, where observable market data is not available, are carried at either amortised cost or cost (undiscounted cash flows) as a reasonable approximation of fair value.

During the six months ended 30 June 2023, there were no assets or liabilities transferred between the fair value levels.

The following table analyses, by classification and category, the carrying value of the Group's financial instruments and identifies the level of the fair value hierarchy for the instruments carried at fair value:

| At 30 June 2023 | Note | Fair value hierarchy | FVPL £m | FVOCI £m | Derivatives used for hedging £m | Amortised cost £m | Total £m | Current £m | Non-current £m |
|---|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | | |
| Lease receivables | | n/a | — | — | — | 73.0 | 73.0 | 5.9 | 67.1 |
| Cash flow hedges - foreign exchange contracts | | Level-2 | — | — | 2.1 | — | 2.1 | 1.4 | 0.7 |
| Non-designated foreign exchange forwards and swaps | | Level-2 | 1.6 | — | — | — | 1.6 | 0.8 | 0.8 |
| Cash flow hedge - interest rate swaps | a | Level-2 | — | — | 0.7 | — | 0.7 | 0.7 | — |
| Cross-currency interest rate swaps | a | Level-2 | — | — | 13.4 | — | 13.4 | — | 13.4 |
| Originated loans receivable | | n/a | — | — | — | 0.6 | 0.6 | — | 0.6 |
| Financial assets at fair value through P&L | | Level-3 | 16.9 | — | — | — | 16.9 | — | 16.9 |
| Financial assets at fair value through OCI | | Level-3 | — | 0.7 | — | — | 0.7 | — | 0.7 |
| Deferred consideration receivable | | n/a | — | — | — | 17.2 | 17.2 | 17.2 | — |
| | | | 18.5 | 0.7 | 16.2 | 90.8 | 126.2 | 26.0 | 100.2 |
| **Other financial assets** | | | | | | | | | |
| Cash and cash equivalents | | n/a | — | — | — | 161.3 | 161.3 | 161.3 | — |
| Cash included within disposal group assets held-for-sale | 8 | n/a | — | — | — | 21.2 | 21.2 | 21.2 | — |
| **Total financial assets** | | | 18.5 | 0.7 | 16.2 | 273.3 | 308.7 | 208.5 | 100.2 |

| At 30 June 2023 | Note | Fair value hierarchy | FVPL £m | FVOCI £m | Derivatives used for hedging £m | Amortised cost £m | Total £m | Current £m | Non-current £m |
|---|---|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | | | |
| Private placement loan notes | a | n/a | — | — | — | 230.5 | 230.5 | 39.5 | 191.0 |
| Other loan notes | | n/a | — | — | — | 0.1 | 0.1 | 0.1 | — |
| Credit facilities | b | n/a | — | — | — | 41.0 | 41.0 | 41.0 | — |
| Cash flow hedges - foreign exchange contracts | | Level-2 | — | — | 0.1 | — | 0.1 | 0.1 | — |
| Non-designated foreign exchange forwards and swaps | | Level-2 | 0.7 | — | — | — | 0.7 | 0.5 | 0.2 |
| Cross-currency interest rate swaps | a | Level-2 | — | — | 2.2 | — | 2.2 | 0.5 | 1.7 |
| Deferred consideration payable | | n/a | — | — | — | 0.7 | 0.7 | — | 0.7 |
| Put options of non-controlling interests | c | Level-3 | — | 7.2 | — | — | 7.2 | 7.2 | — |
| | | | 0.7 | 7.2 | 2.3 | 272.3 | 282.5 | 88.9 | 193.6 |
| **Other financial liabilities** | | | | | | | | | |
| Overdrafts | | n/a | — | — | — | 86.8 | 86.8 | 86.8 | — |
| Overdrafts included within disposal group liabilities held-for-sale | | n/a | — | — | — | 0.8 | 0.8 | 0.8 | — |
| Lease liabilities | | n/a | — | — | — | 378.4 | 378.4 | 54.6 | 323.8 |
| **Total financial liabilities** | | | 0.7 | 7.2 | 2.3 | 738.3 | 748.5 | 231.1 | 517.4 |

Financial assets measured at amortised cost consist of cash, lease receivables, originated loans and deferred consideration receivable. The carrying value of cash is a reasonable approximation of its fair value due to the short-term nature of the instruments. Lease receivables, originated loans and deferred consideration receivable are measured at amortised cost using the effective interest rate method. Included in other investments are £0.7m (31 December 2022: £0.8m) of strategic investments in unlisted equity securities which are not held-for-trading and the Group elected to recognise at Fair Value through Other Comprehensive Income (FVOCI). During the period no dividends were received from, and no disposals were made of, strategic investments.

The financial assets at Fair Value through P&L (FVPL) relate to the Group's minority shareholding in companies as part of Capita Scaling Partners. The assets are revalued when reliable information on fair value becomes available, which is normally at each funding round.

Financial liabilities measured at amortised cost consist of loan notes, overdrafts, lease liabilities, credit facilities and deferred consideration payable. With the exception of certain series within the fixed rate private placement loan notes, the carrying value of financial liabilities are a reasonable approximation of their fair value. This is because either the interest payable is close to market rates or the liability is short-term in nature. The private placement loan note series that remain subject to a fixed rate of interest have an underlying carrying value of £128.5m (31 December 2022: £144.9m) and a fair value of £110.8m (31 December 2022: £130.2m). The carrying value of overdrafts is a reasonable approximation of fair value reflecting the short-term nature of the instruments. Lease liabilities and deferred consideration payable are measured at amortised cost using the effective interest rate method.

The Group's key financial liabilities are set out below:

**a. Private placement loan notes**
The private placement loan notes were issued in US dollars, British pounds sterling, and Euros at fixed interest rates. The Group manages its exposure to foreign exchange and interest rate movements through cross-currency interest rate swaps, interest rate swaps, and forward foreign exchange contracts.

**b. Revolving credit facility**
The Group's revolving credit facility (RCF) was £41.0m drawn at 30 June 2023 (31 December 2022 undrawn). The Chief Financial Officer's review and going concern basis of preparation in note 1.2(d) includes further details of the RCF.

**c. Put options of non-controlling interests**
The liability at 30 June 2023 represents the present value of the cost to acquire the non-controlling interest in Fera Science Limited. The option held by the non-controlling shareholder of Fera Science Limited became exercisable in April 2021. A sensitivity analysis assuming a 10% increase/decrease in the earnings potential of the business results in a £0.7m increase/decrease in the valuation.

| At 31 December 2022 | Note | Fair value hierarchy | FVPL £m | FVOCI £m | Derivatives used for hedging £m | Amortised cost £m | Total £m | Current £m | Non-current £m |
|---|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | | |
| Lease receivables | | n/a | — | — | — | 76.3 | 76.3 | 5.9 | 70.4 |
| Cash flow hedges - foreign exchange contracts | | Level-2 | — | — | 5.4 | — | 5.4 | 3.0 | 2.4 |
| Non-designated foreign exchange forwards and swaps | | Level-2 | 5.3 | — | — | — | 5.3 | 4.4 | 0.9 |
| Cross-currency interest rate swaps | a | Level-2 | — | — | 25.8 | — | 25.8 | 8.3 | 17.5 |
| Originated loans receivable | | n/a | — | — | — | 0.5 | 0.5 | — | 0.5 |
| Financial assets at fair value through P&L | | Level-3 | 17.2 | — | — | — | 17.2 | — | 17.2 |
| Financial assets at fair value through OCI | | Level-3 | — | 0.8 | — | — | 0.8 | — | 0.8 |
| Deferred consideration receivable | | n/a | — | — | — | 10.5 | 10.5 | 2.0 | 8.5 |
| | | | 22.5 | 0.8 | 31.2 | 87.3 | 141.8 | 23.6 | 118.2 |
| **Other financial assets** | | | | | | | | | |
| Cash and cash equivalents | | n/a | — | — | — | 396.8 | 396.8 | 396.8 | — |
| **Total financial assets** | | | 22.5 | 0.8 | 31.2 | 484.1 | 538.6 | 420.4 | 118.2 |

| At 31 December 2022 | Note | Fair value hierarchy | FVPL £m | FVOCI £m | Derivatives used for hedging £m | Amortised cost £m | Total £m | Current £m | Non-current £m |
|---|---|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | | | |
| Private placement loan notes | a | n/a | — | — | — | 285.5 | 285.5 | 74.6 | 210.9 |
| Other loan notes | | n/a | — | — | — | 0.7 | 0.7 | 0.7 | — |
| Non-designated foreign exchange forwards and swaps | | Level-2 | 0.1 | — | — | — | 0.1 | 0.1 | — |
| Cross-currency interest rate swaps | a | Level-2 | — | — | 1.0 | — | 1.0 | — | 1.0 |
| Deferred consideration payable | | n/a | — | — | — | 0.7 | 0.7 | — | 0.7 |
| Put options of non-controlling interests | c | Level-3 | — | 9.2 | — | — | 9.2 | 9.2 | — |
| | | | 0.1 | 9.2 | 1.0 | 286.9 | 297.2 | 84.6 | 212.6 |
| **Other financial liabilities** | | | | | | | | | |
| Overdrafts | | n/a | — | — | — | 219.6 | 219.6 | 219.6 | — |
| Lease liabilities | | n/a | — | — | — | 397.5 | 397.5 | 55.6 | 341.9 |
| **Total financial liabilities** | | | 0.1 | 9.2 | 1.0 | 904.0 | 914.3 | 359.8 | 554.5 |

The following table shows the changes from the opening to closing balances for Level-3 fair value financial instruments.

| | Put options of non-controlling interests £m | Investments FVPL and FVOCI £m |
|---|---|---|
| At 1 January | 9.2 | 18.0 |
| Change in put-options recognised in other comprehensive income | **(2.0)** | **—** |
| Additions | **—** | **(0.3)** |
| Loss in fair value recognised through other comprehensive income | **—** | **(0.1)** |
| **At 30 June** | **7.2** | **17.6** |

**Non-recourse sale of receivables**
The Group has non-recourse short-term receivables discounting facilities. The outstanding invoices sold under these facilities at 30 June 2023 totalled £40.3m (31 December 2022: £44.4m). The costs of selling such invoices (£1.4m) are included in net finance expense in the condensed consolidated income statement.

## 13 Issued share capital and share premium

| Allotted, called up and fully paid | Share capital No.m | Share capital £m | Share premium £m | Employee benefit trust and treasury shares No.m | Employee benefit trust and treasury shares £m |
|---|---|---|---|---|---|
| **Ordinary shares of 2 1/15p** | | | | | |
| At 1 January | 1,684.1 | 34.8 | 1,145.5 | 9.3 | (4.2) |
| Issue of share capital | 17.0 | 0.4 | — | — | — |
| Issued on exercise of share options | — | — | — | (8.4) | 3.8 |
| Shares purchased | — | — | — | 17.0 | (0.4) |
| **At 30 June** | **1,701.1** | **35.2** | **1,145.5** | **17.9** | **(0.8)** |

The Group uses shares held in the Employee Benefit Trust (EBT) and treasury shares to satisfy future requirements for shares under the Group's share option and long-term incentive plans.

During the six months to 30 June 2023, the Group did not purchase any treasury shares, and did not allot nor issue any treasury shares (30 June 2022: 2,299,955 whose aggregate nominal value was £47,532) to satisfy exercises under the Group's share option and long term incentive plans. The total consideration received in respect of these shares was £nil (30 June 2022: £nil).

On 2 June 2023, 17m ordinary 2 1/15p shares were allotted to the EBT for an aggregate nominal value of £351,332 to satisfy exercises under the Group's share plans. The total consideration received in respect of these shares was £351,332. During the six months to 30 June 2023, 8,413,744 (30 June 2022: 7,319,499) shares with a value of £3.8m (30 June 2022: £3.2m) were transferred out of the EBT to satisfy exercises under the Group's share option and long term incentive plans. The total consideration received in respect of these shares was £nil (30 June 2022: £nil).

The Group has an unexpired authority to repurchase up to 9.9% of its issued share capital.

## 14 Employee benefits

The total net defined benefit pension position for accounting purposes as at 30 June 2023 is calculated on a year-to-date basis, using the accounting valuations as at 31 December 2022.

The principal financial assumptions for the accounting valuation as at 30 June 2023 for the UK based schemes (which represents around 98% total assets of the defined benefit pension schemes in which the Group participates) were as follows:

| | 30 June 2023 | 31 December 2022 |
|---|---|---|
| Discount rate | **5.15% pa** | 4.75% pa |
| Rate of price inflation – RPI | **3.15% pa** | 3.15% pa |
| Rate of price inflation – CPI | **2.55% pa** | 2.50% pa |

There were no changes in demographic assumptions since 31 December 2022.

Movements in the total net defined benefit pension position recognised in the balance sheet were as follows:

| | 30 June 2023 £m | 30 June 2022 £m |
|---|---|---|
| At 1 January | **39.6** | **5.8** |
| Current service and administration costs | **(3.9)** | **(4.3)** |
| Interest income | **1.5** | **0.6** |
| Actuarial gain recognised in OCI[1] | **50.7** | **548.8** |
| Return on plan assets, excluding interest, recognised in OCI | **(77.3)** | **(412.5)** |
| Employer contributions | **40.0** | **24.1** |
| Exchange movement | **—** | **(0.2)** |
| **At 30 June** | **50.6** | **162.3** |
| Schemes in a net surplus | **54.2** | **166.2** |
| Schemes in a net deficit | **(3.6)** | **(3.9)** |
| **At 30 June** | **50.6** | **162.3** |

1 The increase in long-dated corporate bond yields, and hence the discount rate, (by around 0.4% pa) reduced the value placed on the liabilities. This was partially offset by the impact of actual inflation over the period being greater than expected.

The latest formal valuation for the Capita Pension and Life Assurance Scheme (the Scheme), the Group's main defined benefit pension scheme (which represents around 96% total assets of the defined benefit pension schemes in which the Group participates), was carried out as at 31 March 2020. This identified a statutory funding deficit of £182.2m. Deficit repair contributions totalling £169m were agreed over the period to 2026. These contributions were to target achieving both the statutory funding deficit and a secondary funding target. The secondary funding target is to enable the Scheme, over the medium term, to reach a low-risk position with reduced reliance on the covenant provided by the Group and increased reliance on a portfolio of low-risk assets generating income to pay members' benefits as they fall due. The estimated updated funding positions as at 30 June 2023 show that the Scheme has met its statutory funding target, and is ahead of track to meet its secondary funding target by 2026.

The Scheme is undergoing its 31 March 2023 triennial actuarial valuation process which is expected to be finalised well within the regulatory timescale of 30 June 2024.

## 15 Related-party transactions

### Compensation of key management personnel

| | 30 June 2023 £m | 30 June 2022 £m |
|---|---|---|
| Short-term employment benefits | **3.4** | 3.1 |
| Pension | **—** | 0.1 |
| Share-based payments | **0.8** | 1.2 |
| | **4.2** | 4.4 |

Gains on share options exercised in the period by Capita plc Executive Directors were £nil (30 June 2022: £0.1m) and by key management personnel £0.3m (30 June 2022: £0.3m).

During the period, the Group provided administrative services to Smart DCC Ltd, a wholly-owned subsidiary which is not consolidated. The Group received £61.3m (30 June 2022: £53.3m) of revenue for these services. The services are procured by Smart DCC Ltd on an arm's length basis under the DCC licence. The services are subject to review by Ofgem to ensure that all costs are economically and efficiently incurred by Smart DCC Ltd.

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

## 16 Contingent liabilities

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

The Group has provided, through the normal course of its business, performance bonds and bank guarantees of £34.9m (31 December 2022: £34.0m).

The Group is reviewing its position in respect of a number of its closed book Life & Pensions contracts. The outcome 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.

Following the cyber incident in March 2023 detailed in the Chief Executive Officer's Review, Capita has been working closely with all appropriate regulatory authorities and with customers, suppliers and colleagues to notify those affected and take any remaining necessary steps to address the incident. At the date of approval of these condensed consolidated financial statements, the Group has received no material claims in relation to the cyber incident. At this stage, it is not possible to reliably estimate the value of any potential or future claim or fine/penalty against the Group and no provision has been recorded.

The Group's entities are otherwise 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 being successfully 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.

## 17 Post balance sheet events

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

The following events occurred after 30 June 2023, and before the approval of these condensed consolidated financial statements, but have not resulted in adjustment to these condensed consolidated financial statements:

**New private placement loan notes and cancellation of committed bridge facility**
In July the Group issued £101.9m equivalent of US private placement loan notes across three tranches: £50m maturing 25 July 2026, USD45m maturing 25 July 2026 and USD23m maturing 25 July 2028, with an average interest rate of 9.45%. The notes rank pari passu with the existing indebtedness of the Group and include financial covenants at the same level as those under the RCF. The Group expects to early settle £30.3m of Euro private placement loan notes in the second half of 2023 which were originally due in 2027.

In February 2023, the Group executed a committed bridge facility with three of its relationship banks providing additional liquidity from 1 January 2024. At 30 June 2023, the value of the committed bridge facility was £49.5m. This was cancelled in July 2023.

**Completion of disposals**
The disposal of the following businesses completed on 31 July 2023:

- Software businesses to AdvancedAdvT Limited;
- PageOne business to Erisberg; and
- Enforcement businesses to a group of investors led by Capricorn Capital Partners and the Shackleton Group.

Cash proceeds of £67.4m were received on completion, which included the settlement of intercompany balances owed to the Group of £9.3m. A further deferred payment of £3.0m will be received on 31 January 2024. Costs of disposal to be borne by the Group are estimated to be £11.4m (of which £2.5m were recognised in the six months ended 30 June 2023, and £3.6m were recognised in prior periods).

# Independent review report to Capita plc

## Conclusion

We have been engaged by Capita plc ("the Company") to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated balance sheet, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted for use in the UK and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

## Basis for conclusion

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

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

## Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention that causes us to believe that the directors have inappropriately adopted the going concern basis of accounting, or that the directors have identified material uncertainties relating to going concern that have not been appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the Group to cease to continue as a going concern, and the above conclusions are not a guarantee that the Group will continue in operation.

## Directors' responsibilities

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

As disclosed in note 1.2, the annual financial statements of the Group are prepared in accordance with UK-adopted international accounting standards.

The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted for use in the UK.

In preparing the condensed set of financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review. Our conclusion, including our conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion section of this report.

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

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

**Ian Griffiths**

**for and on behalf of KPMG LLP**

*Chartered Accountants*
15 Canada Square
London
E14 5GL

3 August 2023

## Alternative performance measures

The Group presents various alternative performance measures (APMs) because 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 excluding 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, costs relating to the cyber incident in March 2023 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** R | **Revenue** | 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.<br>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.<br>The table below shows a reconciliation between reported and adjusted revenue, as well as adjusted revenue growth: |

| | 30 June 2023 | 30 June 2022 |
|---|---|---|
| Reported revenue per the income statement | **£1,477.0m** | £1,517.2m |
| Deduct: business exits (note 3) | **(£74.6m)** | (£191.2m) |
| Adjusted revenue | **£1,402.4m** | £1,326.0m |
| Adjusted revenue growth | **5.8%** | 0.4% |

| APM | Closest equivalent IFRS measure | Definition, Purpose and Reconciliation |
|---|---|---|
| **Adjusted operating profit** R | **Operating profit** | Calculated as reported operating profit excluding items determined by the Board to be outside underlying operations. These items are detailed in note 4.<br>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.<br>A reconciliation of reported to adjusted operating profit is provided in note 4. |
| **Adjusted operating profit margin** R | **Operating profit margin** | Calculated as the adjusted operating profit divided by adjusted revenue.<br>This measure is an indicator of the Group's operating efficiency.<br>The table below shows the components, and calculation, of adjusted operating profit margin: |

| | | 30 June 2023 | 30 June 2022 |
|---|---|---|---|
| Adjusted revenue | a | **£1,402.4m** | £1,326.0m |
| Adjusted operating profit (note 4) | b | **£56.5m** | £39.6m |
| Adjusted operating profit margin | b/a | **4.0%** | 3.0% |

| APM | Closest equivalent IFRS measure | Definition, Purpose and Reconciliation |
|---|---|---|
| **Adjusted EBITDA** R | **EBITDA** | Calculated as adjusted operating profit for the six month period 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).<br>The Board believes 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.<br>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.<br>The table below shows the calculation of adjusted EBITDA: |

| | Post IFRS 16 | | Pre IFRS 16 | |
|---|---|---|---|---|
| | 30 June 2023 | 30 June 2022 | 30 June 2023 | 30 June 2022 |
| Adjusted profit before tax | **£33.1m** | £24.7m | **£34.3m** | £28.0m |
| Add back: adjusted net finance expense (note 5) | **£23.4m** | £18.5m | **£14.3m** | £9.3m |
| Add back: adjusted depreciation and impairment of property, plant and equipment | **£17.0m** | £21.7m | **£17.0m** | £21.7m |
| Add back: depreciation of right-of-use assets | **£26.7m** | £27.8m | **£—m** | £—m |
| Add back: adjusted amortisation and impairment of intangibles | **£14.8m** | £15.5m | **£14.8m** | £15.5m |
| Remove: Share of results in associates and investment gains (income statement) | **£—m** | (£3.6m) | **£—m** | (£3.6m) |
| Adjusted EBITDA | **£115.0m** | £104.6m | **£80.4m** | £70.9m |
| Adjusted EBITDA margin | **8.2%** | 7.9% | **5.7%** | 5.3% |

## Alternative performance measures continued

| APM | Closest equivalent IFRS measure | Definition, Purpose and Reconciliation |
|---|---|---|
| **Income statement continued** | | |
| **Adjusted profit before tax** R | **Profit before tax** | Calculated as profit or loss before tax excluding the items detailed in note 4 which include: business exits (trading results, non-trading expenses, and any gain/(loss) on business disposal); acquired intangible amortisation; impairment of goodwill and acquired intangibles and costs of the cyber incident in March 2023.<br><br>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.<br><br>A reconciliation of reported to adjusted profit before tax is provided in note 4. |
| **Adjusted profit after tax** R | **Profit after tax** | Calculated as the above adjusted profit or loss before tax, less the tax credit or expense on adjusted profit or loss.<br><br>The table below shows a reconciliation: |
| **Adjusted basic earnings per share** R | **Basic earnings per share** | Calculated as the adjusted profit/(loss) for the period after tax less non-controlling interests divided by the weighted average number of ordinary shares outstanding during the period.<br><br>The Board believes that this provides an indication of basic earnings per share of the Group on adjusted profit after tax.<br><br>For the calculation of adjusted basic earnings per share refer to note 7. |
| **Adjusted diluted earnings per share** R | **Diluted earnings per share** | Calculated as the adjusted profit/(loss) for the period 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.<br><br>The Board believes that this provides an indication of diluted earnings per share of the Group on adjusted profit after tax.<br><br>For the calculation of adjusted diluted earnings per share refer to note 7. |
| **Cash flows and net debt** | | |
| **Cash flows generated from/(used by) operations excluding business exits** R | **Cash generated from/(used by) operations** | 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.<br><br>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.<br><br>A reconciliation of reported to cash generated from/(used by) operations excluding business exits is provided in note 9. |
| **Free cash flow excluding business exits** U | **Net cash flows from operating activities** | Calculated as cash generated from operations after: capital expenditure; income tax and interest; the proceeds from the sale of property, plant and equipment and intangible assets; and the capital element of lease payments and receipts, but excluding the impact of business exits.<br><br>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, non-lease debt obligations, and dividends.<br><br>A reconciliation of net cash flows from operating activities to free cash flow and reported to free cash flows excluding business exits free cash flow is provided in note 9. |

Adjusted profit after tax reconciliation:

| | **30 June 2023** | 30 June 2022 |
|---|---|---|
| Adjusted profit before tax (note 4) | **£33.1m** | £24.7m |
| Tax on adjusted profit (note 6) | **£22.3m** | £42.4m |
| Adjusted profit after tax | **£55.4m** | £67.1m |

## Alternative performance measures continued

| APM | Closest equivalent IFRS measure | Definition, Purpose and Reconciliation |
|---|---|---|
| **Cash flows and net debt continued** | | |
| **Adjusted operating cash conversion** (R) | **No direct equivalent** | Calculated as operating cash flow excluding business exits divided by adjusted EBITDA.<br>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. |

| | | 30 June 2023 | 30 June 2022 |
|---|---|---|---|
| Adjusted EBITDA | a | **£115.0m** | **£104.6m** |
| Working Capital | | **(£65.8m)** | **(£21.9m)** |
| Non-cash and other adjustments | | **(£3.9m)** | **(£26.1m)** |
| Operating cash flow excluding business exits | b | **£45.3m** | **£56.6m** |
| Adjusted operating cash conversion | b/a | **39.4%** | 54.1% |

| APM | Closest equivalent IFRS measure | Definition, Purpose and Reconciliation |
|---|---|---|
| **Net debt** | **Borrowings, cash, derivatives, lease liabilities and deferred consideration** | Calculated as the net of the Group's: cash, cash equivalents and overdrafts; the fair value of the Group's private placement loan notes debt; other loan notes; lease liabilities; and, deferred consideration.<br>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.<br>The calculation of net debt is provided in note 9. |
| **Net financial debt (pre-IFRS 16)** | **No direct equivalent** | 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.<br>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. |

| | 30 June 2023 | 31 December 2022 |
|---|---|---|
| Net debt (note 9) | **£544.6m** | £482.4m |
| Remove: IFRS16 impact (note 9) | **(£378.4m)** | (£397.5m) |
| Net financial debt (pre-IFRS 16) | **£166.2m** | £84.9m |

| APM | Closest equivalent IFRS measure | Definition, Purpose and Reconciliation |
|---|---|---|
| **Gearing: net debt to adjusted EBITDA ratio** | **No direct equivalent** | This ratio is calculated as net debt divided by adjusted EBITDA over a rolling twelve month period including business exits not yet completed at the balance sheet date.<br>The Board believes that this ratio is useful because it shows how significant net debt is relative to adjusted EBITDA.<br>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.<br>The table below shows the components, and calculation, of the net debt / net financial debt (post and pre IFRS 16) to adjusted EBITDA ratio: |

| | Post IFRS 16 | | Pre IFRS 16 | |
|---|---|---|---|---|
| **Rolling twelve month period** | 30 June 2023 | 31 December 2022[1] | 30 June 2023 | 31 December 2022[1] |
| Adjusted EBITDA | **£222.7m** | £238.8m | **£155.3m** | £172.3m |
| EBITDA in respect of business exits not yet completed | **£12.8m** | £1.3m | **£12.8m** | £1.3m |
| Adjusted EBITDA (including business exits not yet completed) | **£235.5m** | £240.1m | **£168.1m** | £173.6m |
| Net debt / net financial debt | **£544.6m** | £482.4m | **£166.2m** | £84.9m |
| Net debt / net financial debt to adjusted EBITDA ratio | **2.3x** | 2.0x | **1.0x** | 0.5x |

1. To ensure the consistent presentation of the ratios between periods, the 2022 comparatives have not been restated.

U Definition updated in the year

R Comparatives re-presented