CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

		2016				2015			
			Non-underlying				Non-underlying		
	Notes	Underlying £m	Business exit (note 4) £m	Other non-underlying (note 5) £m	Total £m	Underlying £m	Business exit (note 4) £m	Other non-underlying (note 5) £m	Total £m
Continuing operations:									
Revenue	3	**4,897.9**	**11.3**	**–**	**4,909.2**	4,674.3	162.6	–	4,836.9
Cost of sales		**(3,627.7)**	**(6.7)**	**(7.5)**	**(3,641.9)**	(3,367.7)	(123.8)	–	(3,491.5)
Gross profit		**1,270.2**	**4.6**	**(7.5)**	**1,267.3**	1,306.6	38.8	–	1,345.4
Administrative expenses	4,5	**(728.9)**	**(1.8)**	**(388.3)**	**(1,119.0)**	(667.6)	(176.9)	(294.3)	(1,138.8)
Operating profit	7	**541.3**	**2.8**	**(395.8)**	**148.3**	639.0	(138.1)	(294.3)	206.6
Net finance costs	9	**(66.0)**	**–**	**(7.6)**	**(73.6)**	(53.5)	–	(14.7)	(68.2)
Gain/(loss) on business disposal	4	**–**	**0.1**	**–**	**0.1**	–	(26.3)	–	(26.3)
Profit before tax		**475.3**	**2.9**	**(403.4)**	**74.8**	585.5	(164.4)	(309.0)	112.1
Income tax expense	10	**(87.9)**	**0.5**	**54.9**	**(32.5)**	(108.3)	2.4	49.4	(56.5)
Profit for the year		**387.4**	**3.4**	**(348.5)**	**42.3**	477.2	(162.0)	(259.6)	55.6
Attributable to:									
Owners of the Company		**376.7**	**3.4**	**(343.2)**	**36.9**	468.4	(162.0)	(253.7)	52.7
Non-controlling interests		**10.7**	**–**	**(5.3)**	**5.4**	8.8	–	(5.9)	2.9
		387.4	**3.4**	**(348.5)**	**42.3**	477.2	(162.0)	(259.6)	55.6
Earnings per share	11								
– basic		**56.67p**	**0.51p**	**(51.63)p**	**5.55p**	70.73p	(24.46)p	(38.31)p	7.96p
– diluted		**56.67p**	**0.51p**	**(51.63)p**	**5.55p**	69.85p	(24.16)p	(37.83)p	7.86p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

		2016		2015	
	Notes	£m	£m	£m	£m
Profit for the year			**42.3**		55.6
Other comprehensive expense:					
Items that will not be reclassified subsequently to profit or loss					
Actuarial (loss)/gain on defined benefit pension schemes	32	**(157.7)**		13.0	
Income tax effect	10	**26.5**		(6.5)	
			(131.2)		
			(131.2)		6.5
Items that will or may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations			**26.7**		(14.0)
Net investment hedge of foreign operations		**(11.7)**		(3.5)	
Income tax effect	10	**–**		0.6	
			(11.7)		(2.9)
Gain on cash flow hedges arising during the year	26	**14.3**		0.8	
Reclassification adjustments for losses included in the income statement	26	**3.3**		3.1	
Income tax effect	10	**(5.6)**		(1.1)	
			12.0		2.8
			27.0		(14.1)
Other comprehensive expense for the year net of tax			**(104.2)**		(7.6)
Total comprehensive (expense)/income for the year net of tax			**(61.9)**		48.0
Attributable to:					
Owners of the Company			**(67.3)**		45.1
Non-controlling interests			**5.4**		2.9
			(61.9)		48.0

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2016

	Notes	2016 £m	2015 £m
Non-current assets			
Property, plant and equipment	13	**394.7**	406.0
Intangible assets	14	**2,754.2**	2,810.0
Financial assets	16	**337.6**	186.6
Deferred taxation	10	**32.0**	18.8
Trade and other receivables	18	**128.4**	86.1
		3,646.9	3,507.5
Current assets			
Financial assets	16	**92.6**	44.3
Disposal group assets held for sale	4	**–**	84.1
Funds assets	23	**173.6**	161.7
Trade and other receivables	18	**976.0**	1,011.9
Cash	19	**1,098.3**	534.0
		2,340.5	1,836.0
Total assets		**5,987.4**	5,343.5
Current liabilities			
Trade and other payables	20	**1,297.6**	1,144.0
Overdrafts	19	**532.5**	448.7
Financial liabilities	22	**224.2**	230.8
Disposal group liabilities held for sale	4	**–**	40.4
Funds liabilities	23	**173.6**	161.7
Provisions	25	**112.5**	69.4
Income tax payable		**18.6**	46.2
		2,359.0	2,141.2
Non-current liabilities			
Trade and other payables	20	**35.1**	29.3
Financial liabilities	22	**2,694.4**	2,163.4
Deferred taxation	10	**22.1**	19.0
Provisions	25	**48.2**	49.0
Employee benefits	32	**345.2**	188.3
		3,145.0	2,449.0
Total liabilities		**5,504.0**	4,590.2
Net assets		**483.4**	753.3
Capital and reserves			
Issued share capital	27	**13.8**	13.8
Share premium		**501.3**	500.7
Employee benefit trust and treasury shares	27	**(0.2)**	(0.3)
Capital redemption reserve		**1.8**	1.8
Foreign currency translation reserve		**(6.2)**	(21.2)
Cash flow hedging reserve		**–**	(12.0)
Retained earnings		**(102.3)**	196.5
Equity attributable to owners of the Company		**408.2**	679.3
Non-controlling interests		**75.2**	74.0
Total equity		**483.4**	753.3

The accounts were approved by the Board of Directors on 1 March 2017 and signed on its behalf by:

A Parker
Chief Executive

N Greatorex
Group Finance Director

Company registered number: 2081330

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital £m	Share premium £m	Employee benefit trust and treasury shares £m	Capital redemption reserve £m	Retained earnings £m	Foreign currency translation reserve £m	Cash flow hedging reserve £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2015	13.8	499.0	(0.3)	1.8	354.7	(4.3)	(14.8)	849.9	65.6	915.5
Profit for the year	–	–	–	–	52.7	–	–	52.7	2.9	55.6
Other comprehensive expense	–	–	–	–	6.5	(16.9)	2.8	(7.6)	–	(7.6)
Total comprehensive income/(expense) for the year	–	–	–	–	59.2	(16.9)	2.8	45.1	2.9	48.0
Share based payment	–	–	–	–	11.4	–	–	11.4	–	11.4
Deferred income tax relating to share based payments	–	–	–	–	(6.1)	–	–	(6.1)	–	(6.1)
Income tax deduction on exercise of stock options	–	–	–	–	3.8	–	–	3.8	–	3.8
Shares issued	–	1.7	–	–	–	–	–	1.7	–	1.7
Equity dividends paid	–	–	–	–	(199.3)	–	–	(199.3)	(1.2)	(200.5)
Investment in non-controlling interest	–	–	–	–	–	–	–	–	6.7	6.7
Put option of non-controlling interest acquired	–	–	–	–	(9.8)	–	–	(9.8)	–	(9.8)
Movement in put options held by non-controlling interests	–	–	–	–	(17.4)	–	–	(17.4)	–	(17.4)
At 1 January 2016	13.8	500.7	(0.3)	1.8	196.5	(21.2)	(12.0)	679.3	74.0	753.3
Profit for the year	**–**	**–**	**–**	**–**	**36.9**	**–**	**–**	**36.9**	**5.4**	**42.3**
Other comprehensive expense	**–**	**–**	**–**	**–**	**(131.2)**	**15.0**	**12.0**	**(104.2)**	**–**	**(104.2)**
Total comprehensive (expense)/income for the year	**–**	**–**	**–**	**–**	**(94.3)**	**15.0**	**12.0**	**(67.3)**	**5.4**	**(61.9)**
Share based payment	**–**	**–**	**–**	**–**	**(4.5)**	**–**	**–**	**(4.5)**	**–**	**(4.5)**
Deferred income tax relating to share based payments	**–**	**–**	**–**	**–**	**(12.6)**	**–**	**–**	**(12.6)**	**–**	**(12.6)**
Income tax deduction on exercise of stock options	**–**	**–**	**–**	**–**	**6.8**	**–**	**–**	**6.8**	**–**	**6.8**
Shares issued	**–**	**0.6**	**0.1**	**–**	**(0.1)**	**–**	**–**	**0.6**	**–**	**0.6**
Equity dividends paid	**–**	**–**	**–**	**–**	**(214.8)**	**–**	**–**	**(214.8)**	**(4.2)**	**(219.0)**
Movement in put options held by non-controlling interests	**–**	**–**	**–**	**–**	**20.7**	**–**	**–**	**20.7**	**–**	**20.7**
At 31 December 2016	**13.8**	**501.3**	**(0.2)**	**1.8**	**(102.3)**	**(6.2)**	**–**	**408.2**	**75.2**	**483.4**

Share capital – The balance classified as share capital is the nominal proceeds on issue of the Company's equity share capital, comprising $2^{1}/_{15}$p 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. Also recorded here are fair value changes on available-for-sale investments.

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 2016

	Notes	2016 £m	2015 £m
Cash generated from operations before non-underlying cash items	29	**749.5**	685.8
Non-underlying net movement in payables and receivables	4	**(12.3)**	–
Asset Services settlement provision cash paid	25	**(23.2)**	(21.7)
Business exit provision cash paid	25	**(14.4)**	(21.6)
Gwent pension settlement		**(3.3)**	–
Restructuring cash paid	25	**(10.0)**	–
Cash generated from operations		**686.3**	642.5
Income tax paid		**(63.7)**	(93.5)
Net interest paid		**(59.4)**	(47.2)
Net cash inflow from operating activities		**563.2**	501.8
Cash flows from investing activities			
Purchase of property, plant and equipment	13	**(82.4)**	(118.5)
Purchase of intangible assets	14	**(72.2)**	(85.1)
Proceeds from sale of property, plant and equipment	7,13	**0.6**	5.9
Acquisition of public sector subsidiary partnerships	17	**–**	(20.0)
Acquisition of subsidiary undertakings and businesses	5,17	**(100.5)**	(376.8)
Cash acquired with subsidiary undertakings	17	**4.0**	20.2
Debt repaid on acquisition of subsidiary undertakings	17,29	**–**	(48.3)
Proceeds on disposal of subsidiary undertakings	4	**30.6**	34.7
Cash disposed of with subsidiary undertakings	4	**(4.2)**	(8.7)
Deferred consideration received	16	**3.0**	–
Deferred consideration paid	17,29	**(10.7)**	(11.6)
Contingent consideration	17,26	**(18.5)**	(32.1)
Purchase of financial assets	9,16	**(0.9)**	(2.4)
Xchanging transaction	5	**–**	3.7
Net cash outflow from investing activities		**(251.2)**	(639.0)
Cash flows from financing activities			
Issue of share capital	27	**0.6**	1.7
Dividends paid	12	**(219.0)**	(200.5)
Capital element of finance lease rental payments	29	**(5.5)**	(5.0)
Repayment of loan notes	29	**–**	(0.2)
Repayment of bonds	29	**(141.0)**	(97.0)
Proceeds on issue of term debt	29	**350.0**	–
Proceeds on issue of bonds	29	**170.8**	496.6
Proceeds on issue of loan note	29	**0.3**	–
Financing arrangement costs	22	**(0.6)**	(1.1)
Net cash inflow from financing activities		**155.6**	194.5
Increase in cash and cash equivalents		**467.6**	57.3
Cash and cash equivalents at the beginning of the period		**85.3**	29.1
Impact of movement in exchange rates	29	**12.9**	(1.1)
Cash and cash equivalents at 31 December		**565.8**	85.3
Cash and cash equivalents comprise:			
Cash at bank and in hand	19	**1,098.3**	534.0
Overdrafts	19	**(532.5)**	(448.7)
Total		**565.8**	85.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Corporate information
The consolidated financial statements of Capita plc for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Directors on 1 March 2017. Capita plc is a public limited company incorporated in England and Wales whose shares are publicly traded.

The principal activities of the Group are given in the strategic report on pages 1–61.

2 Summary of significant accounting policies
Underlying profit
IAS 1 requires an entity to present additional information for specific items to enable users to assess the underlying 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 underlying, for example property commercialisation transactions, service credit penalties, and accrued income impairments that reflect the adjustments to long-term contract reappraisals which follow the original recognition as underlying income (see note 7).

Items within non-underlying include intangible amortisation, asset impairments, 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, and specific non-recurring items in the income statement which, in the Directors' judgement, need to be disclosed separately (see notes 4, 5 and 9) by virtue of their nature, size and incidence in order for users of the financial statements to obtain a proper understanding of the financial information and the underlying performance of the business.

This policy is kept under review by the Board and the Audit and Risk Committee, and is discussed in the Committee's report on page 82.

None of our 2016 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, which is normally understood to mean a reported segment. Accordingly, the separate presentation described above does not fall within the requirements of IFRS 5 concerning discontinued operations and comparatives have not been restated.

Assets held for sale
The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than continued use.

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

Significant accounting judgements, estimates and assumptions
The preparation of financial statements in conformity 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 reported periods. Although these judgements and assumptions are based on the Directors' best knowledge of the amount, events or actions, actual results may differ.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

› The measurement of revenue and resulting profit recognition – due to the size and complexity of some of the Group's contracts, there are judgements to be applied, including the measurement and timing of revenue recognition and the recognition of assets and liabilities that result from the performance of the contract (see (e), (f) and (u) below).

› The measurement of intangible assets other than goodwill in a business combination – on the acquisition of a business the identifiable intangible assets may include licences, customer lists and brands. The fair value of these assets is determined by discounting estimated future net cash flows generated by the asset where no active market for the assets exists. The use of different assumptions for the expectations of future cash flows and the discount rate would change the valuation of the intangible assets. The relative size of the Group's intangible assets, excluding goodwill, makes the judgements surrounding the estimated useful lives material to the Group's financial position and performance. Refer to (j) below and note 17.

› The measurement and impairment of goodwill – the amount of goodwill initially recognised as a result of a business combination is dependent on the allocation of the purchase price to the fair value of the identifiable assets acquired and the liabilities assumed. The determination of the fair value of the assets and liabilities is based, to a considerable extent, on management's judgement. Allocation of the purchase price affects the results of the Group as finite lived intangible assets are amortised. The Group determines whether goodwill is impaired on an annual basis and this requires an estimation of the value in use of the cash-generating units to which the intangible assets are allocated utilising an estimation of future cash flows and choosing a suitable discount rate (see note 15).

2 Summary of significant accounting policies continued

› The measurement of defined benefit obligations – the accounting cost of these benefits and the present value of pension liabilities involve judgements about uncertain events including such factors as the life expectancy of members, the salary progression of our current employees, price inflation and the discount rate used to calculate the net present value of the future pension payments. We use estimates for all of these factors in determining the pension costs and liabilities incorporated in our financial statements. The assumptions reflect historical experience and our judgement regarding future expectations (see note 32).

› The measurement of provisions and contingent liabilities – measuring and recognising provisions and the exposures to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation and arbitration, as well as other contingent liabilities (see note 25 and 31). 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.

For further details on the sensitivity of carrying amounts to the methods, assumptions and estimates used, the reason for the sensitivity, the expected resolution of uncertainties, and the range of reasonable possible alternatives for each of the above, refer to the policies and notes referenced.

The Directors apply judgement when considering the presentation of underlying and non-underlying items. As discussed above, the Group separately presents specific non-recurring items in the income statement, which in the Directors' judgement, need to be disclosed separately by virtue of their nature, size and incidence in order for users of the financial statements to obtain a proper understanding of the financial information and the underlying performance of the business (see note 5). This judgement has an impact on the calculation of covenants (refer to (b) below).

(a) Statement of compliance

The consolidated financial statements of Capita plc and all of its subsidiaries (the Group) have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, (IFRS) and as applied in accordance with the provisions of the Companies Act 2006.

The parent company has applied FRS101 – Reduced Disclosure Framework in the preparation of its individual financial statements and these are contained on pages 171–188. FRS101 applies IFRS as adopted by the European Union with certain disclosure exemptions.

(b) 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 assessing the basis of preparation for the year 31 December 2016, the Directors have considered the principles of the FRC guidance on Going Concern Basis of Accounting and Reporting, namely assessing the applicability of the going concern basis, the review period and disclosures.

The Group has net debt of £1,778.8m at 31 December 2016 (2015: £1,838.8m).

The Group's committed revolving credit facility, bank term loan facilities and private placement notes are subject to compliance with covenant requirements including maximum ratios of adjusted net debt to adjusted EBITDA before exceptional items. This covenant threshold varies from 3.0 times (which may under certain circumstances be increased to 3.5 times) to 3.5 times depending on the debt instrument in question. They are tested semi-annually.

The Group's calculation of adjusted net debt to adjusted EBITDA at 31 December 2016 is 2.89 times and is in compliance with the relevant ratios. Headroom has narrowed from previous periods in light of the lower results for 2016. The Directors have applied their judgement in how the Group has calculated the ratio for 2016 by applying the same treatment that has been applied in preparing the financial statements. Accordingly items that are presented as non-underlying are excluded from the covenant definition of adjusted EBITDA, with the exception of acquisition costs. This basis of calculation is also consistent with the approach adopted in prior years.

The Board has undertaken a rigorous assessment of the forecast assumptions that support the going concern basis, taking into account the financial forecasts, the Group's existing debt levels, the committed funding and liquidity positions, the Group's historic experience in generating cash from trading activities, and the working capital management strategies available to it. They have applied sensitivity analysis to these forecasts through both reductions in cash collections and underperformance against the 2017 business plan. They have considered mitigating actions available to the Group in response to these sensitivities. After applying these sensitivities and mitigating actions, the Group forecasts that it will continue to operate within its covenants. Whilst more extreme downside scenarios could lead to a breach, the Board expects to be able to maintain compliance with these covenants in forecast periods, including the next two test points of 30 June 2017 and 31 December 2017. Accordingly the Board has a reasonable expectation that the Company and the Group will be able to operate as a going concern for the foreseeable future and are satisfied that the accounts should be prepared on a going concern basis.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Capita plc and its subsidiaries as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

All intercompany balances and transactions, including unrealised profits arising from intragroup transactions, have been eliminated in full.

Subsidiaries are consolidated from the date on which control is transferred to the Group until control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which Capita plc has control and the profit or loss on disposal is calculated as the difference between the fair value of the consideration received and the carrying amount of the assets (including goodwill) disposed of. Losses applicable to the non-controlling interests in a subsidiary are attributed to the non-controlling interests even if that results in the non-controlling interests having a deficit balance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 Summary of significant accounting policies continued

(d) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new amendments and improvements with an initial date of application of 1 January 2016. None of these amendments had any material impact on the consolidated financial statements of the Group.

IFRS 11 Amendments: Accounting for Acquisitions of Interests in Joint Operations The amendments require an entity acquiring an interest in a joint operation, in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles on business combinations accounting in IFRS 3 and other IFRSs that do not conflict with the requirements of IFRS 11 Joint Arrangements. In addition, entities are required to disclose the information required by IFRS 3 and other IFRSs on business combinations.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

Amendments to IAS 27: Equity Method in Separate Financial Statements The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively.

Annual Improvements to IFRSs 2012–2014 Cycle As part of its annual improvements cycles the International Accounting Standards Board amended various standards primarily with a view to removing inconsistencies and clarifying wording.

Amendments to IAS 1 Disclosure Initiative The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to: materiality and aggregation; information to be presented in the statement of financial position and statement of profit or loss and other comprehensive income; the structure of the notes to the financial statements and the disclosure of accounting policies.

(e) Revenue

The Group generates revenue largely in the UK and Europe.

The Group operates a number of diverse businesses and therefore it uses a variety of methods for revenue recognition – see (f) below.

In all cases, revenue is recognised when the performance obligations have been performed or the significant risks and rewards of ownership are transferred to the buyer and it is probable that the economic benefits resulting from this performance will flow to the Group and the revenue can be reliably measured.

Costs incurred prior to the Group being awarded a contract or achieving preferred bidder status are expensed to the income statement.

The following table illustrates revenue recognition policies predominately used in each operating segment. A description of these policies is included in (f) below.

Segment	Ongoing service contracts	Time and material contracts	Brownfield contracts	Percentage complete/long-term contracts	IAS 11 Construction contracts	Greenfield contracts
Capita Europe	•	•	•			
Digital and Software Solutions	•	•	•	•	•	
Local Government, Health and Property	•	•	•	•		•
Workplace Services	•	•	•	•	•	•
IT Enterprise Services	•	•	•	•		•
Asset Services	•	•	•			
Customer Management	•	•	•	•	•	
Insurance and Benefit Services	•	•	•			
Integrated Services	•	•	•	•	•	
Commercial Services	•	•	•			
Strategic Services	•	•	•			

The Group has arrangements with some of its customers whereby it acts as an agent. Factors generally considered to determine whether the Group is a principal or an agent, are most notably whether it is the principal obligor to the client, it assumes credit and delivery risks, or it adds meaningful value to the supplier's service. Where the Group is acting as a principal, revenue represents the amounts billed for the services, including the associated costs. Where the Group is acting as an agent, revenue represents commissions receivable relating to the services and does not include the associated costs.

(f) Revenue recognition

The principal revenue recognition policies are as follows:

Ongoing service contracts
Revenue is recognised over the period the services are delivered to the client.

Time and materials contracts
Where Capita provide staff to clients at hourly or daily rates, revenue is recognised on the basis of time worked.

Brownfield contracts
A brownfield contract is one where there is a transfer of an existing operation to the Group. All costs incurred prior to service commencement are expensed as incurred and revenue represents income earned in respect of the services provided in accordance with the underlying principle in (e) above.

2 Summary of significant accounting policies continued

Greenfield contracts
A greenfield contract is one in which an entirely new service is being established for a client. Where non-refundable payments are received prior to full service commencement on the achievement of agreed contract delivery milestones, these are recognised as revenue when the associated milestone has been achieved. Direct incremental costs incurred prior to service commencement and reimbursable during the contract, excluding any overheads, are recognised on the balance sheet within receivables and amortised over the contract's life.

On commencement of service, delivery, revenue represents income earned in respect of the services provided in accordance with the underlying principle in (e) above.

Percentage complete/long-term contracts
Revenue reflects the sales value of work performed in the year, including fees invoiced and estimates in respect of amounts to be invoiced after the year-end (long-term contracts). Where contracts are long-term and the profit to be earned on the contract can be determined with reasonable certainty, the amount of revenue recognised is calculated on the basis of the stage of completion. This is determined by measuring the costs incurred to date as a proportion of the full cost of completing the contract and then applying the percentage to the total revenue expected to be earned. The costs incurred within a contract include all direct costs and outlays.

If, on the review of the performance of the contract, a loss is anticipated then the full value of this expected loss to the end of the contract is booked immediately in the income statement.

Contracts with multiple components
Within some contracts there are multiple components to be delivered such as transformation of the existing service delivery model, transitions of processes, people or data and the delivery of administration services, which have to be undertaken over the course of the contract.

In these contracts these activities are treated separately where appropriate, with the relevant accounting policy for revenue recognition, as detailed previously, being applied to each individual component.

IAS 11 Construction contracts
The Group constructs tangible and intangible assets for its customers, which are mainly intangible IT assets. In line with the requirements of IAS 11, gross amounts due from customers are stated at the proportion of the anticipated net sales value earned to date less amounts billed on account. To the extent that fees paid on account exceed the value of work performed, they are included in creditors as gross amounts due to customers.

IFRIC 12 Service concession arrangements
Where the Group constructs infrastructure on behalf of a client which it subsequently operates under a Service Concession Arrangement, in line with IFRIC 12, a proportion of the revenue due under the contract may be brought forward and recognised as the infrastructure is constructed if not fully recovered through payment for the asset by the client.

Contract renewals
On the renewal of existing contracts, the Group reviews the circumstances pertinent to each renewed contract to ensure that the correct revenue recognition policies are applied.

Property commercialisation
Part of the Group's strategy is to create and deliver maximum value from assets that are either owned by its customers or are acquired by Capita as part of a wider transaction. By combining the Group's capabilities with the expertise and assets of any organisation, the Group can significantly increase the value that can be generated from often under utilised assets. Our strategy often involves the commercialisation of property assets, where the Group will invest in real estate improvements to maximise the future capital value or commercial letting potential. Such an investment approach can generate substantial benefits that can be realised up-front or over time. Examples of up-front value creation include entering into transactions when current market values offer opportunities to generate immediate shareholder returns, with opportunities for continued investment in the underlying asset. For example, the Group will acquire property with a view to resale and subsequently complete a sale and lease back transaction resulting in revenue and profit recorded in the year. There is judgement over the categorisation of such transactions as operating or finance leases (refer to note (u) below).

Judgements and estimates in revenue recognition and related assets and liabilities
The Group enters into a wide range of contractual arrangements that govern the delivery of services to our customers, across many different sectors. The contracts are typically complex in nature, given the wide range of services delivered and the various performance targets set, and terms and conditions can be unique to each customer. In addition many of the contracts are long-term in nature, and at any point in time there are often ongoing discussions and negotiations in terms of key milestones and performance awards earned by the Group.

The revenue and profits recognised in any period are based on contract facts and circumstances and an assessment of the contract deliverables by reference to the contractual commitments. This requires management to apply judgements and estimates that draw on the knowledge and experience of the Group's project managers, skilled delivery teams, and finance and commercial professionals. Whilst there may be a broad range of possible outcomes based on the relevant circumstances of each contract, the Group has controls in place whereby all significant contracts are reviewed monthly, with revenue and cost estimates updated.

In determining the amount of revenues, and related balance sheet items (such as debtors, accrued and deferred income) to recognise in the period, management is required to make a number of key judgements and assumptions. These are inherently subjective and may cover future events such as the achievement of contractual milestones and performance KPIs and planned cost savings. In addition, for certain contracts, key assumptions are made concerning contract extensions and amendments, as well as opportunities to use the contract developed systems and technologies on other similar projects.

The recorded revenues, profits, and carrying value of contract assets, are sensitive to any changes in these key assumptions, for example:

› Variable terms – the Group often enters into renegotiations of existing contract terms such as the timing of delivery or the specifications of the product/service to be delivered. Depending on the outcome of such negotiations, the timing and amount of revenue recognised may be different.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 Summary of significant accounting policies continued

- › Costs to complete and contract profitability – in determining the revenue to be recognised, management is required to make an assessment of the costs to complete the contract. The ability to accurately forecast such costs involves judgements around cost savings to be achieved over time, anticipated profitability of the contract, as well as contract specific performance KPIs. Where a contract is anticipated to make a loss, these judgements are also relevant in determining whether or not an onerous contract provision is required and how this is to be measured.
- › Recoverability of contract related assets – linked to the profitability of contracts above, management is also required to determine the recoverability of contract related assets within property, plant and equipment, intangible assets, construction assets as well as other accrued income and accounts receivable. Where the relevant contracts are demonstrating marginal profitability, judgement is required in ascertaining whether or not the future economic benefits from these contracts are sufficient to recover these assets.
- › Allocation of revenue between components in relation to contracts with multiple components – where contracts have multiple components to be delivered such as transformation, transitions and the delivery of administration services, which have to be undertaken over the course of the contract, there is judgement in determining the fair value of revenue to be applied to each individual component, taking into account the relative risks and costs associated with each component.

The Group's contract arrangements often require significant initial investment to support the delivery of services over an extended period. This can include mobilisation costs, and investments in contract specific systems and technology. In some cases, these costs are recovered over the life of the contract through systematic allocation of costs against earned revenues, and at each period end the value of costs carried forward is assessed against the estimated lifetime profitability of the contract. Such an assessment is inherently judgemental and requires assumptions to be made over future events including planned cost savings and achievements of future contract milestones and contract specific performance KPIs.

It is not practicable to provide a range of reasonably possible outcomes or alternatives given the complexity and volume of the contracts within the Group.

The Group has commenced a detailed assessment to determine the impact of adopting IFRS 15 Revenue from Contracts with Customers which introduces for certain contracts significant changes to the timing of revenue, and associated profit, recognition. This assessment is ongoing and the Board will update the shareholders on the impact on transition, and on our ongoing accounting policy, during 2017 (refer to (x) below).

(g) Foreign currency translation

The functional and presentation currency of Capita plc and its UK subsidiaries is the pound sterling (£). Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated income statement.

Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of overseas operations include the Euro, Indian Rupee, South African Rand, and the US Dollar. As at the reporting date, the assets and liabilities of the overseas operations are retranslated into the presentation currency of Capita plc at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rate for the year.

The exchange differences arising on the re-translation are taken directly to a separate component of equity. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation shall be recognised in the income statement.

The Group has elected not to record cumulative translation differences arising prior to the transition date as permitted by IFRS 1 as at 31 December 2004. In utilising this exemption, all cumulative translation differences were deemed to be zero as at 1 January 2004 and all subsequent disposals shall exclude any translation differences arising prior to the date of transition.

(h) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Freehold buildings and long leasehold property	– over 50 years
Leasehold improvements	– period of the lease
Plant and equipment	– 3 to 10 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement in the administrative expenses line item.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset (retired). Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

2 Summary of significant accounting policies continued

(i) Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The Group capitalises borrowing costs for all qualifying assets where construction commenced on or after 1 January 2009.

(j) Business combinations and goodwill
Business combinations are accounted for by applying the acquisition method as at the acquisition date, which is the date on which control is passed to the Group.

Acquisitions on or after 1 January 2010
For acquisitions on or after 1 January 2010, the acquisition is measured as the aggregate of the fair value of the consideration transferred plus the recognised amount of any non-controlling interests in the acquiree. For each business combination on a transaction-by-transaction basis, the Group measures the non-controlling interests at the fair value of the acquiree's identifiable net assets at the date of acquisition.

Costs related to the acquisition, other than those associated with the issue of debt or securities, are expensed as incurred and included within administrative expenses and included within the 'non-underlying' column.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

For acquisitions where material changes were made to the fair value of the acquired assets and liabilities within the measurement period, the relevant account balances in the prior year are restated to reflect these changes in accordance with IFRS 3 requirements. Details of these changes are shown in note 17.

In a business combination achieved in stages, the Group re-measures its previously held equity interest in the acquiree at its acquisition-date fair value and recognises the resulting gain or loss, if any, in the income statement.

Goodwill is initially measured at cost being the excess of the aggregate of the fair value of the consideration transferred and the recognised amount of any non-controlling interests (plus the fair value of any existing equity interest) over the net recognised amount of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognised immediately in the income statement.

Acquisitions between 1 January 2004 (IFRS transition date) and 1 January 2010
For acquisitions between the Group's IFRS transition date of 1 January 2004 and 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in the income statement.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

Contingent consideration was recognised only where the Group had a present obligation and the economic outflow was more likely than not and a reliable estimate was determinable. Any subsequent adjustment to the contingent consideration was recognised as part of goodwill.

Acquisitions prior to 1 January 2004 (IFRS transition date)
On transition to the adoption of IFRS, the Group took advantage of the exemption allowed in IFRS 1 not to restate business combinations which took place prior to the date of transition. Goodwill recognised under UK GAAP prior to the date of transition to IFRS is stated at net book value as at this date (deemed cost). This goodwill had been amortised on a straight-line basis over its useful economic life (ranging from 5 to 20 years).

Goodwill
Following initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill arising on acquisitions prior to 31 December 1997 remains set-off directly against reserves and does not get recycled through the income statement.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units which are expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Acquisitions and disposals of non-controlling interests
Acquisitions and disposals of non-controlling interests that do not result in a change of control are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. Any difference between the price paid or received and the amount by which non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the parent.

Prior to the adoption of IAS 27 (Amended), goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

(k) Intangible assets
Intangible assets acquired separately are capitalised at cost and those identified in a business acquisition are capitalised at fair value as at the date of acquisition. In the case of capitalised software development costs, research expenditure is written off to the income statement in the period in which it is incurred. Development expenditure is written off in the same way unless and until the Group is satisfied as to the technical, commercial and financial viability of individual projects. Where this condition is satisfied, the development expenditure is capitalised and amortised over the period during which the Group is expected to benefit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 Summary of significant accounting policies continued

Following initial recognition, the carrying amount of an intangible asset is its cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. There were no indefinite-lived assets in 2015 or 2016. Amortisation is charged on assets with finite lives and this expense is taken to the income statement through the administrative expenses line item.

Intangible assets with finite lives are only tested for impairment, either individually or at the cash-generating unit level, where there is an indicator of impairment.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Intangible assets identified and recognised since transition to IFRS are profiled, on a straight-line basis, as follows:

Intangible assets acquired in business combinations:

› Brands are amortised over their useful economic lives of between 5 and 10 years

› I.P., software and licences are amortised over their useful economic lives of between 5 and 20 years

› Contracts and committed sales are amortised over their useful economic lives of between 1.5 and 15 years

› Client lists and relationships are amortised over their useful economic lives of between 4 and 10 years.

Intangible assets purchased or internally capitalised:

› Capitalised software development costs are amortised over their useful economic lives of between 5 and 15 years

› Software and licences are amortised over their useful economic lives of between 5 and 20 years

› Other intangibles are amortised over their useful economic lives of 3 to 15 years.

(l) Recoverable amount of non-current assets

At each reporting date, the Group assesses whether there is any indication that a non-current asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

(m) Investments and other financial assets

All investments are initially recorded at their fair value. Subsequently they are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Investment loans are measured at amortised cost using the effective interest method.

Available-for-sale financial assets are measured at their fair value with unrealised gains or losses being recognised directly in equity. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognised in the income statement.

Financial assets at fair value through the income statement (disclosed in investment income) include financial assets designated upon initial recognition as at fair value through the income statement.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy.

(n) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(o) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of 3 months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(p) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at their fair value less any directly attributable transaction costs.

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest method, except for instruments designated in fair value hedge relationships. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised, as well as through the amortisation process.

(q) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost. The Group provides, 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.

2 Summary of significant accounting policies continued

(r) Onerous contracts

The Group reviews its long-term contracts to ensure that the expected economic benefits to be received are in excess of the unavoidable costs of meeting the obligations under the contract. The unavoidable costs are the lower of the net costs of termination or the costs of fulfilment of the contractual obligations. The Group recognises the excess of the unavoidable costs over economic benefits due to be received as an onerous contract provision.

(s) Pension schemes

The Group maintains a number of defined contribution pension schemes and for these schemes the Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense in the income statement as the related service is provided.

In addition, the Group operates a defined benefit pension scheme and participates in a number of other defined benefit pension schemes, all of which require contributions to be made to separate trustee-administered funds. The costs of providing benefits under these schemes are determined separately for each scheme using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of the defined benefit obligation) and is based on actuarial advice. Past service costs are recognised immediately in the income statement.

When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are re-measured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs.

Re-measurements of the net defined benefit asset/liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income and reflected immediately in retained earnings and will not be reclassified to the income statement. The Group determines the net interest expense/income on the net defined benefit asset/liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit asset/liability, taking into account any changes in the net defined benefit asset/liability during the period as a result of contributions and benefit payments.

Current and past service costs are charged to operating profit whilst the net interest cost is included within net finance costs.

In respect of 3 of the defined benefit pension schemes in which the Group participates, the Group accounts for its legal and constructive obligation over the period of its participation which is for a fixed period only.

The liability on the balance sheet in respect of the defined benefit pension schemes comprises the total for each scheme, or group of schemes, of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is restricted to the present value of any amount the Group expects to recover by way of refunds from the plan or reductions in the future contributions.

(t) Financial instruments

The Group uses derivative financial instruments such as interest rate swaps and foreign currency contracts to hedge risks associated with interest and exchange rate fluctuations. Such derivative financial instruments are stated at fair value. The fair values of interest rate swaps and foreign currency contracts are determined by reference to market rates for similar instruments.

For the purpose of hedge accounting, hedges are classified as: fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; cash flow hedges where they hedge exposure to variability in cash flows that is attributable to a particular risk associated with either a recognised asset or liability or a forecast transaction; and hedges of a net investment in a foreign operation.

In relation to fair value hedges (e.g. fixed to floating interest rate swaps held as fair value hedges against fixed interest rate borrowings) which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement.

In relation to cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the income statement. Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when the hedged financial income or financial expense is recognised or when a forecast transaction occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in equity while any gains or losses relating to any ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the income statement.

The Group uses loans and foreign exchange derivatives as hedges of its exposures to foreign exchange risks on its investments in foreign subsidiaries.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement and are presented as non-underlying.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 Summary of significant accounting policies continued

Put options on the shares of subsidiaries held by non-controlling interest shareholders that oblige the Group to purchase those shares for cash or another financial asset are recognised as a financial liability for the present value of the option exercise price. When the financial liability is recognised initially, that amount is reclassified from equity, and subsequently measured at amortised cost using the effective interest rate method. Changes in the carrying amount, including the accretion of interest, are recognised in equity.

On exercise of the put options, the Group will treat the transaction as the purchase of the non-controlling interest and will apply acquisition accounting as described in (j) Business Combinations and Goodwill – Acquisitions and disposal of non-controlling interest.

(u) Leasing

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date and is concerned with whether the fulfilment of the arrangement is dependent upon the use of a specific asset or assets and the arrangement conveys a right to use the asset.

In assessing whether a lease is an operating lease or a finance lease, judgement needs to be exercised in determining whether or not substantially all the risks and rewards of ownership of the leased asset are held by the Group. Given that finance leases are recognised as liabilities, and operating leases are not, this can have a significant effect on the reported financial position of the Group.

Group as a lessee: Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Where a lease is for an asset sold by the Group to the lessor, the two transactions are accounted for separately. If the sale-and-leaseback results in a finance lease, then any gain on the sale is deferred and recognised as income over the lease term. If the leaseback is classified as an operating lease, then any gain is recognised immediately if the sale-and-leaseback terms are at fair value. If the sale-and-leaseback are not deemed to be at fair value then the accounting is as follows:

- If the selling price is at or below fair value, then the gain or loss is recognised immediately. However, if a loss is compensated for by future rentals at below-market price, then the loss is deferred and amortised over the period in which the asset is expected to be used.
- If the selling price exceeds fair value, then that excess is deferred and amortised over the period for which the asset is expected to be used.
- If the fair value of the asset is less than the carrying amount of the asset at the date of the transaction, then that difference is recognised immediately as a loss on the sale.

As noted above the assessment of whether the sale-and-leaseback transactions are at fair value may require significant judgement in addition to that applied to determine whether the lease is an operating or finance lease, and the resulting accounting can have a significant effect on the reported results of the Group.

Group as a lessor: Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental income arising from operating leases is recognised in the income statement on a straight-line basis over the lease term.

(v) Income tax

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- Except where the deferred tax liability arises from the initial recognition of goodwill.
- Except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised, except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

2 Summary of significant accounting policies continued

(w) Share based payments

The Group operates a number of executive and employee share schemes.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an option pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over the fair value being treated as an expense in the income statement.

(x) New standards and interpretations not applied

The IASB have issued the following standards and amendments with an effective date after the date of these financial statements. These are effective for annual periods beginning on or after the date indicated:

	Effective date
International Accounting Standards (IAS/IFRSs)	
Endorsed by the EU:	
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
Not yet endorsed by the EU:	
IAS 12 Amendments: Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
IAS 7 Amendments: Disclosure Initiative	1 January 2017
IFRS 2 Amendments: Classification and Measurement of Share based Payment Transactions	1 January 2018
IFRS 15 Clarifications: Revenue from Contracts with Customers	1 January 2018
IFRS 16 Leases	1 January 2019
IFRS 10 and IAS 28 Amendments: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred indefinitely

IFRS 15 Revenue from Contracts with Customers

IFRS 15 is the new revenue standard which replaces both IAS 18 Revenue and IAS 11 Construction Contracts. The standard is based on revenue being recognised as and when 'transfer of control' (of the goods or services provided) occurs which is a change from the 'risks and rewards' model under the current standards.

Current status

We are in the process of reviewing each large scale contract which is quantitatively or qualitatively material to the Group through adopting a first principles approach according to the five step model which IFRS 15 introduces. Our approach can be summarised as follows:

- Step 1: Identify the contract – is there an enforceable contract, with commercial substance which has been approved by the parties to that contract?
- Step 2: Identify the performance obligations – what goods or services have we promised to deliver under the contract and are those promises distinct from one another?
- Step 3: Determine the transaction price – what amount of consideration do we expect to receive in return for delivering the promises under the contract?
- Step 4: Allocate the transaction price – how do we allocate the transaction price to each of the identified performance obligations?
- Step 5: Recognise revenue – have we transferred control of the promised goods or services at a point in time or over time?

As a practical expedient and as allowed under the standard we will apply the 5 step approach under IFRS 15 to portfolios of contracts which have similar characteristics and where we expect that the financial statements would not differ materially had the standard been applied to the individual contracts within the portfolio.

In terms of change from current accounting we anticipate that the most significant impact will be on our major contracts where there are multiple components to be delivered (under one agreement) such as transformation of the existing service delivery model, transitions of processes, people or data and the delivery of administration services, which have to be undertaken over the course of the contract. IFRS 15 requires additional consideration to be given to whether the components or promises within a contract are distinct and therefore separate from a revenue standpoint or whether they should be bundled together to form one larger 'performance obligation'.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 Summary of significant accounting policies continued

For long-term contracts currently accounted for on a percentage of completion basis, where progress is measured on an input method, costs are expensed as incurred. Under IFRS 15 we will consider what costs meet the definition of contract fulfilment costs. This may change the timing of when costs and revenue are recognised. Given the multi component nature of our major contracts we would expect this change to have a material impact.

Although it is expected that the standard will have an impact on the timing and amount of revenue and costs being recognised there will be no impact on cash flows with collection remaining in line with contractual terms.

There remains a significant amount of work to be performed in order to quantify the full potential impact of IFRS 15 on revenue, costs and profit.

Application

We plan to adopt IFRS 15 using a fully retrospective application which will include restatement of the prior period comparatives under the new standard. Our application will make use of the following practical expedients:

› Contracts which are completed at the beginning of the earliest period presented will not be restated.

› Contracts with variable consideration will use the transaction price at the date the contract was completed rather than estimates of variable consideration in comparative periods.

› Contract modifications which occurred before the beginning of the earliest period presented will be reflected in aggregate.

› For all periods presented before the date of initial application, we will not disclose the amount of the transaction price allocated to the remaining performance obligations or an explanation of when we expect to recognise that amount as revenue.

› Contracts that are started and completed in the same annual reporting period will have no impact.

IFRS 16 Leases

IFRS 16 replaces the existing accounting requirements in IAS 17 Leases. A single model for lessees will be required, eliminating off balance sheet accounting for non-exempt operating leases. Related lease assets and liabilities will therefore come onto the balance sheet and the presentation and timing of income and expense recognition in the income statement will change. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 and IFRS 16 until the detailed reviews have been completed.

3 Revenue

Revenue disclosed in the income statement is analysed as follows:

		2016			2015		
	Notes	**Underlying £m**	**Non-underlying £m**	**Total £m**	Underlying £m	Non-underlying £m	Total £m
Rendering of services		**4,827.2**	**11.3**	**4,838.5**	4,548.7	162.6	4,711.3
Construction contracts	21	**70.7**	**–**	**70.7**	125.6	–	125.6
Revenue from operating activities		**4,897.9**	**11.3**	**4,909.2**	4,674.3	162.6	4,836.9
Finance revenue	9	**0.6**	**–**	**0.6**	–	–	–
Total revenue		**4,898.5**	**11.3**	**4,909.8**	4,674.3	162.6	4,836.9

4 Business exit

2016 business exit

Business exits are businesses that have been exited during the year or are held for sale.

In the 2015 Annual Report, we disclosed that the Group was in an active process to sell a specialist insurance business, a health business and a justice business and was therefore treating these businesses as a disposal group held for sale. During the period, the disposal of the specialist insurance and health business has been completed. The disposal process of the justice business ceased, and the business was moved out from being a disposal group held for sale back into underlying reported numbers. The Group also completed the disposal of a number of other small low growth businesses in the year.

Following a Group-wide business review, the Group announced it intends to dispose of the majority of the Capita Asset Services division and our specialist recruitment businesses which no longer fit the Group's core business strategy. These actions will increase the Group's focus on its core markets of customer and business process management services, while underpinning the Group's balance sheet. At 31 December 2016, none of these disposals met any of the criteria to be treated as held for sale as set out in note 2.

None of our 2016 business exits meet the definition of 'discontinued operations' as stipulated by IFRS 5, which requires disclosure and restatement of comparatives 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 and comparatives have not been restated.

4 Business exit continued

Income statement impact

	Trading £m	Non-trading disposal Cash £m	Non-trading disposal Non-cash £m	Non-trading disposal Total £m	Total £m
Revenue	**11.3**	**–**	**–**	**–**	**11.3**
Cost of sales	**(6.7)**	**–**	**–**	**–**	**(6.7)**
Gross profit	**4.6**	**–**	**–**	**–**	**4.6**
Administrative expenses	**(4.5)**	**2.9**	**(0.2)**	**2.7**	**(1.8)**
Operating profit	**0.1**	**2.9**	**(0.2)**	**2.7**	**2.8**
Profit on business disposal	**–**	**0.1**	**–**	**0.1**	**0.1**
Profit before tax	**0.1**	**3.0**	**(0.2)**	**2.8**	**2.9**
Taxation	**–**	**0.5**	**–**	**0.5**	**0.5**
Profit after tax	**0.1**	**3.5**	**(0.2)**	**3.3**	**3.4**

Trading revenue and costs represent the current year trading performance of those businesses disposed.

Non-trading disposal and closure costs include the costs of exiting businesses and stranded costs such as property lease and redundancy payments.

During the year, the disposal process of the justice business ceased, and the business was moved out from being a disposal group held for sale back into underlying reported numbers. An onerous contract provision relating to that business, being £6.9m, was transferred into underlying and recognised within administrative expenses relating to business exits, which will unwind over 1 to 2 years.

The table below summarises the gain on disposal:

Gain on business disposal

	Cash £m	Non-cash £m	Total £m
Property, plant and equipment	**–**	**(0.3)**	**(0.3)**
Intangible assets	**–**	**(5.2)**	**(5.2)**
Trade and other receivables	**–**	**(2.0)**	**(2.0)**
Assets held for sale	**–**	**(63.6)**	**(63.6)**
Trade and other payables	**–**	**0.9**	**0.9**
Liabilities held for sale	**–**	**19.9**	**19.9**
Cash disposed of	**(4.2)**	**–**	**(4.2)**
Total net assets disposed of	**(4.2)**	**(50.3)**	**(54.5)**
Proceeds received	**30.6**	**–**	**30.6**
Loan notes	**20.0**	**–**	**20.0**
Residual non-controlling interest	**–**	**4.0**	**4.0**
Profit on business disposal	**46.4**	**(46.3)**	**0.1**

Non-underlying cash movements in payables and receivables

Businesses disposed of and held for sale during 2016 generated operating cash outflows, prior to disposal, of £(12.3)m.

2015 Business disposal/closure

In the prior year the Group disposed of National Dental Plan Limited and exited certain small health businesses. The Group was also actively in the process of selling a specialist insurance business, a health business and a justice business and therefore treated these businesses as a disposal group held for sale.

Income statement impact

	Trading £m	Non-trading disposal/closure Cash £m	Non-trading disposal/closure Non-cash £m	Non-trading disposal/closure Total £m	Total £m
Revenue	162.6	–	–	–	162.6
Cost of sales	(123.8)	–	–	–	(123.8)
Gross profit	38.8	–	–	–	38.8
Administrative expenses	(40.0)	(26.8)	(110.1)	(136.9)	(176.9)
Operating loss	(1.2)	(26.8)	(110.1)	(136.9)	(138.1)
Loss on business disposal	–	26.0	(52.3)	(26.3)	(26.3)
Loss before tax	(1.2)	(0.8)	(162.4)	(163.2)	(164.4)
Taxation	0.2	1.7	0.5	2.2	2.4
Loss after tax	(1.0)	0.9	(161.9)	(161.0)	(162.0)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

4 Business exit continued

Non-trading administrative expenses

	Disposal/ closure £m	Held for disposal £m	Total £m
Cash paid, or to be paid			
Provision in respect of disposal and closure costs	(16.8)	(10.0)	(26.8)
Non-cash			
Accelerated depreciation on property, plant and equipment	(0.1)	–	(0.1)
Accelerated amortisation on intangible assets	(2.2)	–	(2.2)
Other assets written-off	(1.4)	(23.5)	(24.9)
Goodwill impairment	–	(82.9)	(82.9)
	(3.7)	(106.4)	(110.1)
Loss before tax	(20.5)	(116.4)	(136.9)

Analysed above are non-trading administrative expenses which include cash costs from exiting the disposed businesses, the ongoing stranded costs such as property and redundancy payments and impairment losses recognised in the disposal group. The provision in respect of disposal/closure costs is expected to be utilised over 3 years.

The other assets impairment charge of £23.5m includes £14.1m of provisions for certain debtors unlikely to be recovered, mainly being in relation to a customer that entered administration during the year.

There are no cumulative income or expenses included in Other Comprehensive Income relating to the disposal group.

Where an asset has been presented as being held for sale it must be carried at the value that is expected to be recovered through sale. In the table above the amounts for goodwill impairment and other assets impairment represent the reduction in the carrying value of these assets.

Loss on business disposal

	Cash £m	Non-cash £m	Total £m
Property, plant and equipment	–	(0.2)	(0.2)
Intangible assets	–	(49.4)	(49.4)
Trade and other receivables	–	(6.0)	(6.0)
Trade and other payables	–	3.3	3.3
Cash disposed of	(8.7)	–	(8.7)
Total net assets disposed of	(8.7)	(52.3)	(61.0)
Proceeds received	34.7	–	34.7
Loss on business disposal	26.0	(52.3)	(26.3)

Assets and liabilities of disposal group held for sale

At 31 December 2015, the disposal group comprised the following assets and liabilities:

	2015 £m
Property, plant and equipment	0.7
Intangible assets	32.7
Trade and other receivables	50.7
Assets held for sale	84.1
Trade and other payables	(40.4)
Provisions	–
Liabilities held for sale	(40.4)

5 Other non-underlying

Included within the other non-underlying column are:

	Notes	2016 Cash in year £m	2016 Cash in future £m	2016 Non-cash £m	2016 Total £m	2015 Cash in year £m	2015 Cash in future £m	2015 Non-cash £m	2015 Total £m
Cost of sales									
Co-op contract dispute		–	–	7.5	7.5	–	–	–	–
Total cost of sales		–	–	7.5	7.5	–	–	–	–
Administrative expenses									
Amortisation of acquired intangibles	14	–	–	152.2	152.2	–	–	165.0	165.0
Impairment of acquired intangibles	14	–	–	14.7	14.7	–	–	–	–
Contingent consideration movements	26	–	–	1.2	1.2	–	–	(5.4)	(5.4)
Asset Services settlement provision	25	0.9	12.5	–	13.4	11.5	5.7	–	17.2
Restructuring expense	25	10.0	49.4	–	59.4	–	–	–	–
Impairment of investment loan		–	–	2.6	2.6	–	–	–	–
Impairment of contract related assets	13/14	–	–	58.3	58.3	–	–	76.7	76.7
Co-op contract dispute		1.8	4.9	4.2	10.9	–	–	–	–
Impairment of goodwill	14	–	–	66.6	66.6	–	–	28.3	28.3
Xchanging transaction		–	–	–	–	(3.7)	–	–	(3.7)
Professional fees on acquisitions	17	6.4	2.0	–	8.4	8.0	7.0	–	15.0
Stamp duty paid on acquisitions	17	0.6	–	–	0.6	1.2	–	–	1.2
Total administrative expenses		19.7	68.8	299.8	388.3	17.0	12.7	264.6	294.3
Operating profit		19.7	68.8	307.3	395.8	17.0	12.7	264.6	294.3

The above items are presented as specific non-underlying as the Board have concluded that it is appropriate to do so. These items are not reflective of the in-year performance of the Group. The tax impact of the above items is a £54.9m credit. These items are discussed below:

Impairment and amortisation of 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.

Contingent consideration movements: 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.

Asset Services settlement provision: these significant litigation costs are historic in nature, being tied to previous acquisitions, comprising £22.9m of provisions for future costs (see note 25) less £10.4m of insurance asset recoveries, and are included in non-underlying as they are not reflective of the in-year performance of the Group's operational activities.

Restructuring expense: 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 actions in the ordinary course of business and any such charges are recorded within the underlying results. In 2016 the Board announced a major programme, with the restructuring of the Group into 6 new reporting divisions under a Group-wide programme. The cost of this Group-wide programme (£59.4m) has been charged to non-underlying, being the element that is above the normal level of restructuring undertaken by the Group.

Impairment of investment loan: the Group has fully impaired an historic investment loan in the year. The charge is reported separately as such items are not reflective of the in-year performance of the Group.

Impairment of contract related assets: as part of its year-end close process, Capita has undertaken a comprehensive review across its major contracts. Following this review management has taken the decision to impair, at 31 December 2016, a number of historic assets relating to a few specific contracts, which were being amortised over their contract life. Non-current assets amounting to £58.3m (£16.5m property, plant and equipment – see note 13; £41.8m capitalised software development intangible assets – see note 14) have been written off as a non-underlying charge because it does not reflect the contract performance in-year, and is consistent with prior year treatment.

Co-op contract dispute: the impact of the dispute with The Co-operative Bank plc on the financial statements is a charge of £18.4m representing the write off of accrued income relating to the transformation programme of £7.5m to cost of sales; and software licence costs of £4.2m (included within other intangibles, see note 14), other costs of £5.8m and a provision for 2017 legal costs of £0.9m to administrative expenses. This has been included within non-underlying because it is one-off in nature and is due to a contractual dispute rather than service credit penalties.

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 because performance of the acquired businesses is assessed through the underlying operational results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

5 Other non-underlying continued

Acquisition related costs and stamp duty: these costs incurred with acquisitions are not included in the assessment of business performance which is based on the underlying results. IFRS requires certain costs incurred in connection with acquired businesses to be recorded within the 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 non-underlying.

6 Segmental information

The Group's operations are organised and managed separately according to the nature of the services provided, with each segment representing a strategic business unit offering a different package of related services across the Group's markets. A description of the service provision for each segment can be found in the strategic report on pages 1–61. No operating segments have been aggregated to form the reportable operating segments below. The information disclosed below represents the way in which the results of the businesses were reported to the Group Board. The reported segmental structure has been changed in the year and therefore the comparatives have been restated accordingly.

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 2016 and 2015. All operations are continuing. The 2015 consolidated income statement has not been restated for the impact of business exits and other non-underlying items. If the 2015 underlying consolidated income statement was restated for both businesses exited during 2016 and businesses that were held for sale in 2015 but were not exited in 2016, revenue would be increased by £61.6m and profit before tax would reduce by £4.7m.

Year ended 31 December 2016

	Segment revenue					Segment result		
Trading	Underlying trading revenue £m	Inter-segment revenue £m	Third party revenue £m	Non-underlying trading[1] £m	Total segment revenue £m	Underlying trading profit £m	Non-underlying trading[1] £m	Total trading profit £m
Digital and Software Solutions	582.1	(60.5)	521.6	1.5	523.1	139.1	(0.5)	138.6
Integrated Services	293.5	(23.8)	269.7	–	269.7	(6.5)	–	(6.5)
Commercial Services	314.6	(25.6)	289.0	–	289.0	63.9	–	63.9
Strategic Services	477.0	(42.4)	434.6	1.1	435.7	72.2	–	72.2
Local Government, Health and Property	715.0	(75.4)	639.6	1.3	640.9	64.1	–	64.1
Workplace Services	489.1	(36.8)	452.3	–	452.3	35.0	–	35.0
IT Enterprise Services	741.0	(124.3)	616.7	–	616.7	36.0	–	36.0
Asset Services	525.9	(53.0)	472.9	–	472.9	96.8	–	96.8
Customer Management	561.5	(57.8)	503.7	–	503.7	42.3	–	42.3
Capita Europe	207.1	(1.7)	205.4	3.9	209.3	6.1	(0.3)	5.8
Insurance and Benefits Services	597.1	(104.7)	492.4	3.5	495.9	31.9	0.9	32.8
Total trading	5,503.9	(606.0)	4,897.9	11.3	4,909.2	580.9	0.1	581.0
Accrued income write-down						(39.6)	–	(39.6)
Total						541.3	0.1	541.4
Non-trading								
Business exit costs[1]								2.7
Restructuring costs[2]								(59.4)
Amortisation of acquired intangibles[2]								(152.2)
Impairment of goodwill[2]								(66.6)
Impairment of acquired intangibles[2]								(14.7)
Impairment of investment loan[2]								(2.6)
Impairment of contract related assets[2]								(58.3)
Acquisition costs[2]								(9.0)
Contingent consideration movements[2]								(1.2)
Asset Services settlement provision[2]								(13.4)
Co-op contract dispute[2]								(18.4)
Operating profit								148.3
Net finance costs[3]								(73.6)
Profit on business disposal[1]								0.1
Profit before tax								74.8
Income tax expense								(32.5)
Profit for the year								42.3

1 See note 4.

2 See note 5.

3 See note 9.

6 Segmental information continued

Year ended 31 December 2015

	Segment revenue					Segment result		
Trading	Underlying trading revenue £m	Inter-segment revenue £m	Third party revenue £m	Non-underlying trading[1] £m	Total segment revenue £m	Underlying trading result £m	Non-underlying trading[1] £m	Total trading result £m
Digital and Software Solutions	554.1	(60.0)	494.1	–	494.1	131.5	–	131.5
Integrated Services	226.8	(23.6)	203.2	–	203.2	16.3	–	16.3
Commercial Services	288.3	(25.3)	263.0	–	263.0	52.1	–	52.1
Strategic Services	374.6	(42.0)	332.6	84.4	417.0	69.2	(3.4)	65.8
Local Government, Health and Property	724.9	(74.6)	650.3	–	650.3	65.2	–	65.2
Workplace Services	534.9	(36.4)	498.5	–	498.5	46.0	–	46.0
IT Enterprise Services	658.0	(123.1)	534.9	–	534.9	49.7	–	49.7
Asset Services	488.9	(52.5)	436.4	–	436.4	104.4	–	104.4
Customer Management	638.0	(57.2)	580.8	–	580.8	57.5	–	57.5
Capita Europe	180.2	(1.7)	178.5	–	178.5	19.8	–	19.8
Insurance and Benefits Services	605.6	(103.6)	502.0	78.2	580.2	27.3	2.2	29.5
Total trading	5,274.3	(600.0)	4,674.3	162.6	4,836.9	639.0	(1.2)	637.8
Non-trading								
Business exit costs[1]								(136.9)
Intangible amortisation[2]								(165.0)
Impairment of contract related assets[2]								(76.7)
Impairment of goodwill[2]								(28.3)
Xchanging transaction[2]								3.7
Acquisition costs[2]								(16.2)
Contingent consideration movements[2]								5.4
Asset Services settlement provision[2]								(17.2)
Operating profit								206.6
Net finance costs[3]								(68.2)
Loss on business disposal[1]								(26.3)
Profit before tax								112.1
Income tax expense								(56.5)
Profit for the year								55.6

1 See note 4.

2 See note 5.

3 See note 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

6 Segmental information continued

Other segment information

Net assets by segment	2016 Segment assets £m	2016 Segment liabilities £m	2016 Matched creditors £m	2016 Net allocated assets £m	2015 Segment assets £m	2015 Segment liabilities £m	2015 Matched creditors £m	2015 Net allocated assets £m
Digital and Software Solutions	65.5	(75.6)	(10.7)	(20.8)	73.2	(74.2)	(10.2)	(11.2)
Integrated Services	35.5	(1.9)	–	33.6	60.6	(1.1)	–	59.5
Commercial Services	56.3	(8.6)	(29.2)	18.5	68.0	(6.1)	–	61.9
Strategic Services	62.1	(14.3)	–	47.8	48.5	(11.1)	–	37.4
Local Government, Property and Health	138.0	(90.6)	–	47.4	123.5	(64.4)	–	59.1
Workplace Services	82.2	(6.6)	–	75.6	70.3	(6.9)	–	63.4
IT Enterprise Services	140.5	(48.4)	–	92.1	116.2	(48.8)	–	67.4
Asset Services	126.2	(8.8)	(44.6)	72.8	123.4	(10.2)	(40.8)	72.4
Customer Management	82.8	(41.2)	–	41.6	98.1	(35.9)	–	62.2
Capita Europe	34.7	(1.2)	–	33.5	28.8	(1.0)	–	27.8
Insurance and Benefits Services	63.5	(37.5)	–	26.0	94.3	(26.8)	(30.8)	36.7
Total	887.3	(334.7)	(84.5)	468.1	904.9	(286.5)	(81.8)	536.6
Unallocated assets – see reconciliation table below				5,100.1				4,438.6
Unallocated liabilities – see reconciliation table below				(5,084.8)				(4,221.9)
Total net assets				483.4				753.3

Additions to non-current assets	2016 Tangible assets £m	2016 Depreciation charge £m	2016 Intangible assets £m	2016 Intangible amortisation £m	2015 Tangible assets £m	2015 Depreciation charge £m	2015 Intangible assets £m	2015 Intangible amortisation £m
Digital and Software Solutions	3.3	3.5	27.5	5.7	3.6	3.8	15.4	4.3
Integrated Services	0.8	4.8	2.7	0.7	6.9	4.6	7.5	–
Commercial Services	2.6	4.4	3.0	1.9	6.4	4.1	6.6	1.4
Strategic Services	1.6	3.0	31.1	0.9	1.0	3.5	33.6	1.8
Local Government, Health and Property	2.6	3.8	2.3	0.4	6.5	3.7	1.3	0.2
Workplace Services	3.0	3.6	1.4	0.6	4.0	3.8	0.2	0.4
IT Enterprise Services	7.8	18.8	–	1.2	25.6	19.3	8.6	1.7
Asset Services	8.0	11.9	6.9	2.7	12.6	8.4	3.8	0.7
Customer Management	15.2	7.0	–	2.2	20.2	5.2	6.8	1.1
Capita Europe	3.3	3.9	0.1	–	8.6	2.9	0.2	–
Insurance and Benefits Services	38.1	17.2	0.5	1.1	34.4	22.8	1.1	1.6
	86.3	81.9	75.5	17.4	129.8	82.1	85.1	13.2

6 Segmental information continued

Reconciliation of segment assets and liabilities

	2016 £m	2015 £m
Segment assets	**887.3**	904.9
Unallocated assets		
Property, plant and equipment	**394.7**	406.0
Intangible assets	**2,754.2**	2,810.0
Financial assets	**430.2**	230.9
Disposal Group Assets Held for Sale	**–**	84.1
Prepayments	**160.8**	158.8
Funds assets	**173.6**	161.7
Other receivables	**56.3**	34.3
Deferred tax	**32.0**	18.8
Cash	**1,098.3**	534.0
	5,100.1	4,438.6
Total assets	**5,987.4**	5,343.5
Segment liabilities (including matched creditors)	**419.2**	368.3
Unallocated liabilities		
Financial liabilities	**2,918.6**	2,394.2
Funds liabilities	**173.6**	161.7
Disposal Group Liabilities Held for Sale	**–**	40.4
Trade payables (excluding matched creditors)[1]	**282.0**	158.4
Other payables	**41.9**	38.6
Other taxes and social security	**202.6**	152.6
Accruals	**387.0**	455.4
Provisions	**160.7**	118.4
Income tax payable	**18.6**	46.2
Employee benefits	**345.2**	188.3
Deferred tax	**22.1**	19.0
Overdrafts	**532.5**	448.7
	5,084.8	4,221.9
Total liabilities	**5,504.0**	4,590.2

1 Matched creditors represent those creditors where there is a related trade receivable balance and where, as a result, management report the net position.

The table below presents revenue by geographical location, carrying amount of assets and expenditure on tangible and intangible assets by location of those assets.

	2016			2015		
Revenue	**United Kingdom £m**	**Non-United Kingdom £m**	**Total £m**	United Kingdom £m	Non-United Kingdom £m	Total £m
Total segment revenue	**5,023.6**	**491.6**	**5,515.2**	5,024.3	412.6	5,436.9
Inter-segment revenue	**(505.2)**	**(100.8)**	**(606.0)**	(515.6)	(84.4)	(600.0)
Third party revenue	**4,518.4**	**390.8**	**4,909.2**	4,508.7	328.2	4,836.9
Other segment information						
Trade receivables, accrued income and construction contracts	**810.1**	**77.2**	**887.3**	839.2	65.7	904.9
Unallocated assets	**4,891.1**	**209.0**	**5,100.1**	4,247.0	191.6	4,438.6
Total assets	**5,701.2**	**286.2**	**5,987.4**	5,086.2	257.3	5,343.5
Additions to non-current assets						
Tangible assets	**78.9**	**7.4**	**86.3**	116.6	13.2	129.8
Intangible assets	**71.0**	**4.5**	**75.5**	81.1	4.0	85.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

7 Operating profit

This is stated after charging/(crediting):

	Notes	2016 £m	2015 £m
Employee benefits expense	8	**2,216.9**	2,210.7
Amortisation of intangible assets acquired in business combinations	14	**152.2**	165.0
Depreciation	13	**81.9**	82.1
Accelerated depreciation on business closure	13	**–**	0.1
Amortisation of capitalised/purchased intangible assets[1]	14	**17.4**	13.2
Accelerated amortisation on business closure	14	**–**	2.2
Loss/(profit) on sale of property, plant and equipment		**0.8**	(1.2)
Minimum lease payments recognised as an operating lease expense		**164.8**	154.1
Foreign exchange differences		**0.3**	1.9
TfL implementation costs and penalties		**25.0**	–
Accrued income impairment		**39.6**	–
Property commercialisation		**(28.0)**	(11.0)
Contract termination (gains)/losses		**(21.7)**	(2.5)

1 Included within underlying operating activities before amortisation.

Underlying operating profit in 2016 includes the following items:

› As announced during the year, the Group encountered delays on the implementation of the new IT system on the Transport for London (TfL) congestion charge contract. As a result of the delays, costs of circa £25.0m, including penalties for delays, were incurred in-year. These are recorded within underlying operating profit because these costs and penalties were remedies within the contract.

› As announced in our 'Contracts Assets Review' statement on 21 February 2017, as part of its year-end close process, Capita has undertaken a comprehensive review across its major contracts, and has taken the decision to impair, at 31 December 2016, a number of historic assets relating to a few specific contracts, which were being amortised over their contract life. Accrued income of £39.6m has been written down as a charge to underlying results. These balances relate to the revenue and profit recognition judgements arising on long-term contracts. Changes in judgement over the recoverability of such balances are recorded in underlying operating profit.

› Property commercialisation transactions, executed in the ordinary course of business, have delivered profits of £28.0m (2015: £11.0m). This profit is included within underlying operating profit because part of the Group's strategy is to create and deliver maximum value from assets that are either owned by its customers or are acquired by Capita as part of a wider transaction.

› Customer contracts usually contain provisions to compensate the Group for exit costs and future profits in the event of early termination. In-year customer contract terminations for customer convenience have led to associated exit fees paid to Capita of £21.7m (2015: £2.5m) being recorded as income in-year. These are included within underlying operating profit because these amounts are payable to the Group under the terms of the respective contracts being terminated.

Fees payable to the Company's auditor and its associates in respect of:	2016 £m	2015 £m
Audit and audit-related services		
The audit of the Company and Group financial statements	**2.2**	2.0
The audit of the financial statements of subsidiaries of the Company	**1.2**	1.1
Total audit and audit-related services	**3.4**	3.1
Non-audit services		
Taxation compliance services	**0.1**	0.1
Taxation advisory services	**0.1**	–
Services related to corporate finance transactions	**0.1**	1.2
Other assurance services	**0.5**	0.6
Other non-audit services	**0.1**	–
Total non-audit services	**0.9**	1.9
Total audit and non-audit services	**4.3**	5.0

The amounts included in the above table relate to fees payable to KPMG LLP and its associates.

8 Employee benefits expense

	Notes	2016 £m	2015 £m
Wages and salaries		**1,918.6**	1,898.0
Social security costs		**186.6**	184.0
Pension costs	32	**116.2**	117.3
Share based payments	28	**(4.5)**	11.4
		2,216.9	2,210.7

The aggregate amount of Directors' remuneration (salary, bonus and benefits) is shown on page 100 of the remuneration report;

- As shown on page 163 note 33 'Related party transactions', the aggregate amount of gains made by Directors on exercise of share options was £6.2m (2015: £4.3m)
- The remuneration of the highest paid Director was £914,894 (2015: £1,094,449).
- Payments have been made to a defined contribution pension scheme on behalf of 5 Directors (2015: 2 Directors). For the highest paid Director, pension contributions of £30,000 (2015: £nil) were made.

The average number of employees during the year was made up as follows:	2016 Number	2015 Number
Sales	**2,305**	2,544
Administration	**9,472**	8,646
Operations	**62,978**	58,094
	74,755	69,284

9 Net finance costs

	Notes	2016 £m	2015 £m
Interest receivable		**(0.6)**	–
Bonds		**35.6**	31.0
Fixed rate interest rate swaps		**12.6**	5.4
Finance lease		**0.2**	0.4
Bank loans and overdrafts		**11.6**	10.3
Net interest cost on defined benefit pension schemes	32	**6.6**	6.4
Interest payable		**66.6**	53.5
Underlying net finance costs		**66.0**	53.5
Fixed rate interest rate swaps – mark-to-market	26	**18.1**	3.7
Discount unwind on public sector subsidiary partnership payment	26	**2.3**	2.2
Fair value movement in trade investments		**(0.1)**	0.3
Non-designated foreign exchange forward contracts – mark-to-market		**(13.7)**	8.0
Derivatives' counterparty credit risk adjustment – mark-to-market[1]	26	**0.8**	0.4
Derivatives' own credit risk adjustment – mark-to-market		**0.2**	0.1
Non-underlying net finance costs		**7.6**	14.7
Total net finance costs		**73.6**	68.2

1 This mark-to-market movement on derivatives represents the extent to which the fair value of these instruments has been affected by the perceived change in the creditworthiness of the counterparties to those instruments. The Group is comfortable that the risk attached to those counterparties is not significant and believes that the currency swaps, included in derivatives, continue to act as an effective hedge against the movements in the fair value of the Group's issued US$ denominated bonds (see note 26 – Financial instruments).

10 Income tax

The major components of income tax expense for the years ended 31 December 2016 and 2015 are:

	2016 £m	2015 £m
Consolidated income statement		
Current income tax		
Current income tax charge	**56.4**	104.2
Adjustment in respect of prior years	**(17.4)**	(10.3)
Deferred income tax		
Origination and reversal of temporary differences	**(24.6)**	(39.5)
Adjustment in respect of prior years	**18.1**	2.1
	32.5	56.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

10 Income tax continued

	2016 £m	2015 £m
Consolidated statement of comprehensive income		
Deferred income tax on cash flow hedges	**2.8**	1.1
Income tax on cash flow hedges	**2.8**	–
Deferred income tax on net investment hedge of foreign operations	**–**	(0.6)
Deferred income tax movement in relation to actuarial losses on defined benefit plans	**(26.5)**	6.5
	(20.9)	7.0

	2016 £m	2015 £m
Consolidated statement of changes in equity		
Deferred income tax movement in relation to share based payment	**12.6**	6.1
Income tax deduction on exercise of stock options	**(6.8)**	(3.8)
	5.8	2.3

The deferred income tax charge of £12.6m in relation to share based payments has arisen due to share awards vesting in respect of which an income tax credit has been recognised, and the reduction in Capita plc's share price in the second half of the year.

The reconciliation between tax expense and the product of accounting profit multiplied by the UK corporation tax rate for the years ended 31 December 2016 and 2015 is as follows:

	2016 £m	2015 £m
Profit before tax	**74.8**	112.1
Notional charge at UK corporation tax rate of 20.00% (2015: 20.25%)	**15.0**	22.7
Adjustments in respect of current income tax of prior years	**(17.4)**	(10.3)
Adjustments in respect of deferred tax of prior years	**18.1**	2.1
Non-deductible expenses	**3.3**	14.0
Non-deductible loss on business disposal	**–**	5.3
Non-deductible goodwill impairment	**12.8**	22.5
Impact of changes in statutory tax rates	**1.6**	0.5
Attributable to lower tax rates in overseas jurisdictions	**(3.2)**	(3.8)
Deferred tax unrecognised	**2.3**	3.5
At the effective tax rate of 43.4% (2015: 50.4%)	**32.5**	56.5
Total tax expense reported in the income statement	**32.5**	56.5

The tax charge for the year ended 31 December 2016 was £32.5m (2015: charge of £56.5m). The tax charge is equivalent to an effective tax rate of 43.4% (2015: 50.40%). The effective tax rate on underlying profit is 18.5% (2015: 18.5%).

Adjustments in respect of current income tax of prior years of £17.4m includes a £5.8m net credit primarily relating to the successful resolution of issues with relevant tax authorities, £3.7m of adjustments which have a corresponding prior year deferred tax impact as noted above, £3m relating to the review of the tax treatment of various derivative related historic tax positions and £1.3m relating to successful prior year overseas tax incentive claims.

Adjustments in respect of deferred tax of prior years of £18.1m includes £14.4m due to the write off of deferred tax assets as a result of a review of the tax treatment of various derivative related historic tax positions, and £3.7m of adjustments which have a corresponding prior year current income tax impact.

Non-deductible expenses charged to underlying results are similar in 2016 and 2015. Non-deductible expenses charged to non-underlying results and business exits in 2015, such as costs associated with the disposal of businesses, account for the change between periods.

10 Income tax continued

Deferred income tax

Deferred income tax at 31 December relates to the following:

	Consolidated balance sheet		Consolidated income statement	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Deferred tax liabilities				
Fair value adjustments on acquisition	**(65.3)**	(79.5)	**(23.5)**	(30.9)
	(65.3)	(79.5)		
Deferred tax assets				
Accelerated capital allowances	**1.9**	10.6	**9.8**	(10.1)
Share based payments	**0.3**	12.9	**–**	–
Pension schemes' liability	**46.5**	20.0	**–**	(4.3)
Provisions	**22.4**	18.6	**(3.1)**	9.0
Losses available for offset against future taxable income	**4.1**	–	**(4.1)**	–
Mark-to-market movement on currency swaps	**–**	0.1	**0.1**	–
Cash flow forwards	**–**	1.7	**1.7**	(1.3)
Cash flow swaps	**–**	12.6	**12.6**	0.2
Cash flow hedges	**–**	2.8	**–**	–
	75.2	79.3		
Net deferred tax (liability)/asset	**9.9**	(0.2)		
Deferred income tax credit			**(6.5)**	(37.4)

The deferred tax asset of £0.3m in relation to share based payments as at 31 December 2016 has reduced from the balance held as at 31 December 2015 due to share awards vesting and the reduction of Capita plc's share price during the second half of the year.

Deferred tax assets totalling £17.2m as at 31 December 2015 in connection with mark-to-market and cash flow derivative movements have been written off during 2016 due to a review of the tax treatment of these instruments resulting in a total deferred tax balance of £nil as at 31 December 2016.

The UK corporation tax rate will decrease from 20% to 19% from 1 April 2017 and to 17% from 1 April 2020. The deferred tax balances have been adjusted to reflect this change.

The Group has unrecognised tax losses and other temporary differences of £177.0m (2015: £160.0m) that are available for offset against future taxable profits of the companies in which the losses or other temporary differences arose; of which £104.2m are related to losses incurred by companies acquired by the Group and therefore not as a result of the Group's trading performance. Deferred tax assets have not been recognised in respect of £177.0m (2015: £160.0m) of these losses or other temporary differences, as their recoverability is uncertain. Of the £177.0m, £169.8m relates to losses and £7.2m relates to other temporary differences. £150.6m of the £177.0m losses and temporary differences relate to the UK and have no time expiry. These losses will be subject to proposed UK legislation which could result in restricted utilisation in the future. £26.4m of the £177.0m losses and temporary differences relate to various overseas jurisdictions, some of which are being subject to specific loss restriction rules and utilisation expiry periods of up to 8 years.

Dividends received from subsidiaries on or after 1 July 2009 are largely exempt from UK tax but may be subject to dividend withholding taxes levied by the overseas tax jurisdictions in which the subsidiaries operate. The gross temporary differences of those subsidiaries affected by such potential taxes is £38.9m (2015: £27m). No deferred income tax liability is recognised on these temporary differences as the Group is able to control the timing of reversal and it is probable they will not reverse in the foreseeable future.

The Group files income tax returns in many jurisdictions throughout the world. Various tax authorities are currently examining the Group's income tax returns. Tax returns contain matters that could be subject to differing interpretations of applicable tax laws and regulations and the resolution of tax positions, through negotiations with relevant tax authorities or through litigation, can take several years to complete. Tax uncertainties are assessed throughout the year and specifically at the year-end with any associated provisions recognised considering the specific circumstances of each risk, including the merits of technical aspects, previous experience with tax authorities, recent tax law and if relevant, external specialist advice.

While it is difficult to predict the ultimate outcome in some cases, the Group does not currently anticipate that there will be any material impact on the Group's financial position or results of operations in the next financial year.

In addition, the Group continues to be directly and indirectly affected by new tax legislation and regulation and the interpretation of tax laws and regulation worldwide. Changes in such legislation, regulation or interpretation could increase our taxes and have an adverse effect on our operating results and financial position. This includes potential changes arising out of the implementation of the recommendations of the Base Erosion and Profit Shifting project initiated by the Organization for Economic Co-Operation and Development.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

11 Earnings per share

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

Diluted earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent 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 following reflects the earnings and share data used in the basic and diluted earnings per share computations:

	2016 £m	2015 £m
Net profit attributable to ordinary equity holders of the parent from operations	**36.9**	52.7

	2016 m	2015 m
Weighted average number of ordinary shares (excluding trust and treasury shares) for basic earnings per share	**664.7**	662.2
Dilutive potential ordinary shares:		
Employee share options	**–**	8.4
Weighted average number of ordinary shares (excluding trust and treasury shares) adjusted for the effect of dilution	**664.7**	670.6

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 underlying earnings attributable to ordinary equity holders of the parent of £376.7m (2015: £468.4m) and, after non-underlying costs, earnings of £36.9m (2015: £52.7m). They are both included to provide a better understanding of the underlying trading performance of the Group.

		2016 p	2015 p
Basic earnings per share	– underlying	**56.67**	70.73
	– reported	**5.55**	7.96
Diluted earnings per share	– underlying	**56.67**	69.85
	– reported	**5.55**	7.86

12 Dividends paid and proposed

	2016 £m	2015 £m
Declared and paid during the year		
Ordinary shares (equity):		
Final for 2015 paid: 21.2p per share (2014: 19.6p per share)	**140.9**	129.7
Interim for 2016 paid: 11.1p per share (2015: 10.5p per share)	**73.9**	69.6
Dividends paid to shareholders	**214.8**	199.3
Dividends paid to non-controlling interest	**4.2**	1.2
Total dividends paid	**219.0**	200.5
Proposed for approval at AGM (not recognised as a liability at 31 December)		
Ordinary shares (equity):		
Final for 2016: 20.6p per share (2015: 21.2p per share)	**137.0**	140.3

13 Property, plant and equipment

	Leasehold improvements, land and buildings £m	Plant and machinery £m	Total £m
Cost			
As at 1 January 2015	95.1	522.1	617.2
Subsidiaries acquired	0.5	10.8	11.3
Disposal of business	(0.1)	(0.2)	(0.3)
Transfer to held for sale assets	(0.4)	(1.0)	(1.4)
Additions	22.0	96.5	118.5
Disposals	(1.8)	(5.7)	(7.5)
Asset retirements	(4.4)	(66.4)	(70.8)
Re-class to intangible assets (net)	–	(6.1)	(6.1)
Exchange movement	(0.4)	(2.5)	(2.9)
As at 31 December 2015	110.5	547.5	658.0
Subsidiaries acquired	**–**	**2.7**	**2.7**
Disposal of business	**–**	**(0.5)**	**(0.5)**
Transfer from held for sale assets	**–**	**0.6**	**0.6**
Additions	**10.5**	**73.1**	**83.6**
Disposals	**(0.7)**	**(14.0)**	**(14.7)**
Asset retirements	**(18.2)**	**(198.8)**	**(217.0)**
Re-class to intangible assets	**–**	**(2.6)**	**(2.6)**
Exchange movement	**2.9**	**12.3**	**15.2**
As at 31 December 2016	**105.0**	**420.3**	**525.3**
Depreciation and impairment			
As at 1 January 2015	35.9	132.5	168.4
Charged during the year – underlying	11.9	70.2	82.1
Accelerated depreciation – business closure	0.1	–	0.1
Impairment	–	76.7	76.7
Disposal of business	–	(0.1)	(0.1)
Transfer to held for sale assets	–	(0.7)	(0.7)
Disposals	(0.2)	(2.8)	(3.0)
Asset retirements	(4.4)	(66.4)	(70.8)
Exchange movement	(0.1)	(0.6)	(0.7)
As at 31 December 2015	43.2	208.8	252.0
Charged during the year – underlying	**12.3**	**69.6**	**81.9**
Impairment	**–**	**16.5**	**16.5**
Disposal of business	**–**	**(0.2)**	**(0.2)**
Transfer from held for sale assets	**–**	**0.5**	**0.5**
Disposals	**(0.3)**	**(13.0)**	**(13.3)**
Asset retirements	**(18.2)**	**(198.8)**	**(217.0)**
Exchange movement	**1.8**	**8.4**	**10.2**
As at 31 December 2016	**38.8**	**91.8**	**130.6**
Net book value			
At 1 January 2015	59.2	389.6	448.8
At 31 December 2015	67.3	338.7	406.0
At 31 December 2016	**66.2**	**328.5**	**394.7**

The net book value of plant and machinery includes an amount of £2.3m (2015: £7.0m) in respect of assets held under finance leases.

In light of the difficult market conditions experienced by the Group during the year, management conducted a review of contract related balances on major contracts across the Group. This review led to assets in the Insurance and Benefits Services division with a total net book value of £16.5m being fully written down.

In 2015 as a result of changes in the marketplace, including the introduction of new legislation in the form of the Pensions Freedom Act, Management conducted a review of the IT platform on which the Group delivers its Life and Pensions administration capability. This review led to assets with a total net book value of £76.7m being fully written down.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

14 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										
At 1 January 2015	45.9	103.4	129.6	699.9	2,136.9	3,115.7	59.3	30.4	89.7	3,205.4
Subsidiaries acquired	16.7	10.6	7.9	182.4	259.4	477.0	0.2	0.9	1.1	478.1
Business disposal	–	–	–	–	(49.4)	(49.4)	–	–	–	(49.4)
Additions	–	–	–	–	–	–	66.4	18.7	85.1	85.1
Disposals	–	–	–	–	–	–	–	(0.3)	(0.3)	(0.3)
Transfer to assets held for sale	(0.2)	–	–	(20.1)	(110.8)	(131.1)	(0.6)	(0.1)	(0.7)	(131.8)
Re-class from property, plant and equipment	–	–	–	–	–	–	5.0	1.1	6.1	6.1
Asset retirement	–	–	–	–	–	–	(1.2)	(1.0)	(2.2)	(2.2)
Fair value adjustments in 2015 relating to 2014 acquisitions	–	–	–	–	1.1	1.1	–	–	–	1.1
Exchange movement	(0.1)	(0.8)	–	(3.3)	(2.3)	(6.5)	(0.2)	(0.1)	(0.3)	(6.8)
At 31 December 2015	62.3	113.2	137.5	858.9	2,234.9	3,406.8	128.9	49.6	178.5	3,585.3
Subsidiaries acquired	27.1	–	–	23.3	67.9	118.3	–	0.3	0.3	118.6
Business disposal	(0.1)	–	–	(2.2)	(3.4)	(5.7)	–	(0.2)	(0.2)	(5.9)
Additions	–	–	–	–	–	–	68.1	7.4	75.5	75.5
Disposals	–	–	–	–	–	–	–	(0.3)	(0.3)	(0.3)
Transfer from assets held for sale	–	–	–	5.3	10.3	15.6	0.5	–	0.5	16.1
Re-class from property, plant and equipment	–	0.6	–	–	–	0.6	0.6	1.3	1.9	2.5
Asset retirement	(21.7)	(19.5)	(62.2)	(168.7)	–	(272.1)	(1.9)	(0.5)	(2.4)	(274.5)
Fair value adjustments in 2016 relating to 2015 acquisitions	–	–	–	–	1.7	1.7	–	–	–	1.7
Exchange movement	1.7	2.2	–	26.1	16.2	46.2	0.8	0.3	1.1	47.3
At 31 December 2016	69.3	96.5	75.3	742.7	2,327.6	3,311.4	197.0	57.9	254.9	3,566.3
Amortisation and impairment										
At 1 January 2015	29.5	25.1	74.7	383.6	57.1	570.0	10.6	5.4	16.0	586.0
Business disposal	–	–	–	–	–	–	–	–	–	–
Accelerated amortisation	–	–	–	–	–	–	2.2	–	2.2	2.2
Amortisation	7.9	17.3	14.7	125.1	–	165.0	10.4	2.8	13.2	178.2
Disposals	–	–	–	–	–	–	–	(0.1)	(0.1)	(0.1)
Transfers to assets held for sale	(0.2)	–	–	(15.5)	(82.9)	(98.6)	(0.5)	–	(0.5)	(99.1)
Impairment on transfer to assets held for sale	–	–	–	–	82.9	82.9	–	–	–	82.9
Impairment	–	–	–	–	28.3	28.3	–	–	–	28.3
Asset retirement	–	–	–	–	–	–	(1.2)	(1.0)	(2.2)	(2.2)
Re-class from property, plant and equipment	–	–	–	–	–	–	–	–	–	–
Exchange movement	–	(0.1)	–	(0.5)	–	(0.6)	(0.2)	(0.1)	(0.3)	(0.9)
At 31 December 2015	37.2	42.3	89.4	492.7	85.4	747.0	21.3	7.0	28.3	775.3
Business disposal	–	–	–	(0.7)	–	(0.7)	–	–	–	(0.7)
Amortisation	12.3	13.3	8.7	117.9	–	152.2	11.7	5.7	17.4	169.6
Disposals	–	–	–	–	–	–	–	(0.3)	(0.3)	(0.3)
Transfers from assets held for sale	–	–	–	3.6	–	3.6	0.4	–	0.4	4.0
Impairment on business closure	–	–	–	4.2	–	4.2	–	–	–	4.2
Impairment	0.6	–	–	14.1	66.6	81.3	41.8	4.2	46.0	127.3
Asset retirement	(21.7)	(19.5)	(62.2)	(168.7)	–	(272.1)	(1.9)	(0.5)	(2.4)	(274.5)
Exchange movement	0.2	0.6	–	5.5	–	6.3	0.6	0.3	0.9	7.2
At 31 December 2016	28.6	36.7	35.9	468.6	152.0	721.8	73.9	16.4	90.3	812.1
Net book value										
At 1 January 2015	16.4	78.3	54.9	316.3	2,079.8	2,545.7	48.7	25.0	73.7	2,619.4
At 31 December 2015	25.1	70.9	48.1	366.2	2,149.5	2,659.8	107.6	42.6	150.2	2,810.0
At 31 December 2016	40.7	59.8	39.4	274.1	2,175.6	2,589.6	123.1	41.5	164.6	2,754.2

14 Intangible assets continued

Goodwill impairments: refer to note 15.

Intangible assets acquired in business combination impairments: following the impairment of goodwill (refer to note 15), further intangible assets relating to the Financial Services CGU were impaired by £14.7m (refer to note 5), and on the closure of a business in the period, acquired intangibles were impaired by £4.2m.

Capitalised software development impairment: in light of the difficult market conditions experienced by the Group during the year, management conducted a review of contract related balances on major contracts across the Group. This review has led to capitalised software development being written down by £41.8m (reported within impairment of contract related assets £58.3m, refer to note 5), being the amount the carrying value exceeded the recoverable amount.

Other intangible asset impairments: the impact of the dispute with The Co-operative Bank plc on the financial statements includes a write-down of software licence costs of £4.2m (refer to note 5).

15 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 acquisition 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.

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

	Financial Services £m	Life and Pension Services £m	Customer Management £m	IT and Software Services £m	Secure Information Solutions £m	Property Services £m	Workplace Services £m	Balance of non-significant CGUs £m	Total £m
2016									
Goodwill	**122.6**	**178.9**	**110.1**	**317.8**	**265.2**	**138.5**	**189.5**	**853.0**	**2,175.6**
2015									
Goodwill	139.6	184.4	110.1	317.8	243.1	138.5	189.5	826.5	2,149.5

Disclosed above are the significant groups of CGUs identified, with the remaining CGUs included in the 'non-significant balance' column. The non-significant CGUs included within the balance do not individually exceed 5% of the Group's total goodwill balance.

Following the difficult trading conditions witnessed in 2016 as a result of certain economic and political factors and having reviewed the constituent businesses and markets in which Capita operates and the underlying assumptions used to calculate the value in use for each CGU, goodwill has been impaired by £66.6m. This comprises: £17.0m relating to the Financial Services CGU (within the Asset Services division); £5.5m relating to the Life and Pension Services CGU (within the Insurance and Benefits division), and £44.1m relating to 4 non-significant individual business CGUs (included within the non-significant CGU balance above) of which the most significant is £30.0m relating to an IT business (within the IT Enterprise Services division).

In addition, £3.4m of goodwill was written-off non-significant CGUs on disposals of businesses in the year.

The impairment test

The impairment test is completed through a 3-stage process:

- The net assets of each CGU are identified, and allocated, including the goodwill above
- The key assumptions are identified, which are used to determine the recoverable amount per CGU to be measured against the net assets
- The final stage is to identify any shortfall, where the carrying value of net assets exceeds the recoverable amount determined through the value in use calculation – this would then be disclosed as an impairment of that CGU in the income statement.

The calculation of the recoverable amount is based on a value in use calculation, i.e. how much cash will be generated over the life of the asset net of any capital expenditure needed to maintain and grow those cash flows. This recoverable amount is established using a number of key assumptions which drive the result.

The starting point is the identification of the cash flows per CGU based on the latest 1 year budget forecast approved by senior management. The budget is a result of a bottom-up business planning process which identifies each of a number of factors that lead to what is expected to be a challenging but achievable forecast, reflecting the performance in 2016.

The major factors considered per CGU are:

- Continuation of past performance
- Is the market in which the CGU operates experiencing change or further competitive pressures
- The route to new sales and renewals is clearly understood
- Whether management resource is suitable to achieve and deliver the budget
- The efficiency of the cost base and whether it is at the correct level for the business currently and supportive of future growth.

The markets in which the Group operate and the services which we provide are discussed in 'Driving our growth – our solutions and markets' starting on page 15 and 'Divisional Performance 2016' starting on page 34. The key drivers are commonplace across these markets: the need to drive efficiencies and to deliver more for less as well as changes in technology that can be fostered to achieve these goals as well as regulatory change.

These plans are delivered and presented to the Board for their review and acceptance and are challenged to ensure they are realistic and achievable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

15 Goodwill continued

This budget is then extrapolated for a further 4 years, before applying an appropriate terminal value. The resulting cash flows are then discounted at a rate that recognises their CGU specific characteristics and is based on the overall Group Weighted Average Cost of Capital (WACC).

The major assumptions in this extrapolation are:

› Growth rates applied to the year 1 cash flows

› The pre-tax discount rates to be used

› The long-term growth rate used for the terminal value calculation.

Growth rates

The growth rate assumptions are particular to each CGU and are derived from external research across the breadth of our markets which is provided by Ovum, a third party provider. These projections are reviewed by senior management to ensure that they are in line with their understanding of the markets in which they operate.

Pre-tax discount rates

The Group WACC is calculated by weighting the cost of our debt and equity financing in line with the amounts of debt and equity that we use to finance our activities. We have calculated our post-tax WACC assuming a risk-free rate of 1.22%, a market risk premium of 9.23% and a Beta of 0.79. These assumptions are based on publicly available sources.

The Group's post-tax weighted average cost of capital (WACC) of 7.11% (2015: 7.44%) has been used as a basis for calculating the discount rate used for each CGU. This has been done by adjusting the rate, where appropriate, to reflect the risks specific to the market in which the CGU operates.

The rate adjustment takes into account the relative risks in the business through adjustment to the risk premium and the weighting of the funding levels provided per CGU, whilst retaining a constant cost of debt.

Long-term growth rates

The terminal value included in the calculation is based on the Year 5 cash flow and the pre-tax discount rate for the CGU adjusted for a long-term growth factor which is set at an estimate of the long-term rate of UK GDP growth of 2.3% (2015: 2.3%).

Below is a table setting out the growth and pre-tax discount rates used in the calculations described above.

	Third party market growth rates		Pre-tax WACC	
	2016	2015	**2016**	2015
Financial Services	**2.0%**	3.8%	**8.3%**	7.9%
Life and Pensions Services	**2.0%**	5.0%	**7.2%**	8.2%
Customer Management	**2.9%**	4.2%	**8.1%**	7.6%
IT and Software Services	**2.9%**	3.0%	**7.2%**	8.3%
Secure Information Solutions	**3.0%**	5.8%	**7.2%**	7.7%
Property Services	**3.0%**	2.9%	**8.9%**	8.9%
Workplace Services	**3.0%**	4.7%	**8.3%**	9.0%
Non-significant CGUs	**Range 1.4% – 4.1%**	Range 2.9% – 5.8%	**Range 7.2% – 14.4%**	Range 7.6% – 10.8%

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.

The sensitivity analysis on CGU cash flows has been carried out using a 100bps increase in the pre-tax discount rate, a 100bps reduction in growth rates, and a 100bps decrease in CGU year 1 operating margins (between 2% and 41% impact on operating profit depending on CGU).

The CGUs impaired in the year are the most sensitive to a change in a single or combination of assumptions, and therefore any deterioration in assumptions would lead to further impairment. In the scenario where the base case for these CGUs, as per the assumptions stated above, are combined with a 100bps adverse change in the operating margin, the discount rate and growth rates, the total additional impairment of goodwill would be £98.0m.

There are 5 non-significant CGUs, which are also sensitive to changes in the assumptions, but movements would be individually immaterial. In the scenario where the base case for these smaller CGUs, as per the assumptions stated above, are combined with a 100bps adverse change in the operating margin, the discount rate and the growth rates, the total impairment would be £13.4m.

Management continue to monitor closely the performance of all CGUs.

In conclusion, other than disclosed above with regard to those CGUs impaired in the year and some non-significant CGUs, management believe there is no reasonably possible change in the underlying assumptions that would result in a CGU becoming impaired and thus recognising an impairment charge in the Income Statement.

16 Financial assets

Current financial assets	2016 £m	2015 £m
Deferred consideration[5]	6.0	–
Insurance asset recoverable[4]	15.5	–
Available-for-sale assets[2]	–	0.1
Cash flow hedges	0.7	–
Currency swaps in relation to US$ denominated bonds[3]	67.2	43.7
Non-designated foreign exchange forwards and swaps	3.2	0.3
Foreign exchange swaps held for foreign net investment	–	0.2
	92.6	44.3

Non-current financial assets	2016 £m	2015 £m
Investment loan[1]	5.0	5.0
Investment	4.0	–
Deferred consideration[5]	11.0	–
Available-for-sale assets[2]	5.6	4.5
Cash flow hedges	6.3	–
Currency swaps in relation to US$ denominated bonds[3]	293.8	170.2
Non-designated foreign exchange forwards and swaps	4.2	–
Interest rate swaps in relation to GBP denominated bonds[3]	7.7	6.9
	337.6	186.6

1 The investment loan represents a funding arrangement with Optima Legal (Scotland) Limited.

2 Available-for-sale assets comprise investments in unlisted ordinary shares and fund assets. The unlisted ordinary shares, for which there is no immediately identifiable market and which have no fixed maturity date or coupon rate, are carried at cost less provision for any impairment. The fund assets, for which there are market values, are recorded at fair value at 31 December 2016.

3 The currency swaps are used to hedge the exposure to interest rate and currency fluctuations on the Group's US$ denominated bonds. The change in the fair value of the underlying bonds due to changes in interest and currency rates is offset by the fair value of the currency swaps recognised above. The interest rate swaps are used to hedge the fair value of the Group's GBP denominated bonds and the change in the fair value of the underlying bonds due to changes in interest rates is equivalent to the fair value of the interest rate swaps recognised above. Details of the interest rate swaps, currency swaps and cash flow hedges are contained in note 26.

4 The insurance asset recoverable relates to amounts where the Group has virtual certainty of receiving a contribution in respect of a litigation or insurance claim, this position is underpinned by either a firm offer or through an indemnity provision provided in a sale and purchase agreement. It is expected that on settlement of the matter the asset will be recovered to substantially offset the liability of the Group.

5 The deferred consideration is related to the sale of the Health business held for sale in 2015 which has now been disposed of. The amount will be recovered by a series of payments from January 2017 to October 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

17 Business combinations

2016 acquisitions

The Group made a number of acquisitions in 2016 which are shown in aggregate. The fair values of the identifiable assets and liabilities acquired are disclosed in the table below:

	Fair value to Group recognised on acquisition £m
Property, plant and equipment	**2.7**
Intangible assets	**50.7**
Trade and other receivables due in less than one year	**41.4**
Corporation tax	**(3.1)**
Cash and cash equivalents	**4.0**
Trade and other payables (excluding accruals) due in less than one year	**(21.2)**
Accruals due in less than one year	**(31.7)**
Provisions	**(1.0)**
Deferred tax	**(8.3)**
Finance leases	**(0.8)**
Net assets	**32.7**
Goodwill arising on acquisition	**69.6**
	102.3
Discharged by:	
Cash	**93.5**
Contingent consideration accrued	**8.8**
	102.3

In all cases, 100% of the ordinary share capital was acquired. The companies acquired have been mainly in the areas of IT, and Digital and Software solutions which complement or extend the Group's existing skill sets and provide opportunities for growth into these markets. In addition, during the year the Group settled £10.7m of deferred consideration and £18.5m of contingent consideration payments with regard to previous acquisitions, all of which had been accrued.

Where this can be determined, the acquired subsidiaries contributed £(1.61)m to the profit before tax of the Group. If these acquisitions had occurred on 1 January 2016, Group revenue would have been an estimated £4,989.9m and Group profit before tax would have been an estimated £72.0m. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2016. During the year, some of the acquired businesses have been completely integrated into the existing business of the Group and therefore their post-acquisition performance cannot be determined.

Goodwill has arisen on the acquisitions because the fair value of the acquired assets was lower than the consideration paid; the goodwill represents the value to the Group that can be driven from these underlying assets over the life of the acquired businesses, particularly from synergies, and the capabilities of the acquired workforce. The total amount of goodwill recognised in the period that is expected to be deductible for tax purposes is £nil (2015: £44.4m).

The fair value exercise has been completed on a provisional basis for acquisitions made in 2016. The Group will complete this review in 2017 though any adjustment to the carrying value is likely to be insignificant to the individual acquisition. In total, the effect of revisions made to fair value adjustments in the current year that had been determined provisionally at the immediately preceding balance sheet date increases goodwill by £1.7m.

Contingent consideration

In respect of the acquisitions made in 2016, the Group has agreed to pay the vendors additional consideration dependent on the achievement of performance targets in the periods post acquisition. These performance periods are of up to 4 years in duration and will be settled in cash and loan notes on their payment date on achieving the relevant targets. The range of the additional consideration payment is estimated to be between £1m and £23m. The Group has included £8.8m as contingent consideration related to the additional consideration, which represents its fair value at the acquisition date. Contingent consideration has been calculated based on the Group's expectation of what it will pay in relation to the post-acquisition performance of the acquired entities by weighting the probability of a range of payments to give an estimate of the final obligation.

Acquisition related costs

The Group incurred acquisition related costs of £9.0m related to professional fees paid for due diligence, general professional fees and legal related costs. These costs have been included in non-underlying administrative expenses in the Group's consolidated income statement.

17 Business combinations continued

2015 acquisitions

The Group made a number of acquisitions in 2015 which are shown in aggregate. The fair values of the identifiable assets and liabilities acquired are disclosed in the table below:

	Avocis £m	Public sector subsidiary partnership – FERA £m	Other acquisitions £m	Fair value to Group recognised on acquisition
Property, plant and equipment	5.7	3.4	2.2	11.3
Intangible assets	105.1	10.9	102.7	218.7
Trade and other receivables due in less than one year	37.1	2.7	45.3	85.1
Corporation tax	(8.6)	–	(0.4)	(9.0)
Cash and cash equivalents	6.4	–	13.8	20.2
Trade and other payables (excluding accruals) due in less than one year	(9.5)	(1.8)	(21.4)	(32.7)
Accruals due in less than one year	(10.1)	(1.1)	(29.4)	(40.6)
Provisions	(3.6)	–	(3.7)	(7.3)
Deferred tax	(19.5)	(2.1)	(14.7)	(36.3)
Employee benefits liability	(4.3)	–	–	(4.3)
Finance leases	–	–	(0.1)	(0.1)
Long-term debt	(39.3)	–	(9.0)	(48.3)
Net assets	59.4	12.0	85.3	156.7
Goodwill arising on acquisition	78.0	14.7	167.8	260.5
	137.4	26.7	253.1	417.2
Discharged by:				
Cash	137.4	20.0	230.2	387.6
Contingent consideration accrued	–	–	12.9	12.9
Deferred consideration accrued	–	–	10.0	10.0
Non-controlling interest	–	6.7	–	6.7
	137.4	26.7	253.1	417.2

'Public sector subsidiary partnership' represents a 75% controlling interest in Fera Science Limited. In all other cases 100% of the share capital or business assets and liabilities was acquired. The businesses acquired have been mainly in the areas of IT and software, customer and debt management, mortgage administration, and property services, which complement or extend the Group's existing skill sets and provide opportunities for growth into these markets. In addition, in 2015 the Group settled £32.1m of contingent consideration and £11.6m of deferred consideration payments with regard to previous acquisitions, all of which had been accrued.

Where this can be determined, the acquired subsidiaries contributed £27.4m to the profit before tax of the Group. If these acquisitions had occurred on 1 January 2015, Group revenue would have been an estimated £4,896.5m and Group profit before tax would have been an estimated £113.3m. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2015. During 2015, some of the acquired businesses have been completely integrated into the existing business of the Group and therefore their post-acquisition performance cannot be determined.

Goodwill has arisen on the acquisitions because the fair value of the acquired assets was lower than the consideration paid; the goodwill represents the value to the Group that can be driven from these underlying assets over the life of the acquired businesses, particularly from synergies, and the capabilities of the acquired workforce. The total amount of goodwill recognised in the period that is expected to be deductible for tax purposes is £44.4m (2014: £9.6m).

The fair value exercise was completed on a provisional basis for acquisitions made in 2015. The Group completed this review in 2016 with the adjustment to the carrying value insignificant to the individual acquisition. In total, the effect of revisions made to fair value adjustments in 2015 that had been determined provisionally at the immediately preceding balance sheet date increases goodwill by £1.1m.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

17 Business combinations continued

Contingent consideration

In respect of the acquisitions made in 2015, the Group has agreed to pay the vendors additional consideration dependent on the achievement of performance targets in the periods post acquisition. These performance periods are of up to 3 years in duration and will be settled in cash and loan notes on their payment date on achieving the relevant targets. The range of the additional consideration payment is estimated to be between £5m and £22m. The Group has included £12.9m as contingent consideration related to the additional consideration, which represents its fair value at the acquisition date. Contingent consideration has been calculated based on the Group's expectation of what it will pay in relation to the post-acquisition performance of the acquired entities by weighting the probability of a range of payments to give an estimate of the final obligation.

Acquisition related costs

The Group incurred acquisition related costs of £16.2m related to professional fees paid for due diligence, general professional fees and legal related costs. These costs have been included in non-underlying administrative expenses in the Group's consolidated income statement.

18 Trade and other receivables

Current	2016 £m	2015 £m
Trade receivables	**443.9**	412.4
Other receivables	**50.7**	21.3
Gross amounts due from customers on construction contracts	**20.5**	39.3
Accrued income	**343.3**	411.5
Prepayments	**117.6**	127.4
	976.0	1,011.9

Non-current	2016 £m	2015 £m
Other receivables	**5.6**	13.0
Accrued income	**79.6**	41.7
Prepayments	**43.2**	31.4
	128.4	86.1

Trade receivables are non-interest bearing and are generally on 30 days' terms.

At 31 December 2016, trade receivables at a nominal value of £11.5m (2015: £10.4m) were impaired and fully provided for.

Movements in the provision for impairment of trade receivables were as follows:

	2016 £m	2015 £m
At 1 January	**10.4**	19.5
Utilised	**(1.2)**	(2.5)
Provided/(released in) year (net)	**2.0**	(0.3)
Transfer to assets held for sale	**–**	(7.7)
Provisions acquired	**0.3**	1.4
At 31 December	**11.5**	10.4

As at 31 December, the analysis of trade receivables that were past due but not impaired is as follows:

			Past due but not impaired			
	Total £m	Neither past due nor impaired £m	0–3 months £m	4–6 months £m	7–12 months £m	More than 12 months £m
2016	**443.9**	**326.3**	**112.2**	**5.4**	**–**	**–**
2015	412.4	296.1	105.9	10.4	–	–

The Group monitors the level of trade receivables on a monthly basis, continually assessing the risk of default by any counterparty.

19 Cash, cash equivalents and overdrafts

	2016 £m	2015 £m
Cash at bank and in hand	**1,098.3**	534.0
Overdrafts	**(532.5)**	(448.7)
	565.8	85.3

Cash at bank earns interest at floating rates based on daily bank deposit rates. The fair value of cash is the same as the carrying amount above.

Included in Overdrafts are balances totalling £530.2m (2015: £445.2m) held in the Group's notional cash pools under which the bank has the right of offset against Cash at bank – see note 26.

20 Trade and other payables

Current	2016 £m	2015 £m
Trade payables	**366.5**	240.2
Other payables	**35.1**	32.5
Other taxes and social security	**202.6**	152.6
Accruals	**372.8**	447.7
Deferred income	**320.6**	271.0
	1,297.6	1,144.0
Non-current		
Other payables	**6.8**	6.1
Accruals	**14.2**	7.7
Deferred income	**14.1**	15.5
	35.1	29.3

Trade payables are non-interest bearing and are settled within terms agreed with suppliers.

21 Construction contracts

The Group constructs assets for its customers, which are mainly IT in nature. In line with the requirements of IAS 11, gross amounts due from customers are stated at the proportion of the anticipated net sales value earned to date less amounts billed on account. To the extent that fees paid on account exceed the value of work performed, they are included in creditors as gross amounts due to customers.

	2016 £m	2015 £m
Contract revenue recognised in relation to construction contracts in the year	**70.7**	125.6
Aggregate costs incurred and recognised profits (less losses) to date	**297.1**	243.0
Gross amount due from customers for construction contracts	**20.5**	39.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

22 Financial liabilities

Current	Notes	2016 £m	2015 £m
Contingent consideration		**3.6**	16.0
Deferred consideration		**10.8**	16.5
Public sector subsidiary partnership payment		**9.4**	–
Obligations under finance leases	24	**2.2**	5.1
Unsecured loan notes	29	**0.3**	–
Cash flow hedges		**1.0**	3.3
Non-designated foreign exchange forward contracts		**3.3**	2.9
Foreign exchange swaps held for foreign net investment		**0.1**	–
Bonds		**192.0**	184.7
Fixed rate interest rate swaps		**1.5**	2.3
		224.2	230.8
Non-current			
Contingent consideration		**19.4**	15.5
Deferred consideration		**–**	5.0
Public sector subsidiary partnership payment		**49.4**	56.5
Put options of non-controlling interests		**115.9**	136.6
Obligations under finance leases	24	**0.1**	1.9
Bonds		**1,769.7**	1,564.7
Term loan		**650.0**	300.0
Cash flow hedges		**3.2**	11.5
Non-designated foreign exchange forward contracts		**–**	7.0
Currency swaps in relation to US$ denominated bonds		**3.1**	–
Fixed rate interest rate swaps		**83.6**	64.7
		2,694.4	2,163.4

Included in aggregate financial liabilities is an amount of £1,961.7m (2015: £1,749.4m) which represents the carrying value of the Group's bonds which should be considered in conjunction with the aggregate value of currency and interest rate swaps of £368.7m included in financial assets and £3.1m included in financial liabilities (2015: £220.8m included in financial assets and £nil included in financial liabilities). Consequently, this gives an effective liability of £1,596.1m (2015: £1,528.6m).

In 2016, the Group repaid bonds which reached maturity. These were US$130.0m June 2006 Series B bonds (GBP equivalent: £70.0m); US$74.0m September 2006 Series B bonds (GBP equivalent: £39.1m) and US$60.0m September 2006 Series C bonds (GBP equivalent: £31.9m). In addition in 2016, the Group issued a total of US$75.0m (GBP equivalent: £60.3m) and £110.5m of new bonds in October 2016. The bonds issued in the year had a weighted average maturity of 7 years and a weighted average coupon rate of 2.75%.

The issue costs incurred on the issue of the bonds during the year amounted to £0.6m (2015: £1.1m). Issue costs on the bonds are spread over the life of the bonds to their maturity. The unamortised balance of issue costs and amendment costs at the year-end totalled £2.5m (2015: £2.5m).

The Group's term loans from banks are composed of a £100m 5-year term loan maturing in May 2019, a £200m term loan which was extended in the year to now mature in July 2018 and a £600m term loan facility maturing in July 2018, of which £250m has been repaid in 2016 with the remaining £350m outstanding at December 2016. These loans bear interest at floating rates linked to LIBOR.

The obligations under finance leases are secured on the assets being financed. The bonds, term loans and loan notes are unsecured.

The public sector subsidiary partnership payment liability is an estimate of the annual preferred payments to be made by AXELOS Limited (the partnership formed with the Cabinet Office) to the Cabinet Office in 2017 to 2022. This payment is funded by AXELOS Limited and is contingent on the profits of that business. The net of tax cost has been estimated at £44.2m. Following these payments, the Company will pay profits to the partners according to their stake in the business.

The non-controlling shareholders of AXELOS Limited, Entrust Support Services Limited and Fera Science Limited have an option to put their shareholding to a member of the Group. Accordingly, a liability of £115.9m (2015: £136.6m) has been recognised and a corresponding entry has been recorded against retained earnings. The options in each case are exercisable only after a contractual period has elapsed.

The Group has available to it a committed Revolving Credit Facility of £600m of which £81m matures in August 2020 and £519m matures in August 2021. This facility is available for the Group's immediate use and £nil was drawn down at 31 December 2016 (2015: £nil drawn down).

The covenants in respect of the above liabilities are discussed in note 2.

22 Financial liabilities continued

As at 31 December 2016 the Group has issued unsecured bonds as follows:

Bond	Interest rate %	Denomination	Face Value Millions	Maturity
Issued 2010				
Series C[5]	4.78	GBP	50.0	30 June 2020
Issued 2011[1]				
Series A[4]	4.85	GBP	50.0	22 July 2019
Series C	4.76	GBP	35.0	19 July 2021
Issued 2013				
Series A[5]	3.73	GBP	75.0	30 September 2020
Issued 2015				
Series C	3.26	GBP	25.0	22 January 2022
Series F	3.54	GBP	10.0	22 January 2025
Series G	3.67	GBP	30.0	22 April 2025
Series I	3.58	GBP	32.0	22 January 2027
Issued 2016				
Series B	2.18	GBP	48.5	27 October 2021
Series D	2.52	GBP	37.0	27 October 2023
Series F	2.77	GBP	25.0	27 October 2026
Total of sterling denominated bonds		GBP	417.5	
Issued 2007[2,3]				
Series B	5.88	US$	179.0	11 October 2017
Issued 2008[2]				
Series B[4]	6.51	US$	256.0	13 September 2018
Issued 2010[2]				
Series A	4.15	US$	50.0	30 June 2017
Series B[4]	4.80	US$	250.0	30 June 2020
Issued 2011[2]				
Series B[4]	4.65	US$	80.0	22 July 2019
Series A	3.72	US$	40.0	19 July 2018
Series B[4]	4.50	US$	236.0	19 July 2021
Series A	4.75	US$	50.0	26 July 2021
Issued 2015[2,4]				
Series A	3.33	US$	40.0	22 January 2022
Series B	3.43	US$	65.0	22 April 2022
Series D	3.45	US$	53.0	22 January 2023
Series E	3.65	US$	98.5	22 January 2025
Series H	3.80	US$	37.0	22 January 2027
Issued 2016[2]				
Series A	3.03	US$	25.0	27 October 2021
Series C	3.37	US$	24.0	27 October 2023
Series E	3.59	US$	26.0	27 October 2026
Total of US$ denominated bonds		US$	1,509.5	
Issued 2015				
Series A	2.125	EUR	230.0	10 November 2022
Series B	2.875	EUR	60.0	10 November 2027
Series C	2.125	EUR	20.0	10 November 2022
Total of Euro denominated bonds		EUR	310.0	

1 The Group has entered into interest rate swaps to convert the interest cost to floating rates based on 6-month GBP LIBOR.

2 The Group has entered into currency swaps for the US$ issues to achieve a floating rate of interest based on 6-month GBP LIBOR. Further disclosure on the Group's use of hedges is included in note 26.

3 Subsequently, the Group has entered a series of fixed rate interest rate swaps to convert these issues from paying a floating rate based on 6-month LIBOR to fixed rates. See note 26 for further details of these fixed rate interest rate swaps.

4 The Group has entered a series of fixed rate interest rate swaps to convert the whole or a proportion of these issues from paying a floating rate based on 6-month LIBOR to fixed rates. See note 26 for further details of these fixed rate interest rate swaps.

5 The Group has entered fixed rate interest rate swaps to convert these issues to fixed rates of 4.78% on £50m and 1.4% on £75m rising to 5.7% and 6.0% respectively by maturity. See note 26 for further details of these fixed rate interest rate swaps.

All series are unsecured and rank pari passu in all respects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

23 Funds assets and liabilities

	2016 £m	2015 £m
Funds receivables	171.4	161.7
Funds restricted cash	2.2	–
Funds assets	173.6	161.7
Funds liabilities	(173.6)	(161.7)

These balances relate to investors' purchase or redemption of units in Investment Funds of which Capita Financial Managers Limited, our unit trust administration business, is an Authorised Corporate Director. The balances are due to and from the investors and Investment Funds. The parties to the trade are permitted to take advantage of a 4-day settlement period between initiation and settlement of the trade.

24 Obligations under leases and hire purchase contracts

The Group uses finance leases and hire purchase contracts to acquire plant and machinery. These leases have terms of renewal and purchase options but no escalation clauses. Renewals are at the option of the lessee.

The value of future minimum lease payments and their present value, which are the same, is analysed as follows:

	2016 £m	2015 £m
Not later than 1 year	2.2	5.1
Later than 1 year but not more than 5 years	0.1	1.9
	2.3	7.0

The Group has entered into commercial leases on properties, motor vehicles and items of plant and machinery. These leases have an average duration of between 3 and 10 years.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2016 £m	2015 £m
Not later than 1 year	122.7	127.6
Later than 1 year but not later than 5 years	267.6	277.3
Later than 5 years	196.7	164.5
	587.0	569.4

The future minimum rentals payable disclosed above are the present value of the obligations.

25 Provisions

	Restructuring provision £m	Business exit provision £m	Asset services settlement provision £m	Claim and litigation provision £m	Property provision £m	Other £m	Total £m
As at 1 January 2016	–	21.7	23.4	36.6	35.3	1.4	118.4
Provided/(released) in the year (net)	59.4	(1.3)	22.9	15.0	(4.9)	9.6	100.7
Utilisation	(10.0)	(14.4)	(23.2)	(10.1)	(3.2)	(4.7)	(65.6)
Provisions acquired	–	–	–	–	1.0	–	1.0
Disposal of subsidiaries	–	–	–	–	–	(0.5)	(0.5)
Transfer from disposal Group liabilities	–	–	–	–	–	6.9	6.9
Transfer to accruals	–	–	–	–	(0.2)	–	(0.2)
As at 31 December 2016	49.4	6.0	23.1	41.5	28.0	12.7	160.7

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.

25 Provisions continued

Restructuring provision: The provision is in respect of the cost of the major restructuring activities undertaken by the Group commencing in the last quarter of 2016. It 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 due to the redundancy programme there is additional surplus capacity. The provision, due to the tail of the property lease run-offs, is expected to unwind over 2 years.

Business exit provision: The provision relates to the cost of exiting businesses through disposal or closure. As described in note 4, in 2015, additional provision was made in light of the programme of business exits completed or in an active sales process. The provision is expected to unwind over the next 3 years.

Asset Services settlements provision:

1. Arch Cru: The parties to the CF Arch Cru Funds Group litigation have entered into a full and final settlement of the proceedings on confidential terms.
2. Connaught: The potential costs in resolving the matter relating to Connaught Income Series 1 Fund ('The Fund'), of which CFM was the Operator until September 2009, when it was replaced by another Operator company unrelated to Capita (following which CFM had no further involvement with the Fund). The Fund went into liquidation in 2012 and its liquidator has brought a claim against both former Operators, which for its part, the Group has settled in 2016 for a sum of £18.5m. The Financial Conduct Authority (FCA) has decided to formally review the activities of both Operators. At this time no conclusion has been reached on whether any wrongdoing has occurred and whether any enforcement action will be taken. Whilst there can be no certainty that a liability will not arise in respect of this matter, the Group is unable to determine what the outcome of the FCA review might be and as such no provision for a potential outflow of funds has been made. Due to the requirement to await the outcome of the formal review commenced by the FCA, the likely time-line for conclusion of this matter remains uncertain, however, it is expected to be discharged in the second half of 2017.
3. Further to the above provisions £20m has been provided for potential additional legacy claims related to activities of businesses that were instigated prior to the acquisition by the Group. A £7.5m asset has been recognised in respect of an insurance recovery that is certain to be received in connection with this matter. The expected time line to resolution of these matters can not be known for certain but it is expected to be within one year.

Claims and litigation provision: In addition to the Asset Services Settlement 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.

In the period, the Group has settled a number of liabilities which it had provided for in previous years. Additionally, it has made provision for new claims, 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. The Group's exposure to claims is mitigated by having in place a number of large insurers providing cover for the Group's activities, albeit insurance recoveries are only recognised as an asset at the point the recovery is virtually certain. An asset has been recognised of £5.0m in respect of recoveries under an indemnity, no other recovery assets have been recognised. Due to the nature of these claims the Group cannot give an estimate of the period over which this provision will unwind.

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

Other provisions: relates to provisions in respect of other potential exposures arising due to the nature of some of the operations that the Group provides. These are likely to unwind over a period of 1 to 3 years.

The transfer from disposal Group liabilities of £6.9m relates to a provision for an onerous contract within a business that at 31 December 2015 the Group was in an active process to sell. During the year, the Directors assessed the business no longer met the criteria to be held for sale, and the onerous contract provision at that date was transferred into Provisions. The provision is expected to unwind over a period of 1 to 2 years.

26 Financial instruments

Financial risk management objectives and policies

The Group's principal financial instruments are comprised of cash, bank loans, bond issues, loan notes, finance leases and derivatives. The main purpose of these financial instruments is to raise finance for the Group's operations and to manage the Group's financial risks. The Group also has various other financial instruments such as trade receivables and trade payables which arise directly from its operations.

The Group also enters into derivative transactions. These are interest rate swaps, currency swaps, fixed rate interest rate swaps and forward currency contracts. Their purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. It is, and has been throughout the period under review, the Group's policy that no speculative trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26 Financial instruments continued

Carrying values and fair values of financial instruments

The following table analyses by classification and category the Group's financial instruments (excluding short-term debtors, creditors, fund payables/receivables and cash in hand) that are carried in the financial statements. The values below represent the carrying amounts. The carrying values are a reasonable approximation of fair value other than 12 fixed rate bonds totalling £593.1m, included below in the bond value of £1,961.7m, with a carrying value of £593.1m and a fair value of £616.9m. The fair value of these bonds has been calculated by discounting the expected future cash flows at prevailing interest rates and this fair value measurement would be categorised within level 2 of the fair value hierarchy.

At 31 December 2016	Available-for-sale £m	At fair value through the income statement £m	Loans and receivables £m	Derivatives used for hedging £m	Other financial liabilities £m	Total £m
Financial assets						
Available-for-sale assets	5.6	–	–	–	–	5.6
Investment loan	–	–	5.0	–	–	5.0
Investment	–	–	4.0	–	–	4.0
Deferred consideration	–	–	17.0	–	–	17.0
Insurance asset recoverable	–	–	15.5	–	–	15.5
Cash flow hedges	–	–	–	7.0	–	7.0
Non-designated foreign exchange forwards and swaps	–	7.4	–	–	–	7.4
Interest rate swaps in relation to GBP denominated bonds	–	–	–	7.7	–	7.7
Currency swaps in relation to US$ denominated bonds	–	–	–	361.0	–	361.0
	5.6	7.4	41.5	375.7	–	430.2
Financial liabilities						
Overdraft	–	–	–	–	532.5	532.5
Unsecured loan notes	–	–	–	–	0.3	0.3
Bonds	–	–	–	–	1,961.7	1,961.7
Term loan	–	–	–	–	650.0	650.0
Cash flow hedges	–	–	–	4.2	–	4.2
Non-designated foreign exchange forwards and swaps	–	3.3	–	–	–	3.3
Foreign exchange swaps held for foreign net investment	–	–	–	0.1	–	0.1
Currency swaps in relation to US$ denominated bonds	–	–	–	3.1	–	3.1
Contingent consideration	–	–	–	–	23.0	23.0
Deferred consideration	–	–	–	–	10.8	10.8
Obligations under finance leases	–	–	–	–	2.3	2.3
Public sector subsidiary partnership payment	–	–	–	–	58.8	58.8
Put options of non-controlling interests	–	–	–	–	115.9	115.9
Fixed rate interest rate swaps	–	85.1	–	–	–	85.1
	–	88.4	–	7.4	3,355.3	3,451.1

The aggregate bond value above of £1,961.7m includes the GBP value of the US$ denominated bonds at 31 December 2016. To remove the Group's exposure to currency fluctuations it has entered into currency swaps which effectively hedge the movement in the bonds' fair value due to changes in prevailing foreign exchange and interest rates. The interest rate swap is being used to hedge the exposure to changes in the fair value of GBP denominated bonds. The fair values of the currency and interest swaps are disclosed in note 16 – Financial assets and in note 22 – Financial liabilities.

26 Financial instruments continued

At 31 December 2015	Available-for-sale £m	At fair value through the income statement £m	Loans and receivables £m	Derivatives used for hedging £m	Other financial liabilities £m	Total £m
Financial assets						
Available-for-sale assets	4.6	–	–	–	–	4.6
Investment loan	–	–	5.0	–	–	5.0
Non-designated foreign exchange forwards and swaps	–	0.3	–	–	–	0.3
Foreign exchange swaps held for foreign net investment	–	–	–	0.2	–	0.2
Interest rate swaps in relation to GBP denominated bonds	–	–	–	6.9	–	6.9
Currency swaps in relation to US$ denominated bonds	–	–	–	213.9	–	213.9
	4.6	0.3	5.0	221.0	–	230.9
Financial liabilities						
Overdraft	–	–	–	–	448.7	448.7
Bonds	–	–	–	–	1,749.4	1,749.4
Term loan	–	–	–	–	300.0	300.0
Cash flow hedges	–	–	–	14.8	–	14.8
Non-designated foreign exchange forwards and swaps	–	9.9	–	–	–	9.9
Contingent consideration	–	–	–	–	31.5	31.5
Deferred consideration	–	–	–	–	21.5	21.5
Obligations under finance leases	–	–	–	–	7.0	7.0
Public sector subsidiary partnership payment	–	–	–	–	56.5	56.5
Put options of non-controlling interests	–	–	–	–	136.6	136.6
Fixed rate interest rate swaps	–	67.0	–	–	–	67.0
	–	76.9	–	14.8	2,751.2	2,842.9

The fair value of financial instruments has been calculated by discounting the expected future cash flows at prevailing interest rates, except for available-for-sale assets (which are unlisted equity securities) and investment loans. The valuation models incorporate various inputs including foreign exchange spot and forward rates and interest rate curves. Unlisted equity securities and investment loans are held at amortised cost. The Group enters into derivative financial instruments with multiple counterparties, all of which are financial institutions with investment grade credit ratings.

Fair value hierarchy

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26 Financial instruments continued

As at 31 December 2016, the Group held the following financial instruments measured at fair value:

	2016 £m	2015 £m
Assets measured at fair value		
Disposal Group assets held for sale	–	84.1
Non-designated foreign exchange forwards and swaps	7.4	0.3
Cash flow hedges	7.0	–
Foreign exchange swaps held for foreign net investment	–	0.2
Interest rate swaps in relation to GBP denominated bonds	7.7	6.9
Currency swaps in relation to US$ denominated bonds	361.0	213.9
Liabilities measured at fair value		
Disposal Group liabilities held for sale	–	40.4
Bonds	1,368.6	1,303.5
Cash flow hedges	4.2	14.8
Non-designated foreign exchange forwards and swaps	3.3	9.9
Currency swaps in relation to US$ denominated bonds	3.1	–
Fixed rate interest rate swaps	85.1	67.0
Public sector subsidiary partnership payment	58.8	56.5
Put options of non-controlling interests	115.9	136.6
Contingent consideration	23.0	31.5

During both years, the Group only had Level 2 assets or liabilities measured at fair value apart from disposal Group assets and liabilities held for sale, contingent consideration, the public sector subsidiary partnership payment and the put options of non-controlling interests which are Level 3 liabilities. It is the Group's policy to recognise transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer occurred. During the year ended 31 December 2016, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into or out of Level 3 fair value measurements.

Contingent consideration arises in business acquisitions where the Group has agreed to pay the vendors additional consideration dependent on the achievement of performance targets in the periods post acquisition. These performance periods are of up to 3 years in duration and will be settled in cash and loan notes on their payment date on achieving the relevant target. The Group makes provision for such contingent consideration for each acquisition based on an assessment of its fair value at the acquisition date. Contingent consideration has been calculated based on the Group's expectation of what it will pay in relation to the post-acquisition performance of the acquired entities by weighting the probability of a range of payments to give an estimate of the final obligation. A sensitivity analysis was performed on the expected contingent consideration of £23.0m. The sensitivity analysis performed adjusted the probability of payment of the contingent amounts. A 10% increase in the probability of contingent consideration being paid results in an increase in potential contingent consideration of £3.1m. A 10% decrease in the probability of the contingent consideration being paid results in a decrease in potential contingent consideration of £2.6m.

The public sector subsidiary partnership payment liability is an estimate of the annual preferred payments to be made by AXELOS Limited (the partnership formed with the Cabinet Office) to the Cabinet Office in years 2017 to 2022. This payment is funded by AXELOS Limited and is contingent on profits. The fair value of £58.8m has been derived by discounting the expected payment at the Group cost of debt to arrive at its present value. If the discount rate was to increase/decrease by 1% the present value would decrease/increase by £2.2m.

The put options of the non-controlling interests (see note 22) are measured at amortised cost based on the expected redemption value of the shares that will be paid in cash by the Group. This value is determined by reference to the expected date of exercise of the options, which is then discounted to arrive at a present value. The sensitivity of the valuation to movements in both the discount rate and the cash flows that have been used to calculate it, are as follows: a 10% increase/decrease in the earnings potential of the business results in a £11.5m increase/decrease in the valuation; a 1% increase/decrease in the discount rate applied to the valuation results in a £2.8m decrease/£3.0m increase in the valuation.

26 Financial instruments continued

The following table shows the reconciliation from the opening balances to the closing balances for Level 3 fair values.

	Contingent consideration £m	Subsidiary partnership payment £m	Put options of non-controlling interests £m	Disposal Group held for sale – assets £m	Disposal Group held for sale – liabilities £m
At 1 January 2016	31.5	56.5	136.6	(84.1)	40.4
Arising from business combinations in the period	**8.8**	–	–	–	–
Profit and loss movement – administrative expenses	**1.2**	–	–	–	–
Utilised	**(18.5)**	–	–	–	–
Movement of put options recognised in equity	–	–	**(20.7)**	–	–
Fair value of assets and liabilities disposed	–	–	–	**63.6**	**(19.9)**
Fair value of assets and liabilities transferred from disposal Group	–	–	–	**20.5**	**(20.5)**
Discount unwind	–	**2.3**	–	–	–
At 31 December 2016	**23.0**	**58.8**	**115.9**	–	–

Interest rate risk

The Group's exposure to the risk of changes in market interest rates arises primarily from the Group's long-term debt.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate financial instruments to generate the desired interest rate profile and to manage its exposure to interest rate fluctuations.

The Group has issued fixed rate coupon US$ denominated bonds, which have been swapped to floating rate GBP liabilities at the date of issuance using currency swaps. These currency swaps are designated as fair value hedges against changes in the fair value of the bonds due to changes in prevailing foreign currency exchange and interest rates.

Capita has executed a series of fixed rate interest rate swaps to convert from paying floating rate GBP interest to fixed rate GBP interest on certain of its swapped bonds. These fixed rate interest rate swaps are not designated in any hedge relationship so their change in fair value is recognised in net finance costs in the income statement – see note 9 – Net finance costs.

Due to lower prevailing interest rates, these fixed rate interest rate swaps have a negative mark-to-market value of £85.1m at 31 December 2016 (2015: negative mark-to-market value of £67.0m). This movement results in a non-cash accounting loss in the year of £18.1m (2015: loss of £3.7m).

Subsequent to the year-end, in February 2017 the Group elected to terminate these fixed rate swaps at a mark-to-market gain of £0.5m, to be recognised in 2017.

The Group has fixed rate bonds of £1,261.7m in issue as at 31 December 2016 (underlying nominal value). The Group has a further £335.3m of swapped bonds (underlying nominal value), £650m of term loans and a £600m undrawn committed revolving credit facility, all paying floating rate interest based on LIBOR. This gives the Group, as a whole, a balanced interest rate risk profile through the use of both fixed and floating rate financial instruments.

The interest rate profile of the interest-bearing financial assets and liabilities of the Group as at 31 December is as follows:

At 31 December 2016	**Within 1 year £m**	**Between 1–2 years £m**	**Between 2–3 years £m**	**Between 3–4 years £m**	**Between 4–5 years £m**	**More than 5 years £m**	**Total £m**
Fixed rate							
Bonds	**151.1**	**222.5**	**122.0**	**329.7**	**250.6**	**472.5**	**1,548.4**
Obligations under finance leases	**2.2**	**0.1**	–	–	–	–	**2.3**
Interest rate swap in relation to GBP denominated bonds	–	–	**(3.8)**	–	–	–	**(3.8)**
Currency swaps in relation to US$ denominated bonds	**(60.4)**	**(94.7)**	**(17.7)**	**(43.6)**	**(54.6)**	**(13.1)**	**(284.1)**
Fixed rate interest rate swaps	**1.5**	**7.0**	**10.5**	**22.9**	**18.8**	**24.4**	**85.1**
Floating rate							
Cash in hand	**(1,098.3)**	–	–	–	–	–	**(1,098.3)**
Overdraft	**532.5**	–	–	–	–	–	**532.5**
Investment loan	–	**(0.5)**	**(0.3)**	**(0.3)**	**(0.4)**	**(3.5)**	**(5.0)**
Deferred consideration	**(6.0)**	**(6.0)**	**(5.0)**	–	–	–	**(17.0)**
Bonds	**40.9**	**33.1**	–	**9.8**	**101.7**	**227.8**	**413.3**
Term loan	–	**550.0**	**100.0**	–	–	–	**650.0**
Cash flow hedges	**0.3**	**(1.7)**	**(1.4)**	–	–	–	**(2.8)**
Non-designated foreign exchange forwards and swaps	**0.1**	**(2.5)**	**(0.9)**	**(0.8)**	–	–	**(4.1)**
Foreign exchange swaps in respect of foreign net investment	**0.1**	–	–	–	–	–	**0.1**
Interest rate swap in relation to GBP denominated bonds	–	–	–	–	**(3.9)**	–	**(3.9)**
Currency swaps in relation to US$ denominated bonds	**(6.8)**	**(8.1)**	–	**(2.1)**	**(11.3)**	**(45.5)**	**(73.8)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26 Financial instruments continued

At 31 December 2015	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Fixed rate							
Bonds	184.7	129.6	135.4	111.0	185.8	489.2	1,235.7
Obligations under finance leases	5.1	1.9	–	–	–	–	7.0
Interest rate swap in relation to GBP denominated bonds	–	–	–	–	(3.8)	–	(3.8)
Currency swaps in relation to US$ denominated bonds	(43.7)	(40.7)	(44.3)	(6.0)	(3.9)	(21.1)	(159.7)
Fixed rate interest rate swaps	2.3	2.5	7.8	10.5	17.7	26.2	67.0
Floating rate							
Cash in hand	(534.0)	–	–	–	–	–	(534.0)
Overdraft	448.7	–	–	–	–	–	448.7
Investment loan	–	(0.2)	(0.3)	(0.3)	(0.3)	(3.9)	(5.0)
Bonds	–	34.9	82.3	–	119.8	276.7	513.7
Term loan	–	200.0	–	100.0	–	–	300.0
Cash flow hedges	3.3	3.8	4.2	3.5	–	–	14.8
Non-designated foreign exchange forwards and swaps	2.6	2.0	1.6	1.7	1.7	–	9.6
Foreign exchange swaps in respect of foreign net investment	(0.2)	–	–	–	–	–	(0.2)
Interest rate swap in relation to GBP denominated bonds	–	–	–	–	–	(3.1)	(3.1)
Currency swaps in relation to US$ denominated bonds	–	(1.1)	(20.4)	–	(7.8)	(24.9)	(54.2)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

	Increase/(decrease) in basis points		Effect on profit before tax £m	
2016	**(5)**	**5**	**0.2**	**(0.2)**
2015	(5)	5	0.3	(0.3)

Foreign currency risk

The Group has exposure to foreign currency risk where it has cash flows in overseas operations and foreign currency transactions in UK operations which are affected by foreign exchange movements. The Group is not generally exposed to significant foreign currency risk except in respect of its cash flows in overseas operations in Europe, India and South Africa which generate exposure to movements in the Euro, Swiss Franc, Indian Rupee and South African Rand exchange rates against sterling. The Group seeks to mitigate the effect of this exposure by entering forward currency contracts (including Non-deliverable Forward Contracts (NDFs)) to fix the GBP cost of highly probable forecast transactions denominated in Indian Rupees and South African Rand.

It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the underlying cash flows in order to maximise hedge effectiveness.

At 31 December 2016, the Group held foreign exchange forwards against forecast monthly Indian Rupee and South African Rand costs in years up to and including 2022. These forecast costs have been determined on the basis of the underlying cash flows associated with the delivery of services under signed customer contracts.

The following table demonstrates the sensitivity to a reasonably possible change in the Indian Rupee and South African Rand exchange rates, with all other variables held constant, of the Group's profit before tax and the Group's equity due to changes in the fair value of the Group's forward exchange contracts.

	South African Rand			Indian Rupee		
	Increase/(decrease) in ZAR exchange rate	Effect on profit before tax £m	Effect on equity £m	Increase/(decrease) in INR exchange rate	Effect on profit before tax £m	Effect on equity £m
2016	**10.01%**	**(3.4)**	**–**	**3.09%**	**–**	**(4.4)**
2015	(1.17)%	0.6	–	5.10%	–	(3.9)

Exposures to the translation of profit and losses and balance sheet carrying values on consolidation in the Euro and Swiss Francs are mitigated through the use of foreign exchange forwards and swaps or borrowings in those currencies.

26 Financial instruments continued

Hedges

Fair value hedges

The Group has in issue fixed rate dollar and sterling bonds which it has hedged through a combination of interest rate and currency swaps.

The Group had interest rate swaps in place with a notional amount of £85.0m (2015: £85.0m) whereby it receives a weighted average fixed rate of interest of 4.81% (2015: fixed rate of interest 4.81%) and pays variable rates based on 6 month GBP LIBOR. The swaps are being used to hedge the exposure to changes in the fair value of £85.0m (2015: £85.0m) of the Group's bonds.

The Group had in place currency swaps whereby it receives a fixed rate of interest and pays a variable rate based on 6 month GBP LIBOR. The currency swaps are being used to hedge the exposure to changes in the fair value of £918.9m (2015: £999.6m) of the Group's bonds, which have coupon rates ranging from 3.03% to 6.51%.

The currency swaps are being used to hedge the exposure to changes in the fair value of its US dollar issued bonds. The bonds, currency and interest rate swaps have the same critical terms including the amount and the date of maturity (see note 22).

The total gain in the year on the fair value hedges of £145.8m (2015: total gain £36.5m), excluding credit risk, was equal to the loss on the hedged items resulting in no net gain or loss in the income statement.

The Group may, at its option, upon notice of not less than 30 days and not more than 60 days, repay at any time all or part of the notes at no more than the present value of future payments.

Cash flow hedges

As noted above, the Group holds a series of forward exchange currency contracts in the form of NDFs designated as hedges of highly probable forecast transactions in INR of the Group's Indian operations.

Forward exchange contracts	2016 Assets £m	2016 Liabilities £m	2015 Assets £m	2015 Liabilities £m
Fair value	**7.0**	**(4.2)**	–	(14.8)

The terms of the forward currency contracts have been negotiated to match the terms of the commitments.

The cash flow hedges are in respect of highly probable forecast monthly costs, based on long-term contracts that the Group has in place, denominated in INR up to 2019. These were assessed to be highly effective as at 31 December 2016 and a net unrealised gain of £2.8m (2015: loss of £14.8m) less income tax credit of £2.8m (2015: debit of deferred tax £2.8m) was recognised in equity. The net gain recognised on cash flow hedges during the year was £14.3m (2015: net gain £0.8m) whilst net losses of £3.3m (2015: losses of £3.1m) were reclassified to the income statement and included in administrative expenses. The tax effect of the net movement in cash flow hedges during the year was a debit to OCI of £5.6m (2015: debit of £1.1m).

In addition the Group holds a series of forward exchange currency contracts against highly probable forecast transactions in ZAR of the Group's South African operations. The Group does not designate these hedges as cash flow hedges under IFRS. All gains or losses on these outstanding hedges are recognised in the income statement in net finance costs (see note 9).

Hedges of net investments in foreign operations

The Group has net investments in foreign operations, the re-translation of which on consolidation gives rise to exposure to the carrying values in equity. The Group designates EUR97m of liability under its borrowings in EUR denominated bonds as a hedge of a net investment in its EUR denominated foreign operations. In addition the Group designates CHF110m of foreign exchange forwards and swaps as a hedge of net investment in its Swiss Franc denominated foreign operations as at 31 December 2016.

Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all clients who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, such as cash and cash equivalents, available-for-sale financial investments, investment loan and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty. The Group manages its operations to avoid any excessive concentration of counterparty risk and the Group takes all reasonable steps to seek assurance from the counterparties to ensure that they can fulfil their obligations.

The Group has a maximum exposure equal to the carrying amount of the above receivables and instruments.

The mark-to-market movement on derivatives includes the extent to which the fair value of these instruments has been affected by the perceived change in the creditworthiness of the counterparties to those instruments and that of the Group itself (own credit risk). The Group is comfortable that the risk attached to those counterparties is not significant and believes that the currency swaps continue to act as an effective hedge against the movements in the fair value of the Group's issued US$ denominated bonds.

Liquidity risk

The Group's policy is to hold cash and undrawn committed facilities at a level sufficient to ensure that the Group has available funds to meet its medium term capital and funding obligations, including organic growth and acquisition activities, and to meet any unforeseen obligations and opportunities. The Group holds cash and undrawn committed facilities and makes use of non-recourse trade receivable arrangements to enable the Group to manage its liquidity risk.

The Group monitors its risk to a shortage of funds using a daily cash management process. This process considers the maturity of both the Group's financial investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of multiple sources of funding including bonds, bank loans, term loans, loan notes, cash, overdrafts and finance leases over a broad spread of maturities to 2027.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26 Financial instruments continued

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2016 based on contractual undiscounted payments.

At 31 December 2016	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Overdraft	532.5	–	–	–	–	–	532.5
Unsecured loan notes	0.3	–	–	–	–	–	0.3
Bonds	185.2	239.3	114.7	327.2	335.0	701.4	1,902.8
Interest on above bonds	79.1	69.7	55.0	43.5	34.7	55.7	337.7
Term loan	–	550.0	100.0	–	–	–	650.0
Interest on above term debt	9.7	7.4	0.5	–	–	–	17.6
Contingent consideration	3.6	16.7	2.7	–	–	–	23.0
Public sector subsidiary partnership payment	9.4	9.4	9.4	9.4	9.4	18.8	65.8
Put options of non-controlling interests	–	7.6	88.5	–	27.4	–	123.5
Obligations under finance leases	2.2	0.1	–	–	–	–	2.3
Currency swaps	1.4	1.4	1.4	1.4	21.5	44.2	71.3
Fixed rate interest rate swaps	17.9	23.5	21.7	14.8	10.2	12.6	100.7
Non-designated foreign exchange forwards and swaps	3.1	–	–	–	–	–	3.1
Cash flow hedges	0.7	0.6	0.4	–	–	–	1.7
	845.1	925.7	394.3	396.3	438.2	832.7	3,832.3

At 31 December 2015	Within 1 year £m	Between 1–2 years £m	Between 2–3 years £m	Between 3–4 years £m	Between 4–5 years £m	More than 5 years £m	Total £m
Overdraft	448.7	–	–	–	–	–	448.7
Bonds	178.4	154.8	200.0	104.1	293.9	751.6	1,682.8
Interest on above bonds	72.9	64.4	56.6	44.3	34.1	66.2	338.5
Term loan	–	200.0	–	100.0	–	–	300.0
Interest on above term debt	3.7	1.8	1.7	0.6	–	–	7.8
Contingent consideration	16.0	5.2	10.3	–	–	–	31.5
Public sector subsidiary partnership payment	–	9.4	9.4	9.4	9.4	28.2	65.8
Put options of non-controlling interests	–	–	41.0	93.8	–	19.9	154.7
Obligations under finance leases	5.1	1.9	–	–	–	–	7.0
Fixed rate interest rate swaps	10.0	15.1	21.0	20.2	13.4	21.2	100.9
Non-designated foreign exchange forwards and swaps	2.1	0.6	–	–	–	–	2.7
Cash flow hedges	2.9	2.7	2.7	2.0	–	–	10.3
	739.8	455.9	342.7	374.4	350.8	887.1	3,150.7

The above payments have been calculated based on the prevailing foreign exchange rates and interest rates at the end of the reporting period. For currency swaps, only payments are included, receipts are excluded.

Master netting or similar agreements

The Group has notional cash pools with its banks under which the bank may net cash balances with overdrafts held by other members of the Group. The effect of this is shown in the table below.

26 Financial instruments continued

At 31 December 2016	Gross and net amounts of financial instruments in the balance sheet £m	Related financial instruments that are not offset £m	Net amount £m
Financial assets			
Cash at bank	**1,098.3**	**(529.3)**	**569.0**
Financial liabilities			
Overdrafts	**(532.5)**	**529.3**	**(3.2)**

At 31 December 2015	Gross and net amounts of financial instruments in the balance sheet £m	Related financial instruments that are not offset £m	Net amount £m
Financial assets			
Cash at bank	534.0	(440.5)	93.5
Financial liabilities			
Overdrafts	(448.7)	440.5	(8.2)

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business operations, its acquisition strategy and maximise shareholder value. The Group manages its capital structure, and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. Focus on capital management forms an important component of the monthly Board meetings with attention on various matters including: return on capital employed, ensuring a mix of funding sources to ensure continuity and flexibility, a balance between fixed and floating borrowings, a broad spread of maturities and adequate liquidity headroom.

The Group's capital management process ensures that it meets financial covenants in its borrowing arrangements. Breaches in meeting the financial covenants could permit the lenders to immediately accelerate repayment of loans and borrowings. The Group monitors, as part of its monthly Board review, that it will adhere to specified consolidated leverage ratios and consolidated net interest expense coverage ratios. There have been no breaches in the financial covenants of any loans and borrowings in the period.

The Group has a business model that is driven by organic growth and through the acquisition of small- and medium-sized entities which enhance existing capabilities and or provide access to new markets. The availability of funds for this acquisition activity is thus a key consideration when determining the use and management of capital. The Group therefore uses longer dated debt, generally bonds and long-term bank facilities, to enable it to finance these purchases and for the general purposes of the Group.

Capita plc supports the growth of its various financial services businesses. These financial firms are subject to various capital requirements imposed by financial services regulators. These requirements do not apply to Capita plc itself and the Group is not required to provide consolidated returns for regulatory purposes. The board of each regulated firm is responsible for ensuring it has embedded capital management frameworks that test there are adequate financial resources at all times. During the year, they complied with all externally imposed financial services regulatory capital requirements.

The Group seeks to maintain a conservative and efficient capital structure with an appropriate level of gearing. It is Group policy to target a adjusted net debt to adjusted EBITDA ratio in the range of 2.0 to 2.5 over the long term and maintain interest cover above 7.0 times (refer to Alternative Performance Measures on page 32). At 31 December 2016, our annualised adjusted net debt to adjusted EBITDA ratio was 2.89 (2015: 2.45) with annualised interest cover at 8.8 times (2015: 13.2 times). These ratios are monitored monthly by the Board. As the Group considers an adjusted net debt to adjusted EBITDA ratio the most appropriate measure for gearing, it does not maintain or monitor a targeted debt/equity ratio.

The Group raises debt in a number of markets including the bank loan market, bank overdraft, finance lease and bond markets. The Group has available to it a committed Revolving Credit Facility of £600m of which £81m matures in August 2020 and £519m matures in August 2021. £nil was drawn down as at 31 December 2016 (2015: £nil drawn down). This facility is available for the Group's immediate use.

Consistent with prior years, the Group makes use of non-recourse trade receivable financing arrangements provided to it by a number of its relationship banks. There was a balance of £133.6m sold on these arrangements as at 31 December 2016 (2015: £129.8m). As these trade receivables have been sold without recourse the Group does not consider them to be part of its core capital.

During the year the Group issued a total of US$75.0m (GBP equivalent: £60.3m) and £110.5m of new bonds and repaid bonds at maturity totalling £141.0m (see note 22).

The Group has a spread of bond maturities over many years to 2027 (see note 22).

The Group's dividend policy is to return surplus cash to shareholders through a mixture of progressive dividends and, when appropriate, capital returns. Total dividends have grown at a compound rate of 8.2% over the 5 years to 31 December 2016 whilst dividend cover in the year is 1.79 times. The Group returned £155m capital to shareholders by means of a special dividend in 2007 and undertakes share buybacks on an opportunistic basis, as market conditions allow, in order to maintain an efficient capital structure and to minimise its long-term cost of capital. Shareholder approval is sought annually for authority to purchase up to 10% of issued share capital and it is Group policy to continue to evaluate any attractive opportunities for share buybacks as they arise.

No changes were made in the objectives, policies or processes during the years ended 31 December 2016 and 31 December 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26 Financial instruments continued

The table below presents quantitative data for the components the Group manages as capital:

	2016 £m	2015 £m
Shareholders' funds	**483.4**	753.3
Cash in hand	**(1,098.3)**	(534.0)
Overdraft	**532.5**	448.7
Obligations under finance leases	**2.3**	7.0
Bonds	**1,961.7**	1,749.4
Term loan	**650.0**	300.0
Undrawn available Revolving Credit Facility	**600.0**	600.0
Currency and interest rate swaps	**(365.6)**	(220.8)
At 31 December	**2,766.0**	3,103.6

27 Issued share capital

Allotted, called up and fully paid	2016 m	2015 m	2016 £m	2015 £m
Ordinary shares of 2$^{1}/_{15}$p each				
At 1 January	**670.0**	670.0	**13.8**	13.8
Issued on exercise of share options	**0.1**	–	**–**	–
At 31 December	**670.1**	670.0	**13.8**	13.8

During the year, 131,037 (2015: 22,722) ordinary 2$^{1}/_{15}$p shares with an aggregate nominal value of £2,708 (2015: £471) were issued under share option schemes for a total consideration of £0.6m (2015: £0.1m).

Treasury shares	2016 m	2015 m	2016 £m	2015 £m
Ordinary shares of 2$^{1}/_{15}$p				
At 1 January	**5.8**	8.5	**0.2**	0.2
Shares allotted in the year	**(2.6)**	(2.7)	**(0.1)**	–
At 31 December	**3.2**	5.8	**0.1**	0.2

In 2016, the Group made no purchases of shares into Treasury and allotted 2.6m (2015: 2.7m) shares with an aggregate nominal value of £53,604 (2015: £56,570). The total consideration received in respect of these shares was £nil (2015: £1.6m).

Employee benefit trust shares	2016 m	2015 m	2016 £m	2015 £m
Ordinary shares of 2$^{1}/_{15}$p				
At 1 January	**2.2**	2.2	**0.1**	0.1
Shares allotted in the year	**(0.5)**	–	**–**	–
At 31 December	**1.7**	2.2	**0.1**	0.1

The Group will use shares held in the employee benefit trust (EBT) in order to satisfy future requirements for shares under the Group's share option and long-term incentive plans. During the year, the EBT allotted 0.5m (2015: nil) ordinary 2$^{1}/_{15}$p shares with an aggregate nominal value of £10,372 (2015: nil) to satisfy exercises under the Group's share option and long-term incentive plans. The total consideration received in respect of these shares was £nil (2015: £nil).

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

28 Share based payment plans

The Group operates several share based payment plans. The credit recognised for share based payments in respect of employee services received during the year to 31 December 2016 was £(4.5)m (2015: £11.4m expense), all of which arises from equity-settled share based payment transactions. The credit relates to reversing charges accrued in prior years for schemes now forecast to fail their performance conditions. Details of the schemes are as follows:

Deferred Annual Bonus Plan

This scheme is applicable to Executive Directors and Divisional Executive Directors. The award made in February 2015 in respect of 2014, is only applicable to Executive Directors. Under this scheme, awards are made annually consisting of only Deferred Shares, which are linked to the payout under the Annual Bonus Scheme (details of which are contained in the Directors' remuneration report on pages 89–105).

The value of Deferred Shares is determined by the payout under the Annual Bonus Scheme: half of the annual bonus is paid in cash and the remainder is compulsorily deferred into Deferred Shares. Directors have the option to defer up to 100% of their annual bonus into Deferred Shares. The Deferred Shares are held for a period of 3 years from the date of award, during which they are not forfeitable, except in the case of dismissal for gross misconduct.

28 Share based payment plans continued

For awards made in 2014 and earlier, participants were awarded conditional matching awards at the same time as the award of Deferred Shares, where participants received 2 Matching Shares for every Deferred Share. Following the award made in February 2014, it is not planned to award any further matching awards.

The vesting conditions for matching awards made in 2014 were such that 33% of the Matching Shares will vest if growth in the Company's earnings per share (EPS) is equal to growth in the UK Retail Price Index (RPI) plus 4% per annum, rising on a straight-line basis to 100% vesting if growth in the Company's EPS is equal to or greater than growth in the RPI plus 12% per annum.

Long-Term Incentive Plan (2008 LTIP)

The 2008 LTIP was approved and adopted at the AGM on 6 May 2008. The vesting of awards will depend on share price growth and EPS growth targets measured over a 3-year period. An award will not vest if Capita's average share price at the date of vesting is below the average share price at the date of grant. This scheme is open to all senior employees and shares will vest according to performance criteria. The number of shares which will vest is dependent upon the Company's EPS growth exceeding RPI growth by 4% and on banding within the scheme. For awards granted in 2014 and 2015, the number of shares which will vest is dependent upon the Company's EPS growth exceeding RPI growth by 4%, the Company's Return on Capital Employed exceeding 14%, and on banding within the scheme.

1997 Executive Share Option Scheme

This scheme is open to senior employees other than Executive Directors and Divisional Executive Directors. The exercise price of the options is equal to the market price of the shares on the date of grant. Options granted under this scheme become exercisable if the growth in the Company's EPS exceeds the growth in RPI by 8% over the 3-year vesting period from the date of grant. The contractual life of each option granted is 7 years. There are no cash settlement alternatives.

Capita Sharesave Scheme

This is an employee Save As You Earn scheme open to all Capita employees. Under this scheme, employees are granted share options at the market price at the date of grant. The options become exercisable for a 6-month period following completion of a 3-year savings period. There are no performance conditions attached to these options.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

Share options (1997 Executive Share Option Scheme and Capita Sharesave Scheme)

	2016 Million	**2016 WAEP**	2015 Million	2015 WAEP
Outstanding as at 1 January	**0.2**	**£6.45**	0.7	£7.80
Granted during the year	**–**	**–**	–	–
Exercised	**(0.1)**	**£6.30**	(0.3)	£6.08
Forfeited	**0.0**	**£4.39**	(0.2)	£5.51
Expired during the year	**–**	**–**	–	£6.93
Outstanding as at 31 December	**0.1**	**£6.83**	0.2	£6.45
Exercisable at 31 December	**0.1**	**£6.83**	0.2	£6.45

The weighted average remaining contractual life of the above shares outstanding at 31 December 2016 was 0.3 years (2015: 1.1 years).

2008 LTIP

	2016 Million	**2016 WAEP**	2015 Million	2015 WAEP
Outstanding as at 1 January	**8.9**	**–**	8.9	–
Awarded during the year	**3.9**	**–**	3.3	–
Exercised	**(2.4)**	**–**	(2.2)	–
Forfeited	**(1.7)**	**–**	(1.1)	–
Outstanding as at 31 December	**8.7**	**–**	8.9	–
Exercisable at 31 December	**–**	**–**	–	–

The weighted average remaining contractual life of the above shares outstanding at 31 December 2016 was 1.4 years (2015: 1.5 years).

The weighted average share price of options at the date of exercise in 2016 was £10.31. The options have been exercised primarily in the first half of the year and the weighted average share price during the year was £9.20 (2015: £12.09).

The total cash value of the Deferred Shares awarded during the year under the Deferred Annual Bonus Plan, discussed above, was £1.0m (2015: £1.2m). The Matching Shares allocation in respect of the 2015 awards under this plan charged in 2016 was £nil (2015: nil).

The fair value of the options granted/awarded during the year was £5.01 (2015: £5.71). The range of exercise prices for all options outstanding at the end of the year was £6.62 to £7.16 (2015: £4.38 to £7.16).

The fair value of equity-settled share options granted is estimated as at the date of grant using a multiple simulation option pricing valuation model, taking into account the terms and conditions upon which the options were granted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

28 Share based payment plans continued

The following table lists the inputs to the model used for the years ended 31 December 2016 and 31 December 2015.

	2016	2015
Dividend yield (%)	**2.49**	2.46
Expected share price volatility (%)	**20.78**	19.96
Floor price for LTIP (applicable to LTIP 08)	**£10.30**	£11.88
Risk-free interest rate (%)	**0.41**	0.43
Expected life of option (years)	**3.00**	3.00
Weighted average share price of options granted during the year	**–**	–

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. In addition, within the 2008 LTIP is an average share price floor under which the share award will not vest. This floor is based on the Company's average share price at the date of vesting. No other features of options grant were incorporated into the measurement of fair value.

29 Additional cash flow information

Operating cash flow for the year ended 31 December 2016

	Note	2016 £m	2015 £m
Cash flows from operating activities			
Operating profit before interest and taxation from continuing operations		**148.3**	206.6
Adjustment for underlying non-cash items:			
Depreciation	13	**81.9**	82.1
Amortisation of intangible assets (treated as depreciation)	14	**17.4**	13.2
Share based payment expense	28	**(4.5)**	11.4
Employee benefits	32	**(4.1)**	(1.9)
(Profit)/loss on sale of property, plant and equipment		**0.8**	(1.2)
Impairment of contract related assets		**39.6**	–
Adjustments for business exit non-cash items:			
Accelerated depreciation on business exit	4	**–**	2.2
Other assets written-off on business exit	4	**–**	1.4
Business exit provision	4	**(1.3)**	16.8
Non-underlying trading		**(2.7)**	–
Accelerated depreciation on business closure	4	**–**	0.1
Adjustment for non-underlying non-cash items:			
Asset Services settlement provision	25	**22.9**	17.2
Re-measurement of businesses held for disposal	5	**–**	116.4
Amortisation of intangible assets recognised on acquisition	5/14	**152.2**	165.0
Impairment of contract related assets and investment loan	5	**60.9**	76.7
Impairment of intangibles acquired in business combinations	14	**81.3**	28.3
Contingent consideration	5	**1.2**	(5.4)
Co-op dispute costs	5	**18.4**	–
Movement in restructuring	25	**59.4**	–
Movement in underlying provisions (net)	25	**1.7**	5.7
Xchanging transaction	5	**–**	(3.7)
Net movement in payables and receivables		**76.1**	(45.1)
Cash generated from operations before non-underlying cash items (see cash flow statement)		**749.5**	685.8
Income tax paid		**(63.7)**	(93.5)
Net interest paid		**(59.4)**	(47.2)
Purchase of property, plant and equipment		**(82.4)**	(118.5)
Purchase of intangible assets		**(72.2)**	(85.1)
Proceeds from sale of property, plant and equipment		**0.6**	5.9
Underlying free cash flow		**472.4**	347.4

29 Additional cash flow information continued

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

	Net debt at 1 January 2016 £m	Cash flow movements £m	Non-cash flow movements: Acquisitions in 2016 £m	Foreign exchange movements £m	Fair value changes £m	Other[2] £m	Net debt at 31 December 2016 £m
Cash, cash equivalents and overdrafts	**85.3**	**467.6**	**–**	**12.9**	**–**	**–**	**565.8**
Loan notes	**–**	**(0.3)**	**–**	**–**	**–**	**–**	**(0.3)**
Bonds[1]	**(1,749.4)**	**(29.2)**	**–**	**(36.0)**	**(145.8)**	**(1.3)**	**(1,961.7)**
Interest and currency swaps in relation to US$ denominated bonds[1]	**213.9**	**–**	**–**	**–**	**144.0**	**–**	**357.9**
Interest rate swaps in relation to GBP denominated bonds[1]	**6.9**	**–**	**–**	**–**	**0.8**	**–**	**7.7**
Term loan	**(300.0)**	**(350.0)**	**–**	**–**	**–**	**–**	**(650.0)**
Finance leases	**(7.0)**	**5.5**	**(0.8)**	**–**	**–**	**–**	**(2.3)**
Total net liabilities from financing activities	**(1,835.6)**	**(374.0)**	**(0.8)**	**(36.0)**	**(1.0)**	**(1.3)**	**(2,248.7)**
Underlying net debt	**(1,750.3)**	**93.6**	**(0.8)**	**(23.1)**	**(1.0)**	**(1.3)**	**(1,682.9)**
Fixed rate interest rate swaps	**(67.0)**	**–**	**–**	**–**	**(18.1)**	**–**	**(85.1)**
Deferred consideration	**(21.5)**	**10.7**	**–**	**–**	**–**	**–**	**(10.8)**
	(1,838.8)	**104.3**	**(0.8)**	**(23.1)**	**(19.1)**	**(1.3)**	**(1,778.8)**

1 The sum of these items held at fair value equates to the underlying value of the Group's bond debt of £1,596.1m (2015: £1,528.6m).

2 Other comprises the amortisation of bond issue costs and the amortisation of the discount on the Euro debt issue.

The aggregate bond value above of £1,961.7m (2015: £1,749.4m) (disclosed in note 22 – Financial liabilities) includes the GBP value of the US$ denominated bonds at 31 December 2016. To remove the Group's exposure to currency fluctuations it has entered into currency swaps which effectively hedge the movement in the underlying bond fair value. The interest rate swap is being used to hedge the exposure to changes in the fair value of GBP denominated bonds.

The combined fair value of the interest and currency swaps, of £365.6m (2015: £220.8m), is disclosed in note 16 – Financial assets, and in note 22 – Financial liabilities.

	Net debt at 1 January 2015 £m	Cash flow movements £m	Non-cash flow movements: Acquisitions in 2015 £m	Foreign exchange movements £m	Fair value changes £m	Amortisation of bond issue costs £m	Net debt at 31 December 2015 £m
Cash, cash equivalents and overdrafts	29.1	57.3	–	(1.1)	–	–	85.3
Loan notes	(0.2)	0.2	–	–	–	–	–
Bonds[1]	(1,306.8)	(398.5)	–	(6.8)	(36.5)	(0.8)	(1,749.4)
Interest and currency swaps in relation to US$ denominated bonds[1]	175.0	–	–	–	38.9	–	213.9
Interest rate swaps in relation to GBP denominated bonds[1]	9.8	–	–	–	(2.9)	–	6.9
Long-term debt	–	(48.3)	48.3	–	–	–	–
Term loan	(300.0)	–	–	–	–	–	(300.0)
Finance leases	(11.9)	5.0	(0.1)	–	–	–	(7.0)
Total net liabilities from financing activities	(1,434.1)	(441.6)	48.2	(6.8)	(0.5)	(0.8)	(1,835.6)
Underlying net debt	(1,405.0)	(384.3)	48.2	(7.9)	(0.5)	(0.8)	(1,750.3)
Fixed rate interest rate swaps	(63.3)	–	–	–	(3.7)	–	(67.0)
Deferred consideration	(23.1)	11.6	(10.0)	–	–	–	(21.5)
	(1,491.4)	(372.7)	38.2	(7.9)	(4.2)	(0.8)	(1,838.8)

1 The sum of these items held at fair value equates to the underlying value of the Group's bond debt of £1,528.6m (2014: £1,122.0m).

30 Capital commitments

At 31 December 2016, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £10m, relating to building improvement on a leased property (2015: £nil).

31 Contingent liabilities

The Group has provided, through the normal course of its business, performance bonds and bank guarantees of £91.7m (2015: £88.1m). Further narrative on contingent liabilities, specifically in regard to the Connaught Fund matter, can be seen in note 25.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

32 Employee benefits

The Group operates both defined benefit and defined contribution pension schemes.

The pension charge for the defined contribution pension schemes for the year is £88.2m (2015: £85.9m).

In 2016, there was 1 main defined benefit pension scheme where the Group is the sole employing sponsor: The Capita Pension and Life Assurance Scheme (Capita scheme). Grouped together under 'Other schemes' are smaller arrangements: 5 further schemes where the Group is the sole employing sponsor (3 of which are based in Switzerland and 1 is based in Ireland), an allocated section of a Local Government Pension Scheme where the Group is the employing sponsor; a segregated section of a multi-employer scheme in which the Group is a participating employer; 3 segregated sections in industry-wide schemes; and several schemes to which the Group makes contributions under Admitted Body status to our clients' defined benefit pension schemes in respect of certain TUPE employees. For the Admitted Body schemes, the Group will only participate in the schemes for a finite period up to the end of the contract with the client.

The Swiss schemes are administered and governed through collective foundations which are separate legal entities.

The UK pension schemes are HMRC registered pension schemes and are subject to standard UK pensions and tax law. Details of the benefits provided by the schemes are set out in each scheme's documentation.

For those schemes to which the Group makes contributions under Admitted Body status (which are all part of the Local Government Pension Scheme) and the allocated section of a Local Government Pension Scheme, responsibility for the governance of the schemes lies with boards which operate under a framework of corporate governance and are responsible for following the relevant statutory regulations.

For the other schemes, responsibility for the governance of the schemes lies with the trustees of the scheme and the nature of the relationship between the Group and the trustees is governed by regulations. The appointment of trustees is determined by the trust documentation.

The assets of the schemes are held in separate funds (administered by the trustees of the scheme or on behalf of the Board in the case of the Local Government Pension Schemes) to meet long-term pension liabilities to beneficiaries.

The trustees or boards (as appropriate) of the schemes invest the assets in line with their Statement of Investment Principles.

The Statement of Investment Principles has been established after taking into consideration the liabilities of the schemes and the investment risk that the trustees or boards (as appropriate) are willing to accept. For those schemes governed by trustees the Group will have been consulted before the Statement of Investment Principles was formally adopted.

For the non-Local Government Pension Schemes the scheme funding regime introduced by the Pensions Act 2004 required trustees to carry out regular funding assessments of the schemes and establish schedules of contributions and recovery plans when there is a shortfall in the schemes. The recovery plans detail the amount and timing of the contributions required to eliminate the shortfall in the schemes. Funding assessments are carried out at least every 3 years. Approximate funding updates are produced at each scheme anniversary, when a full scheme funding assessment is not being undertaken.

At each scheme funding assessment the present value of the contributions detailed in the current recovery plans are compared with any shortfall revealed. Where the contributions under the current recovery plans are no longer expected (by the end of periods specified in the recovery plans) to be sufficient to remove the shortfall, new recovery plans will need to be agreed between the trustees and the Group. Options include increasing contributions due from the Group, extending the recovery periods with additional contributions paid after the expiry of current recovery periods or some combination of the two. The affordability to the Group of any increase in contributions is a primary consideration in the agreement of any new recovery plan.

Where the contributions are more than sufficient to remove the shortfall by the end of the recovery period, options include reducing contributions due, keeping the recovery period the same, or shortening the recovery period.

The most recent funding assessment of the Capita scheme which was carried out as at 31 March 2014, showed a funding level of 99.8%. As a result, the Group entered into an agreement to make additional contributions to the Capita scheme over a period of time. The next scheme funding assessment will be carried out with an effective date of 31 March 2017.

For the other non-local government pension schemes, the latest formal valuations for each scheme were carried out between 31 December 2015 and 31 March 2016. The valuations for the other schemes are updated by qualified actuaries at each balance sheet date. Scheme assets are stated at their market valuations at each respective balance sheet date.

The assets and liabilities of the PageOne Communications Pension Scheme (which had previously been included in the 'other' schemes) were transferred into CP&LAS during 2016. At a Group level, the disclosures are unaffected by this.

For the local government pension schemes there is a similar funding regime which is set out in the Local Government Pension Scheme (Administration) Regulations 2008. For the Admitted Body schemes, the Group will only participate in the schemes for a finite period up to the end of the contracts. The Group is required to pay regular contributions as decided by the respective Scheme Actuary and as detailed in each scheme's Schedule of Contributions.

In addition, the Group will be required to pay some or all of any deficit (as determined by the respective Scheme Actuary) that is remaining at the end of the contract. In respect of this, the Group is carrying a sufficient level of provision in these financial statements.

The contract with Torfaen County Borough Council had been terminated on 31 August 2012. During 2016, the Group paid £3.3m in full settlement of its pension liability in relation to this contract.

The Lancashire contract ended on 30 June 2016 and was not renewed. In due course, the pension fund will confirm the sum payable by the Group in full settlement of its pension liability in relation to this contract. Prior to 30 June 2016 a group of individuals under this contract were TUPE transferred back to the letting authority and the assets and liabilities which transferred as a result of this are recognised as a settlement together with the assets and liabilities as of 30 June 2016 in respect of this contract. As at 31 December 2016 the balance sheet includes a provision of £1.75m against this settlement provision.

32 Employee benefits continued

These defined benefit pension schemes expose the Group to actuarial risks, such as longevity risk, interest rate risk, salary risk, market (investment) risk and currency risk.

Further to a funding plan agreed with the Capita Scheme's Trustees in 2012, the Group established the Capita Scotland (Pension) Limited Partnership (the Partnership) with the Capita Scheme. Under this arrangement, intellectual property rights (IPR) in specific Group software was transferred to the partnership and the rights to use, develop and exploit this IPR was licensed back to the Group in return for an annual fee. The Capita Scheme's interest in the Partnership entitles it to an annual distribution of £8m for 15 years.

The Group's interest in the Partnership is fully consolidated into these Group financial statements. The Group has taken advantage of the exemption conferred by Regulation 7 of the Partnerships (Accounts) Regulations 2008 and has, therefore, not appended the accounts of this qualifying partnership to these financial statements. Separate accounts for the partnership are not required to be, and have not been, filed at Companies House.

Under IAS 19 (Revised) the interest in the Partnership does not represent a plan asset for Group reporting purposes and therefore the Capita Scheme's deficit position presented in these accounts does not reflect the Capita Scheme's interest in the Partnership. Accordingly, distributions from the Partnership to the Capita Scheme are reflected in these Group accounts as pension contributions to the Capita Scheme on a cash basis as paid. The Group has considered the impact of IFRIC14 on the various schemes and has concluded that the effect of any such adjustment, as they may arise, is not material and accordingly have not made any adjustments at the balance sheet date.

The assets and liabilities of the defined benefit pension schemes (excluding additional voluntary contributions) as at 31 December are:

	Capita scheme		Other schemes		Group total	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Scheme assets at fair value:						
Equities:						
– UK	**49.0**	83.0	**8.1**	7.8	**57.1**	90.8
– Overseas	**294.4**	233.9	**19.9**	28.6	**314.3**	262.5
– Private[1]	**–**	–	**0.6**	2.0	**0.6**	2.0
	343.4	316.9	**28.6**	38.4	**372.0**	355.3
Debt securities:						
– UK Government	**231.1**	103.9	**3.4**	4.8	**234.5**	108.7
– UK Corporate	**45.1**	26.6	**2.8**	5.8	**47.9**	32.4
– Overseas Government	**24.6**	33.1	**1.8**	3.3	**26.4**	36.4
– Overseas Corporate	**138.9**	110.7	**0.6**	1.0	**139.5**	111.7
– Emerging Markets	**28.1**	21.5	**0.2**	2.2	**28.3**	23.7
– Private Debt[1]	**24.7**	12.9	**–**	–	**24.7**	12.9
– Secured Loans	**–**	–	**1.5**	4.3	**1.5**	4.3
	492.5	308.7	**10.3**	21.4	**502.8**	330.1
Property	**70.4**	68.2	**3.6**	6.6	**74.0**	74.8
Target Return	**–**	–	**–**	12.4	**–**	12.4
Infrastructure	**–**	–	**0.4**	2.0	**0.4**	2.0
Credit Funds	**–**	–	**3.2**	2.4	**3.2**	2.4
Asset Backed Securities	**–**	–	**0.7**	0.9	**0.7**	0.9
Hedge Funds	**166.0**	111.2	**1.5**	0.8	**167.5**	112.0
Absolute return funds	**11.0**	–	**–**	–	**11.0**	–
Diversified growth funds	**–**	–	**0.1**	0.3	**0.1**	0.3
Insurance Contracts[1]	**51.2**	47.2	**15.7**	13.2	**66.9**	60.4
Cash	**(96.5)**	(2.8)	**4.6**	2.6	**(91.9)**	(0.2)
Other	**–**	–	**3.0**	4.8	**3.0**	4.8
	202.1	223.8	**32.8**	46.0	**234.9**	269.8
Total	**1,038.0**	849.4	**71.7**	105.8	**1,109.7**	955.2
Present value of scheme liabilities	**1,366.4**	1,017.7	**88.5**	125.8	**1,454.9**	1,143.5
Net liability	**(328.4)**	(168.3)	**(16.8)**	(20.0)	**(345.2)**	(188.3)

1 The assets of the schemes are all quoted with the exception of the private equity, private debt holdings and insurance contracts.

These amounts do not include any directly owned financial instruments issued by the Group.

There are two assets which have been classified as insurance contracts for the purposes of these accounts:

› A bulk annuity contract entered into by the trustees of CP&LAS late in 2015 in respect of a small number of high individual liability pensioner members. This contract has been valued as an asset equal to the corresponding liability under the end of year IAS19 assumptions.

› The investment of the assets in respect of the Swiss schemes occurs by the collective foundations in the context of reinsurance contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

32 Employee benefits continued

The following table shows a reconciliation from the opening balances to the closing balances for the net defined benefit liability and its components:

	Defined benefit obligation		Fair value of plan assets		Group total Net defined liability	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Balance at 1 January	**1,143.5**	1,132.0	**(955.2)**	(939.5)	**188.3**	192.5
Included in the income statement:						
Current service cost	**25.9**	29.0	**–**	–	**25.9**	29.0
Administration costs	**2.2**	2.3	**–**	–	**2.2**	2.3
Past service cost including curtailments	**(0.1)**	0.1	**–**	–	**(0.1)**	0.1
Settlements	**(33.8)**	–	**33.8**	–	**–**	–
Interest cost/(income)	**43.4**	41.9	**(36.8)**	(35.5)	**6.6**	6.4
Sub-total in income statement	**37.6**	73.3	**(3.0)**	(35.5)	**34.6**	37.8
Included in other comprehensive income:						
Re-measurements loss/(gain):						
Actuarial loss/(gain) arising from:						
– demographic assumptions	**(10.5)**	–	**–**	–	**(10.5)**	–
– financial assumptions	**316.8**	(32.9)	**(3.8)**	–	**313.0**	(32.9)
– experience adjustments	**0.3**	(16.0)	**–**	–	**0.3**	(16.0)
– changes in asset ceiling/minimum liability	**–**	–	**–**	–	**–**	–
Return on plan assets excluding interest	**–**	–	**(145.1)**	35.9	**(145.1)**	35.9
Sub-total in other comprehensive income	**306.6**	(48.9)	**(148.9)**	35.9	**157.7**	(13.0)
Employer contributions	**–**	–	**(35.4)**	(33.3)	**(35.4)**	(33.3)
Contributions by employees	**1.6**	1.4	**(1.6)**	(1.4)	**–**	–
Benefits paid	**(34.4)**	(27.5)	**34.4**	27.5	**–**	–
Contract bulk transfers/business combinations	**–**	13.2	**–**	(8.9)	**–**	4.3
Balance at 31 December	**1,454.9**	1,143.5	**(1,109.7)**	(955.2)	**345.2**	188.3

The defined benefit obligation comprises £1,454.9m (2015: £1,143.5m) arising from schemes that are wholly or partly funded.

Of the total pension cost of £34.6m (2015: £37.8m), £25.8m (2015: £29.1m) was included in cost of sales, £2.2m (2015: £2.3m) was included in administrative expenses, and £6.6m in finance costs (2015: £6.4m).

32 Employee benefits continued

	Defined benefit obligation		Fair value of plan assets		Capita scheme Net defined liability	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Balance at 1 January	**1,017.7**	1,023.8	**(849.4)**	(849.5)	**168.3**	174.3
Included in the income statement:						
Current service cost	**23.8**	26.9	**–**	–	**23.8**	26.9
Administration cost	**1.9**	2.2	**–**	–	**1.9**	2.2
Past service cost including curtailments	**0.1**	0.1	**–**	–	**0.1**	0.1
Settlements	**–**	–	**–**	–	**–**	–
Interest cost/(income)	**39.3**	38.0	**(33.2)**	(32.0)	**6.1**	6.0
Sub-total in income statement	**65.1**	67.2	**(33.2)**	(32.0)	**31.9**	35.2
Included in other comprehensive income:						
Re-measurements loss/(gain):	**–**	–	**–**	–	**–**	–
Actuarial loss/(gain) arising from:						
– demographic assumptions	**(9.0)**	–	**–**	–	**(9.0)**	–
– financial assumptions	**298.9**	(30.3)	**–**	–	**298.9**	(30.3)
– experience adjustments	**5.7**	(15.4)	**–**	–	**5.7**	(15.4)
Return on plan assets excluding interest	**–**	–	**(142.4)**	33.9	**(142.4)**	33.9
Sub-total in other comprehensive income	**295.6**	(45.7)	**(142.4)**	33.9	**153.2**	(11.8)
Employer contributions	**–**	–	**(27.4)**	(29.4)	**(27.4)**	(29.4)
Contributions by employees	**0.2**	0.2	**(0.2)**	(0.2)	**–**	–
Benefits paid	**(29.3)**	(24.6)	**29.3**	24.6	**–**	–
Contract bulk transfers/business combinations	**17.1**	(3.2)	**(14.7)**	3.2	**2.4**	–
Balance at 31 December	**1,366.4**	1,017.7	**(1,038.0)**	(849.4)	**328.4**	168.3

	Defined benefit obligation		Fair value of plan assets		Other schemes Net defined liability	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Balance at 1 January	**125.8**	108.2	**(105.8)**	(90.0)	**20.0**	18.2
Included in the income statement:						
Current service cost	**2.1**	2.1	**–**	–	**2.1**	2.1
Administration cost	**0.3**	0.1	**–**	–	**0.3**	0.1
Past service cost including curtailment	**(0.2)**	–	**–**	–	**(0.2)**	–
Settlements	**(33.8)**	–	**33.8**	–	**–**	–
Interest cost/(income)	**4.1**	3.9	**(3.6)**	(3.5)	**0.5**	0.4
Sub-total in income statement	**(27.5)**	6.1	**30.2**	(3.5)	**2.7**	2.6
Included in other comprehensive income:						
Re-measurements loss/(gain):						
Actuarial loss/(gain) arising from:						
– demographic assumptions	**(1.5)**	–	**–**	–	**(1.5)**	–
– financial assumptions	**17.9**	(2.6)	**(3.8)**	–	**14.1**	(2.6)
– experience adjustments	**(5.4)**	(0.6)	**–**	–	**(5.4)**	(0.6)
– changes in asset ceiling/minimum liability	**–**	–	**–**	–	**–**	–
Return on plan assets excluding interest	**–**	–	**(2.7)**	2.0	**(2.7)**	2.0
Sub-total in other comprehensive income	**11.0**	(3.2)	**(6.5)**	2.0	**4.5**	(1.2)
Employer contributions	**–**	–	**(8.0)**	(3.9)	**(8.0)**	(3.9)
Contributions by employees	**1.4**	1.2	**(1.4)**	(1.2)	**–**	–
Benefits paid	**(5.1)**	(2.9)	**5.1**	2.9	**–**	–
Contract bulk transfers/business combinations	**(17.1)**	16.4	**14.7**	(12.1)	**(2.4)**	4.3
Balance at 31 December	**88.5**	125.8	**(71.7)**	(105.8)	**16.8**	20.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

32 Employee benefits continued

Information about the defined benefit obligation for the Capita scheme:

	Proportion of overall liability%	Duration (years)
Active members	**25.2**	**23.4**
Deferred members	**53.0**	**23.8**
Pensioners	**21.8**	**13.1**
Total	**100.0**	**21.4**

	Capita scheme		Other schemes[2]	
Main assumptions:	**2016 %**	2015 %	**2016 %**	2015 %
Rate of price inflation – RPI/CPI	**3.25/2.25**	3.0/2.0	**3.25/2.25**	3.0/2.0
Rate of salary increase	**3.25**	3.0	**3.3**	3.0
Rate of increase of pensions in payment[1]:				
– RPI inflation capped at 5% per annum	**3.15**	2.9	**3.2**	2.9
– RPI inflation capped at 2.5% per annum	**2.2**	2.1	**2.2**	2.1
– CPI inflation capped at 5% per annum	**2.25**	2.0	**2.3**	2.0
– CPI inflation capped at 2.5% per annum	**1.8**	1.6	**1.8**	1.6
Discount rate	**2.8**	3.90	**2.80**	3.90
CARE active revaluation (inflation capped at 3.5% per annum)	**2.75**	2.6	**2.8**	2.6
Expected take up maximum available tax free cash	**85.0**	85.0	**85.0**	85.0

The average future life expectancy from age 65 (in years) for mortality tables used to determine scheme liabilities for the various different schemes at 31 December 2016 and 31 December 2015 are as follows:

	Member currently aged 65 (current life expectancy)				Member currently aged 45 (life expectancy at 65)			
	Male		Female		Male		Female	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	**2015**
Capita scheme	**22.5**	22.9	**24.3**	24.4	**22.9**	23.4	**25.3**	25.3
Other schemes[3]	**22.5 to 24.1**	22.9 to 23.8	**24.3**	24.4 to 24.8	**22.9 to 25.8**	23.4 to 25.4	**25.3 to 26.1**	25.3 to 26.0

1 There are other levels of pension increase which apply to particular periods of membership.

2 Only the discount rate is relevant to the Admitted Body schemes. Different assumptions apply to non-UK schemes.

3 This does not apply to the Admitted Body schemes or the 3 Swiss schemes.

The assumptions used for the Capita scheme are tailored for each member. The assumptions adopted make allowance for an increase in the longevity in the future. The rate for members currently aged 65 is derived from the pensioner membership and the rate for members reaching age 65 in 20 years' time is derived from non-pensioner membership.

Sensitivity Analysis

Given the nature and number of assumptions, which are not in the control of the Group, there are a range of reasonably possible outcomes. The table below shows how the value of the defined benefit obligations would increase if the assumptions were changed as shown (assuming all other assumptions remain constant):

Change in assumptions compared with 31 December 2016 actuarial assumptions	Capita scheme £m	Other schemes £m
0.1% decrease in discount rate	**30.8**	**1.5**
0.1% change in salary increases	**1.2**	**0.1**
0.1% change in inflation (and related assumption, e.g. salary and pension increases)	**16.5**	**1.2**
1 year increase in life expectancy	**54.7**	**2.6**

The total employer contributions to the defined benefit pension schemes in 2017 are estimated to be £27m in respect of the Capita scheme and £4m in respect of the 'Other' schemes.

33 Related party transactions

Compensation of key management personnel

	2016 £m	2015 £m
Short-term employment benefits	**11.1**	11.9
Pension	**0.3**	0.2
Share based payments	**0.8**	6.0
	12.2	18.1

Gains on share options exercised in the year by Capita plc executive directors were £6.2m (2015: £4.3m) and by key management personnel £4.5m (2015: £3.2m), totalling £10.7m (2015: £7.5m).

During the year, the Group rendered administrative services to Smart DCC Ltd, a wholly owned subsidiary which is not consolidated. The Group received £40.3m (2015: £29.5m) of revenue for these services. As at the year-end the amounts receivable in relation to these services were £7.6m (2015: £6.0m). 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 note 32 – Employee benefits on page 158.

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 17 February 2017 was as below:

Shareholder	No. of shares	% of voting rights
Veritas Asset Management LLP[1]	**81,163,342**	**12.17**
Woodford Investment Management LLP	**72,080,139**	**10.80**
Invesco Asset Management	**65,536,317**	**9.82**
The Capital Group Companies, Inc.	**60,297,424**	**9.04**
Baillie Gifford & Co Limited	**50,632,716**	**7.59**
BlackRock Inc	**38,567,956**	**5.78**

1 This includes the holding of Veritas Funds PLC.

34 Group composition and non-controlling interests

The Group's subsidiaries are listed in note 8 and note 18 of the parent company financial statements on pages 177 and 181–188. This includes AXELOS Limited and Entrust Limited which both have 49% non-controlling interests, and FERA which has a 25% non-controlling interest, none of whose contribution was material to the Group's financial performance, financial position or cash flow in both 2016 and 2015.

The Group holds a majority of the voting rights in all of these subsidiaries and the Directors have determined that, other than the entity commented on below, in each case the Group exercises de facto control.

On 23 September 2014, the Secretary of State for the Department for Energy and Climate Change granted Smart DCC Ltd ('DCC'), a wholly owned subsidiary of the Group, a licence to establish and manage the smart metering communications infrastructure, governed by the Smart Energy Code. Each year the Group reassess whether it has control over DCC as required under IFRS 10. The Group's ability to control the relevant activities of DCC is restricted by DCC's operating licence. The power that the Group has over DCC's relevant activities by virtue of owning it is limited (given the restrictions in the license). That power is held by the board of DCC where the Group has minority representation in compliance with the licence. The Group has therefore not consolidated DCC within its Group accounts. The disclosure of related party transactions with DCC is included in note 33 to these financial statements.

35 Post balance sheet event

No post balance sheet events are noted.

STATEMENT OF DIRECTORS' RESPONSIBILITY

The Directors confirm that, to the best of their knowledge:

a. the consolidated financial statements in this report, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Group taken as a whole;

b. the parent company financial statements in this report, which have been prepared in accordance with United Kingdom Accounting Standards (UK GAAP) and applicable law, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and

c. the management report contained in this report includes a fair review of the development and performance of the business and position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board.

A Parker
Chief Executive

N Greatorex
Group Finance Director

1 March 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CAPITA PLC ONLY

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Capita plc for the year ended 31 December 2016 set out on pages 106–163 and 171–188. In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- The parent company financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS 101 Reduced Disclosure Framework; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2 Our assessment of risks of material misstatement

Our audit approach

Overview		
Materiality: Group financial statements as a whole	£12m (2015: £18m) 4.0% (2015: 4.6%) of normalised Group profit before tax	
Coverage	82% of total Group revenue (2015: 80%) 83% of total profits and losses before tax (2015: 76%) 93% of total Group assets (2015: 96%)	
Risks of material misstatement		**vs 2015**
Recurring risks	Revenue and profit recognition	↑
	Carrying value of intangible assets and goodwill	↑
	Items disclosed as 'non-underlying'	↑
	Provisions and contingent liabilities	↑
	Acquisition accounting	↓
	Pensions	↔
New risks	Going Concern	

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows:

The Risk

Going Concern
Refer to page 81 (Audit and Risk Committee Report), and page 111 (accounting policy note 2(b)).

We have assessed that this risk has increased in the current year as a result of the reduced level of reported profits combined with the net debt of the Group at the year-end. This places increased pressure on financial covenant compliance at the year-end and in the going concern forecast period.

The Group has £1.8 billion of net debt as at 31 December 2016 including committed bank facilities and private placements which are subject to financial covenants. These covenants include a restriction on the ratio of adjusted net debt to adjusted EBITDA. See page 111 for further details of the requirements.

Any breach of these financial covenants will require a waiver from the lenders, which brings into question the future availability of existing and future funding, and related charges, and could impact the going concern basis upon which these financial statements have been prepared.

Forecast covenant compliance is a judgemental area as it is based upon forecast cash collection rates and performance against the 2017 Business Plan.

In addition there is judgement over what adjustments should be made to calculate the adjusted EBITDA figure used in the covenant calculation.

As set out in note 26 to the financial statements the Group also manages its cash flow and working capital through the use of certain non-recourse finance arrangements that improve the net debt position on a short-term basis.

Our Response

Our audit procedures included the following:

- We re-performed calculations, for 31 December 2016, 30 June 2017 and 31 December 2017, made for the Group's covenant statements to confirm mathematical accuracy;
- We challenged any adjustments made to EBITDA in the covenant calculations, considering the appropriateness compared to the loan agreements and accepted and historical practice with the current lenders;
- We tested the integrity of the cash flow projections and challenged the appropriateness of key assumptions used in preparing those projections (including the forecast cash collection rates and the 2017 Business Plan). We evaluated these projections and assumptions by reference to our knowledge of the business and general market conditions and assessed the potential risk of management bias;
- We assessed the historical accuracy of forecasts prepared by management and the review and challenge by management of the current forecasts;
- The Group applied sensitivities to its cash flow forecasts, and considered the impact of these sensitivities on covenant compliance and available headroom. We challenged the level of sensitivities applied for reasonableness and we evaluated whether the Directors' plans to alleviate the downside risk evident from these scenarios were feasible in the circumstances;
- We evaluated the Group's analysis of non-recourse finance arrangements at the year-end, considering the impact of these arrangements on the available cash position at the year-end; and
- We considered whether the Group's disclosures in relation to its liquidity and capital resources were complete, represented the position of the Group at the date of approval of the financial statements, and included the Directors' key considerations in deciding to prepare the financial statements on a going concern basis. We also considered the adequacy of the extent of disclosure around the uncertainty affecting the going concern assumption.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CAPITA PLC ONLY CONTINUED

The Risk	Our Response
Revenue and profit recognition including onerous contract provisioning and recoverability of assets capitalised in respect of the Group's contracting activities **Revenue £4,909.2 million (2015: £4,836.9 million); Profit before tax £74.8million (2015: £112.1 million)** Refer to page 81 (Audit and Risk Committee Report), and page 112 (accounting policy notes 2(e) and 2(f)). Group revenue is split between those contracts that are transactional in nature, that require limited judgement, and those that relate to a contracting environment, typically over multiple years ('long-term contracts'). For the long-term contracts, the contractual arrangements that underpin the measurement of revenue in the period can be complex, with significant judgements involved in the assessment of current and future financial performance which are relevant to the application of long-term contract accounting principles. We have assessed that this risk has increased during the year because of the deteriorating performance of certain contracts, increasing the pressure on the Group's performance. Judgements impacting the recognition of revenue and resulting profits include, amongst others, those over: › The interpretation of contract terms and conditions; › The assessment of the stage of completion, and costs to complete, on long-term contract arrangements; › The allocation of revenue to separately identifiable components within a contractual arrangement; and › The consideration of onerous contract conditions and associated loss provisions.	Our audit procedures included testing the controls over the monitoring of contract performance and costs. These controls include the review of contract performance at monthly operating board review meetings, where divisional management present details of performance and business developments to Executive members of the Group Board. We selected contracts for testing based on quantitative factors (for example, those with the greatest impact on the Group's financial results) and qualitative factors (for example, new long-term contracts entered into during the year, where specific delivery issues have arisen, or where the payment profile may not reflect the timing of revenue recognition). Our audit procedures included the following: › We obtained and inspected the contractual agreements to understand the contract terms and conditions that underpin the revenue and the profit recognition assumptions; › We assessed, through discussion with the Directors and inspection of correspondence with customers, the range of judgements regarding the appropriate timing of the revenue recognition, including the allocation of revenue to separately identifiable components within a contractual arrangement; › We discussed the contract forecasts with divisional and Group management to understand their basis for recognition and, where appropriate, we compared the assumptions underpinning the forecasts to contract terms and/or correspondence with customers, particularly on those where there are long-term contract arrangements. Where the contract negotiations are ongoing we discussed the current status with those involved in the negotiations; › We compared the contract forecasts to actual results to assess the performance of the contract and the historical accuracy of the forecasting; › We challenged the assumptions within the business plans and lifetime assessments produced by management, ensuring that onerous contracts have been recognised appropriately, particularly on contracts that have had a poor performance in the current year; › In determining whether onerous contract provisions should be recorded, we assessed contract profitability forecasts by analysing historic performance relative to contractual commitments over its full term. This included challenging the Directors' assumptions on the future costs including projected savings and the actions required to achieve these; and › For contracts where significant adjustments to asset carrying values or onerous contract provisions have been recognised, or released during the year, we have assessed whether the resultant charges or income were a change of estimate arising from new circumstances in the year or whether they represented the correction of a prior period error.
In respect of specific long-term contracting activities, and more broadly over IT enabled technologies supporting the Group's various market offerings, amounts are capitalised in the balance sheet in either PPE or intangibles. As with other contract related assets, such as accrued income and accounts receivable, these need to be considered in the overall contract profitability assessments including onerous contract provisions. However, we also consider the risk that the amounts recognised are not directly attributable to the relevant asset, do not meet the criteria for capitalisation or are not expected to be recovered. As such there is a risk that costs that have been capitalised should have been expensed in the period. Certain contracts may show marginal lifetime recovery assessments and judgement is therefore required to ascertain whether economic benefits that flow from the contracts are sufficient to recover the assets.	We obtained a breakdown of assets capitalised at 31 December 2016. We selected a sample of these assets, including those associated with the contract selection noted above. For each of the assets sampled we obtained third party support, or for internally generated time, the relevant timesheet records, to support the basis of capitalisation and to ensure these are directly attributable to the asset. We assess the recoverability of the assets against future contract profitability.
In 2016 there is a key judgement in respect of the treatment and disclosure of the profits arising on a significant sale and leaseback transaction. The risk is that the accounting judgement is inappropriate and a finance lease should be recognised and/or the profit recognised on the sale is overstated. See notes 2 and 7 of the financial statements for further details of the transaction and accounting judgements involved.	We challenged management's assessment to treat as a sale and operating leaseback, rather than a finance lease. We challenged the fair values of assets acquired and received through a review of the contracts with the support of our own property specialists. We ensured that adequate and appropriate disclosures have been included in the financial statements, including the resulting profit, as set out in note 7.

The Risk	Our Response
Carrying value of intangible assets and goodwill – arising on business combinations **£2,589.6 million (2015: £2,659.8 million)** Refer to page 82 (Audit and Risk Committee Report), pages 115–116 (accounting policy notes 2(j) and 2(k)) and pages 134–135 (financial disclosures in notes 14 and 15). We consider the carrying value of intangible assets and goodwill and the risk over potential impairment to be a significant audit risk because of the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability. We consider the key inputs into the impairment model to be the approved business plans and assumptions for the growth and discount rates. The risk in the year has increased given the underperformance of certain divisions against prior year business plans and the deterioration in the Group's market capitalisation.	Our audit procedures included detailed testing of the Group's impairment assessment over the carrying value of intangible assets, including goodwill, and performing the following procedures: › We compared the total amount of discounted cash flows as per the Group's calculations to the Group's market capitalisation. We assessed the rationale for the difference at the year-end with the support of our own valuation specialists; › We tested the principles and integrity of the Group's discounted cash flow model; › We assessed the appropriateness of any changes in the composition of cash generating units with reference to our understanding of the business; › We compared the cash flows used in the impairment model to the output of the Group's budgeting process and against the understanding we obtained about the business areas through our audit, and assessed if these cash flows were reasonable; › We assessed the historical accuracy of the forecasts used in the Group's impairment model by considering actual performance against prior year budgets; › In light of the underperformance in the year we used external data and our own internal valuation specialists to evaluate the key inputs and assumptions for growth and discount rates; › We performed sensitivity and break-even analyses for the key inputs and assumptions, and identified those cash-generating units we consider most sensitive to impairment; and › We evaluated the adequacy of the Group's disclosures related to the estimation uncertainty, judgements made and assumptions over the recoverability of intangible assets and goodwill, in particular ensuring that the sensitivity disclosures in note 15 of the financial statements reflected the current position.
Items disclosed as 'non-underlying'. **Non-underlying profit/loss before tax on business disposals £2.9 million profit (2015: £164.4 million loss); and** **Non-underlying loss before tax on other items £403.4 million (2015: £309.0 million)** Refer to page 82 (Audit and Risk Committee Report), page 110 (accounting policy note 2) and pages 120–124 and 128 (financial disclosures in notes 4, 5 and 7). The Group separately presents certain income and expenditure as 'non-underlying' on the face of the income statement. Its financial highlights and commentary refers to 'underlying' measures as well as those derived on an adopted IFRS basis. The reasoning behind this presentation is set out in notes 2, 5 and 7 to the financial statements. 'Non-underlying' items are not defined by IFRSs and therefore judgement is required by the Directors to identify such items as 'non-underlying' and to maintain the comparability of results with previous years and in accordance with the Group's accounting policy. As such there is a risk of management bias. Failure to disclose clearly the nature and impact of material non-underlying earnings may distort the reader's view of the financial result in the year.	Our audit procedures included the following: › We inspected and challenged the nature and amounts of the items included within 'non-underlying' and agreed to supporting documentation and to third party correspondence where appropriate; › We considered whether there were any items included in the underlying results that would be more appropriately classified as 'non-underlying' and vice versa; › As part of this consideration we assessed the consistency of application of the Group's accounting policy for the classification of 'non-underlying' items year-on-year and that the policy and rationale for respective disclosure is adequately disclosed; › We assessed whether the basis of the 'underlying' financial information is clearly and accurately described and consistently applied and that reconciliations to the Adopted IFRS position are shown with sufficient prominence in the annual report; › Given the importance of the covenant calculation in respect of going concern, we assessed the consistency of the definition of underlying earnings that is used in the calculation of the covenants and that the disclosures are adequate in this regard; › We communicated our consideration on the classification of underlying and non-underlying to the Audit and Risk Committee to ensure an informed debate on the Board's assessment of the selection and presentation of non-underlying items; and › We examined the use of underlying measures in the front half of the annual report and considered this against applicable guidelines.
Provisions and contingent liabilities **£160.7 million (2015: £118.4 million)** Refer to page 83 (Audit and Risk Committee Report), page 116 (accounting policy note 2(q)) and pages 144 and 157 (financial disclosures in notes 25 and 31). Significant judgment is required to assess whether actual or potential claims, litigation and fines arising from regulatory oversight should be recognised as provisions within the financial statements or warrant disclosing as contingent liabilities. The determination and valuation of these provisions is judgemental by their nature and there is a risk that the estimate is incorrect and the provision is materially misstated. At 31 December 2016, the Group has recognised a provision for £49.4 million of restructuring and reorganisation charges relating to the major restructuring programme announced in November 2016. We have assessed that the risk has increased in the current year as a result of the complexity in applying the recognition criteria to the restructuring activities in order to determine the provisions recorded at the year-end. Where the impact of possible and present obligations is not probable or not reliably measurable, and thus no provision is recorded, failure to adequately disclose the nature of these circumstances within the financial statements may distort the reader's view as to the potential risks faced by the Group.	Our audit procedures included the following: › We enquired of the Directors and inspected board minutes for actual and potential claims arising in the year, and challenged whether provisions are required for these claims; › We obtained an understanding of existing claims and litigations and the Directors' assessment regarding the likelihood of the existence of obligations, and the basis used to measure the provisions; › We compared the Directors' estimate of the risk and impact of these claims and litigations to third party evidence, where available; › In respect of open matters of claims and litigations, where appropriate, we had discussions with the Group's external legal advisors in respect of the reasonableness of the estimated liability; › We assessed whether the restructuring provisions recognised at 31 December 2016 met the recognition requirements, in particular that sufficient announcements had been made to the employees affected to set a valid expectation; and › We evaluated the adequacy of the Group's provisions and contingent liability disclosures in the accounts in accordance with accounting standards, in particular the disclosure of the estimation uncertainty and the quantification of that uncertainty where appropriate.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CAPITA PLC ONLY CONTINUED

The Risk	Our Response
Acquisition accounting **Total fair value to Group recognised on acquisition £102.3 million (2015: £417.2 million)** Refer to page 83 (Audit and Risk Committee Report), page 115 (accounting policy note 2(j)) and pages 138–140 (financial disclosures in note 17). During the year the Group acquired businesses for a total consideration of £102.3 million (2015: £417.2 million). The Directors have calculated the fair value of the assets and liabilities acquired. We consider that these calculations require judgement and contain significant estimation uncertainty, and therefore we consider this area to be a significant audit risk. However, given the reduction in the overall level of acquisitions compared with the prior year we consider that the overall risk has reduced.	Our audit procedures included selecting a sample of acquisitions made during the year, for further investigation, based on quantitative and qualitative factors. The acquisitions selected included those acquisitions with the greatest impact on the Group's financial results, and those containing the greatest degree of judgement. For each of these acquisitions: › We challenged, with the support of our own valuation specialists, the key assumptions used by the Group to determine fair values of assets and liabilities acquired; › We discussed these assumptions with the Directors and corroborated the explanations provided by comparing them to market data, our past experience of similar transactions, and the Group's business plan supporting the acquisition; › Where available, we compared the amounts recognised to supporting external documentation; › We assessed the appropriateness of the accounting for significant fair value adjustments, including those in the measurement period, with reference to the acquisition accounting standard, and considered the presentation and disclosure of material adjustments in the financial statements; and › We evaluated the adequacy of the disclosure of acquisitions in the annual report and financial statements.
Pensions **£1,454.9 million liability (2015: £1,143.5 million liability)** Refer to page 83 (Audit and Risk Committee Report), page 117 (accounting policy note 2(s)) and pages 158–162 (financial disclosures in note 32). Significant estimates are made in valuing the Group's defined benefit pension schemes and small changes in assumptions and estimates used to value the Group's pension obligation (before deducting scheme assets) would have a significant effect on the Group's net pension deficit.	Our audit procedures included the following: › We challenged the key assumptions applied in determining the Group's defined benefit obligation, being the discount rate, inflation rate and mortality/life expectancy, with the support of our own actuarial specialists. This included a comparison of these key assumptions against externally derived data; and › We evaluated the adequacy of the Group's disclosures in respect of the sensitivity of the deficit to these assumptions.

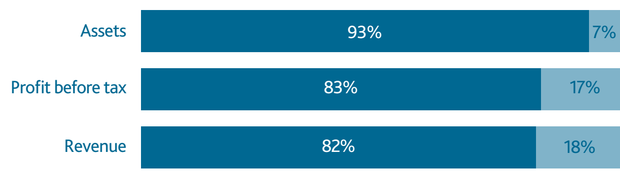
3 Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £12.0 million (2015: £18.0 million), determined with reference to a benchmark of normalised Group profit before tax of £302.8 million (2015: £393.8 million), of which it represents 4.0% (2015: 4.6%).

In order to set this benchmark we consider the nature of items included within non-underlying earnings. Group reported profit before tax is £74.8 million (2015: £112.1 million). We add back certain non-underlying items including the non-trading business exit disposal income/(expense) – £2.7 million (2015: (£136.9 million)) (note 4); profits/(losses) on business disposals – £0.1 million (2015: (£26.3 million)) (note 4); impairments of contract related assets – £58.3 million (2015: £76.7 million) (note 5); impairment charges against goodwill and acquired intangibles – £81.3 million (2015: £28.3 million) (note 5); restructuring costs of £59.4 million (2015: nil) (note 5); the asset services settlement provision – £13.4 million (2015: £17.2 million) (note 5); income arising from The Co-operative Bank contract dispute – £18.4 million (2015: nil) (note 5); and net gain arising on the Xchanging transaction – nil (2015: £3.7 million). Total adjustments to reported profit before tax amount to £228.0 million (2015: £281.7 million) resulting in a normalised Group profit before tax for materiality purposes of £302.8 million (2015: £393.8 million).

We report to the Audit and Risk Committee any corrected or uncorrected identified misstatements with a profit impact in excess of £0.6 million (2015: £0.9 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Audits for Group reporting purposes were performed by component auditors at 36 key reporting components in the United Kingdom, Switzerland, Germany, Ireland and Guernsey and by the Group audit team over 2 key components in the United Kingdom. The Group audit team, with the assistance of the component auditors where appropriate, performed procedures on the items excluded from normalised Group profit before tax. These procedures covered approximately 81.7% of total Group revenue; 82.5% of the total profits and losses that made up Group profit before tax; and 92.6% of total Group assets. For the remaining components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.



■ Audits for Group reporting purposes
■ Analysis at Group level

The Group audit team approved the component materiality levels, which ranged from £0.2 million to £7.8 million (2015: £0.3 million to £9.0 million), having regard to the mix of size and risk profile of the Group across the components.

Detailed audit instructions were sent to the component auditors. These instructions covered the significant audit areas that should be covered by these audits (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the Group audit team. Telephone conference meetings were held with all component auditors throughout the audit. At these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

› The part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and

› The information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the strategic report and the Directors' report:

› We have not identified material misstatements in those reports; and

› In our opinion, those reports have been prepared in accordance with the Companies Act 2006.

5 We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

› The Directors' statement of longer-term viability on page 55, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the 3 years to 2019; or

› The disclosures in note 2(b) of the financial statements concerning the use of the going concern basis of accounting.

6 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

› We have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or

› The Audit and Risk Committee Report does not appropriately address matters communicated by us to the Audit and Risk Committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

› Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

› The parent company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or

› Certain disclosures of Directors' remuneration specified by law are not made; or

› We have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

› The Directors' statements, set out on pages 73 and 55, in relation to going concern and longer-term viability; and

› The part of the Corporate Governance Statement on page 67 relating to the Company's compliance with the 11 provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 76, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Sean McCallion (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL

1 March 2017

FIVE-YEAR SUMMARY
FOR THE YEAR ENDED 31 DECEMBER 2016

Group balance sheet	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Non-current assets	**3,646.9**	3,507.5	3,332.4	2,994.5	2,605.3
Current assets	**2,340.5**	1,836.0	1,579.9	1,607.6	1,710.6
	5,987.4	5,343.5	4,912.3	4,602.1	4,315.9
Liabilities	**(5,343.3)**	(4,471.8)	(3,885.2)	(3,590.9)	(3,359.2)
Provision for liabilities and charges	**(160.7)**	(118.4)	(111.6)	(114.9)	(78.6)
Net assets	**483.4**	753.3	915.5	896.3	878.1
Capital and reserves	**483.4**	753.3	915.5	896.3	878.1
Group income statement					
Turnover	**4,909.2**	4,836.9	4,378.1	3,896.2	3,351.8
Underlying operating profit	**541.3**	639.0	576.3	516.9	466.7
Net interest payable	**(66.0)**	(53.5)	(40.6)	(41.9)	(49.7)
Underlying profit before taxation	**475.3**	585.5	535.7	475.0	417.0
Intangible amortisation	**(152.2)**	(165.0)	(147.1)	(122.2)	(95.3)
Asset Services settlement	**(13.4)**	(17.2)	(28.4)	(1.7)	–
Professional fees and stamp duty on acquisitions	**(9.0)**	(16.2)	(14.2)	(14.3)	(10.3)
Goodwill impairment net of contingent consideration movements	**(67.8)**	(22.9)	9.4	(1.7)	(10.2)
Impairment of acquired intangibles	**(14.7)**				
Impairment of contract related assets	**(58.3)**	(76.7)	–	–	–
Co-op dispute costs	**(18.4)**	–	–	–	–
Restructuring expense	**(59.4)**	–	–	–	–
Xchanging transaction	**–**	3.7	–	–	–
Impairment of investment loans	**(2.6)**	–	–	–	(15.0)
Business disposal/closure costs	**2.8**	(138.1)	(7.1)	(64.6)	–
Fair value movement in trade investments	**0.1**	(0.3)	–	–	–
Financial instruments – mark-to-market	**(4.4)**	(11.7)	(36.3)	25.1	(8.7)
Profit/(loss) on business disposal	**0.1**	(26.3)	(17.8)	(82.1)	–
Derivatives credit risk – mark-to-market	**(1.0)**	(0.5)	0.3	1.5	3.9
Discount unwind on public sector subsidiary partnership payment	**(2.3)**	(2.2)	(2.1)	–	–
Taxation	**(32.5)**	(56.5)	(52.5)	(43.1)	(52.0)
Profit after taxation	**42.3**	55.6	239.9	171.9	229.4
Basic earnings per share – underlying	**56.67p**	70.73p	65.15p	59.40p	52.12p
Basic earnings per share – after non-underlying	**5.55p**	7.96p	35.79p	27.05p	36.04p
Diluted earnings per share – underlying	**56.67p**	69.85p	64.58p	58.71p	51.55p
Diluted earnings per share – after non-underlying	**5.55p**	7.86p	35.48p	26.74p	35.65p
Dividend per ordinary share	**31.7p**	31.7p	29.2p	26.5p	23.5p

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2016

	Notes	2016 £m	2015 £m
Fixed assets			
Intangible assets	5	**16.1**	13.4
Tangible assets	6	**16.3**	20.1
Investments	8	**311.0**	310.8
		343.4	344.3
Current assets			
Financial assets	7	**3.9**	0.5
Debtors due within 1 year	9	**1,063.5**	1,268.5
Debtors due after more than 1 year	9	**317.0**	171.3
Cash		**461.1**	113.2
		1,845.5	1,553.5
Creditors: amounts falling due within 1 year	10	**436.0**	653.5
Net current assets		**1,409.5**	900.0
Total assets less current liabilities		**1,752.9**	1,244.3
Creditors: amounts falling due after more than 1 year	10	**715.5**	319.2
		1,037.4	925.1
Capital and reserves			
Called up share capital	12	**13.8**	13.8
Employee benefit trust and treasury shares	12	**(0.2)**	(0.3)
Share premium account		**501.3**	500.7
Capital redemption reserve		**1.8**	1.8
Merger reserve		**44.6**	44.6
Profit and loss account		**476.1**	364.5
		1,037.4	925.1

The accounts were approved by the Board of Directors on 1 March 2017 and signed on its behalf by:

A Parker
Chief Executive

N Greatorex
Group Finance Director

Company registered number: 2081330

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital £m	Employee benefit trust and treasury shares £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Profit and loss account £m	Total £m
At 1 January 2015	13.8	(0.3)	499.0	1.8	44.6	364.8	923.7
Profit for the year	–	–	–	–	–	187.6	187.6
Other comprehensive expense	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	–	187.6	187.6
Share based payment	–	–	–	–	–	11.4	11.4
Shares issued	–	–	1.7	–	–	–	1.7
Equity dividends paid	–	–	–		–	(199.3)	(199.3)
At 1 January 2016	13.8	(0.3)	500.7	1.8	44.6	364.5	925.1
Profit for the year	**–**	**–**	**–**	**–**	**–**	**330.9**	**330.9**
Other comprehensive expense	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**330.9**	**330.9**
Share based payment	**–**	**–**	**–**	**–**	**–**	**(4.5)**	**(4.5)**
Shares issued	**–**	**0.1**	**0.6**	**–**	**–**	**–**	**0.7**
Equity dividends paid	**–**	**–**	**–**	**–**	**–**	**(214.8)**	**(214.8)**
At 31 December 2016	**13.8**	**(0.2)**	**501.3**	**1.8**	**44.6**	**476.1**	**1,037.4**

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 Accounting policies

(a) Basis of preparation

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

In accordance with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting 2014, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the Going Concern basis in preparing the Company financial statements.

A separate profit and loss account dealing with the results of the parent undertaking only has not been presented as provided by Section 408 of the Companies Act 2006.

(b) Compliance with accounting standards

These financial statements have been prepared in accordance with Financial Reporting Standard 101 – Reduced Disclosure Framework (FRS 101).

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of FRS 101 disclosure exemptions have been taken.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU (EU-IFRS) and are on pages 106–163 of this report. In these Company financial statements, the following disclosure exemptions available under FRS 101 have been applied:

› A Cash Flow Statement and related notes

› Comparative period reconciliations for share capital, tangible fixed assets, and intangible assets

› Disclosures in respect of transactions with wholly owned subsidiaries

› The effects of new but not yet effective IFRSs

› An additional balance sheet for the beginning of the earliest comparative period following the retrospective change in accounting policy

› Disclosures in respect of the compensation of key management personnel.

As the consolidated financial statements include equivalent disclosures, the Company has also taken the disclosure exemptions under FRS 101 available in respect of the following disclosures:

› Certain disclosures required by IFRS 2 Share Based Payments in respect of Group settled share based payments

› Certain disclosures required by IAS 36 Impairments of assets in respect of the impairment of goodwill and indefinite life intangible assets

› Certain disclosures required by IFRS 3 Business Combinations in respect of business combinations undertaken by the Company in the prior periods

› Disclosures required by IFRS 7 Financial Instrument Disclosures.

(c) Tangible fixed assets

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost on a straight-line basis over the expected useful lives of the assets concerned, as follows:

Computer equipment	3 to 10 years
Furniture, fixtures and equipment	4 to 5 years
Leasehold improvements	over the period of the lease

(d) Intangible assets

Intangible assets are valued at cost less any accumulated amortisation and any impairment losses. Amortisation is calculated to write off the cost in equal annual instalments over their estimated useful life of 3 to 15 years. In the case of capitalised software development costs, research expenditure is written off to the statement of profit and loss in the period in which it is incurred. Development expenditure is written off in the same way unless and until the Company is satisfied as to the technical, commercial and financial viability of individual projects. Where this condition is satisfied, the development expenditure is capitalised and amortised over the period during which the Group is expected to benefit.

(e) Investments

Fixed asset investments are shown at cost, less provisions for impairment.

Investments held as current assets are stated at the lower of cost and net realisable value.

The carrying values of fixed asset investments are reviewed for impairment if events or changes in circumstances indicate the carrying values may not be recoverable.

(f) Pension schemes

The Company maintains a number of contracted-out defined contribution schemes and contributions are charged to the profit and loss account in the year in which they are due. These schemes are funded and the payment of contributions is made to separately administered trust funds. The assets of these schemes are held separately from the Company. The Company remits monthly pension contributions to Capita Business Services Limited, a subsidiary undertaking, which pays the Group liability centrally. Any unpaid contributions at the year-end have been accrued in the accounts of that company.

The Company also has employees who are members of defined benefit schemes operated by the Group. As there is no contractual arrangement or stated Group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan is recognised fully by the sponsoring employer. The Company then recognises a cost equal to its contribution payable for the period.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

1 Accounting policies continued

The contributions payable by the participating entities are determined on the following basis:

The Capita Pension & Life Assurance Scheme (the 'Capita DB Scheme') provides benefits on a defined benefit basis funded from assets held in a separate trustee-administered fund.

The Capita DB Scheme is a non-segregated scheme but there are around 200 different sections in the Scheme where each section provides benefits on a particular basis (some based on final salary, some based on career average earnings) to particular groups of employees. Of these sections around 80 include members currently accruing benefits.

At each funding assessment of the Capita DB scheme (carried out triennially) the contribution rates for those sections containing active members are calculated. These are then rationalised such that sections with similar employer contribution rates (when expressed as a percentage of pensionable pay) are grouped together and an average employer contribution rate for each of the rationalised groups calculated.

The Company's contribution is consequently calculated by applying the appropriate average employer contribution rates to the pensionable pay of its employees participating in the scheme.

Following the most recent funding assessment of the Capita DB Scheme which was carried out as at 31 March 2014, the Group entered into an agreement to make additional contributions to the Capita DB Scheme over a period of time until 2027. The next scheme funding assessment will be carried out with an effective date of 31 March 2017.

(g) Leasing commitments

Assets obtained under finance leases are capitalised in the balance sheet and depreciated over the shorter of the lease term and their useful economic lives.

The finance charges under finance leases and hire purchase contracts are allocated to accounting periods over the period of the lease and represent a constant proportion of the balance of capital repayments outstanding. Rentals due under operating leases are charged on a straight-line basis over the lease term.

(h) Deferred taxation

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

› Except where the deferred tax liability arises from the initial recognition of goodwill.

› Except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

› In respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary timing differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible differences and the carry-forward of unused tax assets and unused tax losses can be utilised, except where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

(i) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings, to the extent that they are used to finance or provide a hedge against foreign equity investments, which are taken directly to reserves together with the exchange difference on the carrying amount of the related investments.

(j) National Insurance on share option gains

National Insurance on outstanding share options at the year-end has been grossed up and shown as a provision and a receivable on the balance sheet.

(k) Financial instruments: disclosure and presentation

A separate note dealing with the disclosures of IFRS 7 has been included in the consolidated financial statements on pages 145–154.

(l) Derivative financial instruments

The Company uses derivative financial instruments such as interest rate swaps and foreign currency contracts to hedge risks associated with interest and exchange rate fluctuations. Such derivative financial instruments are stated at fair value. The fair values of interest rate swaps and foreign currency contracts are determined by reference to market rates for similar instruments.

For the purpose of hedge accounting, hedges are classified as either: fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is attributable to either a particular risk associated with a recognised asset or liability or a forecast transaction.

1 Accounting policies continued

In relation to fair value hedges (e.g. fixed to floating interest rate swaps held as fair value hedges against fixed interest rate borrowings) which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the profit and loss account. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the profit and loss account.

In relation to cash flow hedges the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the profit and loss account. Amounts taken to equity are transferred to the profit and loss account when the hedged transaction affects the profit and loss account, such as when the hedged financial income or financial expense is recognised or when a forecast transaction occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the profit and loss account. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the profit and loss account.

(m) Share based payments

The Company operates a number of executive and employee share schemes.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an option pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the profit and loss account, with a corresponding entry in equity.

Subsidiary undertakings of the Company reimburse the Company through the intercompany account for charges attributable to their employees participating in the Company's share schemes.

2 Deferred taxation

	2016 £m	2015 £m
The deferred taxation included in the balance sheet is as follows:		
Accelerated capital allowances	**(0.4)**	(0.6)
Cash flow hedges	**–**	4.9
Fixed rate interest rate swaps	**–**	12.0
Provisions	**3.5**	0.3
Included in debtors (note 9)	**3.1**	16.6

3 Profit attributable to members of the parent undertaking

The profit after taxation dealt with in the accounts of the parent undertaking was £330.9m (2015: £187.6m).

4 Dividends

	2016 £m	2015 £m
Declared and paid during the year		
Ordinary shares (equity):		
Final for 2015 paid: 21.2p per share (2014: 19.6p per share)	**140.9**	129.7
Interim for 2016 paid: 11.1p per share (2015: 10.5p per share)	**73.9**	69.6
	214.8	199.3
Proposed for approval at AGM (not recognised as a liability at 31 December)		
Ordinary shares (equity):		
Final for 2016: 20.6p per share (2015: 21.2p per share)	**137.0**	140.3

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

5 Intangible assets

	Capitalised software development £m	Other intangibles £m	Total £m
Cost			
1 January 2016	0.1	13.7	13.8
Additions	**1.3**	**0.1**	**1.4**
Intragroup transfer	**(0.4)**	**–**	**(0.4)**
Reclassification from tangible assets	**0.4**	**2.0**	**2.4**
31 December 2016	**1.4**	**15.8**	**17.2**
Amortisation			
1 January 2016	0.1	0.3	0.4
Charge for year	**–**	**0.7**	**0.7**
31 December 2016	**0.1**	**1.0**	**1.1**
Net book value at:			
1 January 2016	–	13.4	13.4
31 December 2016	**1.3**	**14.8**	**16.1**

Other intangibles relates to software purchased from third parties.

6 Tangible fixed assets

	Computer equipment £m	Furniture, fixtures and equipment £m	Short-term leasehold improvements £m	Total £m
Cost				
1 January 2016	36.9	0.1	1.0	38.0
Additions	**2.6**	**–**	**–**	**2.6**
Intragroup transfer	**–**	**–**	**0.2**	**0.2**
Asset retirements	**(5.0)**	**(0.1)**	**–**	**(5.1)**
Reclassification to intangible assets	**(2.4)**	**–**	**–**	**(2.4)**
31 December 2016	**32.1**	**–**	**1.2**	**33.3**
Depreciation				
1 January 2016	17.0	0.1	0.8	17.9
Charge for year	**4.0**	**–**	**0.2**	**4.2**
Intragroup Transfer	**–**	**–**	**–**	**–**
Asset retirements	**(5.0)**	**(0.1)**	**–**	**(5.1)**
31 December 2016	**16.0**	**–**	**1.0**	**17.0**
Net book value at:				
1 January 2016	19.9	–	0.2	20.1
31 December 2016	**16.1**	**–**	**0.2**	**16.3**

7 Financial assets

Current	**2016 £m**	2015 £m
Cash flow hedges	**0.7**	–
Non-designated foreign exchange forwards and swaps	**3.2**	0.3
Foreign exchange swaps held for foreign net investment	**–**	0.2
	3.9	0.5

8 Investments

(a) Fixed asset investments

	Shares in subsidiary undertakings £m
Cost	
1 January 2016	310.8
Additions	**1.0**
Impairment	**(0.8)**
31 December 2016	**311.0**

Direct investments	Country of registration and operation	Proportion of nominal value of issued shares held by the Company
Brokers Educational Supply Teachers Underwriting Agency Limited[2]	England	100%
Capita (LLRP) Trustee Limited[2]	England	100%
Capita Alternative Fund Services (Guernsey) Limited[2]	Guernsey	99.996%
Capita International Financial Services Holding Limited[2]	England	100%
Capita Fiduciary Group Limited[2]	Jersey	99.998%
Capita Financial Investments Limited[2]	England	100%
Capita Group Insurance PCC Limited[2]	Guernsey	100%
Capita Gwent Consultancy Limited[2]	England	51%
Capita Holdings Limited[1]	England	100%
Capita International Financial Services (Ireland) Limited[2]	Ireland	100%
Capita International Limited[2]	England	100%
Capita IRG Trustees Limited[2]	England	100%
Capita Legal Services Limited[2]	England	100%
Capita Life & Pensions Regulated Services Limited[2]	England	100%
Capita Life & Pensions Services Limited[2]	England	100%
Capita Financial Administrators (Guernsey) Limited[2]	Guernsey	8.333%
SIMS Holdings Limited[2]	England	0.001%

1 Investing holding company.

2 Outsourcing services company.

Certain subsidiaries of the Group have opted to take advantage of a statutory exemption from having an audit in respect of their individual statutory accounts. Strict criteria must be met for this exemption to be taken and has been agreed to by the Directors of those subsidiary entities. Listed on pages 187–188 are subsidiaries controlled and consolidated by the Group, where the Directors have taken advantage of the exemption from having an audit of the entities' individual financial statements for the year ended 31 December 2016 in accordance with s479A of The Companies Act 2006.

In order to facilitate the adoption of this exemption, Capita plc, the parent of the subsidiaries concerned, undertakes to provide a guarantee under s479C of the Companies Act 2006 in respect of those subsidiaries.

Details of all indirect subsidiaries, as required under Section 409 of the Companies Act 2006, are reported on pages 181–188.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

9 Debtors

Debtors due within 1 year	2016 £m	2015 £m
Amounts owed by subsidiary undertakings	1,001.8	1,150.1
Taxation recoverable	25.6	56.3
Other debtors	1.9	6.9
Currency swaps	27.9	43.8
Prepayments and accrued income	6.3	11.4
	1,063.5	1,268.5

Debtors due beyond 1 year	2016 £m	2015 £m
Prepayments and accrued income	1.9	3.9
Other taxes and social security	–	0.1
Deferred taxation	3.1	16.6
Currency swaps	293.8	143.8
Interest rate swaps	7.7	6.9
Cash flow hedges	10.5	–
	317.0	171.3

10 Creditors

Amounts falling due within 1 year	2016 £m	2015 £m
Amounts owed to subsidiary undertakings	95.7	78.5
Bank overdraft	309.9	350.9
Trade creditors	2.5	–
Other creditors	0.1	0.1
Accrual and deferred income	15.3	25.3
Fixed rate interest rate swaps	1.5	2.3
Cash flow hedges	4.5	6.2
Bonds	–	184.7
Other taxes and social security	0.7	–
Provisions	5.8	5.5
	436.0	653.5

Amounts falling due after more than 1 year	2016 £m	2015 £m
Bonds	260.6	224.0
Term Loans	350.0	–
Currency swaps	3.1	–
Cash flow hedges	3.2	18.5
Fixed rate interest rate swaps	83.6	64.7
Provisions	15.0	12.0
	715.5	319.2

The bonds are unsecured. The bank overdraft is guaranteed by cash held by other members of the Group.

11 Deferred taxation

	£m
At 1 January 2016	16.6
Utilisation of provisions in the year	**(13.5)**
At 31 December 2016 – included in debtors (note 9)	**3.1**

12 Share capital

	2016 m	2015 m	**2016 £m**	2015 £m
Allotted, called up and fully paid				
Ordinary shares of 2¹/₁₅p each				
At 1 January	**670.0**	670.0	**13.8**	13.8
Issued on exercise of share options	**0.1**	–	**–**	–
At 31 December	**670.1**	670.0	**13.8**	13.8

During the year, 131,037 (2015: 22,722) ordinary 2¹/₁₅p shares with an aggregate nominal value of £2,708 (2015: £471) were issued under share option schemes for a total consideration of £0.6m (2015: £0.1m).

Treasury shares

	2016 m	2015 m	**2016 £m**	2015 £m
Ordinary shares of 2¹/₁₅p each				
At 1 January	**5.8**	8.5	**0.2**	0.2
Shares allotted in the year	**(2.6)**	(2.7)	**(0.1)**	–
At 31 December	**3.2**	5.8	**0.1**	0.2

In 2016, the Group made no purchases of shares into Treasury and allotted 2.6m (2015: 2.7m) shares with an aggregate nominal value of £53,604 (2015: £56,570). The total consideration received in respect of these shares was £nil (2015: £1.6m).

Employee benefit trust shares

	2016 m	2015 m	**2016 £m**	2015 £m
Ordinary shares of 2¹/₁₅p each				
At 1 January	**2.2**	2.2	**0.1**	0.1
Shares allotted in the year	**(0.5)**	–	**–**	–
At 31 December	**1.7**	2.2	**0.1**	0.1

The Group will use shares held in the employee benefit trust (EBT) in order to satisfy future requirements for shares under the Group's share option and long-term incentive plans. During the year, the EBT allotted 0.5m (2015: £nil) ordinary 2¹/₁₅p shares with an aggregate nominal value of £10,372 (2015: £nil) to satisfy exercises under the Group's share option and long-term incentive plans. The total consideration received in respect of these shares was £nil (2015: £nil).

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

13 Commitments and contingent liabilities

(a) At 31 December 2016, the Company was committed to making the following payments under non-cancellable operating leases and other agreements:

	2016		2015	
	Property £m	**Other £m**	Property £m	Other £m
Not later than 1 year	**0.4**	**0.2**	0.9	0.3
Later than 1 year but not more than 5 years	**–**	**0.3**	0.4	0.5
	0.4	**0.5**	1.3	0.8

(b) The Company has a committed Revolving Credit Facility amounting to £600m (2015: £600m), of which £nil had been drawn down at 31 December 2016 (2015: £nil drawn down).

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

14 Borrowings

	2016 £m	2015 £m
Bonds	**260.6**	408.7
Term loans	**350.0**	–
	610.6	408.7
Repayments fall due as follows:		
Within 1 year:		
Bonds	**–**	184.7
	–	184.7
After more than 1 year:		
In more than 2 years but not more than 5 years	**350.0**	–
In more than 5 years	**260.6**	224.0
Total borrowings	**610.6**	224.0

The Company has issued guaranteed unsecured bonds as follows:

			EURm	
Issued 2015				
Series A	2.125	EUR	230.0	10 November 2022
Series B	2.875	EUR	60.0	10 November 2027
Series C	2.125	EUR	20.0	10 November 2022
Total of Euro denominated bonds			310.0	

All series are unsecured.

In 2016, the Company repaid bonds which reached maturity. These were US$130.0m June 2006 Series B bonds (GBP equivalent: £70.0m); US$74.0m September 2006 Series B bonds (GBP equivalent: £39.1m) and US$60.0m September 2006 Series C bonds (GBP equivalent: £31.9m). The Company has a committed Revolving Credit Facility amounting to £600m (2015: £600m), of which £nil had been drawn down at 31 December 2016 (2015: £nil drawn down).

15 Related party transactions

In the following, figures for purchases and sales are for transactions invoiced during the year inclusive of Value Added Tax where applicable. All transactions are undertaken at normal market prices.

During the year, the Company sold goods/services in the normal course of business to Urban Vision Partnership Limited for £0.1m (2015: £0.1m). In addition, the Company purchased goods/services in the normal course of business for £nil (2015: £nil). At the balance sheet date, the net amount receivable from Urban Vision Partnership Limited was £nil (2015: £nil).

During the year, the Company sold goods/services in the normal course of business to Service Birmingham Limited for £1.0m (2015: £0.9m). In addition, the Company purchased goods/services in the normal course of business for £0.1m (2015: £0.3m). At the balance sheet date, the net amount receivable from Service Birmingham Limited was £nil (2015: £0.1m).

During the year, the Company sold goods/services in the normal course of business to Entrust Support Services Limited for £0.5m (2015: £0.4m). In addition, the Company purchased goods/services in the normal course of business for £nil (2015: £0.1m). At the balance sheet date, the net amount receivable from Entrust Support Services Limited was £nil (2015: £1.3m).

During the year, the Company sold goods/services in the normal course of business to AXELOS Limited for £0.2m (2015: £0.2m). In addition, the Company purchased goods/services in the normal course of business for £0.8m (2015: £nil). At the balance sheet date, the net amount payable from AXELOS Limited was £2.8m (2015: £nil).

During the year, the Company sold goods/services in the normal course of business to Fera Science Limited for £0.9m (2015: £1.3m). In addition, the Company purchased goods/services in the normal course of business for £nil (2015: £nil). At the balance sheet date, the net amount receivable from Fera Science Limited was £0.1m (2015: £0.1m).

16 Pension costs

The Company operates a defined contribution scheme.

The pension charge for the defined contribution scheme for the year was £3.6m (2015: £4.0m).

17 Share based payment

The Company operates several share based payment plans and details of the schemes are disclosed in note 28 of the Group's consolidated financial statements on page 154.

Due to the failure to meet performance requirements of the underlying awards, the Group recognised a credit for share based payments in respect of employee services received during the year to 31 December 2016 of £(4.5)m (2015: £11.4m charge), all of which arises from equity-settled share based payment transactions. The total Company credit, after recharging subsidiary undertakings, credited to the profit and loss account in respect of share based payments was £(2.1)m (2015: £5.8m charged).

18 Indirect investments

Trading companies

Unless otherwise indicated, all shareholdings comprise ordinary shares, are owned indirectly by the Company and represent 100% of the issued share capital of the subsidiary. Dormant companies are marked (D). Companies dissolved since 31 December 2016 are marked *. Companies are listed under their registered office.

Company name	% ownership	Directly held by Capita plc	Share class
33-34 Winckley Square, Preston, Lancashire, PR1 3EL			
Legal & Trade Collections Limited (D)			
5th Floor, Fort Dunlop, Fort Parkway, Birmingham, B24 9FD			
Service Birmingham Limited	68.42%		(£1.00 Ordinary B)
17 Rochester Row, London, SW1P 1QT			
4Front Healthcare Limited			
Affinity Workforce Limited			
AMT-Sybex Limited			
Atlas Master Trust Trustee Limited			
AXELOS Limited	51%		(£0.01 Ordinary B)
Capita Asset Services (London) Limited			
Capita Asset Services (UK) Limited			
Capita Consulting Limited			
Capita Customer Management Limited			
Capita Customer Solutions (UK) Limited			
Capita Corporate Director Limited			
Capita Employee Benefits (Consulting) Limited			
Capita Employee Benefits Holdings Limited			
Capita Employee Benefits Limited			
Capita Energy Services Limited			
Capita Financial Administrators Limited			
Capita Financial Group Limited			
Capita Financial Managers Limited			
Capita Financial Services Holdings Limited	100%	•	
Capita Health Holdings Limited			
Capita Holdings Limited	100%	•	
Capita IT Services Holdings Limited			
Capita Justice & Secure Services Holdings Limited			
Capita Mortgage Administration Limited			
Capita Mortgage Services Limited			
Capita Mortgage Software Solutions Limited			
Capita Secure Information Solutions Limited			
Capita Translation and Interpreting Limited			
Capita Travel & Events Holdings Limited			
CFAC Payment Scheme Limited	33.33%		
CFI (Nominees) Limited			
Crown Northcorp Limited			
Electra-Net (UK) Limited			
Electra-Net Group Limited			
Electra-Net Holdings Limited			
Fera Science Limited	75%		(£1.00 Ordinary B)
FirstAssist Services Limited			
G L Hearn Limited			
Jessop Fund Managers Limited			
Liberty Communication Services Ltd.			
Medicare First Limited			
Metacharge Limited			
Micro Librarian Systems Limited			
CER Staffing Solutions Limited (previously Monarch Education Holdings Limited)			
Monarch Education Limited			
Pay360 Limited			
Projen Limited			
Projen EBT Trustee Limited			
RE (Regional Enterprise) Limited	51%		(£1.00 Ordinary A)
Right Document Solutions Limited			
Rooftop Mortgages Limited			
Smart DCC Limited			
Tascor E & D Services Limited			
Tascor Services Limited			
Team24 Limited			
Throgmorton UK Limited			
Trustmarque Solutions Limited			
Updata Infrastructure (UK) Limited			
Vision 2 Learn Limited			
Western Mortgage Services Limited			
ABS Network Solutions Ltd (D)			
Aghoco 1005 Limited (D)			
Aghoco 1018 Limited (D)			
AMT-Sybex (Engineering) Limited (D)			
Asset Checker Limited (D)	50%		
Behavioural Health Limited (D)			
Brentside Communications Limited (D)			
BSI (NW) Limited* (D)			
BSI 360 Limited (D)			
BSI Group Limited (D)			
BSI Holdings Limited (D)			
Cable Base Limited* (D)			
Call Centre Technology Limited (D)			
Capita (06243477) Limited (D)			
Capita (06413358) Limited (D)			
Capita ASOP Limited (D)			
Capita Employee Benefits Services Limited (D)			
Capita Financial Investments Limited	100%	•	
Capita GMPS Trustees Limited (D)			
Capita Group Secretary Limited (D)			
Capita Hartshead Consultancy Services Limited (D)			
Capita Hartshead Tracing Solutions Limited (D)			
Capita IB Solutions (UK) Limited (D)			
Capita Information Limited (D)			
Capita Insurance Services Holdings Limited			
Capita Intelligent Building Infrastructure Services Limited (D)			
Capita IT Services (BSF) Holdings Limited (D)			

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

18 Indirect investments continued

Company name	% ownership	Directly held by Capita plc	Share class
Capita Legal Services Limited	100%	•	
Capita Membership Management Online Limited (D)			
Capita Property and Infrastructure International Holdings Limited (D)			
Capita Property And Planning Limited (D)			
Capita Secure Resource Solutions Limited (D)			
Capita SIP Services Limited (D)			
Capita Symonds (Asia) Limited (D)			
Capita Symonds (Health & Safety) Limited (D)			
Cardiff Research Consortium (HOG) Limited (D)			
Chaya Ltd (D)			
Clinical Solutions Acquisition Limited (D)			
Clinical Solutions Holdings Limited (D)			
Clinical Solutions IP Limited			
Complete Imaging Trustee Company Limited (D)			
CPLAS Trustees Limited (D)			
CT Director Limited* (D)			
CT Nominee Limited* (D)			
Data Mail Systems Limited			
Design & Manage Europe Limited (D)	50%		
E.B. Consultants Limited (D)			
Elsworth Sykes Architecture Limited* (D)			
Elsworth Sykes Northern Limited (D)			
Elsworth Sykes Partnership Limited (D)			
Elsworth Sykes Trustee Limited (D)			
Entrust Education Services Limited (D)			
Equinox Employee Benefit Trust Limited (D)			
ESA Design Limited (D)			
ESPM Project Management Limited (D)			
Expotel Hotel Reservations Limited (D)			
First Retail Finance Limited (D)			
Fortek Computers Limited (D)			
Gissings Group Management Limited* (D)			
Gissings Holdings Limited* (D)			
Gissings Trustees Limited (D)			
I2Q Limited (D)			
IBS Opensystems (UK) Limited (D)			
Inter-City Paging Limited (D)			
International Reservations Limited (D)			
International Travel Group Limited (D)			
Inventures Limited (D)			
Latemeetings.com Limited (D)			
Medicals Direct Assets Limited (D)			
Medicals Direct Clinics Limited (D)			
Medicals Direct Group Limited (D)			
Medicals Direct Healthcare Limited (D)			
Medicals Direct Holdings Limited (D)			
Medicals Direct Medico-legal Limited (D)			

Company name	% ownership	Directly held by Capita plc	Share class
Micro Librarian Systems Holdings Limited (D)			
Multi-Tech Contracts Limited (D)			
NB Finance Limited (D)			
NB Real Estate Group Limited (D)			
NB Real Estate Holdings Limited			
NIS Europe Limited (D)			
Nova Bidco Limited (D)			
Nova Midco Limited (D)			
Nurse Direct Limited (D)			
Orbit Benefits Limited (D)			
PIFC Consulting Limited (D)			
Property Research Limited (D)			
Ramesys (UK) Limited (D)			
Ramesys EBT Limited (D)			
Re Ltd (D)			
Red Procurement and Business Systems Ltd (D)			
Retain International Limited (D)			
Right Document Solutions Holdings Limited (D)			
S.G. Ingram : Actuary Limited (D)			
Sbj Benefit Consultants Limited (D)			
Sbj Professional Trustees Limited (D)			
Security Watchdog Limited (D)			
Settlement Integrated Solutions Limited (D)			
Smart Public Limited (D)			
Smiths Consulting Limited (D)			
STL Technologies Limited (D)			
Synetrix (Holdings) Limited (D)			
Synetrix Limited (D)			
The Olive Partnership Limited* (D)			
The Royal Borough Of Kensington And Chelsea Assured Homes Limited (D)			
Throgmorton Nominees LLP (D)			
Throgmorton Secretaries LLP (D)			
Throgmorton UK (No.2) Limited (D)			
Underwriting Direct Limited (D)			
Updata Infrastructure (North) Limited (D)			
Updata Infrastructure 2012 Limited (D)			
Venues Event Management Limited (D)			
Westhill Consulting Limited (D)			
Whale Rock Accounting Limited (D)			
Whale Rock Company Secretariat Limited (D)			
Whale Rock Directors Limited (D)			
Whale Rock Secretaries Limited (D)			
24 St Enoch Square, Glasgow, Scotland, G1 4DB			
Stirling Park LLP			
40 Eaton Avenue, Buckshaw Village, Chorley, Lancashire, PR7 7NA			
Parkingeye Limited			
42/44 Henry Street, Northampton, Northamptonshire, NN1 4BZ			
Equita Limited			

18 Indirect investments continued

Company name	% ownership	Directly held by Capita plc	Share class
4th Floor, 40 Dukes Place, London, EC3A 7NH			
Pacific Quay Nominees No. 1 Limited (D)			
Pacific Quay Trustees No. 1 Limited (D)			
White City Property Nominee Limited (D)			
White City Property Trustees Limited (D)			
4th Floor, Park Gate 161-163, Preston Road, Brighton, East Sussex, BN1 6AF			
Premier Medical Holdings Limited	19.90%		(£1 Ordinary A)
61-71 Victoria Street, Westminster, London, SW1H 0XA			
Capita Aurora Leasing Limited (D)			
Capita Insurance Services Group Limited (D)			
6th Floor, One America Square, 17 Crosswall, London, EC3N 2LB			
Brokers Educational Supply Teachers Claims Limited	50%		(£1.00 Ordinary B)
71 Victoria Street, Westminster, London, SW1H 0XA			
Capita Business Services Ltd			
Capita Insurance Services Limited			
Capita Life & Pensions Regulated Services Limited	100%	•	
Capita Life & Pensions Services Limited	100%	•	
Capita Property and Infrastructure Limited			
Capita Resourcing Limited			
Capita Retail Financial Services Limited			
Capita Specialist Insurance Solutions Limited			
Capita Treasury Solutions Limited			
Evolvi Rail Systems Limited			
Capita Inverita Limited (D)			
Capita Land Limited (D)			
Civic Centre, Chorley Road, Swinton, M27 5AS			
Urban Vision Partnership Limited	50.10%		(£1.00 Ordinary-b)
Daisy House Suite 1, Lindred Road Business Park, Nelson, Lancashire, BB9 5SR			
Daisy Updata Communications Limited	50%		(£1.00 Ordinary B)
Exchange House, 494 Midsummer Boulevard, Milton Keynes, MK9 2EA			
NB Real Estate Limited (D)			
Hillview House, 61 Church Road, Newtownabbey, Co Antrim, BT36 7LQ			
Capita Managed IT Solutions Limited			
AMT-Sybex (Ni) Limited (D)			
AMT-Sybex Holdings Limited (D)			
Learnserve Limited (D)			
Mr S Fisher, The Grange, Bishops Cleeve, Cheltenham, Gloucestershire, GL52 8YQ			
Cobex Corporate Member No. 1 Limited	50.10%		
Pavilion Building, Ellismuir Way, Tannochside Park, Uddingston, Glasgow, G71 5PW			
Barrachd Limited			

Company name	% ownership	Directly held by Capita plc	Share class
Capita IT Services Limited			
Capita Secure Mobile Solutions Limited (D)			
G2G3 Propulsion Ltd. (D)			
MPM Capita Limited (D)			
St David's House, Pascal Close, St Mellons, Cardiff, CF3 0LW			
Capita Gwent Consultancy Limited	51% (49% held by a subsidiary)	•	(£0.01 Preference)
The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU			
Brokers Educational Supply Teachers Underwriting Agency Limited (D)	100%	•	
Capita AESOP Trustees Limited (D)			
Capita Financial Software Limited			
Capita Glamorgan Consultancy Limited	51%		(£0.01 Ordinary A)
Capita International Financial Services Holdings Limited	100%	•	
Capita IRG Trustees Limited	100%	•	
Capita Managing Agency Limited			
Capita Property and Infrastructure Holdings Limited			
Capita Registrars Limited			
Capita Sinclair Henderson Limited			
Capita Travel and Events Limited			
Capita Trust Company Limited			
Capita (02481810) Limited* (D)			
Capita (3498350) Limited (D)			
Capita (Banstead 2011) Limited (D)			
Capita (D1) Limited (D)			
Capita (LLRP) Trustee Limited (D)	100%	•	
Capita 03075476 Limited (D)			
Capita ATL Pension Trustees Limited (D)			
Capita Company Secretarial Services Limited (D)			
Capita Consortium Nominees No. 1 Limited (D)			
Capita Consortium Nominees No. 2 Limited (D)			
Capita Consortium Nominees No. 3 Limited (D)			
Capita Grosvenor Limited (D)			
Capita Hartshead Benefit Consultants Limited (D)			
Capita Hartshead Pensions Limited (D)			
Capita Hartshead Solutions Limited (D)			
Capita International Retirement Benefit Scheme Trustees Limited (D)			
Capita IRG Trustees (Nominees) Limited (D)			
Capita KWS Limited (D)			
Capita Pension Secretariat Limited (D)			
Capita Pension Trustee Company (1997) Limited (D)			
Capita Pension Trustees Limited (D)			
Capita Share Plan Services Limited (D)			
Capita Treasury Services Limited (D)			
Capita Trust Corporate Limited (D)			
Capita Trust Corporate Services Limited (D)			

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

18 Indirect investments continued

Company name	% ownership	Directly held by Capita plc	Share class
Capita Trust Nominees No. 1 Limited (D)			
Capita Trust Nominees No. 2 Limited (D)			
Capita Trust Secretaries Limited (D)			
Capita Wealth and Distribution Services Limited (D)			
CMGL Group Limited (D)			
Eastgate Insurance Market Solutions Limited (D)			
Emergency Services Academy Limited (D)			
Equitable Holdings Limited (D)			
FPS Group of Companies Limited (D)			
Grosvenor Career Services Limited (D)			
IRG (Pension Trustees) Limited (D)			
John Crilley Limited (D)			
Lovejoy Partnership Limited			
Madagans Limited (D)			
Myshares Limited (D)			
Northern Administration Limited (D)			
Northern Registrars Limited (D)			
Personal Pension Management Ltd (D)			
Repair Management Services Holdings Limited (D)			
Repair Management Services Limited (D)			
Resource Management Limited (D)			
RIPA International Limited (D)			
Royal Exchange Trust Company Limited (D)			
Royal Exchange Trustee Nominees Limited (D)			
Sector Holdings Limited (D)			
SIMS Holdings Limited (D)	100%	•	
SIMS Limited (D)			
Sinclair Henderson Fund Administration Limited (D)			
Stentiford Close Registrars Limited (D)			
Synaptic Software Limited			
Tascor Limited (D)			
Two-Ten Communications Limited (D)			
The Riverway Centre, Riverway, Stafford, ST16 3TH			
Entrust Support Services Limited	51%		(£1.00 Ordinary X)
Unit 8, Wessex Park, Bancombe Road Trading Estate, Somerton, Somerset, TA11 6SB			
Ross & Roberts Limited			
33-37 Athol Street, Douglas, IM1 1LB			
Capita (Isle of Man) Limited (D)			
1004 Bin Hamoodah Building, Khalifa St., PO Box 113 740, Abu Dhabi			
Capita Property and Infrastructure Consultants LLC	49%		
12 Castle Street, St. Helier, JE2 3RT			
Braltrust Limited			
Capita Fiduciary Group Limited	100%	•	
Capita Financial Administrators (Jersey) Limited			
Capita Registrars (Jersey) Limited			
Capita Symonds (CI) Limited			
Capita Trust Company (Jersey) Limited			

Company name	% ownership	Directly held by Capita plc	Share class
Capita Trustee Services Limited			
Capita Trustees Limited			
Capita EP Limited (D)			
Capita Foundations Services Limited (D)	50%		
Capita Nominee Services 2 Limited (D)			
Capita Nominee Services 3 Limited (D)			
Capita Nominee Services Limited (D)			
Capita Nominees Limited (D)			
Capita Secretaries Limited (D)			
Capita Treasury Services (Jersey) Limited			
Forbrit Corporate Director 1 Limited (D)			
Forbrit Corporate Director 2 Limited (D)			
Forbrit Corporate Director 3 Limited (D)	50%		
Forbrit Corporate Director 4 Limited (D)	50%		
Forbrit Trustees Limited (D)			
Seaton Trustee Services Limited (D)			
Seaton Trustees Limited (D)			
Symonds Group (Jersey) Limited (D)			(£0.10 Ordinary A, £0.10 Ordinary B, £0.10 Ordinary C)
12, rue Guillaume Schneider, L-2522, Luxembourg, Grand Duchy of Luxembourg			
Immo Guillaume Schneider S.A.			
1603 C.C Wu Building, 302-308 Hennessy Road, Wan Chai, Hong Kong			
Capita IB Solutions (HK) Limited			
1st Floor, Tudor House, Le Bordage, St Peter Port, GY1 1DB			
Capita Financial Administrators (Guernsey) Limited	8.33% (91.67% held by a subsidiary)	•	
Capita Nominees 1 Limited (D)	50%		
Capita Nominees 2 Limited (D)	50%		
2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Republic of Ireland			
AMT Group Limited			
AMT-Sybex (I) Limited (D)			
AMT-Sybex (Research) Limited			
AMT-Sybex Group Limited			
AMT-Sybex (Software) Limited			
Capita Business Support Services Ireland Limited			
Capita Financial Administrators (Ireland) Ltd			
Capita Financial Managers (Ireland) Limited			
Capita IB Solutions (Ireland) Limited			
Capita International Financial Services (Ireland) Limited	100%	•	(EUR 1.30 A ordinary non voting, EUR 1.30 Ordinary)
Capita Registrars (Ireland) Limited			
Capita Trust Company (Ireland) Limited			
Marrakech Limited			
Rathcush Limited			
AMT-Sybex (Managed Services) Limited (D)			
Capita Corporate Trustees Limited			

18 Indirect investments continued

Company name	% ownership	Directly held by Capita plc	Share class
Capita IRG (BC) Limited (D)			
Dupree Holdings Limited			
Marrakech (Ireland) Limited (D)			
21/9, Warszawska Street, 40-009 Katowice, Poland			
ESA spółka z ograniczoną odpowiedzialnością			
4 Shenton Way, #28-03 SGX Centre 2, Singapore 068807			
Capita International Financial Services (Singapore) Pte. Ltd.			
50, Raffles Place, #32-01 Singapore Land Tower, Singapore, 048623			
Capita Insurance Services Asia Pte. Ltd.			
615 South DuPont Highway, Dover, Kent DE 19901, USA			
G2G3 (USA) LLC			
6th Floor, Adderley Block B, 11 Adderley Street, Cape Town, 8001, South Africa			
Full Circle Contact Centre Services (Proprietary) Limited			
803, Manning House , 38 Queen's Road Central, Hong Kong			
ThirtyThree APAC Limited (previously Work Group Limited)			
850 New Burton Road, Suite 201, Dover DE 19904, USA			
Capita (USA) Holdings Inc.			
Capita Business Services (USA) LLC			
Capita CTI (USA) LLC			
ThirtyThree USA Inc. (previously Work Group Inc.)			
8th Floor, Union Castle Building, 55 St Georges Mall, Cape Town, 8001, South Africa			
Capita (South Africa) (Pty) Limited (D)			
9 Allée Scheffer, Luxembourg, L-2520			
P.A.L. Management Services Sarl			
CAPITA (Luxembourg) s.a r.l			
Capita Fiduciary Group S.A.			(EUR 1,000.00 Ordinary, EUR 1,000.00 Preferred)
Capita Fiduciary S.A.			
Alameda dos Guaramomis, no 930, 1st Floor, Suite 01, Bairro, Moema, CEP 04076-011, Brazil			
Eureka Asessoria Empresarial Ltda (D)	49.90%		
Annenstraße 24a. 8020 Graz, Austria			
Capita Customer Services (Austria) GmbH			
Block C, Second Floor, Maynooth Business Campus, Maynooth, Co. Kildare, Republic of Ireland			
Capita Asset Services (Ireland) Limited			
Centrum Biurowe Lubicz I, ul. Lubicz 23, 31-503 Krakow, Poland			
Capita (Polska) spółka z ograniczoną odpowiedzialnością			
Clinch's House, Lord Street, Douglas, IM99 1RZ			
Capita Life and Pensions Services (Isle of Man) Limited			

Company name	% ownership	Directly held by Capita plc	Share class
Capita Registrars (Isle of Man) Limited			
Capita Retail Financial Services (Isle of Man) Limited			
Corporation Service Company 2711, Centerville Road, Suite 400, Wilmington, County of Newcastle DE 19808, USA			
CAS Services US Inc			
Clinical Solutions Group (International) LLC (D)			
Corporation Trust Centre, 1209 Orange Street, Wilmington, New Castle DE 19801, USA			
Capita Translation and Interpreting LLC			
Dohany u. 12, 1074, Budapest, Hungary			
Capita Hungary International Financial Administrative Services Limited Liability Company			
Große Bockenheimer Str.50, 60313, Frankfurt am Main, Germany			
Capita Asset Services GmbH			
Hardturmstrasse 101, 8005, Zürich, Switzerland			
Telag AG			
Capita International Financial Services (Schweiz) GmbH			
Immermannstrasse 45, 40210, Düsseldorf, Germany			
Capita West GmbH			
Jachthavenweg 109H, 1081 KM, Amsterdam, Netherlands			
Capita Administrative Services (Netherlands) B.V.			
Capita Asset Services B.V.			
Capita Asset Services Group (Netherlands) B.V.			
Capita Debt Solutions (Netherlands) BV (D)			
NHS Corporate and Fiduciary Services B.V. (D)			
NHS Outsourcing B.V. (D)			
Käfertaler Str. 190, 68167, Mannheim, Germany			
adato GmbH			
Kelzstraße 21,07318, Saalfeld, Germany			
3C DIALOG Saalfeld GmbH			
Kommandantenstraße 22, 10959, Berlin, Germany			
Capita Customer Services (Germany) GmbH			
Capita rentable GmbH			
Capita Süd GmbH			
Konstanzerstrasse 17, 8274, Tägerwilen, Switzerland			
Capita Customer Services AG			
Pro Fiducia Treuhand AG			
Landmark Virtual Offices, Africa Re Building – Plot 1679, Karimu Kotun Street, Victoria Island, Lagos, Nigeria			
Capita Norman + Dawbarn Limited (D)	97.30%		

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

18 Indirect investments continued

Company name	% ownership	Directly held by Capita plc	Share class
Level No. 3, Gate Village 7, Dubai International Finance Centre, Dubai, PO BOX 49983, UAE			
Capita (Dubai FZ) Limited			
Maison Trinity, Trinity Square, St. Peter Port, GY1 4AT			
Capita Group Insurance PCC Limited	100%	•	(£1 CG1, £1 CIC2, £1 Ordinary)
Mont Crevelt House, Bulwer Avenue, St Sampson, GY2 4LH			
Capita Alternative Fund Services (Guernsey) Limited	99.99% (0.01% held by a subsidiary)	•	
Capita Registrars (Guernsey) Limited			
Montague House, Adelaide Road, Dublin 2, Republic of Ireland			
Capita Life and Pensions Services (Ireland) Limited	0.001% (99.999% held by a subsidiary)	•	
Nassauer Ring 39-41, 47803, Krefeld, Germany			
Capita Energie Services GmbH	74.90%		
Plant 06, Gate No. 2, Godrej and Boyce Complex, LBS Marg, Pirojshahnagar, Vikhroli (West), Mumbai, 400 079, India			
Capita India Private Limited			
Capita IT and Consulting India Private Limited			
Capita Offshore Services Private Limited	0.01% (99.99% held by a subsidiary)	•	
Capita SIMS (India) Private Limited			
Capita Symonds India Private Limited			
CS Clinical Solutions India Private Limited			
Riyadh, Saudi Arabia			

Company name	% ownership	Directly held by Capita plc	Share class
Capita Symonds Property and Infrastructure Consultants (KSA) (D)	50%		
Room 615 Zhucheng Building, No Jia 6 Zhongguancun South Street, Haidian District, Beijing 100086, China			
Symonds Project Management Consultancy (Beijing) Ltd (D)			
Subbelrather Str. 15, 50823, Köln, 50823, Germany			
3C DIALOG GmbH			
Suite 13.03, 13th Floor, Menara Tan & Tan, 207 Jalan Tun Razak, 50409 Kuala Lumpur, Malaysia			
Symonds Travers Morgan (Malaysia) SDN. BHD			
Suite 4301-5, Tower One Times Square, 1 Matheson Street, Causeway Bay, Hong Kong			
Symonds Travers Morgan (Hong Kong) Limited (D)			
Themistokli Dervi, 3, Julia House, P.C. 1066, Nicosia, Cyprus			
Capita Cyprus Holdings Limited			
Capita Cyprus Limited (D)			
Unit B, West Cork Technology Park, Clonakilty, Cork, Republic of Ireland			
Capita Customer Solutions Limited			
Wing 'C', Marisoft Annex, Vadgaon sheri, Kalyani Nagar, Pune, Maharashtra, 411014, India			
Ventura (India) Private Limited			

18 Indirect investments continued

Audit exempt

Unless otherwise indicated, all shareholdings comprise ordinary shares, are owned indirectly by the Company and represent 100% of the issued share capital of the subsidiary. The registered number for each can be found beneath the company name.

Company name	% ownership	Directly held by Capita plc	Share class
33-34 Winckley Square, Preston, Lancashire, PR1 3EL			
Akinika Debt Recovery Limited 01242485			
Akinika Limited 01613010			
Akinika UK Limited 02404237			
Debt Solutions (Holdings) Limited 03673307			
Pavilion Building, Ellismuir Way, Tannochside Park, Uddingston, Glasgow, G71 5PW			
Barrachd Intelligence Solutions Limited SC430881			
Capita Scotland General Partner (Pension) Limited SC434757			
Opin Systems Limited SC124793			
Sigma Seven Limited SC212846			
The G2G3 Group Ltd. SC199414			
71 Victoria Street, Westminster, London, SW1H 0XA			
Capita Aurora Limited 04130898			
Capita Property and Infrastructure (Structures) Limited 02082106			
Woolf Limited 01564535			
The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU			
Capita Health and Wellbeing Limited 03185776			
Capita International Limited 02683437		•	
CMGL Holdings Limited 05509018			
Beacon House, 27 Clarendon Road, Belfast, BT1 3PR			
Capita HELM Corporation Limited NI025165			
The Beacon, 176 St Vincent Street, Glasgow, G2 5SG			
Capita Mclarens Limited SC021024			
Floor 2, Ibex House, 42-47 Minories, London, EC3N 1DY			
Cost Advocates Limited 04116378			
Hepworth House, Claypit Lane, Leeds, LS2 8AE			
Optima Legal Services Limited 05781608			
24 St Enoch Square, Glasgow, Scotland, G1 4DB			
Sp Collect Ltd SC371511			

Company name	% ownership	Directly held by Capita plc	Share class
17 Rochester Row, London, SW1P 1QT			
Amity Communications Limited 06547495			
Aspire Business Solutions Ltd 04375033			
BCS Design Ltd 04858971			
Beovax Computer Services Limited 02723304			
Booking Services International Limited 01833039			
Brightwave Enterprises Limited 07066783			
Brightwave Holdings Limited 07462788			
Brightwave Limited 04092349			
Capita Building Standards Limited 09503007			
Capita Gas Registration and Ancillary Services Limited 05078781			
Capita HCH Limited 02384029			
Capita IT Services (BSF) Limited 01855936			
Capita Property and Infrastructure International Limited 02752154			
Capita Southampton Limited 10207906	80%		
Capita Workforce Management Solutions Limited 03699640			
Cardiff Research Consortium Limited 03962364			
Car Parking Partnership Limited 06931699			
CCSD Services Limited 05399460			
CHKS Limited 02442956			
Clinical Solutions Finance Limited 05337592			
Clinical Solutions International Limited 04394761			
Complete Imaging Limited 02038787			
Computerland UK Limited 02275625			
Contact Associates Limited 05601393			
Creating Careers Limited 03885966			
Cymbio Limited 06462086			
Data Equipment Limited 01738098			

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

18 Indirect investments continued

Company name	% ownership	Directly held by Capita plc	Share class
Eclipse (Hardware) Limited 02210162			
Euristix (Holdings) Limited 05564856			
17 Rochester Row, London, SW1P 1QT			
Euristix Limited 05420948			
Fire Service College Limited 08102633			
Fish Financial Solutions Limited 07467833			
G L Hearn Management Limited 01984639			
G2G3 Digital Limited 03063669			
Hallco 1626 Limited 06603462			
Health Analytics Ltd 06947862			
ITR International Translation Resources Limited 020005663			
Knowledgepool Group Limited 04968329			
Liberty Printers (Ar And Rf Reddin) Limited 02920033			
Magnos (Holdings) Limited 04962264			
Marrakech (U.K.) Limited 03785263			
Medicals Direct International Limited 07168308			
Medicals Direct Screenings Limited 02706045			
Network Technology Solutions (UK) Limited 05224904			

Company name	% ownership	Directly held by Capita plc	Share class
Orange Bus Limited 04444974			
PageOne Communications Limited 04560277			
Pervasive Limited 05679204			
Pervasive Networks Limited 03429318			
Projen Holdings Limited 06588350			
Retain International (Holdings) Limited 07871708			
S3dc Limited 07072033			
SDP Regeneration Services 2 Limited 04626963			
Smartpoint Limited 02831803			
Solid State Solutions Limited 02301026			
Tempus Finance Limited 06943069			
The Write Research Company Limited 04272836			
Thirty Three Group Limited 03626724			
Thirty Three LLP OC372712			
Ventura (UK) India Limited 05131185			
Voice Marketing Limited 05820091			
Westpoint Limited 03839254			

ADDITIONAL INFORMATION FOR SHAREHOLDERS

e-communications for shareholders

Help us communicate with you in a greener, more efficient and cost-effective way by switching from postal to email communications. Registering for e-communications enables shareholders to:

- Obtain secure online access to personal shareholding details
- Submit queries to our registrars, download forms and obtain general shareholder information
- Update shareholding accounts online.

Registering for e-communications is very straightforward. Go to www.capitashares.co.uk

Key dates for your diary

Annual General Meeting (AGM): 13 June 2017

The AGM will be held at 11.00 am on Tuesday 13 June 2017 at London Conrad St James Hotel, 22-28 Broadway, Westminster, London SW1H 0BH. The Notice of Meeting and proxy card for the meeting are enclosed with this report.

Final dividend payment: 3 July 2017

Get in touch

Shareholder enquiries

We aim to communicate effectively with our shareholders, via our website www.capita.com/investors. Shareholders who have questions relating to the Group's business or wish to receive further hard copies of annual reports should contact Capita's investor relations team on 020 7799 1525 or email: corporate@capita.co.uk.

If you have any queries about your shareholding or dividend payments please contact the Company's registrar, Capita Asset Services:

Capita Asset Services

The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Email: shareholderenquiries@capita.co.uk
Tel (UK): 0871 664 0300*
(Overseas): +44 371 664 0300*

Lines are open between 9.00am – 5.30pm, Monday to Friday excluding public holidays in England and Wales.

Other helpful shareholder services

Share dealing

A quick and easy share dealing service is available for existing Capita shareholders to either sell or buy Capita plc shares online or by telephone.

For further information go to: www.capitadeal.com or telephone 0371 664 0445*. Lines are open between 8.00am – 4.30pm, Monday to Friday excluding public holidays in England and Wales.

If you have only a small number of shares which are uneconomical to sell, you may wish to donate them to charity free of charge through ShareGift (Registered Charity 1052686). Find out more at www.sharegift.org.uk or by telephoning 020 7930 3737.

Dividend reinvestment plan (DRIP)

We offer a DRIP to enable shareholders to purchase additional Capita shares with their whole cash dividend. These further shares would be bought in the market on behalf of shareholders under a special low-cost dealing arrangement. Further details of the DRIP can be found online. Please visit the shareholder services section at www.capita.com/investors or call Capita Asset Services on 0371 664 0381*. Lines are open between 9.00am – 5.30pm, Monday to Friday excluding public holidays in England and Wales.

International dividend payment service

Capita Asset Services has partnered with Deutsche Bank to provide you with a service that will convert your sterling dividends into your local currency at a competitive rate. You can choose to receive payment directly into your bank account, or alternatively, we can send you a currency draft. For further information call Capita Asset Services on +44 (0) 371 664 0300* from overseas or email: ips@capita.co.uk. Lines are open between 9.00am – 5.30pm, Monday to Friday excluding public holidays in England and Wales.

Registered office

Capita plc
71 Victoria Street
Westminster
London SW1H 0XA
Tel: 020 7799 1525
Fax: 020 7799 1526

Registered number: 2081330

Company Secretary

Francesca Todd

Stockbrokers

Citi
Citigroup Centre
33 Canada Square
Canary Wharf
London E14 5LB

Deutsche Bank A G
1 Great Winchester Street
London EC2N 2DB

Auditor

KPMG LLP
15 Canada Square
London E14 5GL

Bankers

Barclays Bank plc
1 Churchill Place
London E14 5HP

HSBC Bank plc
8 Canada Square
London E14 5HQ

The Royal Bank of Scotland Plc
280 Bishopsgate
London EC2M 4RB

The Directors present the annual report for the year-ended 31 December 2016 which includes the strategic report, governance and audited accounts for this year. Pages 1–105 of this annual report comprise a report of the directors that has been drawn up and presented in accordance with English company law and the liabilities of the directors in connection with that report shall be subject to the limitations and restrictions provided by such law. Where we refer in this report to other reports or material, such as a website address, this has been done to direct the reader to other sources of Capita plc information which may be of interest to the reader. Such additional materials do not form part of this report.

Designed and produced by Radley Yeldar
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(new business name for 2017)

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