Capita plc

Full Year Results 2018

Summary

First year of multi-year transformation executed as planned in 2018:

- Corporate purpose and strategy defined
- First-ever operating model rolled out
- Leadership strengthened and governance improved
- Balance sheet strengthened; £1.1bn raised through rights issue and disposals
- £282m profit before tax[1], slightly ahead of our guidance
- Real progress on 'challenging' contracts
- Rebuilt relationships and partnerships with clients
- £1.8bn order intake
- £140m invested in infrastructure, products and systems
- Hit target of £70m in-year savings from cost competitiveness
- Pension deficit reduction plan agreed.

Clear plan for 2019:

- Accelerating cost competitiveness to realise cumulative savings of £175m by end 2019
- Increasing investment - in our people, systems and digital capability - to support long-term, sustainable growth
- Profit before tax[1] expected to be between £265m and £295m in 2019
- Transformation of sales as part of new growth function.

On track for 2020 targets:

- Achieve double-digit margins[1]
- At least £200m of sustainable free cash flow[2].

Jon Lewis, Chief Executive Officer, said:

"We've successfully completed year one of our multi-year transformation, fixed the basics and are firmly on track. We've strengthened our balance sheet, achieved cost savings, and invested in our people. On top of that, we've improved our governance, introduced a 'One Capita' operating model, and started turning around challenging contracts. I am particularly proud of our new corporate purpose and refreshed values.

The lion's share of our business is providing digitally-enabled services and software solutions, using a combination of technology, data and insight to help deliver better outcomes for clients. This gives us a strong platform for significant, long-term structural growth.

Our transformation still has some way to go. But I am very pleased with our progress. Our targets remain on track, and I'm excited about the prospects for a simplified and strengthened Capita."

1 Adjusted. Refer to appendix for calculation of alternative performance measures
2 Before exceptional and restructuring charges and additional actuarial pension deficit contributions

Financial outlook

Capita is entering the second year of a major transformation and the successful delivery of this programme is critical to the future performance of the Group. We expect net finance costs[1] to be in the region of £40m and profit before tax[1] to be between £265m and £295m in 2019. We expect our headline net debt to EBITDA ratio to be in the top half of our stated range of 1.0 times to 2.0 times before adoption of IFRS 16.

Our 2020 targets of £175m initial cost savings, double-digit EBIT margins[1] and at least £200m of sustainable annual free cash flow, before exceptional and restructuring charges and additional pension contributions, remain unchanged.

Year ended 31 December 2018

Financial highlights - continuing operations	**Reported 2018**	Reported 2017	**Adjusted[1] 2018**	Adjusted[1] 2017	**Adjusted[1] YOY change**
Revenue	**£3,918.4m**	£4,234.6m	**£3,867.6m**	£4,091.8m	(5)%
Operating profit/(loss)	**£34.9m**	(£420.1)m	**£335.3m**	£447.5m	(25)%
Profit/(loss) before tax	**£272.6m**	(£513.1)m	**£282.1m**	£383.1m	(26)%
Earnings/(loss) per share	**17.99p**	(48.82)p	**16.37p**	27.99p	(42)%
Free cash flow	**(£260.5)m**	£66.6m	**(£82.5)m**	£75.4m	(209)%

The following table sets out the main differences between reported and adjusted profit for 2018:

Year ended 31 December 2018

Reported profit before tax	**£272.6m**
Amortisation and impairment of acquired intangibles	£143.5m
Impairment of goodwill	£33.8m
Impairment of loans and investments	£1.6m
Litigation and claims	(£1.8)m
GMP and retirement age equalisation	£5.4m
Net finance costs	£18.8m
Contingent consideration movements	(£5.0)m
Business exit – trading	(£16.8)m
Business exit – non-trading expenses	£29.7m
Business exit – (gain)/loss on disposals	(£309)m
Significant restructuring	£110.0m
Adjusted[1] profit before tax	**£282.1m**

Refer to note 1 for further details of the above items.

1 Adjusted. Refer to appendix for calculation of alternative performance measures

This preliminary announcement is extracted from Capita's financial statements for the year ended 31 December 2018 and the basis of its preparation can be found in the notes to the statements in this announcement.

Annual Report

Our 2018 Annual Report and Accounts has been published today and is available on www.capita.com/investors.

Investor presentation

A presentation for institutional investors and analysts hosted by Jon Lewis, CEO, and Patrick Butcher, CFO, will be held today, starting at 09.00 UK time. There will be a live audio webcast of the presentation on our website www.capita.com/investors and subsequently available on demand. A dial-in facility is also available. The presentation slides will be published on our web site at 9.30am and a full transcript will be available by midday the following day.

Webcast link (Live and On-demand):

http://webcast.openbriefing.com/capita14319/

Conference call

Participant dial-in numbers:

United Kingdom 0800 640 6441

United Kingdom (Local) 020 3936 2999

United States 1 845 709 8568

All other locations +44 20 3936 2999

Participant access code

939460 -Participants will be greeted by an operator who will register their details

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

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Chief Executive Officer's Review

Executing our strategy

It's now been more than a year since I joined Capita and the company has achieved a considerable amount. We have launched a multi-year transformation process and are rebuilding the organisation. Our mission is to become 'One Capita', an integrated and refocused business, successful and sustainable, with stronger client relationships. We want to make a positive, responsible contribution to society and be a force for good. From the financial perspective, the business will be more predictable, more profitable and sustainably cash-generative.

This has meant going back to fix the fundamentals and devising a new strategy, underpinned by a company-wide purpose and clear new operating model. We are continuing to execute our strategy – to simplify, strengthen and succeed – and have made real progress on remedying many of the basics. Over the past year, our thousands of people, in the UK and abroad, have proved very resilient. Important work has been done every day, aimed at delivering better outcomes for all stakeholders – our people, shareholders, clients, suppliers and the communities we serve.

Fixing the basics

Capita had become overly complex and inefficient, focused on short-term performance, characterised by a lack of long-term planning and investment, and challenged by execution issues on several major contracts.

We made a strong start in 2018 to turning the company around and are on track with the execution of our transformation plan. We started to rebuild, redefining the divisions and creating robust, accountable and centralised functions which define how we do things company-wide.

Further top-level talent has been recruited to senior leadership positions, and a clear sense established of what Capita is and should be, and of how it can succeed. We have introduced a purpose-driven and values-based culture, alongside our operating model. It provides managerial discipline and a corporate blueprint and is designed to deliver the highest standards of service, delight clients and deliver value for all our stakeholders.

We raised, with shareholder support, £701m gross proceeds in a rights issue, and £408m from disposals; we have de-leveraged our balance sheet. We delivered on our cost-competitiveness initiatives. We agreed a pension deficit reduction plan. We have updated our payment terms for suppliers in the UK and Ireland to build better relationships with our partners.

Our corporate risk profile has stayed largely the same as in 2017. However, we are continually improving the way we manage our risks; effective risk management will be key to the successful delivery of Capita's strategic objectives.

It's a mark of good management teams that they deliver what they said they would deliver, and I'm pleased with our achievements over the past year. We are fundamentally in a much better place. At the end of year one of our three-year turnaround, we are where we expected to be and have a clear plan laid out for 2019.

Purpose and operating model

We recently unveiled Capita's purpose – 'we create better outcomes' – allied to a refreshed set of values and behaviours. For the first time, the company's true purpose has been defined. It is the single reason we exist; it directs and motivates all of us; and shapes all our decisions and actions. Capita never had this before – that is why we had to change, swing the pendulum, and provide direction and clarity.

Cultural and behavioural changes will inevitably take time to become fully integrated into the organisation. But our new purpose and re-emphasised values will be the driving forces behind Capita's transformation into a collaborative business, founded on robust governance. As a responsible business, we've refocused our approach to addressing the most material challenges that we and society face.

How Capita carries out its purpose and delivers better outcomes is now defined by our new operating model. It constitutes the blueprint for how together we run the company – underpinned by a clear strategy, an organised structure, stronger governance and controls, and well-defined accountabilities.

I believe our operating model represents the single biggest lever of change the new leadership team has introduced at Capita. It's truly self-reinforcing, joins everything together corporately, and makes the reforming Capita real for all stakeholders.

Despite being a major step forward, the operating model will also take some time to become truly embedded. I don't expect everything to happen easily. But what I do expect is for every leader and everyone in the company to start making the changes that will reform Capita as a truly purpose-led, values-driven business. This is the journey we are on together and I'm committed to seeing us get there.

Cost competitiveness

Capita has identified a significant, multi-year opportunity to reduce costs and improve operational efficiency, including:

- Reductions in general and administration, IT and property expenses.
- Centralising more of our procurement and driving value from our ~£1bn external spend with suppliers.
- Operational excellence, increasing the use of offshoring and automation, and improving the consistency of our operations.

- Adopting lean methodologies and being smarter in terms of how we work.

We made a strong start on executing these cost competitiveness initiatives in 2018, delivering in-year savings of £70m. We plan to accelerate the realisation of savings from our programmes, and now expect to realise £175m of cumulative savings from these initiatives by the end of 2019. We will invest some of these savings in building our capability to drive growth. The cost of achieving these savings was £55m in 2018 and is expected to be £95m in 2019, making a total of £150m which is included as part of the total restructuring costs.

Targeted investments

Since April, we have formed an investment review committee for capital allocation. It is part of the disciplined system put in place to ensure more predictable outcomes. The committee supports our goal of investing a total of up to £500m over three years, addressing historical under-investment and, increasingly over time, facilitating organic growth.

We have subsequently approved a number of investments including:

- IT systems and infrastructure
    - An organisation-wide customer relationship management (CRM) system, giving a holistic view and understanding of our customers, providing robust and granular data to better predict future sales and monetise customer relationships.
    - A new human resources system, to improve engagement and development opportunities for all our people.
- Services and products
    - Software – completing the development of the next version of SIMS (School Information Management System) for secondary schools; an education software parental engagement app; the creation of a cloud-based public safety platform for emergency services products to facilitate new sales opportunities; an initial investment in a payment facilitation solution for Pay360 and the re-platforming of our Retain resource management software to a new SaaS-based (software as a service) solution.
    - People Solutions – next generation of the candidate portal; automation of our pre-employment screening system; and the development of a digital on-boarding product to complement our suite of 'hire to retire' services.
    - Customer Management – a new digital, omni-channel contact platform to support webchat, automation and messaging.
    - Government Services – developing business processing as a service capability to provide scalable, replicable services to a wider customer-base. Targeted investments in robotic process automation (RPA) and machine-learning technologies to support the execution of contracts.
    - IT & Networks – modernising and strengthening our IT infrastructure; developing new products for cloud services, cybersecurity and workspace agility; automating and improving IT service desk customer experience.

The above are in addition to our ongoing investment in the upgrading of our financial system – to improve our reporting, processes and controls.

Challenging contracts

I have talked previously of three 'problem' contracts which continued to present Capita with some challenges in 2018. But we have made encouraging progress with fixing the performance of these contracts and are delivering against more of the key performance indicators. It is part of how we have introduced a more disciplined, company-wide contractual process.

First, we've completely rebuilt Capita's relationship and partnership with the British Army, and re-set our Recruiting Partnering Project (RPP) contract. We remain committed to making a success of RPP and, thanks to great work being done by our partnership, the contract is starting to show signs of improvement. The number of regular soldier recruitment applications are at a five-year high and we're working hard to reduce the amount of time it takes to join the Army. We have been open about mistakes made in the past and we know there is still a lot for us to do to deliver on our commitments. But RPP is a critical public service to the Armed Forces and we're determined to get it right.

Second, we took firm action towards the end of 2018 over issues relating to our Primary Care Support England (PCSE) contract with NHS England. This followed the discovery of delays in the issuing of cervical screening correspondence, which forms part of the PCSE contract, to thousands of women. We apologised to all the women affected by this administrative error and, following an investigation of the managerial handling of the matter, appropriate internal disciplinary action was taken. We have improved quality processes, and other operational service delivery levels on the contract continue to be stable.

Finally, the transformation of our seven-year customer services contract with mobilcom-debitel – one of Germany's largest mobile, internet services and telecoms products providers – is now progressing well. All revised transformation milestones have been met, including the launch of IOS and Android mobile customer-service apps.

The aggregate financial loss from these challenging contracts reduced from over £50m in 2017 to around £30m in 2018. We plan to generate an aggregate profit on the contracts in 2020, including reaching break even on the PCSE and mobilcom-debitel contracts by the end of 2020.

Sales and growth

Our transformation programme will continue through 2019 and, in fact, be intensified. All six Capita divisions now have clearly defined value propositions, a simpler set of offerings and, in some cases, a fresh methodology by which to create growth opportunities. While there are early signs that we can make real progress in 2019, there is still much more to do; and we must demonstrate that we can again grow organically.

Transformation of our growth function under a new Chief Growth Officer will be a crucial factor in how we will pivot to growth. We need to become more agile in our thinking, approach and skill-sets.

I have personal experience of running consulting businesses in software tech and the oil and gas industry. At Capita, we already have consulting services – providing insight and expertise in our chosen markets – but they have been run in silos and not leveraged across the business. I am convinced that a stronger consulting capability at Capita is going to remove our revenue dependency on tenders and help create new growth opportunities with existing and new clients. A stronger consulting capacity will also provide opportunities for consultative selling.

A shift to consultative selling, based on industry knowledge, will transform Capita in the sales and marketing area – and leave no-one in any doubt that what we now have instead is a modern-day growth function.

The performance assessment of our existing sales resources and the establishment of a focused customer account management structure, with well-honed consultative selling skills, is helping change how we engage with clients. We are aiming to understand our clients better and build stronger, long-term partnerships, providing the best of Capita to create better outcomes and realise growth opportunities.

This has already seen progress, including in our partnership with Transport for London (TfL). Core to this is the London congestion charge zone, low emissions zone and enforcement contract which involves service provision from five Capita divisions – Government Services (to run the contract), IT & Networks (the underlying IT infrastructure and network provision), Customer Management (customer accounts and enquiries), Software (payment platforms) and Specialist Services (document services). This contract led in turn to the opportunity to provide ultra-low emissions zone charging. More widely, we provide core network, asset, workplace and enforcement services to TfL, as well as infrastructure consultancy. It shows how we can work successfully across divisions and functions, and is a good example of getting account management right.

In 2018, we formed a new pre-bid contract review committee, which is operating well. The committee reviews all contracts above certain financial thresholds, evaluating the risks and commitments to ensure complete alignment with our operational and financial goals. We strike an appropriate balance between delighting the customer, growing operating profit and the risk profile.

Order intake in the year was £1.8bn, largely comprising contract wins and renewals in Customer Management, which won a £300m extension and expansion of our existing contract with Germany's largest integrated telecommunications provider, and in Software.

We also announced a number of new contracts, some of which were delayed from earlier in the year, which are discussed in more detail under divisional performance.

Capita's order book at 31 December 2018 stood at £7.1bn, compared with £8.2bn at 31 December 2017, reflecting that order intake was lower than revenue recognised in the year and low levels of bid activity in 2017. The decline in our order book in 2018 was driven by two parts of the business:

- Life Insurance, which is running off and was impacted by the loss of Prudential.
- Local government, where the market has structurally changed, and clients are shifting from long-term multi-activity contracts to buying processes as a service.

The order book for the rest of the business – largely digitally-enabled services and software – was stable. This part of Capita operates in growth markets and includes higher value-added services that we are investing in and want to grow. I expect to see these trends continue this year, as Life Insurance and local government continue to decline and our investment in core propositions begins to bear fruit. Capita continues to plan for a return to year-on-year organic growth in 2020, driven by digitally-enabled services and software.

Digital capabilities

Getting back onto a growth trajectory, and optimising our portfolio, are part of our multi-year transformation process, which we have clearly set out for all stakeholders. The focus of the leadership team at Capita remains firmly on delivering that transformation and prosecuting our strategy of simplify, strengthen and succeed. But we will also need to look ahead carefully to the Capita of the future, based increasingly around our digital capabilities.

The lion's share of the contracts we have today involve a deep understanding of the business processes of a client and the use of technology to provide insight, reduce risk, drive productivity and produce a superior experience for clients' customers. Digitally-enabled transformation is a common thread running through all this.

It's why we are investing more in digital technology and entering into strategic IT partnerships. For example, we agreed a five-year strategic partnership with Microsoft for the use of Azure, its cloud computing service, to support the roll-out of our cloud services, particularly in our Software and Customer Management businesses. This will help facilitate the roll-out of the next version of our education software SIMS8 and make it easier to internationalise the business.

We have significantly increased the capacity of our Indian digital development centre in Pune, near Mumbai, which now employs more than 1,100 people developing standardised software, alongside more than 500 colleagues there in IT &

Networks. We also agreed a digital partnership with McKinsey to accelerate our analytics and digital transformation capabilities.

There are big opportunities in a fast-changing world – with digitally-based services being purchased in a much more flexible way – which Capita is well equipped to take advantage of. But we need to make sure that our tech solutions are designed and marketed to provide clients and their customers with superior experiences and better outcomes. We have to identify the nature of clients' work and define the potential for them and us from new digital technology, data and analytics-focused solutions, based on deep industry knowledge.

Investment in our people

Capita is a people-focused business and the leadership team is committed to putting our people at the very centre of how we operate, and on respecting and valuing all of them. We are determined to instil a much stronger commitment to how we attract, develop, reward and retain our talented employees; and for them to start to really experience the positive changes taking place within the business. We want our people to feel part of the company's success, and to be excited and motivated to work hard to help achieve it.

This is why we appointed a Chief People Officer for the first time to run the new people function. We are investing in training and development, and succession and talent management, and have – for the first time at Capita – introduced a performance management and assessment system. Such moves are reflective of being a responsible business and constitute a vital part of how we will succeed.

I am disappointed that our gender pay gap increased in 2018; this is simply not good enough, but we are taking steps to understand and eventually eliminate the gap. We're investing in activity to improving gender and pay equality through our people and responsible business strategies. At the same time, I am very proud that our ranking in the Hampton-Alexander Review of the FTSE 250 has improved, up from 219 in 2017 to 110; it represents progress, though there is clearly still a lot of work to do.

We are also very serious in the leadership team about widening diversity. We want a workforce that is inclusive and reflects the diversity of our communities – as shown by the imminent appointment of two employee directors to the Board, the first such move by a FTSE 250 company since the late 1980s. But, as I have stated previously, this is not a case of gesture politics: employees on the Board does not feel radical to me; it's just the right thing for our company to do.

At a leadership level, we have further strengthened the executive committee to support the delivery of our new strategy. As well as a new Chief Growth Officer, we now also have a Chief Digital Officer; these new growth and digital roles are enormously important in underpinning our strategy. Our Chief Financial Officer joined us in January to form part of our world-class new leadership team, which also includes a Chief General Counsel and leads for the new transformation, corporate development and corporate affairs functions. We now have a mature and disciplined team running Capita in a responsible, sustainable way – with stronger controls and risk-management, and improved quality and assurance.

Global perspective

Capita is clearly not a multinational company in the conventional sense, but we do have an international dimension that I think has been underestimated in the past. While we are the UK's largest business processes outsourcing provider, we also have a growing international operation and sales focus.

Almost 20,000 of our people are based outside the UK and we have employees as far afield as the United States, Ireland, Germany, Poland, Switzerland, India and South Africa. We have myriad capabilities within our global network, with more than 8,000 employees in India and 3,000 people in Cape Town.

Indeed, our workforce in South Africa – where we've been winning new work – is set to expand over the next two years. We currently deliver services including customer service, sales, debt collection and technical support from two centres in Cape Town. South Africa represents a new and exciting services destination, offering a unique combination of talented people and commercial advantages. It also has a mature domestic market and an attractive investment climate – with strong public sector support and excellent telecoms infrastructure. South Africa is a people-centric culture; and our presence there is reflective of how we are helping facilitate social mobility.

Overall, our aim is to evolve into a digitally-enabled services, software and consulting business with an increasingly international footprint, which delivers for all its stakeholders and values all its people, whatever their roles and wherever they work.

Responsible business

The transformation of a purpose-driven Capita must be placed in the context of our becoming a truly responsible business.

I've talked about our new strategy, the sense of a refreshed culture and values, and our initiative to put two employees on the Board. The phased £176m pension deficit reduction plan, agreed with the trustees, was in line with a commitment we made in January 2018 and is an important milestone in Capita's transformation. It's a reflection of the importance we place on good corporate responsibility.

We have been working with the Cabinet Office to develop reforms on how the Government partners with the private sector to provide public services. We have welcomed the opportunity to work openly towards the development of a practical framework and approach to procurement and delivery that brings real value to all concerned.

We need to make sure we continue to focus on minimising operational issues and must ensure we are effective in engaging with our new ways of working and operating systems.

However, there is a fresh sense of a reforming Capita with a leadership team that is properly accountable to all its stakeholders, focused on fulfilling contractual obligations, meeting expectations, cultivating better relationships with clients and delighting our customers.

We've also refocused our approach to how we are responding to the most material challenges that our business and society face – youth unemployment, digital exclusion, gender equality, climate change, business governance and ethics.

We are calling our approach responsible business, as it defines how – true to our purpose – we operate, serve society, respect our people and the environment, and deliver a fair return to our investors. We have, for example, recently launched two new charity partnerships with Teach First and Young Enterprise where we aim to empower 100,000 young people to progress into the world of work.

But we must improve in these and many other areas, if Capita is to become a genuinely accountable leader within UK plc and help set the agenda for responsible business. The country is grappling with low productivity, slowing economic growth, an ageing population and limited social mobility. Business will have to step up and be part of the solution, be it through technology, including that designed to enhance productivity, innovation, training apprentices and graduates, or by simply providing good jobs.

However, a legacy of the financial crisis is that big companies are still treated with suspicion at best, outright hostility at worst. Business won't get a seat at the table to shape these solutions unless it is trusted and takes its broader role in society seriously, approaching challenges with honesty. I want to show how and why Capita – and big business in the UK – can actually be a force for good in society and start to change public perceptions.

Change in Board responsibilities

John Cresswell has informed the Board of his intention to step down as Chair of the Remuneration Committee but will remain on the Board as a Non-Executive Director. John took up a new CEO role in 2018 and feels he can no longer provide the Company with the time and attention the Remuneration Chair role requires. He will remain as Chair until a replacement is appointed.

The way ahead

Overall, I'm pleased with how far we have come at Capita on our transformation journey. After the first of three years, we are on track.

Looking forward, Capita has a clear plan for 2019, including embedding our first ever operating model which defines the way we work as 'One Capita', accelerating our cost-competitiveness programme and investing more in the business to support sustainable growth. These are important stepping stones as we work towards a return in 2020 to organic growth and sustainable cash generation.

Capita still faces a number of challenges; the political and economic environment and trading and market conditions clearly remain uncertain. Yet my confidence in Capita remains undimmed. We want to become a more profitable, sustainable and responsible business, creating long-term value for shareholders – and external challenges will only serve to intensify our attention on the task ahead.

As a more simplified and strengthened company, Capita will be well prepared to take advantage of the opportunities that lie before us in a fast-moving world. I am confident we will maintain our reforming momentum over the coming year – and am excited about the prospects for a successful, technology-driven, digitally-enabled Capita.

Divisional performance review

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

Software

Capita's Software division is one of the UK's largest software companies. Our specialist enterprise software products serve sector specific and cross-sector markets in the UK and overseas. We develop and deliver specialist application software and wider solutions for education, local government, public safety, utilities and transport, consulting and legal, and payments. As a software products provider, our deep industry expertise and functional IP supports critical public services and business processes. Our software and technology expertise forms a differentiating component of Capita's wider digitally-enabled services offering.

Strategy and markets

We are a top-five provider of enterprise software products in the UK, a market currently valued at £17bn and expected to grow at 8% CAGR through 2022 (source: Gartner). Our products compete in a wide range of market sectors, primarily in the UK, and in many sectors we have market-leading positions. We mainly compete with other specialist product software providers.

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

The division is transforming what was once a division of 29 siloed businesses into a single software business. This transformation was started in 2017 and during 2018 many of the structural and operational changes required to create a single business were put in place. We have built a best-in-class digital delivery centre in India for the production of standardised, repeatable software and to support the rest of Capita and are creating scaled, integrated, shared service functions. We are investing in both our existing and new products and markets to defend and grow the business, with the aim of achieving mid to high single digit revenue growth in 2020.

Sales and operational performance

Over the course of 2018 we have been increasing our focus on sales and standardising our sales processes and demand generation marketing, which is resulting in a stronger qualified pipeline.

There were a number of notable wins in the year. In partnership with Motorola Solutions, we were awarded a contract to supply our ControlWorks solution to a major metropolitan police service in Asia. We were also awarded a contract to provide ControlWorks to West Midlands Police, worth £6m over 10 years, and renewed our contract to provide support and maintenance to the Ministry of Justice for digital radio networks across the prison estate in England and Wales for the next five years. Pay360, our payment platform, won a significant contract with Luxon Payments, to support its global e-wallet launch. SIMS won a contract with City Montessori School (CMS) in India, the world's largest private school with more than 56,000 pupils.

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

The increasing focus on application development offshoring led us to build a strong development skill base in India at a lower cost base, with particular focus on key technologies such as cloud and digital transformation. This will enable us to fully support our multi-year product development cycles, critical to supporting our future sales pipeline.

Financial performance

Adjusted revenue fell by 1.3%, reflecting good growth in AMT-Sybex and growth in our cross-sector products, including Payments, which was offset by declines in Healthcare Decisions, as a result of the end of our NHS24 Scotland contract, and Secure Solutions. Education Software was flat. Our book-to-bill ratio was 104%, reflecting an encouraging improvement in order intake, and we expect revenue to grow in 2019.

Adjusted operating profit increased by 1%, due to the aforementioned changes in revenue, investments in sales, including the US pilot, and benefits from transformation actions.

Software financial summary	2018	2017	YOY change
Adjusted revenue	**£396.4m**	£401.7m	**(1.3)%**
Adjusted operating profit	**£112.4m**	£111.7m	**0.6%**
Margin	**28.4%**	27.8%	
Order book	**£559.6m**	£543.4m	**3.0%**

People Solutions

This division provides a full suite of HR offerings across the employment life cycle.

They include leading market positions in recruitment process outsourcing (RPO), learning process outsourcing, HR service (including payroll), and pensions and benefits administration, which are supported by our proprietary digital platforms, Orbit, Hartlink and Tessello.

We also provide attraction, screening and performance management services, and best-in-class fire prevention and protection training facilities from the Fire Service College.

Strategy and markets

The UK market for people services was valued at £6bn in 2018 and is expected to grow at an annual growth rate of 5% through to 2022. The market is being driven by a customer propensity to buy digital self-service, a move away from large-scale contracts to modular product buying, where customers require expert advisory support as they transition to digitally-enabled operating models.

In April 2018, we brought our existing HR businesses together under a single leadership team for the first time, to create the People Solutions division. Our strategy is to derive benefits from the new structure, by creating and leveraging a single sales engine and realising cost savings. We are investing in our core products and platforms, developing a suite of new products and solutions, strengthening our analytics capability and growing our scalable, repeatable solutions.

Sales and operational performance

Our forward order book was £715m at year-end. We signed a number of new contracts in the year, including the provision of resourcing services for the Home Office and German energy company Innogy, the management of apprenticeships for the Department of Work and Pensions and provision of learnings services for Vodafone. We also extended our learning services contract with a major retail bank.

We started investments in: the development of a digital onboarding product to complement our suite of 'hire to retire' services; the next generation of the Orbit benefits platform, onto which a number of clients were migrated; our KnowledgePool learning booking system; and the candidate portal of our pre-employment screening system to improve customer experience.

We have re-set our partnership with the Army on the Recruiting Partnering Project (RPP) at a senior level and the contract is starting to show signs of improvement. The number of regular soldier recruitment applications were at a five-year high at the time of writing this Annual Report and we're working hard to reduce the amount of time it takes to be offered a job in the Army. The contract aims and performance were the subject of an National Audit Office report in December 2018, the findings of which related to what are now largely historical contract issues, and we attended a Public Accounts Committee with the Army in January 2019. We have been open about mistakes made in the past and we know there is still a lot for us to do to deliver on our commitments.

Financial performance

Adjusted revenue fell by 4.3% as a result of declines in our transactional businesses Capita Resourcing and Learning Services, which were impacted by the transition to a new public sector training framework, previously Civil Service Learning, and the transfer of the Contingent Labour One (CL1) public sector resourcing contract to a new provider in the second half .

Adjusted operating profit decreased, reflecting the above decline in revenue, investment to strengthen the business and lower margins in Employee Solutions, which have yet to be offset by cost reduction actions.

People Solutions financial summary	2018	2017	YOY change
Adjusted revenue	**£498.3m**	£520.5m	**(4.3)%**
Adjusted operating profit	**£40.7m**	£62.7m	**(35.1)%**
Margin	**8.2%**	12.0%	
Order book	**£715.3m**	£786.5m	**(9.1)%**

Customer Management

Capita is a leading provider of multi-channel customer engagement services, underpinned by full-service business management capabilities, in the UK, Switzerland and Germany.

We primarily serve customers in the telecommunications, retail and utility sectors, from a mix of onshore locations in Europe and offshore locations in India, Poland, South Africa, Argentina and Bulgaria.

The division also provides remediation, complaints management and collections services, including TV Licensing. Our approach is to build shared outcome partnerships, increasingly based on partnering for value, not transactional supply. The value we bring to our clients is increasingly built around transforming the customer experience through the application of data insight and analytics. These enable us to manage complex, high-value interactions, drive positive quality improvement, and improve financial benefits for clients.

Strategy and markets

We are the largest provider of customer management services in the UK with a 14% market share. The UK market is estimated to be worth £4bn a year and is expected to grow at approximately 4% per annum through 2022 (source: Nelson Hall). The

German and Swiss customer management markets are estimated to be valued at £4bn per annum and are expected to grow at around 5% per annum through to 2022.

We have a differentiated strategy and core-value proposition in our markets; our approach is customer experience-led, tech-enabled and underpinned by contracted commitment to business outcomes. We are building capability to underpin our core value proposition that we 'make great customer experience happen'. Our commercial model increasingly includes a commitment to client outcomes such as improvements in the net promoter score, revenue generation, customer acquisition and cost-to-serve, deploying a range of operational, technology and process capabilities from within both Customer Management and the wider Capita group.

Sales and operational performance

Our order book increased by 10% to £2.0bn in 2018, due to the extension and expansion of existing contracts and signing of new contracts to deliver high-quality services for a number of leading clients, including:

- The extension and expansion of our existing contract with Germany's largest integrated telecommunications provider, taking over the operation of three contact centres and 640 employees. This contract is estimated to be worth £300m (€340m) to Capita to December 2022.
- British Airways selected us to deliver a new five-year contract to deliver enhanced customer services from our global centre in Cape Town, South Africa.
- Expanded contract with Southern Water for end-to-end customer services – including the management of back-office billing processes, correspondence-handling, print and mail – worth £30m over five years.
- Expanded contract with the Financial Services Compensation Scheme (FSCS) – to consolidate all its claims handling services, including all inbound and outbound customer contact – worth £37m over four years and nine months.
- Extensions of our contracts with: npower, worth £41m over three years; Marks & Spencer, worth £70m over five years; and BBC Audience Services for five years.

The transformation of our seven-year customer services contract with mobilcom-debitel – one of Germany's largest mobile, internet services and telecoms products providers – is now progressing well. During 2018, the investment of management time has improved contract performance, and we delivered all transformation milestones on time. This included the roll out of a new multi-channel telephony platform and the launch of IOS and Android mobile apps. We continue to plan to reach break even on the mobilcom-debitel contract by the end of 2020.

Financial performance

Adjusted revenue fell by 4.2%, due to contract scope changes and lower volume in the UK retail and energy sectors and Switzerland. Adjusted operating profit decreased due to: the aforementioned decline in revenue; a weaker performance in Europe, which was impacted by lower profits in Switzerland, and a slightly higher loss on our contract with mobilcom-debitel; increases in some cost items including the adoption of General Data Protection Regulation; and the dropping-out of a one-off contract modification benefit in 2017. Excluded from 2018 adjusted profit is a charge of £61.7m from the impairment of acquired intangibles.

Customer Management financial summary	2018	2017	YOY change
Adjusted revenue	**£794.2m**	£828.9m	**(4.2)%**
Adjusted operating profit	**£39.6m**	£57.8m	**(31.5)%**
Margin	**5.0%**	7.0%	
Order book	**£2,011.8m**	£1,843.6m	**9.1%**

Government Services

Capita is a trusted strategic partner to central government for the delivery and transformation of technology-enabled business services. It includes the operation of large, complex contracts that underpin the achievement of policy outcomes.

We are also a leading provider of support services such as revenues, benefits and back-office processing, IT, HR, and finance to local authorities, and education and health organisations.

Strategy and markets

Capita is one of the largest providers to government in the UK with an estimated market share of 13%. Our strategy is to focus on and leverage areas where Capita has core expertise, invest in our transformation, technology and operational capabilities, package more of our services making them simpler to procure, improve the performance of challenging contracts, and implement structured client account management. We are also discontinuing smaller non-core activities such as facilities management and focusing on core areas of collections and disbursement, regulatory and planning services, and customer and digital services. Since April, we have begun a programme to drive operational excellence and put in place continuous improvement plans for all businesses.

The UK market for central and local government services is valued at £6.7bn a year and estimated to be growing at approximately 3% per annum (source: Nelson Hall). However, the local government market for large outsourced contracts is declining with a significant drop-off in the number and size of opportunities coming to market and existing clients choosing to end contracts early and take services back in-house. Brexit is still affecting the volume of new policy initiatives by Government departments, resulting in fewer new opportunities for private sector contractors.

Sales and operational performance

Despite the difficulties faced by the company in the early part of 2018, we remain a strategic partner to the Cabinet Office.

We won, renewed and extended a number of contracts in 2018, including:

- Department for Education's Standards and Testing Agency – new contract to manage the administration, processing and support for all primary school national curriculum assessment tests in England.
- Transport for London – implementation and management of the Central London Ultra Low Emission Zone.
- Renewed contracts with Westminster City Council to manage the authority's revenues and benefits services, and the Health and Safety Executive to continue to manage the Gas Safe Register

In 2018 Capita's subsidiary, SmartDCC, went live with its GB-wide infrastructure for the rollout of second-generation smart meters. Alongside this service, SmartDCC is delivering key programmes of work for the government and energy industry to integrate first-generation smart meters into its network and deliver next-day consumer switching in the energy retail market.

We took firm action towards the end of 2018 over issues relating to our PCSE contract with NHS England. This followed the discovery of delays in the issuing of cervical screening correspondence, which forms part of PCSE , to thousands of women. We apologised to all the women affected by this administrative error and, following an investigation of the managerial handling of the matter, appropriate internal disciplinary action was taken. We have improved quality processes and other operational service delivery levels on the contract continue to be stable. We continue to expect the PCSE contract to reach breakeven by the end of 2020.

The local government market for large, multi-year deals, declined at an accelerated rate during the year. Southampton, Sheffield and Birmingham City Councils have notified us of their intention to end contracts with them ahead of their contracted end-dates. Barnet Council has agreed to take a small number of services back in-house.

Capita is committed to the local government market and is working closely with all our council partners to agree and manage a smooth transfer of services back to local authority management.

Financial performance

Adjusted revenue fell by 13.5%, due to the re-shaping of our Defence Infrastructure Organisation (DIO) contract, which benefited from the recognition of previously deferred income in the prior year, and a decline in our local government long-term strategic partnerships, reflecting the aforementioned market weakness. Adjusted operating profit decreased due to the dropping-out of the £22m one-off benefit from DIO, as previously disclosed, and weakness in local government, which were partially offset by a reduction in loss on Primary Care Support England (PCSE). Excluded from 2018 adjusted profit is a charge of £33.8m from the impairment of goodwill.

Government Services financial summary	2018	2017	YOY change
Adjusted revenue	**£745.5m**	£861.7m	**(13.5)%**
Adjusted operating profit	**£35.2m**	£78.7m	**(55.3)%**
Margin	**4.7%**	9.1%	
Order book	**£2,187.5m**	£2,660.6m	**(17.8)%**

IT & Networks

Capita is one of the top 10 suppliers of IT Services and networks in the UK, focused on the mid-sized market.

Our IT services business acts as a technology enabler across all of Capita's services both internally and externally. We provide end-to-end enterprise IT services and solutions focused around four key areas: digital transformation and innovation; core platforms – cloud, hosted and on-premise and services; LAN and WAN connectivity solutions; and professional services – advising and running IT solutions for our customers, testing, data consulting and cybersecurity.

We operate across the UK and from our operations in India, supporting clients at a local and national level. We have strategic partnerships with leading global IT vendors, have invested in our own portfolio of hosted platforms and operate our own UK-wide network and data centres.

Strategy and markets

The IT infrastructure services market in the UK was estimated to be worth £28bn in 2018. The overall market is expected to grow at 2% a year to 2021 (source: TechMarketView). However, this is highly polarised with high growth in cloud services and shrinking client device support.

Our strategy is to consolidate separately run entities into single IT & Networks businesses. We will: simplify the service catalogue and professionalise internal relationships; invest in our infrastructure, cloud and people; and build technical and sales capabilities to improve customer experience.

In 2018, we launched the 'One ITS' programme, which is expected to realise significant cost savings over the next three years and includes the introduction of shared service centres with common processes and an increase in the use of offshoring.

We also started a programme to invest in our data centre network to simplify and consolidate the existing environment and improve performance and consistency.

Sales and operational performance

2018 was a year of fixing the basics across the division, bringing together the separate operating businesses and stabilising them. This 'One ITS' programme is expected to realise significant cost savings over three years and includes the introduction of shared service centres with common processes and an increase in the use of offshoring.

Following an IT data centre outage in 2017, we have invested significantly in our existing data centre estate to simplify and consolidate the environment and improve performance and consistency. Plans are progressing for the phasing of legacy clients onto a new cloud infrastructure.

We began work on simplifying our product and service portfolio into six key product lines to position the division for improved client retention and growth. As part of this review, we retired a number of legacy brands and brought all our services together under the Capita brand. In November, a new divisional sales and marketing organisation was created, with additional resource focused on product cross-sell and key account management.

We began the implementation of the Transport for London networks contract in March and successfully went live in late August. Transformation of the network is ongoing and is due to be completed by the end of 2020.

Contract wins and renewals in the year included the NHS Business Services Authority, Ministry of Defence, Kent Public Service Network, North Essex Partnership, Driver and Vehicle Standards Agency, and Transport for London.

Financial performance

Adjusted revenue fell by 2.7%, due to contract losses and lower volume in Managed IT Solutions and Enterprise Services. Adjusted operating profit decreased due to the dropping-out of a £9m one-off supplier settlement in the prior year and lower margins in Networking Solutions.

IT & Networks financial summary	2018	2017	YOY change
Adjusted revenue	**£404.0m**	£415.4m	**(2.7)%**
Adjusted operating profit	**£45.3m**	£62.0m	**(26.9)%**
Margin	**11.2%**	14.9%	
Order book	**£380.4m**	£508.3m	**(25.2)%**

Specialist Services

Our Specialist Services division comprises a portfolio of 16 businesses, delivering a range of services offerings through joint ventures, trading businesses and traditional IT-enabled legacy BPO contracts. The division includes those businesses which either are not within Capita's growth markets and/or have little in common with our other divisions and/or are at an early phase in their development but may be scaled up in the future. These businesses are mostly stand-alone operations and are actively managed on a portfolio basis in order to maximise value and include Life Insurance, Insurance Services, Mortgage Services & Collections, Optima, Travel & Events, Evolvi, Real Estate & Infrastructure, AXELOS, Fera, Managed Print, Hardware Reselling and Enforcement.

Strategy and markets

We enjoy strong market positions in many of the verticals sectors, which are generally maturing, with strong brands and positive client perception of our services. This provides an ongoing opportunity to leverage Capita's wider client base better, and to simplify and strengthen the portfolio. The focus across the portfolio is on operational excellence, cost-optimisation and leveraging Capita-wide infrastructure, clients and capabilities where possible.

Parts of our life insurance administration business is in structural decline as books run off and some customers, with legacy IT systems, are switching to suppliers who can provide a single digital platform for all their life books.

Due to the varied nature of the activities in the division, each business has its own strategy uniquely tailored to their service offerings and the needs of their clients which has been defined through a 'value optimisation' programme. This programme, which involved a detailed review of each business and its market position, identified strategic and tactical opportunities to improve value generation from them.

Sales and operational performance

During the year we disposed of a number of businesses notably Supplier Assessment Services (including Constructionline) and ParkingEye, delivering over £400m in disposal proceeds.

The Life Insurance and Insurance Services businesses were impacted by the loss of the Prudential UK and Marsh contracts. We are focusing the business on supporting our customer services clients, where we are delivering high quality services for open book products.

We have restructured our Real Estate and Infrastructure business, invested in our IT infrastructure and client portals and enhanced our security and compliance in our regulated businesses.

New sales wins in the year included: the award of a new courts enforcement contract by the Ministry of Justice; Travel & Events contracts with the Department for International Trade, and Rolls Royce; and a Customer Solutions win with Electric Ireland, providing collection and credit-control services.

Financial performance

Adjusted revenue decreased by 3%. This reflected good growth at AXELOS and modest growth at Fera and Enforcement, which was outweighed by declines in Real Estate & Infrastructure, Insurance Services and Life Insurance. Revenue included a £38m release of deferred income on the early transfer of Prudential UK's life insurance business to a new supplier in the second half of 2018.

Adjusted operating profit fell by 1%, as a result of increases in AXELOS and Real Estate, which benefited from restructuring actions, which were offset by declines in Managed Print and Mortgage Services. Profits included a £9m one-off benefit on the end of the general insurance contract with Marsh and a £6m one-off benefit on the end of the Prudential contract, which were partly offset by one-off write downs and provisions.

Specialist Services financial summary	2018	2017	YOY change
Adjusted revenue	**£992.2m**	£1,022.7m	**(3.0)%**
Adjusted operating profit	**£139.5m**	£140.6m	**(0.8)%**
Margin	**14.1%**	13.7%	
Order book	**£1,241.4m**	£1,844.8m	**(32.7)%**

Financial review

This preliminary announcement is extracted from Capita's financial statements for the year ended 31 December 2018 and the basis of its preparation can be found in the notes to the statements in this announcement.

Changes to non-statutory reporting

We have simplified our non-statutory reporting measures to improve understanding of the Group's financial performance. Historically, the Group separated underlying, non-underlying results (comprising business exits and specific items) and reported these on the face of the income statement. In the notes, underlying results before significant new contracts and restructuring were disclosed.

There are a number of items that influence the profit reported in any one year. These can lead to significant differences between reported profit and the generation of free cash flow, including:

- IFRS 15 and the timing of reported profits compared to the receipt of cash. Under IFRS 15, revenue is more evenly distributed over the life of contracts, with the timing of profits re-profiled. There are typically lower profits in the early years on contracts, with significant restructuring costs or higher operating costs prior to transformation, with a compensating increase in profits in later years. Typically, cash receipts are aligned to when the costs are incurred. This results in income being deferred and released as we continue to deliver against our obligation to provide services and solutions to our clients. Further reporting improvements are being considered to make the impact of this more transparent.
- Contract terminations which can lead to major gains or losses in the year of termination, and where cash inflows/outflows have occurred in prior years.
- Additional pension contributions to address pension deficits are not reflected in our adjusted[1] or reported profit, in accordance with IAS 19, but will reflect a significant future cash commitment, totalling £176m to 2021, as described below.

To provide better understanding of our financials, we will continue to provide guidance on our sustainable free cash flow targets, with disclosures where the Company has committed to future cash outflows, as was done in relation to the cash contributions to the Group's defined benefit schemes.

The revised presentation provides reported results on the face of the income statement, with a footnote detailing adjusted results, and a note to the accounts providing a reconciliation between reported and adjusted results. Those items which relate to the ordinary course of the Group's operating activities remain within the adjusted results. In the Directors' judgement, a number of items need to be disclosed separately by virtue of their nature, size and/or incidence, in order for users of the financial statements to obtain a proper understanding of the financial information and the underlying performance of the business. Accordingly, our presentation of the performance of the divisions does not comment on these adjustments, as they do not impact our consideration of in-year performance. We have treated items consistently with the approach adopted at the time of the rights issue in 2018. We will be giving consideration to further improvements in 2019.

Revenue

Adjusted revenue[1], excluding results from businesses exited in both years, was £3,867.6m (2017: £4,091.8m), an organic decline of 5%.

This was due to the limited benefit from contract wins being outweighed by contract losses and scope and volume changes in Government Services, Customer Management and Specialist Services, including the re-shaping of our DIO contract with the Ministry of Defence, and Home Office escorting, on which we chose not to re-bid. There was also a decline in transactional revenue in People Solutions and IT & Networks.

Adjusted revenue[1] year-on-year	£m
2017	4,092
Contract wins	25
Contract losses	(172)
Scope and volume changes	(61)
Transactional business	(62)
One-offs	48
Other	(2)
2018	**3,868**

Reported revenue decreased by 7% to £3,918.4m (2017: £4,234.6m).

Operating profit

Adjusted operating profit[1] decreased by 25.1% to £335.3m (2017: £447.5m), as a consequence of the revenue decline year-on-year, due to the limited benefit from contract wins being outweighed by contract losses and scope and volume changes in Government Services, Customer Management and Specialist Services, a decline in People Solutions margin, the re-shaping of the DIO contract in Government Services and a one-off supplier settlement in the prior year in IT & Networks. These were partially

1 Adjusted. Refer to appendix for calculation of alternative performance measures
2 Refer to note 13 of the consolidated financial statements for details.

off-set by cost savings achieved from the transformation plan announced earlier in 2018 along with the full-year benefits of restructuring begun in prior years, and one-off contract-related profits of £6m on Prudential and £9m on Marsh that arose on the earlier than planned terminations of contracts in Specialist Services.

These contract profits arose as a result of the Group's revenue recognition policy under IFRS 15, where revenue is deferred over the expected life of a contract. Where a contract is terminated early, all deferred revenue is pulled forward and recognised in the year of termination. Similarly, any associated contract-specific assets that were being amortised over the expected life of the contract are written off in the year of termination, unless there are alternative uses on other contracts.

Adjusted operating margin[1] was 8.7% (2017: 10.9%). We continue to target double digit adjusted EBIT margins in 2020.

Adjusted operating profit[1] is before charging a number of specific items detailed further below.

The table below provides a reconciliation for 2018 and 2017 between reported and adjusted profit[1].

Adjusted[1] to reported profit bridge	Operating profit		Profit before tax	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Adjusted[1]	**335.3**	447.5	**282.1**	383.1
Amortisation and impairment of acquired intangibles	**(143.5)**	(138.3)	**(143.5)**	(138.3)
Impairment of goodwill	**(33.8)**	(551.6)	**(33.8)**	(551.6)
Impairment of other non-current assets	**—**	(63.5)	**—**	(63.5)
Impairment of Life & Pensions assets	**—**	(61.2)	**—**	(61.2)
Impairment of loans and investments	**(1.6)**	(9.0)	**(1.6)**	(9.0)
Litigation and claims	**1.8**	(30.0)	**1.8**	(30.0)
GMP and retirement age equalisation	**(5.4)**	—	**(5.4)**	—
Net finance costs	**—**	—	**(18.8)**	2.1
Contingent consideration movements (and acquisition costs in 2017)	**5.0**	0.8	**5.0**	0.8
Business exit – trading	**16.8**	16.8	**16.8**	16.7
Business exit – non-trading expenses	**(29.7)**	(13.7)	**(29.7)**	(13.7)
Business exit – (gain)/loss on disposals	**—**	—	**309.7**	(30.6)
Significant restructuring	**(110.0)**	(17.9)	**(110.0)**	(17.9)
Reported	**34.9**	(420.1)	**272.6**	(513.1)

Reported operating profit for the year was £34.9m (2017: loss £420.1m). Further detail of the specific items charged in arriving at reported operating profit for 2018 is provided in the notes to the financial statements.

The Group's policy is to disclose significant restructuring separately so users of the financial statements can more clearly understand the financial performance of the business. As announced in 2018, the Board has launched a multi-year transformation plan to support the objectives of simplifying and strengthening Capita. The plan includes restructuring, property rationalisation, procurement centralisation, finance transformation and operational excellence. Activities are designed to improve the cost competitiveness of the Group and secure Capita's position in the markets it serves.

In prior years, the Board disclosed profit before 'significant new contracts and restructuring'. This altered the previous presentation of significant restructuring. We have further simplified our reporting and now exclude significant restructuring costs from adjusted operating profit[1]. The Board recognises that this reflects a change in presentation but, given the critical nature of the multi-year transformation plan, concluded that this new presentation met the objectives of simplifying the Group's structure. The Board also considered other items that impact the reported results and the consolidated financial statements that have a material impact on in-year performance. This policy will remain under review by the Audit and Risk Committee and the costs will be reported over the life of the plan. The costs incurred in 2018 totalled £110.0m. An update will be provided at the next reporting period at 30 June 2019.

The impairment and amortisation of acquired intangibles, including goodwill, amounted to £177.3m (2017: £689.9m). The amortisation of acquired intangibles, and any impairment charges, are reported separately, due to the size of the annual charges and because the performance of the acquired businesses is assessed through the adjusted operating profit[1] which, for internal purposes, excludes any amounts associated with the acquired intangible assets. During the year, impairment charges were recorded in relation to businesses of £95.5m (2017: £565.6m). As noted in divisional performance, the local government market for large BPO contracts is declining, with a significant drop-off in the number and size of opportunities coming to market and existing clients choosing to end contracts early and take services back in-house. These events and circumstances led to the recognition of the goodwill impairment charge of £33.8m.

The Board has considered the appropriate guidance and FRC thematic review on alternative performance measures and concluded that it is appropriate to exclude the above items in arriving at adjusted profit before tax[1].

Finance costs

The adjusted interest charge[1] in 2018, excluding the fair value movement on mark-to-market fixed rate swaps, was £53.2m (2017: £64.4m), reflecting the benefit from the repayment of debt following the rights issue and disposals. Interest cover was 8.2 times for the year (2017: 8.6 times).

1 Adjusted. Refer to appendix for calculation of alternative performance measures
2 Refer to note 13 of the consolidated financial statements for details.

Profit before tax

Adjusted profit before tax[1] decreased by 26% to £282.1m (2017: £383.1m). Reported profit before tax increased by 153% to £272.6m (2017: loss £513.1m). Both reported and adjusted profit[1] in 2017 were impacted by significant impairment.

Discontinued operations

The disposal of the Capita Asset Services businesses in 2017 was treated as a discontinued operation as stipulated by IFRS 5. The profit on the disposal of these businesses was £445.4m. This profit is specific to the disposed businesses and is therefore excluded from both the adjusted[1] and reported results of the continuing operations. Adjustments in 2018 to provisions related to this disposal are also disclosed as discontinued.

Taxation

The income tax charge of £27.4m on adjusted profit[1] resulted in an adjusted tax rate of 9.7% (2017: income tax charge of £65.8m and adjusted tax rate 17.2%). This is a reduction year-on-year as a result of deferred tax credits arising from a re-assessment of the recognition of deferred tax assets and true-ups of positions to filed tax returns, together with an unremitted earnings charge. It is expected that the adjusted tax rate will return to a level closer to the UK tax rate of 19% in 2019.

The income tax credit of £0.9m on reported profit resulted in a tax rate of (0.3%) (2017: income tax credit of £14.0m and tax rate (2.7)%. The reported tax rate will generally vary from the adjusted tax rate year-on-year due to the items excluded from adjusted profit[1] in a period, for example non-taxable profits/losses on disposals or non-deductible impairment of certain acquired intangible assets.

Capita has an open and positive working relationship with HMRC, has a designated customer compliance manager, and is committed to prompt disclosure and transparency in all dealings with HMRC and overseas tax authorities. The Group does not have a complex tax structure, nor does it pursue aggressive tax avoidance activities. The Group has a low-risk rating from HMRC. The Group has operations in a number of countries outside the UK. All Capita operations in non-UK jurisdictions are trading operations and pay the appropriate local taxes on these activities. Further detail, regarding the tax strategy, can be found on the Policies and Principles area of the Capita website (capita.com/about-us/policies-and-principles).

In total, Capita contributed £164.3m (2016: £204.8m) in taxes from its UK operations in the year. This consisted of a net refund of £37.5m (2017: £12.7m) of UK corporation tax; £16.0m (2017: £21.4m) in irrecoverable VAT payments; £143.1m (2017: £155.5m) in employer NIC; and £42.7m (2017: £40.6m) in other levies including business rates, import duties, the apprenticeship levy and environmental taxes. Additionally, the Group collected and remitted to the UK Government £360.5m (2017: £409.9m) of VAT and £333.3m (2017: £367.7m) of Capita employee PAYE and NIC. Capita entities in overseas jurisdictions paid £4.6m (2017: £6.4m) of tax on local profits.

Earnings per share

Adjusted basic earnings per share[1] for continuing operations decreased by 42% to 16.37p (2017: 27.99p) as a result of the performance explained above.

The reported basic earnings per share for continuing operations was 17.99p (2017: loss 48.82p).

Dividend

The Board is not recommending the payment of a final dividend (2017: £nil). However, the Board recognises the importance of regular dividend payments to investors in forming part of their total shareholder return and will consider the payment of dividends when the Group is generating sufficient sustainable free cash flow.

Cash flow

Adjusted free cash flow[2] from continuing operations was an outflow of £82.5m (2017: inflow £75.4m). The Group has represented and restated its 2017 cash flow statement - refer to note 13 for details.

The Group's free cash flow was affected by the aforementioned decline in profit and a £372.4m working capital outflow from continuing operations. The change in working capital reflected the final elimination of period-end cash management activity, having historically optimised the working capital position at the end of reporting periods, and a £110m outflow from the phasing-out of non-recourse trade receivables financing. Deferred income declined due to limited new large contract wins, termination of contracts and a change in mix of licence sales in our Software division. Net capital expenditure on continuing operations was £139.9m in 2018 (2017: £110.2m), mainly attributable to an increase of investments in systems and infrastructure.

1 Adjusted. Refer to appendix for calculation of alternative performance measures
2 Refer to note 13 of the consolidated financial statements for details.

Adjusted operating profit to adjusted free cash flow[2]	2018 £m	2017 £m
Adjusted operating profit[1]	**335.3**	447.5
Add back: Depreciation	59.1	56.4
Add back: Amortisation of intangible assets	27.9	15.4
Add back: Impairment of property plant and equipment	6.1	—
Adjusted EBITDA	**428.4**	519.3
Working capital:	**(372.4)**	(263.2)
Non-recourse receivables financing cleared	(110.0)	(23.6)
Full normalisation of period-end cash management	(126.3)	(85.0)
Deferred income	(243.4)	(75.2)
Accrued income	24.8	(52.2)
Other movements in working capital	82.5	(27.2)
Interest	**(39.0)**	(54.2)
Taxation	**26.6**	9.5
Capital expenditure	**(139.9)**	(110.2)
Provision movements and non-cash items	**13.8**	(25.8)
Adjusted free cash flow[2]	**(82.5)**	75.4

We continue to expect to deliver at least £200m of sustainable free cash flow in 2020, before exceptional and restructuring charges, and the pension deficit recovery payments set out below.

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Adjusted to reported free cash flow	2018 £m	2017 £m
Adjusted	**(82.5)**	75.4
Pension deficit contributions	**(46.9)**	—
Significant restructuring	**(100.8)**	(45.0)
Business exits	**(6.6)**	19.5
Other	**(23.7)**	16.7
Reported	**(260.5)**	66.6

Reported free cash flow was an outflow of £260.5m (2017: inflow £66.6m). This reflected spend in relation to known commitments, including the Connaught settlement, the separation of Capita Asset Services, pension contributions (which the Directors consider to be debt like in nature), restructuring costs, professional fees, contingent and deferred consideration, litigation and other items.

Net debt

Net debt at 31 December 2018 was £466.1m (2017: £1,117.0m), reflecting the completion of the rights issue and the receipt of the proceeds from the disposal of Supplier Assessment Services, including Constructionline, and ParkingEye, which were partially offset by the free cash outflow.

At 31 December 2018, the Group had £1,108.0m of private placement notes which mature over the period up to 2027. In addition, the Group has £100.0m of bank debt which matures in 2019, and an undrawn £600m revolving credit facility of which £81m matures in August 2020 and £519m in August 2021.

The Board's view is that the appropriate leverage ratio for Capita over the medium term should be between 1.0 and 2.0 times adjusted net debt to adjusted EBITDA[1] (prior to the adoption of IFRS 16). At 31 December 2018, the Group's adjusted net debt to adjusted EBITDA[1] covenant ratio was 1.2 times (2017: 2.2 times) and interest cover[1] was 8.2 times (2017: 8.6 times).

At each reporting date, the calculation of the Group's debt covenants is assessed, both for that period and subsequent ones. These covenants are calculated based on the adjusted performance of the Group, in that they exclude exceptional items. The Group has been consistent with previous years in its treatments of these items.

Capital management

The Group's policy is to hold cash and undrawn committed facilities at a level sufficient to fund the Group's operations and its medium-term plans. The Group holds cash and undrawn committed facilities to enable the Group to manage its liquidity risk. At 31 December 2018, the Group held cash and cash equivalents net of overdrafts of £642.7m and had available to it a committed Revolving Credit Facility of £600m.

The Group agreed comprehensive amendments with the holders of its US private placement notes, euro fixed rate bearer notes and the Schuldschein loan to address certain issues which arose from the early adoption of IFRS 15 and the Group's strategy of disposal of certain non-core businesses. The amendments established a robust framework supporting the new corporate strategy.

As at 31 December 2018, the Group has future minimum rental payments under its lease arrangements of £736.0m.

1 Adjusted. Refer to appendix for calculation of alternative performance measures
2 Refer to note 13 of the consolidated financial statements for details.

Pension

In November, the Group announced that it had agreed a deficit recovery plan with the Trustees of the Capita Pension and Life Assurance Scheme (the 'Scheme').

This pension deficit recovery plan is in line with the commitment made by the Group in January 2018 to reduce the deficit over the medium term as a priority. The actuarial deficit at 31 March 2017, the date of the last triennial valuation, was £185m, before the impact of the recent High Court ruling on Guaranteed Minimum Pension equalisation.

The agreed deficit recovery plan, with payments totalling £176m, aligns with the Group's transformation plan, reflects the higher than expected proceeds the Group received in 2018 from its disposal programme, and incorporates steps to continue to lower the level of investment risk in the Scheme, benefiting the Scheme and the Group.

The expected pension deficit recovery plan payment schedule is:

Expected pension deficit repayment schedule

2018	2019	2020	2021	Total
£42m	£71m	£59m	£4m	£176m

The current deficit is supported by an asset-backed funding arrangement of c.£70.0m, the value of which is not included in the IAS 19 deficit of £219.0m at 31 December 2018 (31 December 2017: £406.8m). In addition, further contributions totalling £21.5m were paid in January 2018, comprising £17.0m following the disposal of Capita Asset Services, and £4.5m following closure of the Scheme in 2017 to future accrual for the majority of members of the Scheme.

IFRS 16 Leases

IFRS 16 was effective for the Group from 1 January 2019 and replaced IAS 17 Leases. The standard will have a material impact for the Group as it introduces a single lessee accounting model and requires the recognition of assets and liabilities for all leases. Rental costs currently recognised in operating profit will be replaced by depreciation of the assets and net finance costs on the liability. The total cash outflow for lease payments will not change. However, the payments related to the principal liability will be presented as cash outflows from financing activities, as opposed to the current treatment as cash outflow from operating activities.

At 31 December 2018, the Group held a significant number of operating leases for which the future minimum lease payments amount to £736.0m On adoption of IFRS 16, the expected effect on the balance sheet is the recognition of an asset in the range of £579m to £591m, a liability in the range of £640m to £650m, and an increase in retained deficit in the range of £23m to £25m. The expected effect on the income statement for 2019 is an improvement in EBITDA of £130m to £135m, an improvement in operating profit of £19m to £21m as rental payments are replaced by a lower depreciation charge, and an increase in finance costs of £28m to £30m, resulting in a reduction in profit of £8m to £10m.

The above changes are expected to increase our leverage ratio by 0.6 times. However, the impact on our adjusted net debt to adjusted EBITDA[1] covenant ratio is expected to be neutral to positive as the Group covenants are on frozen GAAP, with the exception of the US private placement notes. The US private placement notes covenant test includes the income statement impact of IFRS 16, but not the balance sheet.

Due to the Group transformation plan, which includes a consolidation of Capita's properties, the Group's lease portfolio is expected to materially change over the next few years. Any changes to the lease portfolio will be accounted for when transacted. The costs arising from the property rationalisation programme will be excluded from adjusted[1] profit in line with the current Group policy.

The Group will continue to implement and refine procedures and processes to apply the new requirements of IFRS16. As a result of this ongoing work, it is possible that there may be some changes to the adoption impact outlined above, before the 30 June 2019 results are issued. However, at this time these are not expected to be material.

Financial outlook

Capita is entering the second year of a major transformation and the successful delivery of this programme is critical to the future performance of the Group. We expect adjusted net finance costs to be in the region of £40m and adjusted profit before tax to be between £265m and £295m in 2019. We expect our headline net debt to EBITDA ratio to be in the top half of our stated range of 1.0 times to 2.0 times before adoption of IFRS 16.

Our 2020 targets of £175m initial cost savings, double-digit adjusted[1] EBIT margins and at least £200m of sustainable annual free cash flow, before exceptional and restructuring charges and additional pension contributions, remain unchanged.

1 Adjusted. Refer to appendix for calculation of alternative performance measures
2 Refer to note 13 of the consolidated financial statements for details.

Forward looking statements

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

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

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

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

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

Consolidated income statement

for the year ended 31 December 2018

	Notes	2018 Total reported £m	2017 Total reported £m
Continuing operations:			
Revenue		**3,918.4**	4,234.6
Cost of sales		**(2,951.4)**	(3,182.0)
Gross profit		**967.0**	1,052.6
Administrative expenses	1,2	**(932.1)**	(1,472.7)
Operating profit/(loss)	1,2	**34.9**	(420.1)
Net finance costs	4	**(72.0)**	(62.4)
Gain/(loss) on business disposal	2	**309.7**	(30.6)
Profit/(loss) before tax	1,2	**272.6**	(513.1)
Income tax credit/(expense)		**0.9**	(14.0)
Profit/(loss) for the year from continuing operations		**273.5**	(527.1)
Discontinued operations:			
Profit for the year		**5.6**	416.4
Total profit/(loss) for the year		**279.1**	(110.7)
Attributable to:			
Owners of the Company		**269.0**	(117.1)
Non-controlling interests		**10.1**	6.4
		279.1	(110.7)
Earnings/(loss) per share	5		
Continuing:			
– basic		**17.99p**	(48.82)p
– diluted		**17.77p**	(48.82)p
Total operations:			
– basic		**18.37p**	(10.72)p
– diluted		**18.15p**	(10.72)p

Adjusted operating profit	1	**335.3**	447.5
Adjusted profit before tax	1	**282.1**	383.1
Adjusted earnings per share	5	**16.37p**	27.99p
Adjusted and diluted earnings per share	5	**16.17p**	27.99p

Consolidated statement of comprehensive income

for the year ended 31 December 2018

		2018		2017
	£m	£m	£m	£m
Profit/(loss) for the year		**279.1**		(110.7)
Other comprehensive income/(expense):				
Items that will not be reclassified subsequently to profit or loss				
Actuarial gain/(loss) on defined benefit pension schemes	**134.9**		(51.4)	
Income tax effect	**(22.9)**		8.8	
		112.0		(42.6)
		112.0		(42.6)
Items that will or may be reclassified subsequently to profit or loss				
Exchange differences on translation of foreign operations		**2.0**		(4.6)
Net investment hedge of foreign operations	**—**		10.4	
Income tax effect	**—**		—	
		—		10.4
Gain on cash flow hedges	**2.0**		2.0	
Reclassification adjustments for (income)/expenses included in the income	**(2.5)**		0.3	
Income tax effect	**0.1**		(0.4)	
		(0.4)		1.9
		1.6		7.7
Other comprehensive income/(expense) for the year net of tax		**113.6**		(34.9)
Total comprehensive income/(expense) for the year net of tax		**392.7**		(145.6)
Attributable to:				
Owners of the Company		**382.6**		(152.0)
Non-controlling interests		**10.1**		6.4
		392.7		(145.6)

Consolidated balance sheet

As at 31 December 2018

	Notes	2018 £m	2017 £m
Non-current assets			
Property, plant and equipment	7	**213.6**	219.3
Intangible assets	8,9	**1,587.7**	1,812.1
Contract fulfilment assets	11	**264.2**	252.5
Financial assets		**109.1**	132.3
Deferred taxation		**144.6**	159.3
Trade and other receivables		**26.2**	28.0
		2,345.4	2,603.5
Current assets			
Financial assets		**18.2**	88.7
Disposal group assets held for sale		**—**	5.9
Trade and other receivables		**771.7**	775.8
Cash		**957.5**	921.7
Income tax receivable		**0.9**	25.6
		1,748.3	1,817.7
Total assets		**4,093.7**	4,421.2
Current liabilities			
Trade and other payables		**668.7**	755.2
Deferred income	11	**980.3**	1,201.2
Overdrafts		**314.8**	443.3
Financial liabilities		**303.1**	265.6
Disposal group liabilities held for sale		**—**	1.4
Provisions	12	**96.8**	164.1
		2,363.7	2,830.8
Non-current liabilities			
Trade and other payables		**11.6**	17.0
Deferred income	11	**277.3**	314.0
Financial liabilities		**1,084.2**	1,721.7
Deferred taxation		**15.2**	12.2
Provisions	12	**19.4**	48.5
Employee benefits		**219.0**	406.8
		1,626.7	2,520.2
Total liabilities		**3,990.4**	5,351.0
Net assets/(liabilities)		**103.3**	(929.8)
Capital and reserves			
Issued share capital		**34.5**	13.8
Share premium		**1,143.3**	501.3
Employee benefit trust and treasury shares		**(11.2)**	(0.2)
Capital redemption reserve		**1.8**	1.8
Foreign currency translation reserve		**1.6**	(0.4)
Cash flow hedging reserve		**1.5**	1.9
Retained deficit		**(1,135.3)**	(1,517.2)
Surplus/(deficit) attributable to owners of the Company		**36.2**	(999.0)
Non-controlling interests		**67.1**	69.2
Total equity		**103.3**	(929.8)

Consolidated statement of changes to equity

for the year ended 31 December 2018

	Share capital £m	Share premium £m	Employee benefit trust and treasury shares £m	Capital redemption reserve £m	Retained earnings/ (deficit) £m	Foreign currency translation reserve £m	Cash flow hedging reserve £m	Total £m	Non-controlling interests £m	Total equity/ (deficit) £m
At 1 January 2017	13.8	501.3	(0.2)	1.8	(1,131.8)	(6.2)	—	(621.3)	68.4	(552.9)
Profit/(loss) for the year	—	—	—	—	(117.1)	—	—	(117.1)	6.4	(110.7)
Other comprehensive (expense)/income	—	—	—	—	(42.6)	5.8	1.9	(34.9)	—	(34.9)
Total comprehensive (expense)/income for the year	—	—	—	—	(159.7)	5.8	1.9	(152.0)	6.4	(145.6)
Share based payment	—	—	—	—	2.9	—	—	2.9	—	2.9
Equity dividends paid	—	—	—	—	(211.0)	—	—	(211.0)	(5.6)	(216.6)
Investment in non-controlling interest	—	—	—	—	(11.1)	—	—	(11.1)	—	(11.1)
Movement in put options held by non-controlling interests	—	—	—	—	(6.5)	—	—	(6.5)	—	(6.5)
At 1 January 2018	13.8	501.3	(0.2)	1.8	(1,517.2)	(0.4)	1.9	(999.0)	69.2	(929.8)
Profit for the year	**—**	**—**	**—**	**—**	**269.0**	**—**	**—**	**269.0**	**10.1**	**279.1**
Other comprehensive income/(expense)	**—**	**—**	**—**	**—**	**112.0**	**2.0**	**(0.4)**	**113.6**	**—**	**113.6**
Total comprehensive income/(expense) for the year	**—**	**—**	**—**	**—**	**381.0**	**2.0**	**(0.4)**	**382.6**	**10.1**	**392.7**
Share based payment	**—**	**—**	**—**	**—**	**3.4**	**—**	**—**	**3.4**	**—**	**3.4**
Deferred income tax relating to share based payments	**—**	**—**	**—**	**—**	**0.4**	**—**	**—**	**0.4**	**—**	**0.4**
Shares issued/(purchased)	**20.7**	**642.0**	**(11.0)**	**—**	**—**	**—**	**—**	**651.7**	**—**	**651.7**
Equity dividends paid	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(12.2)**	**(12.2)**
Movement in put options held by non-controlling interests	**—**	**—**	**—**	**—**	**(2.9)**	**—**	**—**	**(2.9)**	**—**	**(2.9)**
As at 31 December 2018	**34.5**	**1,143.**	**(11.2)**	**1.8**	**(1,135.3)**	**1.6**	**1.5**	**36.2**	**67.1**	**103.3**

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

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

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

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

Foreign currency translation reserve – Gains or losses resulting from the process of expressing amounts denominated or measured in one currency in terms of another currency by use of the exchange rate between the two currencies. This process is required to consolidate the financial statements of foreign affiliates into the total Group financial statements and to recognise the conversion of foreign currency or the settlement of a receivable or payable denominated in foreign currency at a rate different from that at which the item is recorded.

Cash flow hedging reserve – This reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

Retained earnings – Net profits kept to accumulate in the Group after dividends are paid and retained in the business as working capital.

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

Consolidated cash flow statement

for the year ended 31 December 2018

	Notes	2018 £m	Restated[1] 2017 £m
Cash generated from operations		**(75.7)**	225.4
Cash generated from/(used by) discontinued operations		**(99.2)**	6.7
Income tax received		**25.3**	9.5
Net interest paid		**(52.5)**	(54.2)
Net cash inflow/(outflow) from operating activities		**(202.1)**	187.4
Cash flows from investing activities			
Purchase of property, plant and equipment	7	**(89.4)**	(66.2)
Purchase of intangible assets	8	**(70.1)**	(71.0)
Proceeds from sale of property, plant and equipment/intangible assets	7,8	**1.9**	23.1
Acquisition of subsidiary undertakings and businesses		**—**	(24.5)
Cash acquired with subsidiary undertakings		**—**	4.5
Deferred consideration received		**5.2**	11.8
Cancellation of put options		**(6.8)**	—
Deferred consideration paid		**(11.1)**	(5.8)
Contingent consideration paid		**(19.8)**	(11.7)
Purchase of financial assets		**(0.9)**	(0.7)
Net proceeds on disposal of subsidiary undertakings	2	**407.8**	17.0
Cash disposed of with subsidiary undertakings	2	**(11.2)**	(0.1)
Cash flows from investing activities used by discontinued operations		**—**	825.2
Net cash inflow/(outflow) from investing activities		**205.6**	701.6
Cash flows from financing activities			
External dividends paid	6	**—**	(211.0)
Dividends paid to non-controlling interest	6	**(12.2)**	(5.6)
Purchase of shares		**(11.0)**	—
Capital element of finance lease rental payments		**(0.2)**	(2.1)
Issue of share capital net of issue costs		**662.7**	—
Repayment of loan notes		**(577.2)**	(124.1)
Proceeds/(Repayment) of fixed rate swaps		**103.6**	(84.6)
Repayment of term debt		**—**	(550.0)
Financing arrangement costs		**(3.7)**	(2.1)
Net cash inflow/(outflow) from financing activities		**162.0**	(979.5)
Increase in cash and cash equivalents		**165.5**	(90.5)
Cash and cash equivalents at the beginning of the period		**478.4**	565.8
Movement in exchange rates		**(1.2)**	3.1
Cash and cash equivalents as at 31 December		**642.7**	478.4
Cash and cash equivalents comprise:			
Cash at bank and in hand		**957.5**	921.7
Overdrafts		**(314.8)**	(443.3)
Total		**642.7**	478.4

Adjusted cash generated from operations	13	**69.8**	**230.3**
Adjusted free cash flows	13	**(82.5)**	**75.4**

1 The Group has represented and restated its cash flow statement. Refer to note 13 for details.

Notes to the financial statements

Corporate information

The consolidated financial statements of Capita plc for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Directors on 13 March 2019. Capita plc is a public limited company incorporated in England and Wales whose shares are publicly traded.

Basis of preparation

The consolidated financial statements have been prepared under IFRS where certain financial instruments and the pension assets have been measured at fair value. The carrying value of recognised assets and liabilities that are hedged are adjusted to record changes in the fair values attributable to the risks that are being hedged. The consolidated financial statements are presented in pounds sterling and all values are rounded to the nearest tenth of a million (£m) except when otherwise indicated.

In determining the appropriate basis of preparation of the financial statements for the year ending 31 December 2018, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future. Having taken decisive action to strengthen the balance sheet through the raising of new equity and the disposal of non-core businesses, and undertaking a rigorous assessment of the financial forecast, the Board have concluded that the Group will continue to have adequate financial resources to realise their assets and discharge its liabilities as they fall due.

Accordingly, the Directors have formed the judgement that it is appropriate to prepare these consolidated financial statements on the going concern basis. Therefore, the consolidated financial statements do not include any adjustments which would be required if the going concern basis of preparation is inappropriate.

The Group's committed revolving credit facility, bank term loan facilities and private placement loan notes are subject to compliance with covenant requirements including maximum ratios of adjusted net debt to adjusted EBITDA. The Group's covenanted maximum ratio is 3.0 times or to 3.5 times depending on the debt instrument in question. They are tested semi-annually.

The Group has net debt of £466.1m at 31 December 2018 (2017: £1,117.0m) and adjusted net debt of £494.7m at 31 December 2018 (2017: £1,153.0m). Net debt is reported in note 13 - additional cash flow information. Adjusted net debt is used to calculate the gearing ratio adjusted net debt to adjusted EBITDA (refer to alternative performance measures in the appendix to this statement).

The Group's calculation of adjusted net debt to adjusted EBITDA at 31 December 2018 is 1.2 times and is compliant with the relevant ratios.

Changes to non statutory reporting

The Group has simplified its non-statutory reporting measures to improve transparency and make it easier for the readers of its annual report and accounts to understand its financial performance. Historically, the Group presented underlying and non-underlying results (comprising business exits and specific items) on the face of the income statement. In the notes, underlying results before significant new contracts and restructuring was disclosed. The revised presentation has only the reported results on the face of the income statement, with a footnote detailing adjusted profit and earnings per share, and a reference to a note to the consolidated financial statements (see note 1) providing a reconciliation between reported and adjusted profit. The presentation of the cash flow statement and additional cash flow information in note 13 have also been revised to show the same split.

Adjusted profit

IAS 1 permits an entity to present additional information for specific items to enable users to better assess the entity's financial performance. In practice these items are commonly referred to as 'specific' or 'non-underlying' items although such terminology is not defined in IFRS and accordingly there is a level of judgement required in determining what items to separately identify. The Board has adopted a policy to separately disclose those items that it considers are outside the underlying operating results for the particular year under review and against which the Group's performance is assessed.

Those items which relate to the ordinary course of the Group's operating activities remain within adjusted profit. The following items are excluded from adjusted profit: acquired intangible amortisation, impairment of goodwill and acquired intangibles, acquisition contingent consideration movements, the financial impact of business exits or businesses in the process of being exited, acquisition expenses, movements in the mark-to-market valuation of certain financial instruments, the impact of significant new contracts and restructuring (see below), and other specific non-recurring items in the income statement.

Under IFRS 15, contracts potentially recognise lower profits or losses in their early years where there are significant upfront restructuring costs or higher operating costs prior to transformation. As such, following the adoption of IFRS 15, the Board adopted a policy to separately disclose the operating profit/loss from significant new contract wins in-period and significant restructuring, in order for users of the financial statements to obtain a proper understanding of the financial information and the performance of the underlying business. The impact of these significant new contracts and restructuring are excluded in arriving at adjusted profit. A significant new contract is assessed as that which is significant and either entirely new to the Group, or a significant amendment to the scope and scale of an existing contract. The Group continually assesses the resourcing levels, both at a divisional level and also in relation to the management and delivery of individual contracts. This results in restructuring in the normal course of business and any such charges are recorded in adjusted profit. A significant restructuring is assessed as that above this normal level of restructuring. As discussed in the strategic report, a major transformation plan has been launched and costs incurred in support of this, including external adviser costs, are presented as restructuring charges. Contract terminations arising in the normal course of business and which result in the disposal of a contract fulfilment asset and/or a true-up of revenue recognised, will be included within adjusted profit, and separately disclosed if considered material.

Except for the disposal of our Capita Asset Services businesses, none of our 2018 or 2017 business exits or businesses in the process of being exited meet the definition of 'discontinued operations' as stipulated by IFRS 5, which requires disclosure and the restatement of comparative information where the relative size of a disposal or business closure is significant. Accordingly, the separate presentation described above does not fall within the requirements of IFRS 5 concerning discontinued operations. The 2017 adjusted comparatives are restated for business exits or businesses in the process of being exited in 2018 to enable better comparability.

Significant accounting judgements, estimates and assumptions

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

Preliminary announcement

A duly appointed and authorised committee of the Board of Directors approved the preliminary announcement on 13 March 2019. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2018 and 2017 but is derived from those accounts. Statutory accounts for 2017 have been delivered to the Registrar of Companies and those for 2018 will be delivered in due course. The auditor has reported on those accounts. Their report for the accounts of 2018 was (i) unqualified, (ii) did not include a reference of any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006. Their report for 2017 was (i) unqualified, (ii) contains a material uncertainty in respect of going concern to which the auditor drew attention by way of emphasis without modifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

1 Adjusted operating profit and adjusted profit before tax

		Operating profit		Profit before tax	
	Notes	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Reported		**34.9**	(420.1)	**272.6**	(513.1)
Amortisation and impairment of acquired intangibles	8	**143.5**	138.3	**143.5**	138.3
Impairment of goodwill	9	**33.8**	551.6	**33.8**	551.6
Impairment of other non-current assets	7	**—**	63.5	**—**	63.5
Impairment of Life & Pensions assets	7	**—**	61.2	**—**	61.2
Impairment of loans and investments		**1.6**	9.0	**1.6**	9.0
Litigation and claims		**(1.8)**	30.0	**(1.8)**	30.0
GMP and retirement age equalisation		**5.4**	—	**5.4**	—
Net finance costs	4	**—**	—	**18.8**	(2.1)
Contingent consideration movements (and acquisition costs in 2017)		**(5.0)**	(0.8)	**(5.0)**	(0.8)
Business exit – trading	2	**(16.8)**	(16.8)	**(16.8)**	(16.7)
Business exit – non-trading expenses	2	**29.7**	13.7	**29.7**	13.7
Business exit – (gain)/loss on disposals	2	**—**	—	**(309.7)**	30.6
Significant restructuring		**110.0**	17.9	**110.0**	17.9
Adjusted		**335.3**	447.5	**282.1**	383.1

Amortisation and impairment of acquired intangible assets: the Group carries on its balance sheet significant balances related to acquired intangible assets. The amortisation of these assets, and any impairment charges, are reported separately as they distort the in-year trading results, and performance of the acquired businesses is assessed through the underlying operational results. In 2018 the Group amortised £86.7m of which £4.9m belongs to disposed entities and is included in business exit. In addition, the Group recognised an impairment charge relating to acquired intangible assets of £61.7m in relation to the Swiss business in Customer Management.

Impairment of goodwill: the Group carries on its balance sheet significant balances related to acquired goodwill. Goodwill is subject to annual impairment testing, and any impairment charges are reported separately as they distort the in-year trading results and IFRS does not permit the recognition of any increases in value of acquisitions, potentially leading to an unbalanced picture being shown over time. Refer to note 9 for further detail on these impairments.

Impairment of other non-current assets: as part of its year-end close process in 2017, Capita undertook a comprehensive review of its tangible and intangible assets. Following the review, management took a decision to impair, as at 31 December 2017, a number of assets relating to specific programmes resulting from changes in client and Capita strategy in the second half of 2017. These impairments have no adverse impact on future cash or trading. Non-current assets amounting to £63.5m (£35.2m property, plant and equipment – see note 7; £28.3m capitalised software intangible assets – see note 8) were written off and excluded from adjusted profit as the assets have no further value to the Group.

Impairment of life and pensions assets: the Group's life and pension business developed a platform to support an existing life and pensions contract, but which could provide services to multiple clients in the future. In 2017, the Group identified there was no longer a market for this platform and accordingly the carrying value of this and associated assets were written off as at 31 December 2017. The impact on the financial statements is a non-underlying charge of £61.2m (£54.7m property, plant and equipment – see note 7; £1.0m capitalised software intangible assets – see note 8; £5.5m contract fulfilment asset – see note 10) representing the write-off of the non-current assets. The charge was excluded from adjusted profit as the assets had no further value to the Group.

Impairment of loans and investments: the Group fully impaired an investment in the year, and a historical loan and investment in the prior year. The charge is reported separately due to its nature and to be consistent to prior years. In 2018 the Group impaired £1.6m of investments.

Litigation and claims: the significant litigation costs provided in 2017 relate to two claims in respect of:

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

The amount provided in respect of these two claims has been recognised in non-underlying due to their age and significance.

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

GMP and retirement age equalisation: the High Court issued a judgment in October 2018 which concluded that pension schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension 'GMP' benefits. This will impact many pension schemes including the Group's defined benefit schemes. The Group is working with the Trustees and their advisers to understand the extent to which the judgment crystallises additional liabilities. For the purpose of these financial statements, we have estimated that this will increase the reported liability of the pension schemes by £4.4m and this is reflected as a past service cost in 2018 and thus taken through the income statement. In addition, there is a past service cost of £1m in relation to the correction of a historical retirement age equalisation issue for a small group of members in the main scheme. The amounts provided in respect of GMP and retirement age equalisation are excluded from adjusted profit because they relate to past service costs and therefore not reflective of in-year performance.

Net finance costs: non-underlying net finance costs includes the movements in the mark to market valuation of certain financial instruments, and in 2018, the make-whole costs paid to noteholders on early repayment of principal on the Private Placement loan notes from the proceeds of the rights issue and disposals. Refer to note 4 for further details.

Contingent consideration movements and acquisition related costs: in accordance with IFRS 3, movements in the fair value of contingent consideration on acquisitions go through the Group income statement. These are reported separately because performance of the acquired businesses is assessed through the underlying operational results and such a charge/credit movement would distort underlying results. Acquisition-related costs incurred with acquisitions are not included in the assessment of business performance which is based on the adjusted results. IFRS requires certain costs incurred in connection with acquired businesses to be recorded within the Group income statement. These charges are not included in the internal assessment of business performance which as above is based on the underlying operational results. These charges are therefore separately disclosed as specific items.

Business exits: the trading result of businesses exited, or in the process of being exited, and the gain or loss on disposals, are disclosed outside the adjusted results. The 2017 results have been restated for the trading of those businesses exited, or in the process of being exited, in 2018 to enable comparability of the adjusted results.

Significant restructuring: in January 2018, the Group announced a multi-year transformation plan. In the period to 31 December 2018, a charge of £110.0m (2017: £17.9m) was recognised in relation to the cost of the transformation plan, and restructuring costs relating to Capita's previously announced cost reduction plan. The costs include the following sub-categories:

- Cost to realise cost savings and efficiencies from the transformation plan (£55m): including significant reductions in overheads via support function restructuring, and the elimination of duplicate roles. These costs also include engaging the Group's property expertise to rationalise and increase the utilisation of Capita's property estate, in metro centres and regionally. As the Group continues to rationalise the property estate cost associated with onerous lease commitments and dilapidation liabilities will be captured and presented as part of the transformation adjustments.
- Professional fees (£31m): incurred to support the delivery of the future strategy, redesign of the Group's operating model, re-ignite sales growth and increasing the proportion of centrally controlled spend, consolidating the supplier base and leveraging the Group's scale.
- Finance transformation (£6m): improving the Group's financial reporting systems, processes and controls, through increasing standardisation, automation and the quality and availability of data. The Group is investing in an upgrade of its financial system and increasing the use of offshoring and shared services. This programme is titled 'Smarter Faster Finance' and all costs associated with this programme are recorded separately, excluding any costs capitalised as part of the investment and the ongoing depreciation and amortisation of such assets.
- Previously announced cost-reduction plan (£18m): restructuring costs related to the Group's cost-reduction plan announced in prior periods, but did not meet the criteria for provision at the end of 2017.

2 Business exits

Business exits are businesses that have been exited during the year or are in the process of being disposed of. None of these business exits meet the definition of 'discontinued operations' as stipulated by IFRS 5, which requires disclosure and comparatives to be restated where the relative size of a disposal or business closure is significant, which is normally understood to mean a reported segment. Accordingly, the separate presentation described below does not fall within the requirements of IFRS 5 concerning discontinued operations. However, to enable a like-for-like comparison of adjusted results, the 2017 comparatives have been restated to include 2018 business exits.

During the period, the Group disposed of five businesses and exited one business – Capita Specialist Insurance Solutions, Projen (which was held for sale as at 31 December 2017), Medicals Direct Group, Supplier Assessment Services (including Constructionline), ParkingEye and REI Health.

		Non-trading disposal			
Income statement impact	Trading £m	Cash £m	Non-cash £m	Total £m	Total £m
Revenue	50.8	—	—	—	50.8
Cost of sales	(20.2)	—	—	—	(20.2)
Gross profit	30.6	—	—	—	30.6
Administrative expenses	(13.8)	(1.0)	(28.7)	(29.7)	(43.5)
Operating profit/(loss)	16.8	(1.0)	(28.7)	(29.7)	(12.9)
Net finance costs	—	—	—	—	—
Gain on business disposal	—	367.4	(57.7)	309.7	309.7
Profit before tax	16.8	366.4	(86.4)	280.0	296.8
Taxation	(3.1)	(23.4)	—	(23.4)	(26.5)
Profit after tax	13.7	343.0	(86.4)	256.6	270.3

Trading revenue and costs represent the current period trading performance of those businesses up to the point of being disposed or exited. The 2017 comparative trading operating profit for the year ended 31 December 2017 was £17.8m, representing a full year of trading.

Non-trading administrative expenses comprise £1.0m of closure costs, £24.3m of goodwill impairment, £4.9m of acquired intangible amortisation and £0.5m release of provisions.

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

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

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

Cash proceeds in 2018	Cash £m
Cash purchase consideration received	400.7
Settlement of receivables sold as part of the disposal	19.0
Total consideration received	419.7
Cost of disposal – paid in the year	(11.9)
Net proceeds received in year	407.8

Business exit cash flows

Business disposed of during 2018 generated operating cash outflows of £6.6m.

3 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. A description of the service provision for each segment can be found in the strategic report on pages 21–33 of the Annual Report 2018.

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

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

Before eliminating sales between business units on consolidation, the Group accounts for sales between business units as if they were to a third party at market rates.

The tables below present revenue, trading result and certain asset and liability information for the Group's business segments for the years 2018 and 2017. All operational divisions are continuing and the 2017 segmental information has been restated for the impact of businesses exited or held for sale in 2018 with total adjusted revenue reduced by £76.1m and profit before tax reduced by £17.8m.

Year ended 31 December 2018	Notes	Software £m	People Solutions £m	Customer Managem ent £m	Governme nt Services £m	IT & Networks £m	Specialist Services £m	Group trading and central services £m	Total adjusted £m	Adjusting items £m	Total reported £m
Continuing operations											
Long-term contractual		353.9	295.2	563.6	647.4	296.5	601.0	13.8	2,771.4	3.2	2,774.6
Short-term contractual		34.7	38.0	228.7	4.7	55.3	201.3	24.5	587.2	47.6	634.8
Transactional (point in time)		7.8	165.1	1.9	93.4	52.2	189.9	(1.3)	509.0	—	509.0
Total segment revenue		396.4	498.3	794.2	745.5	404.0	992.2	37.0	3,867.6	50.8	3,918.4
Trading revenue		447.4	649.4	904.3	758.5	636.8	1,087.0	81.2	4,564.6	—	4,564.6
Inter-segment revenue		(51.0)	(151.1)	(110.1)	(13.0)	(232.8)	(94.8)	(44.2)	(697.0)	—	(697.0)
Total adjusted segment revenue		396.4	498.3	794.2	745.5	404.0	992.2	37.0	3,867.6		3,867.6
Business exits – trading	2	—	—	—	—	—	50.8	—	—	50.8	50.8
Total segment revenue		396.4	498.3	794.2	745.5	404.0	1,043.0	37.0	—	—	3,918.4
Adjusted operating profit	1	112.4	40.7	39.6	35.2	45.3	139.5	(77.4)	335.3	—	335.3
Restructuring	1	(9.3)	(12.5)	(10.9)	(6.3)	(4.5)	(15.9)	(50.6)	—	(110.0)	(110.0)
Business exits – trading	2	—	(0.3)	0.3	—	—	16.8	—	—	16.8	16.8
Total trading result		103.1	27.9	29.0	28.9	40.8	140.4	(128.0)	335.3	(93.2)	242.1
Non-trading items:											
Business exits – non-trading	2								—	(29.7)	(29.7)
Other adjusting items	1								—	(177.5)	(177.5)
Operating profit									335.3	(300.4)	34.9
Net finance costs	4								(53.2)	(18.8)	(72.0)
Gain on business disposal	2								—	309.7	309.7
Profit before tax									282.1	(9.5)	272.6
Income tax credit/(expense)									(27.4)	28.3	0.9
Profit for the year – continuing operations									254.7	18.8	273.5
Profit for the year – discontinued operations									—	5.6	5.6
Profit for the year – total									254.7	24.4	279.1

Year ended 31 December 2017	Notes	Software £m	People Solutions £m	Customer Manageme nt £m	Governme nt Services £m	IT & Networks £m	Specialist Services £m	Group trading and central services £m	Total adjusted £m	Adjusting items £m	Total reported £m
Continuing operations											
Long-term contractual		361.6	295.2	582.2	752.3	278.7	632.2	22.6	2,924.8	5.2	2,930.0
Short-term contractual		32.6	42.7	245.9	4.1	63.6	198.9	9.1	596.9	81.6	678.5
Transactional (point in time)		7.5	182.6	0.8	105.3	73.1	191.6	9.2	570.1	56.0	626.1
Total segment revenue		401.7	520.5	828.9	861.7	415.4	1,022.7	40.9	4,091.8	142.8	4,234.6
Trading revenue		441.7	662.4	944.1	884.9	652.4	1,119.4	97.4	4,802.3	—	4,802.3
Inter-segment revenue		(40.0)	(141.9)	(115.2)	(23.2)	(237.0)	(96.7)	(56.5)	(710.5)	—	(710.5)
Total adjusted segment revenue	1	401.7	520.5	828.9	861.7	415.4	1,022.7	40.9	4,091.8	—	4,091.8
Business exits – trading	2	—	55.1	0.8	—	—	86.9	—	—	142.8	142.8
Total segment revenue		401.7	575.6	829.7	861.7	415.4	1,109.6	40.9	—	—	4,234.6
Adjusted operating profit	1	111.7	62.7	57.8	78.7	62.0	140.6	(66.0)	447.5	—	447.5
Restructuring	1	(2.2)	(4.3)	1.3	(3.9)	(1.1)	5.9	(13.6)	—	(17.9)	(17.9)
Business exits – trading	2	—	(1.7)	0.7	—	—	17.8	—	—	16.8	16.8
Total trading result		109.5	56.7	59.8	74.8	60.9	164.3	(79.6)	447.5	(1.1)	446.4
Non-trading items:											
Business exits – non-trading	2								—	(13.7)	(13.7)
Other adjusting items	1								—	(852.8)	(852.8)
Operating profit/(loss)									447.5	(867.6)	(420.1)
Net finance costs	4								(64.4)	2.0	(62.4)
Loss on business disposal	2								—	(30.6)	(30.6)
Profit/(loss) before tax									383.1	(896.2)	(513.1)
Income tax (expense)/credit									(65.8)	51.8	(14.0)
Profit/(loss) for the year – continuing operations									317.3	(844.4)	(527.1)
Profit for the year – discontinued operations									—	416.4	416.4
Profit/(loss) for the year – total									317.3	(428.0)	(110.7)

Order book

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

Order book 31 December 2018	**Software £m**	**People Solutions £m**	**Customer Management £m**	**Government Services £m**	**IT & Networks £m**	**Specialist Services £m**	**Group trading and central functions £m**	**Total £m**
Long-term contractual	**559.6**	**715.3**	**2,011.8**	**2,187.5**	**380.4**	**1,239.1**	**—**	**7,093.7**
Short-term contractual	**—**	**—**	**—**	**—**	**—**	**2.3**	**—**	**2.3**
Total	**559.6**	**715.3**	**2,011.8**	**2,187.5**	**380.4**	**1,241.4**	**—**	**7,096.0**

Order book 31 December 2017	Software £m	People Solutions £m	Customer Management £m	Government Services £m	IT & Networks £m	Specialist Services £m	Group trading and central functions £m	Total £m
Long-term contractual	543.4	786.5	1,843.6	2,660.6	508.3	1,833.7	3.8	8,179.9
Short-term contractual	—	—	—	—	—	11.1	—	11.1
Total	543.4	786.5	1,843.6	2,660.6	508.3	1,844.8	3.8	8,191.0

The table below shows the time bands of the expected timing of revenue to be recognised on long-term contractual at 31 December 2018:

Time bands of long-term contractual in order book	**Software £m**	**People Solutions £m**	**Customer Management £m**	**Government Services £m**	**IT & Networks £m**	**Specialist Services £m**	**Group trading and central functions £m**	**Total £m**
< 1 year	**331.3**	**222.9**	**602.8**	**425.3**	**169.3**	**336.0**	**—**	**2,087.6**
1–5 years	**196.7**	**451.3**	**1,400.1**	**1,432.7**	**167.7**	**683.0**	**—**	**4,331.5**
> 5 years	**31.6**	**41.1**	**8.9**	**329.5**	**43.4**	**220.1**	**—**	**674.6**
Total	**559.6**	**715.3**	**2,011.8**	**2,187.5**	**380.4**	**1,239.1**	**—**	**7,093.7**

The order book represents the consideration to which the Group will be entitled to receive from the customers when the Group satisfies the remaining performance obligations in the contracts. However, the total revenue that will be earned by the Group will also include non-contracted volumetric revenue, new wins, scope changes and anticipated contract extensions. These elements have been excluded from the figures in the tables above as they are not contracted. In addition, revenue from contract extensions is also excluded in the order book unless they are pre-priced extensions whereby the Group has a legal binding obligation to deliver the performance obligations during the extension period. The total revenue related to pre-priced extensions that has been included in the tables above amounted to £508.0m (2017: £502.0m). 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 £7.1bn (2017: £8.2bn) revenue to be earned on long-term contractual, £4.2bn (2017: £4.9bn) relates to material contracts to the Group. This amount excludes revenue that will be derived from frameworks (transactional (point in time) contracts), non-contracted volumetric revenue, non-contracted scope changes and future unforeseen volume changes from these material contracts, which together are expected to contribute an additional £2.2bn (2017: £1.8bn) of revenue to the Group over the life of these contracts.

4 Net finance costs

	2018 £m	2017 £m
Interest receivable	**(2.6)**	(0.7)
Private placement loan notes[1]	**40.4**	37.7
Fixed rate interest rate swaps	**—**	2.6
Cash flow hedges recycled to the income statement	**(2.5)**	—
Bank loans and overdrafts	**8.5**	15.6
Net interest cost on defined benefit pension schemes	**9.4**	9.2
Interest payable	**55.8**	65.1
Net finance costs included in adjusted profit	**53.2**	64.4
Fixed rate interest rate swaps – mark-to-market	**—**	(0.5)
Discount unwind on public sector subsidiary partnership payment	**1.7**	1.8
Fair value movement in trade investments	**—**	0.6
Non-designated foreign exchange forward contracts – mark-to-market	**5.1**	(3.4)
Interest payable – business exit[2]	**—**	0.1
Fair value hedge ineffectiveness[3]	**(3.9)**	(0.6)
Private placement loan notes prepayments costs[4]	**15.9**	—
Net finance costs excluded from adjusted profit	**18.8**	(2.0)
Total net finance costs	**72.0**	62.4

1 Private placement loan notes include US private placement loan notes, euro fixed rate bearer notes and a Schuldschein loan. Included in private placement loan notes interest payable is £7.0m of additional interest at a rate of 0.75% per annum which was imposed as part of amendment agreements reached with lenders during 2018.

2 Interest payable included within business exit trading. Refer to note 2 for further details.

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

4 Private placement loan notes prepayment costs include make-whole costs paid to noteholders on early repayment of principal. The early repayment was made from the proceeds of the rights issue and disposals.

5 Earnings/(loss) per share

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

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

The weighted average number of ordinary shares for the year ended 31 December 2017 has been restated to reflect the rights issue completed in the period. The adjustment to the weighted average number of ordinary shares reflects the bonus element of the rights issue.

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

			Restated		As previously reported	
	2018		2017		2017	
	Continuing operations £m	**Total operations £m**	Continuing operations £m	Total operations £m	Continuing operations £m	Total operations £m
Adjusted profit attributable to shareholders [1]	**239.7**	**239.7**	305.9	305.9	303.6	303.6
Total profit/(loss) attributable to shareholders	**263.4**	**269.0**	(533.5)	(117.1)	(533.5)	(117.1)

1 The adjusted profit attributable to shareholders from continuing operations for the year ended 31 December 2017, previously reported has been restated to reflect change in presentation during the year as well as the businesses that have been disposed of during the year ended 31 December 2018 (see notes 1 and 2).

	2018 m	Restated 2017 m	As previously reported 2017 m
Weighted average number of ordinary shares (excluding trust and treasury shares) for basic earnings per share	**1,463.9**	1,092.8	665.7
Dilutive potential ordinary shares:			
Employee share options	**18.3**	—	—
Weighted average number of ordinary shares (excluding trust and treasury shares) adjusted for the effect of dilution	**1,482.2**	1,092.8	665.7

At 31 December 2017, 3,395,030 options were excluded from the diluted weighted average number of ordinary shares calculation because their effect would have been anti-dilutive. Under IAS 33-Earnings per Share, potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations. The Group made a loss in the prior year from continuing operations hence the diluted earnings/(loss) per share for each component of continuing and total operations needs to be the same amount as the basic earnings/(loss) per share.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

The earnings per share figures are calculated based on adjusted earnings attributable to ordinary equity holders of the parent company of £239.7m (2017: £305.9m) and reported earnings of £269.0m (2017: loss of £117.1m). They are both included to provide a better understanding of the trading performance of the Group.

		2018		Restated 2017		As previously reported 2017	
		Continuing operations p	Total operations p	Continuing operations p	Total operations p	Continuing operations p	Total operations p
Basic earnings/(loss) per share	– adjusted	**16.37**	**16.37**	27.99	27.99	45.61	45.61
	– reported	**17.99**	**18.37**	(48.82)	(10.72)	(80.14)	(17.59)
Diluted earnings/(loss) per share	– adjusted	**16.17**	**16.17**	27.99	27.99	45.61	45.61
	– reported	**17.77**	**18.15**	(48.82)	(10.72)	(80.14)	(17.59)

6 Dividends paid and proposed

	2018 £m	2017 £m
Declared and paid during the year		
Ordinary shares (equity):		
Final for 2017 paid: nil per share (2016: 21.2p per share)	—	137.1
Interim for 2018 paid: nil per share (2017: 11.1p per share)	—	73.9
Dividends paid to shareholders	—	211.0
Dividends paid to non-controlling interest	**12.2**	5.6
Total dividends paid	**12.2**	216.6

Proposed for approval at AGM (not recognised as a liability at 31 December)		
Ordinary shares (equity):		
Final for 2018: nil per share (2017: nil per share)	—	—

7 Property, plant and equipment

	Leasehold improvements, land and buildings £m	Plant and machinery £m	Total £m
Cost			
As at 1 January 2017	105.0	420.3	525.3
Subsidiaries acquired	0.1	0.1	0.2
Disposal of business	(15.8)	(98.2)	(114.0)
Additions	5.8	63.1	68.9
Disposals – included in adjusted profit	(3.6)	(10.7)	(14.3)
Disposals – excluded from adjusted profit	(7.3)	(91.9)	(99.2)
Asset retirements	(7.6)	(75.2)	(82.8)
Re-class to intangible assets (net)	—	(13.1)	(13.1)
Exchange movement	0.5	0.6	1.1
As at 31 December 2017	77.1	195.0	272.1
Disposal of business	**—**	**(22.8)**	**(22.8)**
Additions	**33.1**	**56.3**	**89.4**
Disposals – included in adjusted profit	**(0.6)**	**(19.7)**	**(20.3)**
Asset retirements	**(5.9)**	**(33.1)**	**(39.0)**
Exchange movement	**(0.7)**	**—**	**(0.7)**
As at 31 December 2018	**103.0**	**175.7**	**278.7**
Depreciation and impairment:			
As at 1 January 2017	38.8	91.8	130.6
Depreciation charged during the year	11.1	58.9	70.0
Impairment – excluded from adjusted profit	—	10.0	10.0
Disposal of business	(6.9)	(32.9)	(39.8)
Disposals – included in adjusted profit	(1.4)	(7.0)	(8.4)
Disposals – excluded from adjusted profit	(1.5)	(17.8)	(19.3)
Asset retirements	(7.6)	(75.2)	(82.8)
Re-class to intangible assets	—	(8.0)	(8.0)
Exchange movement	0.2	0.3	0.5
As at 31 December 2017	32.7	20.1	52.8
Depreciation charged during the year	**9.7**	**50.4**	**60.1**
Impairment – included in adjusted profit	**6.1**	**—**	**6.1**
Disposal of business	**—**	**(2.9)**	**(2.9)**
Disposals – included in adjusted profit	**(0.6)**	**(10.8)**	**(11.4)**
Asset retirements	**(5.9)**	**(33.1)**	**(39.0)**
Exchange movement	**(0.2)**	**(0.4)**	**(0.6)**
As at 31 December 2018	**41.8**	**23.3**	**65.1**
Net book value			
As at 1 January 2017	66.2	328.5	394.7
As at 31 December 2017	44.4	174.9	219.3
As at 31 December 2018	**61.2**	**152.4**	**213.6**

The net book value of plant and machinery includes an amount of £nil (2017: £0.2m) in respect of assets held under finance leases.

Depreciation charged during the year includes £nil (2017: £0.2m) of accelerated depreciation in relation to businesses disposed of.

In 2017 a comprehensive review was undertaken as part of the year-end close process and a number of assets relating to specific programmes resulting from changes in client and Capita strategy in the second half of 2017 were fully written down. Property, plant and equipment amounting to £89.9m was fully written down and excluded from the adjusted profit for the year. The charge is shown above within impairment – excluded from adjusted profit (£10.0m) and disposals – excluded from adjusted profit (£79.9m, being cost £99.2m less accumulated depreciation £19.3m). The write-downs relate to life and pensions assets (£54.7m) and other non-current assets (£35.2m) as detailed in note 1.

The table below reconciles the 2017 disposals and impairments of non-current assets between notes 1, 8 and 10.

	Property, plant and equipment £m	Intangible assets £m	Notes	Contract fulfilment assets £m	Notes	Total £m	Notes
Life and pension assets							
Impairment	—	—		5.5		5.5	
Disposals – cost	56.2	1.0		—		57.2	
Disposals – accumulated	(1.5)	—		—		(1.5)	
	54.7	1.0		5.5		61.2	1
Other non-current assets							
Impairment	10.0	4.0		—		14.0	
Disposals – cost	43.0	39.3		—		82.3	
Disposals – accumulated depreciation/amortisation	(17.8)	(15.0)		—		(32.8)	
	35.2	28.3		—		63.5	1
Total							
Total impairment	10.0	4.0	8	5.5	10	19.5	
Total disposals – cost	99.2	40.3	8	—		139.5	
Total disposals – accumulated depreciation/amortisation	(19.3)	(15.0)	8	—		(34.3)	
	89.9	29.3		5.5		124.7	

8 Intangible assets

	Intangible assets acquired in business combinations						Intangible assets capitalised/purchased			
	Brands £m	IP, software and licences £m	Contracts and committed sales £m	Client lists and relationships £m	Goodwill £m	Total acquired in business combinations £m	Capitalised software development £m	Other intangibles £m	Total capitalised /purchased £m	Total £m
Cost										
As at 1 January 2017	69.3	96.5	75.3	742.7	2,327.6	3,311.4	197.0	57.9	254.9	3,566.3
Subsidiaries acquired	0.4	6.8	1.3	3.9	15.1	27.5	—	—	—	27.5
Business disposal	(3.0)	(0.4)	—	(50.3)	(266.9)	(320.6)	(17.2)	(0.7)	(17.9)	(338.5)
Additions	—	—	—	—	—	—	43.4	29.5	72.9	72.9
Disposals – included in adjusted profit	—	—	—	—	—	—	(2.7)	(17.5)	(20.2)	(20.2)
Disposals – excluded from adjusted profit	—	—	—	—	—	—	(31.0)	(9.3)	(40.3)	(40.3)
Transfer to assets held for sale	(0.2)	—	—	(3.7)	(7.1)	(11.0)	—	—	—	(11.0)
Re-class from property, plant and equipment	—	—	—	—	—	—	13.1	—	13.1	13.1
Asset retirement	(9.7)	(3.4)	(6.1)	(201.9)	—	(221.1)	(46.6)	(1.9)	(48.5)	(269.6)
Fair value adjustments in 2017 relating to 2016 acquisitions	—	—	—	—	1.2	1.2	—	—	—	1.2
Exchange movement	(0.3)	0.7	—	(2.6)	1.3	(0.9)	0.4	0.1	0.5	(0.4)
As at 31 December 2017	56.5	100.2	70.5	488.1	2,071.2	2,786.5	156.4	58.1	214.5	3,001.0
Subsidiaries acquired	**—**	**—**	**—**	**2.7**	**—**	**2.7**	**—**	**—**	**—**	**2.7**
Business disposal	**(3.5)**	**(6.7)**	**—**	**(38.5)**	**(50.9)**	**(99.6)**	**—**	**(7.3)**	**(7.3)**	**(106.9)**
Additions	**—**	**—**	**—**	**—**	**—**	**—**	**64.8**	**5.3**	**70.1**	**70.1**
Disposals – included in adjusted profit	**—**	**—**	**—**	**—**	**—**	**—**	**(5.0)**	**(0.1)**	**(5.1)**	**(5.1)**
Asset retirement	**(5.7)**	**—**	**(9.2)**	**(108.4)**	**—**	**(123.3)**	**(16.6)**	**(2.2)**	**(18.8)**	**(142.1)**
Exchange movement	**0.1**	**0.2**	**(0.1)**	**6.3**	**0.3**	**6.8**	**0.5**	**0.1**	**0.6**	**7.4**
As at 31 December 2018	**47.4**	**93.7**	**61.2**	**350.2**	**2,020.6**	**2,573.1**	**200.1**	**53.9**	**254.0**	**2,827.1**
Amortisation and impairment										
As at 1 January 2017	28.6	36.7	35.9	468.6	152.0	721.8	73.9	16.4	90.3	812.1
Amortisation charged during the	11.4	12.8	9.0	92.0	—	125.2	16.6	6.6	23.2	148.4
Impairment – excluded from adjusted profit	0.7	—	4.0	9.3	551.6	565.6	4.0	—	4.0	569.6
Impairment - business exit	—	—	—	—	7.1	7.1	—	—	—	7.1
Business disposal	(2.6)	(0.3)	—	(45.2)	(0.2)	(48.3)	(7.1)	(0.1)	(7.2)	(55.5)
Disposals – included in adjusted	—	—	—	—	—	—	(0.8)	(6.7)	(7.5)	(7.5)
Disposals – excluded from adjusted profit	—	—	—	—	—	—	(13.5)	(1.5)	(15.0)	(15.0)
Asset retirement	(9.7)	(3.4)	(6.1)	(201.9)	—	(221.1)	(46.6)	(1.9)	(48.5)	(269.6)
Transfer to assets held for sale	(0.1)	—	—	(2.3)	(7.1)	(9.5)	—	—	—	(9.5)
Re-class from property, plant and equipment	—	—	—	—	—	—	8.0	—	8.0	8.0
Exchange movement	(0.3)	0.1	—	0.8	(0.1)	0.5	0.1	0.2	0.3	0.8
As at 31 December 2017	28.0	45.9	42.8	321.3	703.3	1,141.3	34.6	13.0	47.6	1,188.9
Amortisation charged during the	**9.7**	**13.3**	**6.1**	**57.6**	**—**	**86.7**	**21.1**	**6.8**	**27.9**	**114.6**
Impairment – excluded from adjusted profit	**—**	**—**	**—**	**61.7**	**33.8**	**95.5**	**—**	**—**	**—**	**95.5**
Impairment – business exit	**—**	**—**	**—**	**—**	**24.3**	**24.3**	**—**	**—**	**—**	**24.3**
Business disposal	**(2.4)**	**(4.7)**	**—**	**(34.2)**	**—**	**(41.3)**	**—**	**(3.9)**	**(3.9)**	**(45.2)**
Disposals – included in adjusted	**—**	**—**	**—**	**—**	**—**	**—**	**(0.6)**	**(0.1)**	**(0.7)**	**(0.7)**
Asset retirement	**(5.7)**	**—**	**(9.2)**	**(108.4)**	**—**	**(123.3)**	**(16.6)**	**(2.2)**	**(18.8)**	**(142.1)**
Exchange movement	**0.3**	**0.5**	**(0.1)**	**3.3**	**0.2**	**4.2**	**—**	**(0.1)**	**(0.1)**	**4.1**
As at 31 December 2018	**29.9**	**55.0**	**39.6**	**301.3**	**761.6**	**1,187.4**	**38.5**	**13.5**	**52.0**	**1,239.4**
Net book value										
As at 1 January 2017	40.7	59.8	39.4	274.1	2,175.6	2,589.6	123.1	41.5	164.6	2,754.2
As at 31 December 2017	28.5	54.3	27.7	166.8	1,367.9	1,645.2	121.8	45.1	166.9	1,812.1
As at 31 December 2018	**17.5**	**38.7**	**21.6**	**48.9**	**1,259.0**	**1,385.7**	**161.6**	**40.4**	**202.0**	**1,587.7**

Amortisation charged during the year includes £nil (2017: £1.7m (£0.3m in acquired intangibles and £1.4m in capitalised/purchased intangibles)) of accelerated amortisation in relation to businesses disposed or held for sale.

Goodwill impairments: The Group recognised an impairment charge relating to goodwill of £33.8m (2017: £551.6m). Refer to note 9 for further details.

Intangible assets acquired in business combination impairments: Customer Management saw a weaker performance in Europe, which was impacted by lower profits in Switzerland. The Group recognised an impairment charge relating to intangible assets acquired in business combinations of £61.7m in relation to the Swiss business in Customer Management. The recoverable amount of the intangible asset is £12.2m, based on its value in use and a pre-tax discount rate of 11.9%. (2017: In 2017, £14.0m of intangibles acquired in business combinations in relation to the Insurance, Life and Pensions businesses in Specialist Services were identified as impaired).

Intangible assets capitalised impairment and disposals: As part of its year-end close process, Capita undertook a review of its tangible and intangible assets, resulting in £nil (2017: £29.3m resulting from changes in client and Capita strategy) impairments. The 2017 charge is shown in the table within 'impairment – excluded from adjusted profit' (£4.0m) and 'disposals – excluded from adjusted profit' (£25.3m, being cost £40.3m less accumulated depreciation £15.0m). This impairment charge relates to life and pension assets (£1.0m) and other non-current assets (£28.3m). The table in note 7 reconciles the disposals and impairments of non-current assets between notes 1, 7, 8 and 10.

9 Goodwill

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

The enterprise value of each CGU is dependent on the successful implementation of the transformation plan described earlier in the strategic report. The objective of the new strategy announced in April 2018 is to become a more focused and predicable business with improved returns, stronger client relationships and sustainable free cash flow. The Group has put in place a new organisational structure, which comprises six divisions: Software, People Solutions, Customer Management, Government Services, IT & Networks, and Specialist Services. Following this re-organisation, the Group has reviewed the historical assessment of CGUs and the allocation of goodwill. Reflecting the way management now exercises oversight and monitors the Group's performance, the Board concluded that the lowest level at which goodwill is monitored is at the divisional level for three divisions, and at a sub-divisional level for the other three divisions, and goodwill has been reallocated to these new CGUs or groups of CGUs. As at 31 December 2018, the Group has 9 CGUs or groups of CGUs for the purpose of impairment testing of goodwill. The opening goodwill balance has been reallocated for comparable purposes. As the transformation plan progresses, the Board will continue to assess the level at which management exercise oversight and monitors the Group's performance to ensure the allocation of goodwill to CGUs remains appropriate.

Carrying amount of goodwill allocated to groups of Cash-Generating Units

The following table shows the allocation of goodwill to groups of CGUs.

				Government Services		IT & Networks			
CGU	Software £m	People Solutions £m	Customer Management £m	Central Government £m	Local Government £m	IT Services £m	Network Services £m	Specialist Services £m	Total £m
1 January 2018	275.6	203.5	138.6	8.7	33.8	117.7	108.5	481.5	1,367.9
Additions	—	—	—	—	—	—	—	—	—
Fair value adjustment	—	—	—	—	—	—	—	—	—
Disposals and business exits	—	—	—	—	—	—	—	**(75.2)**	**(75.2)**
Exchange movement	—	—	**0.1**	—	—	—	—	—	**0.1**
Impairment	—	—	—	—	**(33.8)**	—	—	—	**(33.8)**
31 December 2018	**275.6**	**203.5**	**138.7**	**8.7**	**—**	**117.7**	**108.5**	**406.3**	**1,259.0**

Specialist Regulated Services is not included in the table above as goodwill and acquired intangibles were fully impaired in 2017, and therefore an impairment test is not required.

The impairment test

The Group tests intangible assets, including goodwill, for impairment on an annual basis or more frequently if there are indications that any of these assets may be impaired.

The Group's impairment test compares the carrying value of each CGU with its recoverable amount. The recoverable amount of a CGU is the higher of fair value less cost of disposal and value in use. As the Group continues to implement the Group-wide transformation plan it has been determined that for 2018, fair value less costs of disposal will generate the higher recoverable amount. Fair value less costs of disposal have been estimated using discounted cash flows. The fair value measurement was categorised as a Level 3 fair value based on the inputs in the valuation technique used.

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

As set out in 'divisional performance' in the strategic report, the local government market for large BPO contracts is declining with a significant drop-off in the number and size of opportunities coming to market and existing clients choosing to end contracts early and take services back in house. This decline is being driven by fiscal pressures, the expectation that this will provide a more flexible cost and delivery model, but also by an ideological shift away from outsourcing by some council leaderships. The local government BPO market, which we anticipated reducing, declined at an accelerated rate during the year. Southampton, Sheffield and Birmingham City Councils have notified us of their intention to end contracts with us ahead of their contracted-end dates. Barnet Council has agreed to take a small number of services back in House. Capita is committed to the local government market and is working closely with all our Council partners to agree and manage a smooth transfer of services back to council management. The deterioration in the market opportunities and continued challenges were monitored throughout the year and crystallised in the final quarter of 2018 leading to the recognition of the impairment charges as set out in this note.

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

Forecast cash flows

In the first half of 2018, the Board approved a five-year strategic plan covering the period from 2018 to 2022. As the five-year strategic plan was approved prior to the finalisation of the Annual Report and Accounts 2017, it was used to derive cash flow forecasts for the purposes of the impairment test for the year ended 31 December 2017.

The bottom-up business planning process completed at the end of 2018, reviewed years two and three (2019 and 2020) of the strategic plan in detail. The resulting business plan for 2019 and 2020 was approved by the Board. For the 2018 impairment test, the 2019 and 2020 business plan was used to derive the cash flow forecasts for the purpose of the impairment test. The cash flows are adjusted to exclude working capital movements as the corresponding balances are not included in the carrying amount. The cash flows also include forecast capital expenditure and restructuring, as well as an allocation the costs of central functions. The Board considered an appropriate methodology to apply in allocating the costs of the central functions, which is a key sensitivity. The forecast 2021 EBITDA measures have been used as these represent a steady state forecast for the Group and an appropriate approximation of the attention and focus of the central functions. As the transformation plan delivers, the Board will assess any changes required to ensure the allocation methodology continues to reflect the efforts of the central functions.

The forecasts are cash flow projections for 2021 and 2022, represent management's assessment of future trends in relevant industries and have been based on data from both external and internal sources.

The long-term growth rate is based on inflation forecasts by recognised bodies and this has been applied to both 2023 and the terminal period. The 2018 long-term growth rate is 1.5% (2017: 1.5%).

Discount rates

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

The table below represents the pre-tax discount rates used on the cash flows. The 2017 rates have not been reported, due to the CGU restructure and the adoption of fair value less costs of disposal.

Division	Pre-tax discount rate %
Software	12.7
People Solutions	12.1
Customer Management	11.9
Central Government	11.4
Local Government	16.8
IT Services	11.1
Network Services	11.1
Specialist Regulated Services	11.5
Specialist Services	11.8

Sensitivity analysis

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

The table below shows how the enterprise value would be impacted (with all other variables being equal) by an increase in discount rate of 1%, or if the business plan was missed by 10% for each of the five years or a decrease of 1% in the long-term growth rate for the Group in total and each of the CGUs. We have also considered the impact of all of the scenarios together and disclosed the impact on impairment in the final column.

	1% increase in discount rate	Miss targets by 10%	Long-term growth rate decrease by 1%	Combination sensitivity	Increase in 2018 impairment using combination scenario
Software	(66.1)	(73.3)	(48.5)	(168.7)	—
People Solutions	(77.5)	(78.4)	(56.2)	(189.4)	—
Customer Management	(43.8)	(31.6)	(34.2)	(96.0)	—
Central Government	(60.4)	(48.2)	(47.5)	(137.0)	—
IT Services	(19.5)	(17.7)	(13.9)	(47.5)	(5.0)
Network Services	(19.7)	(20.0)	(14.4)	(49.4)	—
Specialist Services	(88.1)	(96.4)	(63.6)	(222.2)	—
Total	**(375.1)**	**(365.6)**	**(278.3)**	**(910.2)**	**(5.0)**

Management continue to monitor closely the performance of all CGUs and consider the impact of any changes to the key assumptions. In conclusion, other than the local government impairment in the year, management believe there is no reasonably possible change in the underlying assumptions that would result in a further significant impairment charge in the consolidated income statement.

10 Contract fulfilment assets

	Total £m
At 1 January 2017	240.6
Additions	101.2
Impairment	(14.1)
Derecognition	(9.9)
Utilised during the year	(65.3)
At 31 December 2017	252.5
Additions	**113.8**
Transfers from current contract fulfilment assets	**25.4**
Impairment	**(22.2)**
Derecognition	**(17.4)**
Utilised during the year	**(87.9)**
At 31 December 2018	**264.2**

Impairment

In preparing these consolidated financial statements, management undertook a review to identify indicators of impairment of contract fulfilment assets. Management determined whether or not the contract fulfilment assets and capitalised costs to obtain a contract were impaired by comparing the carrying amount of the asset to the remaining amount of consideration that the Group expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, the Group uses the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price will be removed for the impairment test.

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

Following this review, contract fulfilment asset provisions for impairment of £22.2m (2017: £14.1m) were identified relating to assets capitalised in the year and recognised within adjusted cost of sales.

Derecognition

A contract fulfilment asset is derecognised either when it is disposed of or when no further economic benefits are expected to flow from its use or disposal. In 2018, £17.4m (2017: £9.9m) of contract fulfilment assets were derecognised as the related contracts, Prudential and Marsh, were terminated in the year and the Group had no further use for the assets. Of the assets derecognised in the prior year, £5.5m was included as an adjustment to operating profit and related to the write-off of the carrying value of a platform developed by the Group's life and pension business. The Group's transformation plan identified that there was no longer a market for this platform.

11 Deferred income

Current	**2018 £m**	2017 £m
Current	**980.3**	1,201.2
	980.3	1,201.2

Non-current	**2018 £m**	2017 £m
Non-current	**277.3**	314.0
	277.3	314.0

The Group's deferred income balances solely relate to revenue from contracts with customers. Revenue recognised in the reporting period that was included in the deferred income balance at the beginning of the period was £1,220.8m (2017: £1,381.0m). Movements in the deferred income balances were driven by transactions entered into by the Group within the normal course of business in the year, other than the accelerated revenue recognised of £10.0m and £38.4m relating to the ending of our general insurance contract with Marsh and our life and pensions contract with the Prudential respectively (2017: £22.0m from the re-shaping of the DIO contract).

12 Provisions

	Restructuring provision £m	Business exit provision £m	Asset services indemnity provision £m	Claim and litigation provision £m	Property provision £m	Other £m	Total £m
As at 1 January 2018	10.6	37.0	69.1	64.3	22.5	9.1	212.6
Provisions provided for in the year	41.9	22.7	—	6.4	2.3	12.7	86.0
Provisions released in the year	(5.0)	(1.7)	(4.6)	(7.9)	(1.8)	(1.7)	(22.7)
Utilisation	(35.5)	(40.9)	(61.5)	(16.4)	(3.5)	(3.9)	(161.7)
Provisions acquired	—	—	—	—	0.6	1.5	2.1
Disposal of subsidiaries	—	—	—	—	(0.1)	—	(0.1)
Reclassification between categories	—	0.4	—	—	(0.1)	(0.3)	—
As at 31 December 2018	**12.0**	**17.5**	**3.0**	**46.4**	**19.9**	**17.4**	**116.2**

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

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

Restructuring provision: The provision represents the cost of reducing role count where there is a constructive obligation created through communication to affected employees which has crystallised a valid expectation that roles are at risk. Additionally, it reflects the onerous nature of property lease provisions (net of any sub-letting opportunity) on a discounted basis, where due to the reduced requirement for space there is additional surplus capacity. During the year, additional provision has been made for costs as further restructuring opportunities related to the transformation plan have been identified.

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

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

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

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

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

Capita made provision for the redress payment and associated legal costs of £66.8m as at 31 December 2017. CFM and the FCA subsequently reached agreement, on the basis of third-party calculations of the liability due, such that the final amount of the redress payment will not exceed £61.5m, and accordingly £4.6m of the provision has been released. The final quantum of the redress payments is expected to be determined in the first half of 2019.

Capita completed the disposal of its Asset Services businesses, including CFM, to the Link Group on 3 November 2017. Capita plc, as part of the sale of the Capita Asset Services businesses, has provided an indemnity against certain legacy claims. The provisions held, namely the Asset Services settlement provision which includes provisions for Arch Cru, Connaught and other legacy claims, have therefore been retained within the Group. Giving due consideration to these claims, the Group provided £69.1m (including the £66.8m above) as at 31 December 2017. A provision of £3.0m remains as at 31 December 2018 and is expected to unwind within the next 12 months.

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

In the period, the Group has settled a number of liabilities which it had provided for in previous years. Additionally, it has provisions, which originate due to the nature of the Group's activities and revised existing provisions where more information on the progress of the claim has become apparent. In addition, £5.5m provision was released from a provision made in 2017 relating to the Group's Real Estate & Infrastructure business.

The Group's exposure to claims is mitigated by having in place a number of large insurers providing cover for the Group's activities, albeit insurance recoveries are only recognised as an asset at the point the recovery is virtually certain. At the 31 December 2017, an asset had been recognised of £5.0m in respect of recoveries under an indemnity, no other recovery assets had been recognised. No recovery assets have been recognised as at 31 December 2018.

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

Property provision: Includes a provision of £10.7m (2017: £12.8m), made on a discounted basis, for the difference between the market value of property leases acquired in 2011 with the Ventura and Vertex Private Sector acquisitions and the lease obligations committed to at the date the leases were signed by the previous owners. This is in accordance with IFRS 3 (revised) which requires the use of fair value measurement.

The remaining property provision of £9.2m (2017: £9.7m) is made on a discounted basis for the future rent expense and related cost of leasehold property (net of estimated sub-lease income) where the space is vacant or currently not planned to be used for ongoing operations. The expectation is that this expenditure will be incurred over the remaining periods of the leases which range from 1 to 24 years.

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

13 Additional cash flow information

Operating cash flow for the year ended 31 December 2018

The Group has simplified its non-statutory reporting measures to improve transparency and make it easier for the readers of its annual report and accounts to understand its financial performance. The revised presentation is reported results on the face of the income statement, with a footnote detailing adjusting profit and earnings per share, and a note to the accounts (see note 1) providing a reconciliation between reported and adjusted profit. The presentation of the cash flow statement and additional cash flow information in the notes have also been revised to show the same split.

The 2017 cash flow has also been restated to: (i) include £28.9m of cash costs previously omitted from cash flows from investing activities used by discontinued operations; (ii) remove a £33.5m business exit provision from adjusted non-cash items; and (iii) correct a disclosed £0.5m loss of sale of property, plant and equipment to a £4.5m gain. The net result of these items is to reduce net cash inflow from investing activities by £28.9m and to increase net cash inflow from operating activities and reported free cash flow by £28.9m. There is no impact on the reported net movement in cash and cash equivalents as the adjustments were off set within movements in trade and other receivables/payables.

	Note	2018 Adjusted £m	2018 Reported £m	Restated 2017 Adjusted £m	Restated 2017 Reported £m
Cash flows from operating activities:					
Operating profit/(loss)	1	**335.3**	**34.9**	447.5	(420.1)
Adjustments for non-cash items:					
Depreciation	7	**59.1**	**60.1**	56.4	63.5
Amortisation of intangible assets	8	**27.9**	**114.6**	15.4	144.2
Share based payment expense		**3.4**	**3.4**	2.9	2.9
Employee benefits		**12.3**	**17.7**	30.8	30.8
(Profit)/loss on sale of property, plant and equipment		**11.4**	**11.4**	(4.5)	(4.5)
Accelerated depreciation / amortisation on business exit		**—**	**—**	—	1.9
Contingent consideration	1	**—**	**(5.4)**	—	(2.5)
Impairment of property plant and equipment	7	**6.1**	**6.1**	—	9.0
Impairment of intangibles acquired in business combinations	1	**—**	**61.7**	—	14.0
Impairment of goodwill and intangible assets	1	**—**	**58.1**	—	551.6
Impairment of contract related assets and investment loan	1	**—**	**—**	—	119.2
Impairment of loans and investments	1	**—**	**1.6**	—	—
Other adjustments:					
Movement in provisions		**2.8**	**(9.1)**	(25.2)	(22.7)
Other adjustments:					
Pension deficit contribution		**—**	**(42.0)**	—	—
Other contributions into pension schemes		**(16.1)**	**(21.0)**	(29.8)	(29.8)
Professional fees on acquisition		**—**	**—**	—	0.5
Re-measurement of businesses held for disposal		**—**	**—**	—	8.6
Movement in Capita Asset Services settlement provisions		**—**	**—**	—	3.4
Movements in working capital:					
Trade and other receivables		**91.2**	**89.3**	(37.2)	(30.6)
Non-recourse receivables financing		**(110.0)**	**(110.0)**	(23.6)	(23.6)
Trade and other payables		**(98.5)**	**(91.7)**	(115.3)	(111.7)
Deferred income		**(243.4)**	**(243.7)**	(75.2)	(66.8)
Contract fulfilment assets (non current)		**(11.7)**	**(11.7)**	(11.9)	(11.9)
Cash generated from operations		**69.8**	**(75.7)**	230.3	225.4
Adjustments for free cash flows:					
Income tax received		**26.6**	**25.3**	9.5	9.5
Net interest paid	4	**(39.0)**	**(52.5)**	(54.2)	(54.2)
Purchase of property, plant and equipment	7	**(74.6)**	**(89.4)**	(62.5)	(66.2)
Purchase of intangible assets	8	**(67.2)**	**(70.1)**	(70.8)	(71.0)
Proceeds from sale of property, plant and equipment/intangible assets		**1.9**	**1.9**	23.1	23.1
Free cash flow		**(82.5)**	**(260.5)**	75.4	66.6

Adjusted free cash flow and cash generated from operations

	Free cash flow 2018 £m	Free cash flow 2017 £m	Cash generated from operations 2018 £m	Cash generated from operations 2017 £m
Reported	**(260.5)**	66.6	**(75.7)**	225.4
Pension deficit contributions	**46.9**	—	**46.9**	—
Significant restructuring	**100.8**	45.0	**100.8**	45.0
Business exits	**6.6**	(19.5)	**(11.1)**	(23.4)
Other	**23.7**	(16.7)	**8.9**	(16.7)
Adjusted	**(82.5)**	75.4	**69.8**	230.3

Pension deficit contributions: in November 2018, the Group agreed a deficit recovery plan with the Trustees of the Capita Pension and Life Assurance Scheme (the 'Scheme'). The payments under the agreed deficit recovery plan total £176m, of which £42.3m was paid in 2018. In addition, further contributions of £4.5m were made following closure of the Scheme in 2017 to future accrual for the majority of members of the Scheme. These payments have been excluded from adjusted cash flows as the Group treats them like a debt like item.

Significant restructuring: in April 2018, the Group announced a multi-year transformation plan. In the period to 31 December 2018, a cash outflow of £100.8m (2017: £45.0m) was incurred in relation to the cost of the transformation plan, and restructuring costs relating to Capita's previously announced cost reduction plan.

Business exits: the cash flows of businesses exited, or in the process of being exited, and the proceeds on disposals, are disclosed outside the adjusted results. The 2017 results have been restated for those businesses exited, or in the process of being exited, in 2018 to enable comparability of the adjusted results.

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

Reconciliation of net cash flow to movement in net funds/(debt)

			Non-cash flow movements				
	Net debt at 1 January 2018 £m	**Cash flow movements £m**	**Acquisitions in 2018 £m**	**Foreign exchange movements £m**	**Fair value changes £m**	**Other[2] £m**	**Net debt at 31 December 2018 £m**
Cash, cash equivalents and overdrafts	**478.4**	**165.5**	**—**	**(1.2)**	**—**	**—**	**642.7**
Other loan notes	**(0.3)**	**—**	**—**	**—**	**—**	**—**	**(0.3)**
Private placement loan notes[1]	**(1,664.0)**	**580.9**	**—**	**3.1**	**(27.5)**	**(0.5)**	**(1,108.0)**
Currency swaps in relation to USD denominated private placement loan notes[1]	**176.8**	**(103.6)**	**—**	**—**	**26.4**	**—**	**99.6**
Interest rate swaps in relation to GBP denominated private placement loan notes[1]	**5.4**	**—**	**—**	**—**	**(3.5)**	**—**	**1.9**
Term loan	**(100.0)**	**—**	**—**	**—**	**—**	**—**	**(100.0)**
Finance leases	**(0.2)**	**0.2**	**—**	**—**	**—**	**—**	**—**
Total net liabilities from financing activities	**(1,582.3)**	**477.5**	**—**	**3.1**	**(4.6)**	**(0.5)**	**(1,106.8)**
Deferred consideration	**(13.1)**	**11.1**	**—**	**—**	**—**	**—**	**(2.0)**
Net debt	**(1,117.0)**	**654.1**	**—**	**1.9**	**(4.6)**	**(0.5)**	**(466.1)**

1 The sum of these items held at fair value equates to the underlying value of the Group's private placement loan note's debt of £1,006.6m (2017: £1481.8m). Cash flow movement in private placement loan notes includes both repayment of private placement loan notes of £(577.2)m and financing arrangement costs of £(3.7)m.

2 Other comprises the amortisation of the discount on the euro debt issue

The aggregate private placement loan note's fair value above of £1,108.0m (2017: £1,664.0m) includes the GBP value of the USD, GBP and EUR denominated loan notes at 31 December 2018. To remove the Group's exposure to currency fluctuations it has entered into currency swaps which effectively hedge the movement in the underlying USD loan notes' fair value. The interest rate swap is being used to hedge the exposure to changes in the fair value of GBP denominated private placement loan notes.

The combined fair value of the interest and currency swaps, of £101.5m (2017: £182.2m).

			Non-cash flow movements				
	Net debt at 1 January 2017 £m	Cash flow movements £m	Acquisitions in 2016 £m	Foreign exchange movements £m	Fair value changes £m	Other[2] £m	Net debt at 31 December 2017 £m
Cash, cash equivalents and overdrafts	565.8	(90.5)	—	3.1	—	—	478.4
Other loan notes	(0.3)	—	—	—	—	—	(0.3)
Private placement loan notes[1]	(1,961.7)	126.2	—	(10.7)	184.0	(1.8)	(1,664.0)
Interest and currency swaps in relation to USD denominated private placement loan notes[1]	357.9	—	—	—	(181.1)	—	176.8
Interest rate swaps in relation to GBP denominated private placement loan notes[1]	7.7	—	—	—	(2.3)	—	5.4
Term loan	(650.0)	550.0	—	—	—	—	(100.0)
Finance leases	(2.3)	2.1	—	—	—	—	(0.2)
Total net liabilities from financing activities	(2,248.7)	678.3	—	(10.7)	0.6	(1.8)	(1,582.3)
Fixed rate interest rate swaps	(85.1)	84.6	—	—	0.5	—	0.0
Deferred consideration	(10.8)	10.8	(2.0)	—	—	(11.1)	(13.1)
Net debt	(1,778.8)	683.2	(2.0)	(7.6)	1.1	(12.9)	(1,117.0)

1 The sum of these items held at fair value equates to the underlying value of the Group's private placement loan note's debt of £1,006.6m (2016: £1,481.8m). Cash flow movement in private placement loan notes includes both repayment of private placement loan notes of £(124.1)m and financing arrangement costs of £(2.1)m..

2 Other comprises the amortisation of the discount on the euro debt issue

14 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 £84.0m (2017: £88.4m).

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

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

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

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

15 Related-party transactions

Compensation of key management personnel

	2018 £m	2017 £m
Short-term employment benefits	**11.9**	11.3
Pension	**0.2**	0.2
Share-based payments	**—**	0.1
	12.1	11.6

Gains on share options exercised in the year by Capita plc Executive Directors were £nil (2017: £0.7m) and by key management personnel £nil (2017: £0.2m), totalling £nil (2017: £0.9m).

During the year, the Group rendered administrative services to Smart DCC Ltd, a wholly-owned subsidiary which is not consolidated. The Group received £64.3m (2017: £55.5m) of revenue for these services. The services are procured by Smart DCC on an arm's length basis under the DCC licence. The services are subject to review by Ofgem to ensure that all costs are economically and efficiently incurred by Smart DCC.

Capita Pension and Life Assurance Scheme is a related party of the Group. Transactions with the Scheme are disclosed in the Annual Report.

The following companies are substantial shareholders in the Company and therefore a related party of the Company (in each case, for the purposes of the Listing Rules of the UK Listing Authority). The number of shares held on 5 March 2019 was as below:

Shareholder	**No. of shares**	**% of voting rights**
Veritas Asset Management LLP[1]	**192,533,863**	**11.54**
Invesco Ltd	**191,409,106**	**11.47**
Investec Asset Management Ltd	**153,805,729**	**9.22**
RWC Asset Management LLP	**127,012,876**	**7.61**
Schroder Investment Management	**101,030,829**	**6.06**
Woodford Investment Management LLP	**93,562,659**	**5.60**
Coltrane Asset Management, L.P	**82,388,589**	**4.94**
BlackRock, Inc.	**74,230,358**	**4.45**
Marathon Asset Management LLP	**64,756,810**	**3.88**
Veritas Funds PLC	**55,009,900**	**3.30**
Vanguard Group	**54,711,874**	**3.28**
Norges Bank Investment Management	**54,273,873**	**3.25**
Jupiter Asset Management	**53,573,060**	**3.21**

1 This includes the holding of Veritas Funds PLC.

16 Post balance sheet event

As set out in note 12, the Company continues to discuss with the Financial Conduct Authority the final quantum of the redress payments regarding the Connaught Income Series 1 Fund. Since the year end the Company has been notified that it is probable that a reimbursement will be due to Capita. The amount is subject to final agreement but is not material to the financial statements. There are no post balance sheet events that have an adjusting effect on the financial statements.

17 Preliminary announcement

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

It is intended that the Annual Report and Accounts will be posted to shareholders early April 2019. It will be available to members of the public at the registered office and on the Company's Corporate website www.capita.co.uk/investors/Pages/Investors.aspx from that date.

Appendix - alternative performance measures

The Group presents various APMs as the Directors believe that these are useful for users of the financial statements in helping to provide a balanced view of, and relevant information on, the Group's financial performance, position and cash flows. These APMs are mainly measures which disclose the 'adjusted' performance of the Group excluding specific items which are regarded as adjustments. Those items which relate to the ordinary course of the Group's operating activities remain within adjusted profit. The following items are excluded from adjusted profit: intangible amortisation, impairment of goodwill and acquired intangibles, acquisition contingent consideration movements, the financial impact of business exits or businesses in the process of being exited, acquisition expenses (if material), movements in the mark-to-market valuation of certain financial instruments, the impact of significant new contracts and restructuring (see below), and specific non-recurring items in the income statement. In the Directors' judgement, these need to be disclosed separately (see notes 1, 2, and 4) by virtue of their nature, size and/or incidence, in order for users of the financial statements to obtain a proper understanding of the financial information and the underlying performance of the business.

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

APMs presented	**2018**	2017	% change	Source
Revenue – continuing operations				
Total revenue as reported	**£3,918.4m**	£4,234.6m	(7.5%)	Line item in income statement
Deduct: business exit	**(£50.8m)**	(£66.7m)		Line item in note 2
Deduct: business exited in 2018		(£76.1m)		Revenue from businesses exited in 2018
1. Adjusted revenue	**£3,867.6m**	£4,091.8m	(5.5%)	Adjusted revenue as per note 1
Deduct: 2017 acquisitions	**(£2.8m)**	—		Additional contribution in 2018 of acquisitions acquired in 2017
Deduct: 2018 acquisitions	**—**	—		Contribution in 2018 of acquisitions acquired in 2018
2. Adjusted organic revenue	**£3,864.8m**	£4,091.8m	(5.4%)	Adjusted revenue excluding businesses exited and acquired
Prior year adjusted revenue on a like-	**£4,091.8m**	—		From line 1 above
Total acquisitions	**£2.8m**	—		2017 acquisitions plus 2018 acquisitions
3. Growth from acquisitions	**0.1%**	—		Total acquisitions/Prior-year adjusted revenue on a like-for-like basis
Profit – continuing operations				
Operating profit as reported	**£34.9m**	(£420.1m)		Line item in income statement
Adjusting items in note 1	**£300.4m**	£867.6m		
4. Adjusted operating profit	**£335.3m**	£447.5m	(25.1%)	Line item in note 1
5. Adjusted operating margin [KPI]	**8.7%**	10.9%		Adjusted operating profit/adjusted revenue
Profit/(loss) before tax as reported [KPI]	**£272.6m**	(£513.1m)		Line item in income statement
Adjusting items in note 1	**£9.5m**	£896.2m		
6. Adjusted profit before tax [KPI]	**£282.1m**	£383.1m	(26.4%)	Line item in note 1
7. Adjusted earnings per share [KPI]	**16.37p**	27.99p	(41.5%)	Line item in income statement and note 5 - earnings per share

Gearing				
Adjusted operating profit[1]		**£335.3m**	£447.5m	Line item in note 1
Add business exit – trading		**£16.8m**	£16.8m	Line item in note 2
Deduct: non-controlling interest		**(£12.5m)**	(£14.1m)	Underlying EBIT attributable to non-controlling interests
Deduct: acquisition costs		**£—m**	(£1.7m)	
Add back: share-based payment charge		**£3.4m**	£2.9m	Line item in note 13
Add back: non-current service pension charge		**£9.5m**	£0.8m	
Add back: amortisation on purchased		**£27.8m**	£19.9m	Line item in note 13
Adjusted EBITA	a	**£380.3m**	£472.1m	
Add back: pre-acquisition underlying profit		**£—m**	£0.3m	
Deduct business exit – trading		**(£19.7m)**	(£16.8m)	Line item in note 2
Add back: depreciation		**£65.2m**	£63.5m	Line item in note 13
Covenant calculation - adjusted EBITDA	b	**£425.8m**	£519.1m	
8. Adjusted interest charge		**(£53.2m)**	(£64.4m)	Line item in note 4
Interest cost attributable to pensions		**£9.4m**	£9.2m	Line item in note 4
Cash flow hedges recycled to the income statement		**(£2.5m)**	-	
Borrowing costs	c	**(£46.3m)**	(£55.2m)	
9. Interest cover [2]	a/c	**8.2x**	8.6x	Adjusted EBITA/Borrowing costs
Money Market Funds	d	**£—m**	£14.0m	
Net debt	e	**£466.1m**	£1,117.0m	Line item in note 13
Restricted cash [3]	f	**£28.6m**	£22.0m	Cash that may not be applied against net debt for covenant calculation purposes
Adjusted net debt	g = d+e+f	**£494.7m**	£1,153.0m	
10. Adjusted net debt to adjusted EBITDA ratio [KPI]	g / b	**1.2x**	2.2x	Adjusted net debt/adjusted EBITDA

1. Adjusted operating profit excludes items that are separately disclosed and considered to be outside the underlying operating results for the particular year under review and against which the Group's performance is assessed.
2. As noted in the Annual Report and Accounts 2017, on 20 April 2018, Capita agreed various amendments with the noteholders under its US private placement notes. This included the carve-out of up to £100m worth of bonds and guarantees from the definition of indebtedness. For covenant test purposes, this is effective from the 12-month period ended 30 June 2018, but for the Group's alternative performance measures, the comparatives have been restated to be presented on a consistent basis. In addition, the comparatives have been restated to include results of business exits during 2018.
3. Restricted cash includes cash held by FCA regulated entities, cash held in foreign bank accounts in Malaysia and Nigeria and distributable reserves in joint ventures which does not belong to Capita and is excluded from adjusted net debt.

ROCE				
Adjusted operating profit	a	**£335.3m**	£447.5m	Line item in note 1
Tax rate	b	**9.7%**	17.7%	
Tax	c = a x b	**£32.5m**	£79.2m	Adjusted profit multiplied by tax rate
Adjusted operating profit after tax	d = a - c	**£302.8m**	£368.3m	Adjusted profit less tax
Current year net assets/(liabilities)	e	**£103.3m**	(£929.8m)	Line in balance sheet
Current year adjusted net debt	f	**£464.1m**	£1,103.9m	Line item in note 13 – additional cash flow information, net debt excluding the impact of deferred consideration
Adjustments to capital employed	g	**£1,276.5m**	£1,359.7m	Includes post-tax impact of accumulated acquired intangible amortisation, fixed rate swaps, put options and pensions
	m^1 = e+f+g	**£1,843.9m**	£1,533.8m	Used in 2018 average capital employed
Less acquisition spend in year	h	**£—m**	(£18.8m)	Consideration paid - cash acquired + debt acquired
Current year capital employed	i = e+f+g+h	**£1,843.9m**	£1,515.0m	
Prior year net liabilities	j		(£552.9m)	
Prior year adjusted net debt	k		£1,682.9m	
Comparative prior year adjustments	l		£1,280.3m	Includes post-tax impact of accumulated acquired intangible amortisation, fixed rate swaps, put options and pensions
Prior year capital employed	m^2 = j+k+l		£2,410.3m	Used in 2017 average capital employed
Average capital employed pre-acquisitions	n = (i+m)/2	**£1,688.9m**	£1,962.7m	
Weighted average acquisition spend in year	o	**£—m**	£35.8m	Pro rata number of months post-acquisition (including contingent and deferred consideration payments)
Average capital employed	p = n+o	**£1,688.9m**	£1,998.5m	
15. ROCE [KPI]	q = d/p	**17.9%**	18.4%	