CAPITA

2 March 2017

## Full year results for the year ended 31 December 2016

***Challenging year – decisive actions taken to improve performance***

| Financial highlights | Underlying[1] 2016 | Underlying[1] 2015 | Underlying YOY change | Reported 2016 | Reported YOY change |
|---|---|---|---|---|---|
| Revenue | **£4,898m** | **£4,674m** | **+5%** | **£4,909m** | **+1%** |
| Operating profit | **£541.3m** | **£639.0m** | **(15)%** | **£148.3m** | **(28)%** |
| Profit before tax | **£475.3m** | **£585.5m** | **(19)%** | **£74.8m** | **(33)%** |
| Earnings per share | **56.67p** | **70.73p** | **(20)%** | **5.55p** | **(30)%** |
| Total dividend per share | **31.7p** | **31.7p** | **—** | **31.7p** | **—** |

## Highlights

***2016 financial summary: a challenging year***

- Underlying revenue growth on a like-for-like basis[1] of 3.4%, including 0.1% organic growth
- Underlying cash flow from operations[1] £750m (2015:£686m), a cash conversion ratio of 139% (2015:108%)
- Free cash flow after non-underlying items[1] £409m (2015: £304m)
- Net debt at end December 2016 was £1,779m (2015: £1,839m)
- Underlying profit before tax[1] down 19% to £475.3m (2015: £585.5m), including the recently announced £39.6m write down of accrued income with regard to our 2016 review of contracts
- Reported profit before tax £74.8m (2015: £112.1m)
- Underlying earnings per share[1] down 20% to 56.67p (2015: 70.73p)
- Reported earnings per share down 30% to 5.55p (2015: 7.96p)
- Total dividend unchanged at 31.7p (2015: 31.7p).

***Major contracts: existing relationships extended and first strategic partnership in Europe***

- £1.3bn of major contract wins and extensions (2015: £1.8bn) including:
  - mobilcom-debitel customer services strategic partnership, worth £197m over 7 years
  - Extension of our relationship with Department for Work and Pensions Personal Independence Payments (PIP) assessments, worth £210m (based on volume assumptions)
- Major contract win rate 1 in 3
- Bid pipeline £3.8bn (December 2016: £3.8bn), with a weighted average contract length of 7 years (December 2016: 7 years).

***Decisive actions position us better to exploit our fundamental strengths and return to growth***

- Business review: commenced process to exit the majority of Capita Asset Services and Specialist Recruitment businesses to increase focus on technology-enabled business process and customer management and reduce leverage
- New leaner, simpler organisation and management structure: customer facing, with better alignment of sales and operations, shorter reporting lines, less complexity and more transparency
- Performance improvement initiatives: cost actions and turn-around commenced in IT Services
- Growth agenda: sales teams re-shaped to drive growth through both major contracts and additional new, high value, replicable services to new and existing clients in the public and private sectors.

[1] *Refer to appendix for calculation of Alternative Performance Measures*

**Andy Parker, Chief Executive of Capita plc, commented:**

“2016 was a challenging year and Capita delivered a disappointing performance. We are determined to turn this performance around. We have taken quick and decisive action to reduce our cost base, increase management accountability, simplify the business, strengthen the balance sheet, and return the Group to profitable growth.

“We remain very confident that our target markets continue to offer long-term structural growth. Capita is well placed in these markets with our unique set of complementary capabilities and the talent of our people. The bid pipeline of major contract opportunities remains active, and we are also seeing success in providing additional new, high value, replicable services to clients.

“The proposed sale of our Asset Services businesses and Specialist Recruitment businesses are on track. We have received good interest and, following regulatory approvals where required, we remain confident in concluding these transactions this year, which will leave us with a more focussed Group and significantly strengthen our balance sheet.

“We expect 2017 to be a transitional year for the business, as we complete our disposals, bed down the structural changes inside the business, and re-position Capita for a return to growth in 2018.”

**Analyst & investor presentation:**

Andy Parker, Chief Executive of Capita plc, will host an analyst presentation in London at 8:15 am UK time today.

There will be a conference call and live webcast of the full event. Details can be found at www.capita.com/investors.

**Participant Dial-in:** +44 (0)20 3059 8125. Participant password: Capita

(Please dial into the call in time to allow for registration)

**Replay:** A replay of the conference call will be available for 7 days by dialling +44 (0)121 260 4861 (access code is 5251353#).

**For further information:**


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|---|---|
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**About Capita**

Capita is a leading UK provider of technology enabled customer and business process services and integrated professional support services. With 73,000 people at over 450 sites, including 98 business centres across the UK, Europe, India and South Africa, Capita uses its expertise, infrastructure and scale benefits to transform its clients' services, driving down costs and adding value. Capita is quoted on the London Stock Exchange (CPI.L), with 2016 underlying revenue of £4.9 billion. Further information on Capita can be found at: http://www.capita.com

**Capita plc**

**Full year results for the year ended 31 December 2016**

## Chief Executive's Review

2016 was a challenging year and our financial performance was weaker than we had expected at the outset of the year. There were a number of reasons for this. The business process management (BPM) market in 2016 was generally more subdued, some client decisions were deferred and we also won a lower proportion of major bids than in recent years. Furthermore, some of our businesses under-performed and we experienced weakness in a number of discretionary services towards the year end.

This weaker financial performance masked a number of positive developments over the course of the year. We renewed and extended a significant number of contracts, including our Department for Work and Pensions Personal Independence Payments and BBC TV Licensing contracts, and announced our first strategic transformational customer management partnership in Europe with mobilcom-debitel.

Most importantly, we took a series of decisive actions in the fourth quarter to address the weaker trading performance, reposition the Group and create a simpler business, with a clear pathway to return to sustainable profitable growth:

- In November, we announced changes to our management and business structure, effective 1 January 2017, which better align sales and operations to the markets and customers we address, shorten reporting lines, reduce complexity and increase management oversight.
- In December, we announced our intention to dispose of a group of businesses within the Capita Asset Services division and, following unsolicited interest, our stand-alone Specialist Recruitment businesses to increase the Group's focus on technology-enabled BPM and reduce leverage.
- We commenced a number of performance improvement initiatives, including actions to reduce our cost base and the appointment of new management to drive the turn-around of our IT Services division.

Finally, over the course of 2016, we re-shaped our sales teams to respond to the evolving needs of our clients in their dynamically changing markets and drive growth from additional new, high value, replicable solutions alongside our continued focus on securing major contracts.

These actions position us better to exploit our fundamental strengths of having leading competitive positions in large, growing addressable markets and our unique combination of business re-engineering, customer service and IT, digital and software credentials.

### A clear strategy and business model

Capita's strategy is to focus upon providing technology enabled business process and customer management in both the private and public sector, making processes smarter, organisations more efficient and customer experiences better. We aim to maintain our UK market leadership, whilst growing our presence across selected growth markets overseas, supported by a unique blend of onshore, nearshore and offshore business centres. We are focused upon delivering strong financial performance and returns through profitable organic growth and small to medium sized acquisitions, generating revenues and profits in two ways:

1. Long-term contracts: c.60% of revenues
   Revenues derived from long-term contracts and partnerships, where we contract with clients in the public and private sector to deliver customer-facing, middle or back office services. This gives us good visibility of forward revenues. Our track record of retaining these long-term clients is strong and we have no material contracts up for rebid until 2019.

2. Shorter term contracts and trading businesses: c.40% of revenues
   Revenues are generated from annual or rolling contracts, in areas such as software, resourcing and business travel, where we have long-standing client relationships, and the provision of transactional services, such as property and IT reselling, which are additive to our value propositions.

**A simpler structure**

In 2016 and effective from January 2017, Capita announced a restructure of the Group to simplify the business model, better align sales and operations, and provide greater management strength and depth across all of Capita's operations. As a result, we reorganised the previous 11 divisions into 6 market-facing divisions. These are:

1. Private Sector Partnerships – business process and customer management services for corporates in the UK and Europe

2. Public Service Partnerships – business process, customer management and specialist services for public sector organisations, and real estate and property services

3. Professional Services – high growth commercial businesses and partnership models and services to attract, develop and retain workforces

4. Digital & Software Services – sector and task specific software and services, digital, data and emerging technology solutions

5. IT Services – specialist network solutions, IT management and infrastructure services and IT equipment solutions
6. Asset Services – shareholder solutions, fund solutions, trust and corporate services and debt and banking solutions.

This structure has been in place since 1 January 2017. The new structure will reduce complexity and increase oversight, providing better accountability with a more streamlined management structure reporting directly to the Chief Executive.

## Financial review

- **Revenue** – the Group increased reported revenue by 1.5% to £4,909m (2015: £4,837m) and underlying revenue[1] by 4.8% to £4,898m (2015: £4,674m). Underlying revenue on a like-for-like basis[1], including a business which was previously held for sale in 2015, increased by 3.4% including 0.1% organic growth and 3.3% from acquisitions completed in 2015 (1.6%) and 2016 (1.7%). Major contracts growth was 4.8%, including the full benefit from the Primary Care Support England contract and the continued expansion of Department for Work and Pensions PIP assessments. Attrition was 3.4%, including the planned step down on Telefónica UK (O2). Divisional trading was mixed, with a steady performance in the Digital & Software Solutions division outweighed by organic declines in our specialist recruitment, property and technology and enterprise solutions businesses. Looking forward, currently we have booked 2.9% growth from major contracts and expect 4.4% attrition in 2017. Whilst we have no major contract

[1] *Refer to appendix for calculation of Alternative Performance Measures*

renewals until 2019, one of our major life and pensions clients is conducting a strategic review, the outcome of which is uncertain but could result in the termination of the contract with any associated costs.

- **Underlying operating profit** – underlying operating profit[1] fell by 15% to £541.3m (2015: £639.0m). Profit declined as a result of £25m one-off costs in relation to the delayed delivery of new IT systems on the Transport for London (TfL) congestion charging contract, the step down on O2 and weak trading in technology solutions and IT enterprise services, property and Capita Europe. As announced on 21 February, as part of our year-end process we undertook a comprehensive review across our major contracts. Following this review we took the decision to write down £39.6m of accrued income relating to historic deferred costs which were being amortised over the remaining life of a few specific contracts. The deterioration in performance in year was partially offset by an increase in property commercialisation profits, where value is generated from assets that are acquired by Capita as part of a wider arrangement.

- **Underlying operating margin** – underlying operating margin[1] 11.1% (2015: 13.7%), reflecting the aforementioned items which have impacted upon our trading performance.

- **Underlying net finance costs** – the underlying net interest charge[1] was £66.0m (2015: £53.5m). We expect underlying interest costs to be in the range of £70m to £75m in 2017, reflecting an increase in our cost of debt and a £2m increase in pension finance costs. This is subject to the timing of disposals.

- **Underlying profit before tax** – underlying profit before tax[1] decreased by 19% to £475.3m (2015: £585.5m) after the £39.6m impairment of accrued income.

- **Non-underlying items** – non-underlying charges were £400.5m (2015: £473.4m), including acquired intangible amortisation and impairment of £166.9m (2015: £165m), goodwill impairment of £66.6m (2015: £28.3m), restructuring costs of £59.4m in relation to a major reorganisation programme and contract related asset impairments of £58.3m (2015: £76.7m). These and a number of other items are detailed in note 3 of this statement.

- **Reported profit before tax** – reported profit before tax was £74.8m (2015: £112.1m), reflecting the impact of non-underlying charges outlined above.

- **Underlying earnings per share** – underlying earnings per share[1] fell by 20% to 56.67p (2015: 70.73p). Our underlying tax rate was 18.5% (2015: 18.5%).

- **Reported earnings per share** – reported earnings per share fell by 30% to 5.55p (2015: 7.96p).

- **Dividends** – the Board is recommending a final dividend of 20.6p per ordinary share (2015: 21.2p), making a total of 31.7p for the year (2015: 31.7p). The final dividend will be payable on 3 July 2017 to shareholders on the register at the close of business on 26 May 2017.

- **Underlying cash flow** – underlying cash flow from operations[1] was £750m (2015: £686m), with an underlying operating profit to cash conversion ratio of 139% (2015: 108%). In part this is due to working capital employed decreases through reducing long-term WIP and renegotiating payment terms on certain contracts. Net capital expenditure was £154m (2015:

[1] *Refer to appendix for calculation of Alternative Performance Measures*

£198m). In 2017, we expect our cash conversion to be lower than last year and capital expenditure to be broadly in line with last year. Underlying free cash flow[1], defined as operating cash flow less net capital expenditure, interest and taxation, was £472m (2015: £347m) and free cash flow after non-underlying expenses was £409m (2015: £304m). We continue to target at or above 100% cash conversion.

- **Net debt** – net debt at end December 2016 was £1,779m (2015: £1,839m). As at 31 December 2016, we had £1,596m of private placement bond debt of which £124m matures in 2017 and the remainder matures over the period up to 2027. In addition, we have £650m of bank debt which matures over 2018 and 2019, and an undrawn £600m revolving credit facility of which £81m matures in August 2020 and £519m in August 2021.

  Our adjusted net debt to adjusted EBITDA[1] ratio in 2016 was 2.89 (2015: 2.45) and interest cover[1] was 8.8 times (2015: 13.2 times). Our aim continues to be to keep the ratio of net debt to EBITDA in the range of 2 to 2.5 over the long-term.

- **Pension** – at the end of 2016 our pension deficit was £345m. The next full valuation date is April 2017 and we expect a £12m increase in the IAS 19 pension charge this year, including the aforementioned £2m increase in pension finance costs.

- **Return on capital employed** – our post-tax return on average capital employed[1] (ROCE) in 2016 was 12.7% (2015: 15.0%), which compares to our estimated post-tax WACC of 7.1%.

**Disposals and acquisitions**

In December, we announced our intention to dispose of a group of businesses within the Capita Asset Services division which deliver shareholder, fund, debt and banking solutions and trust and corporate services. These businesses are stand-alone, with little integration or synergy with other divisions, operate in regulated markets and, in some cases, are looking to grow into areas at the outer edge of our risk appetite. They contributed around £300m revenue and £60m underlying operating profit in 2016. The Board believes that they will be better positioned to prosper under different ownership.

There has been good initial interest in the Capita Asset Services businesses. The disposal process is on track, we are about to commence active marketing and we continue to expect completion, following regulatory approvals, during the second half of 2017.

Following unsolicited approaches, we have also commenced a process to dispose of our Specialist Recruitment businesses which are not integral to supporting our technology-enabled outsourced solutions. This includes Capita Education Recruitment, Monarch, Team24 and Medicare First, the aggregate contribution from which was around £160m revenue and £8m underlying operating profit in 2016.

The sale of these businesses will leave Capita more focused on the provision of technology-enabled business process and customer management services and will significantly strengthen the balance sheet.

[1] *Refer to appendix for calculation of Alternative Performance Measures*

Capita acquires small to medium sized businesses to build capability in existing markets, enter new markets and enhance our future organic growth potential. In 2016, we invested a total of £86.5m, excluding deferred and contingent considerations, in acquiring 8 businesses, the largest of which was Trustmarque, a software reseller and provider of software asset management, IT and cloud services, for £57m. We also completed the disposals of Capita Medical Reporting and Fish Administration in 2016, both of which were held for sale at the 2015 year end.
We expect a limited amount of acquisition activity over the next 12 to 18 months.

## Sales and business development review

In 2016, we commenced an initiative to re-align our major sales efforts to the dynamically changing needs of our clients, broadening sources of growth.

Our Group Business Development team continue to focus on securing major outsourcing, partnering and asset commercialisation contracts, shaping and bidding for contracts across our target vertical markets. These opportunities are reported in our major sales bid pipeline.

Group Business Development additionally now work on campaigns of new, replicable, high value disruptive solutions. These provide good opportunities to increase client penetration, such as digital and procurement solutions in local government and our new technology enabled proposition in the social care market. These opportunities are not captured in our bid pipeline but should generate good returns on investment and are potentially meaningful to future profit growth. Finally, Group Business Development engage with the divisional sales teams to enhance their capability and sales performance.

We were pleased to announce new and extended contracts with a total aggregate value of £1.34bn in 2016 (2015: £1.8bn), comprising 46% new business and 54% extensions and renewals. Our win rate was 1 in 3 by value in 2016, reflecting a lower conversion rate in the private sector where we missed out on a large mortgage administration opportunity in the first half of the year.

**Major contracts announced in 2016**

**Private sector**

- **mobilcom-debitel** – selected as strategic partner to deliver transformational customer services, with a 7 year contract expected to be valued at €230m (£197m). This transformational partnership, our first in Continental Europe, is outcome based and will deliver significant advances in digitisation and service improvements. It commenced on 1 March 2017.
- **Tesco Mobile** – selected by leading mobile telecommunications company Tesco Mobile to form an initial 5 year strategic partnership for customer management services, including customer care, technical support, sales, upgrades and retention. The contract is expected to be worth £140m over 5 years and started in August 2017.
- **Debenhams Retail plc** – extended its existing customer services partnership with Capita Customer Management, worth £72m to 1 September 2022.
- **BBC TV Licensing** – extended its license collections partnership with Capita for a further 2 years to June 2022. Capita will introduce further enhancement to its insight and analytical capability, and introduce new technologies to enhance service further.

**Local government**

- **Five Councils: South Oxfordshire, Vale of White Horse, Hart, Havant and Mendip District Councils** – selected to introduce an innovative, flexible, shared services platform, delivering a suite of corporate services, including revenues and benefits, customer services, HR, ICT and procurement, worth £139m over 9 years.
- **Blackburn with Darwen Council** – signed a new technical services partnership, expected to be worth at least £60m for an initial term of 5 years, with the ability to extend for another 5 years. The contract includes highways and property services and a wider £2bn framework, which allows other public organisations to directly procure Capita's services for infrastructure and development projects.
- **Urban Vision** – Salford City Council extended Urban Vision, a joint venture between itself, Capita and Galiford Try. The partnership delivers services such as property, regulatory planning, engineering infrastructure, and design and highway operations to over 240 clients across both the public and private sectors. The extension is expected to be worth £60m to Capita over 3 years to 2020.

**Central government**

- **Department for Work and Pensions** – agreed a 2 year extension of our PIP contract, worth £210m to 2019 (based on volume assumptions).
- **The Pensions Regulator** – agreed an extension to its partnership with Capita for a further 3 years to ensure the continued successful roll-out of automatic enrolment to small and micro employers. The contract extension is worth an additional £37m and will run from October 2018.

For further details on our contract wins, visit www.capita.com

**Bid pipeline**

Our bid pipeline shows the total contract value of our major sales bids at a specific point in time, which we disclose 3 times a year. It contains all bids with total contracted revenue worth between £25m and a capped ceiling of £1bn, where we have been shortlisted to the last 4 or fewer. The total contract value of the bid pipeline currently stands at £3.8bn (December 2016: £3.8bn), comprised of 26 bids including 78% new business and 22% renewals and extensions, 61% private sector and 39% public sector, with a weighted average contract length of 7 years (December 2016: 7 years). We continue to have a large, active prospect list of opportunities behind the pipeline.

Our next material contract renewal is the DWP PIP contract, which is expected to exceed 1% of Group revenue this year and is due for renewal in 2019, following the recent 2 year extension.

**Market review**

We operate predominantly in the business process management (BPM) and customer management markets in the private (53% of revenue) and public (47% of revenue) sectors in the UK, Ireland and Northern Europe. These are large addressable markets with good long-term growth fundamentals and there is significant scope for us to increase penetration of them to drive growth over the medium to long-term.

Ovum, one of the UK's leading independent industry analysts, estimates that Capita's total addressable market for BPM and customer management services in the UK is £140bn per annum and that the value of outsourced services was £13.9bn in 2016 (2015: £13.7bn). Ovum ranks Capita as the number one provider of BPM and customer management services in the UK by revenue, with an increased market share of 29.2% in 2016, significantly larger than its nearest competitors. The competitive landscape varies across the breadth of sectors which we address but remains broadly stable.

Outsourced BPM and customer management services growth was a relatively subdued 1% last year, reflecting a reduction in new opportunities coming to market, particularly in central government, and delays in client decision making, which were likely compounded by the UK's referendum decision to leave the EU market. There are still good structural drivers of growth across our markets, including the transformation and modernisation of services, digitisation, the enhancement of customer experiences, changes in regulation, public service funding challenges and clients' need to commercialise and maximise the value of their assets.

The public sector accounts for £3.9bn of the outsourced market. In local government, changes in business rate funding mean that authorities have more scope to generate income and flexibility to develop service offerings and are seeking help to develop place-based agendas to ensure their regions thrive socially and economically. Funding issues are also focusing them on immediate solutions, which is creating opportunities in areas such as digital, procurement and social care. In central government, we are well placed to support our public sector partners to maintain tight control of spending, realise more value from assets and drive better services through technology-enabled change. Although the referendum decision may continue to limit central government activity in 2017, we expect new opportunities to emerge over the medium term, as the UK's administrative responsibilities increase over time.

The private sector accounts for £10bn of the outsourced market. Companies continue to face pressure to reduce costs, improve customer service across multiple platforms and better utilise digital technologies. In sectors such as telecoms, retail and utilities, clients are increasingly focused upon delivering the best possible service at optimum cost and this suits our outcome based commercial model where we share the benefits of automating contact or moving it to self-serve, aligning our economic interest with achieving our clients' goals. In markets such as financial services and life and pensions, there are still significant opportunities to deploy new platforms and automation to both new and existing clients, transforming their cost base and meeting the self-service demands from policy holders. In Northern Europe we have an opportunity to shift the customer management market from buying short-term services on a volume basis from multiple vendors to buying multichannel, digitally focused services from a single partner on a multi-year basis, with new ways of working that improve efficiency and customer service. Our new contract with mobilcom-debitel is the first transformational contract of this type.

## Our Board and people

On 1 February 2017 we appointed Matthew Lester as an Independent Non-Executive Director and to the Nomination, Remuneration and Audit and Risk Committees, with effect from 1 March 2017. Matthew will also be appointed as Chair of the Audit and Risk Committee once Paul Bowtell steps down from the Board on 31 May 2017. Matthew is a Chartered Accountant with over 20 years of experience in senior finance roles. He is currently the Group Chief Financial Officer of Royal Mail plc and a Non-Executive Director of Man Group plc, where he is Chair of the Audit Committee.
The Board would like to take this opportunity to thank all our people for their hard work and dedication which ensures that we can continue to deliver quality services for clients. Our employees

join us through direct recruitment, contracts or acquisitions and their commitment and enthusiasm play a vital role in helping us to meet client expectations and sustain our growth.

## Future prospects

2017 is a transitional year for Capita, as we complete our disposals, bed down the structural changes inside the business and re-position the Group for a return to growth in 2018.

The headwinds we faced in the second half of 2016 will affect trading performance in the first half of 2017, which we expect to be slightly weaker than the second half of last year, excluding the write down of accrued income. The structural and cost reduction actions we announced towards the end of 2016 will support progress in the second half of 2017. For the full year, we expect a similar trading performance to 2016 before the impact of the expected increase in pension charge. This excludes the write down of accrued income and the potential impact from planned disposals.

We are confident that the decisive actions we are taking will make Capita a simpler business, better positioned to exploit our fundamental strengths, with a clear pathway to return to sustainable profitable growth from 2018 and beyond.

**-Ends-**

# Consolidated income statement

for the year ended 31 December 2016

| | | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Non-underlying | | | | Non-underlying | | |
| | Note | Underlying £m | Business exit (note 2) £m | Other non-underlying(note 3) £m | Total £m | Underlying £m | Business exit £m | Other non-underlying £m | Total £m |
| **Continuing operations:** | | | | | | | | | |
| **Revenue** | 1 | **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 | 2,3 | **(728.9)** | **(1.8)** | **(388.3)** | **(1,119.0)** | (667.6) | (176.9) | (294.3) | (1,138.8) |
| **Operating profit** | 2,3 | **541.3** | **2.8** | **(395.8)** | **148.3** | 639.0 | (138.1) | (294.3) | 206.6 |
| Net finance costs | 4 | **(66.0)** | **—** | **(7.6)** | **(73.6)** | (53.5) | — | (14.7) | (68.2) |
| Gain/(loss) on business disposal | 2 | **—** | **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 | | **(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** | | | | | | | | | |
| – basic | 5 | **56.67p** | **0.51p** | **(51.63)p** | **5.55p** | 70.73p | (24.46)p | (38.31)p | 7.96p |
| – diluted | 5 | **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 | |
|---|---|---|---|---|
| | £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 gain/(loss) on defined benefit pension schemes | **(157.7)** | | 13.0 | |
| Deferred tax effect | **26.5** | | (6.5) | |
| | | **(131.2)** | | 6.5 |
| | | **(131.2)** | | 6.5 |
| ***Items that will or may be reclassified subsequently to profit or loss*** | | | | |
| Exchange differences of translation of foreign operations | | **26.7** | | (14.0) |
| Net investment hedge of foreign operations | **(11.7)** | | (3.5) | |
| Income tax effect | **—** | | 0.6 | |
| | | **(11.7)** | | (2.9) |
| Gain on cash flow hedges arising during the year | **14.3** | | 0.8 | |
| Reclassification adjustments for losses included in the income statement | **3.3** | | 3.1 | |
| Income tax effect | **(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 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

| | Note | 2016 £m | 2015 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 7 | 394.7 | 406.0 |
| Intangible assets | 3,8 | 2,754.2 | 2,810.0 |
| Financial assets | | 337.6 | 186.6 |
| Deferred taxation | | 32.0 | 18.8 |
| Trade and other receivables | | 128.4 | 86.1 |
| | | 3,646.9 | 3,507.5 |
| **Current assets** | | | |
| Financial assets | | 92.6 | 44.3 |
| Disposal group assets held for sale | 2 | — | 84.1 |
| Funds assets | | 173.6 | 161.7 |
| Trade and other receivables | | 976.0 | 1,011.9 |
| Cash | | 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 | | 1,297.6 | 1,144.0 |
| Overdrafts | | 532.5 | 448.7 |
| Financial liabilities | | 224.2 | 230.8 |
| Disposal group liabilities held for sale | 2 | — | 40.4 |
| Funds liabilities | | 173.6 | 161.7 |
| Provisions | 11 | 112.5 | 69.4 |
| Income tax payable | | 18.6 | 46.2 |
| | | 2,359.0 | 2,141.2 |
| **Non-current liabilities** | | | |
| Trade and other payables | | 35.1 | 29.3 |
| Financial liabilities | | 2,694.4 | 2,163.4 |
| Deferred taxation | | 22.1 | 19.0 |
| Provisions | 11 | 48.2 | 49.0 |
| Employee benefits | | 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 | | 13.8 | 13.8 |
| Share premium | | 501.3 | 500.7 |
| Employee benefit trust and treasury shares | | (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 |

# Consolidated statement of changes in equity

for the year ended 31 December 2016

| | Share capital £m | Share premium £m | Employee benefit trust & 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 income/(expense) 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** |

# Consolidated cash flow statement

for the year ended 31 December 2016

| | Note | 2016 £m | 2015 £m |
|---|---|---|---|
| **Cash generated from operations before non-underlying cash items** | 12 | 749.5 | 685.8 |
| Non-underlying net movement in payables and receivables | 2 | (12.3) | — |
| Asset Services settlement provision cash paid | 11 | (23.2) | (21.7) |
| Business exit provision cash paid | 11 | (14.4) | (21.6) |
| Gwent pension settlement | | (3.3) | — |
| Restructuring cash paid | 11 | (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 | 7 | (82.4) | (118.5) |
| Purchase of intangible assets | 8 | (72.2) | (85.1) |
| Proceeds from sale of property, plant and equipment | | 0.6 | 5.9 |
| Acquisition of public sector subsidiary partnerships | | — | (20.0) |
| Acquisition of subsidiary undertakings and businesses | | (100.5) | (376.8) |
| Cash acquired with subsidiary undertakings | 10 | 4.0 | 20.2 |
| Debt repaid on acquisition of subsidiary undertakings | 10 | — | (48.3) |
| Proceeds on disposal of subsidiary undertakings | 2 | 30.6 | 34.7 |
| Cash disposed of with subsidiary undertakings | 2 | (4.2) | (8.7) |
| Deferred consideration received | | 3.0 | — |
| Deferred consideration paid | 12 | (10.7) | (11.6) |
| Contingent consideration paid | 10 | (18.5) | (32.1) |
| Purchase of financial assets | | (0.9) | (2.4) |
| Xchanging transactions | 3 | — | 3.7 |
| **Net cash outflow from investing activities** | | (251.2) | (639.0) |
| **Cash flows from financing activities** | | | |
| Issue of share capital | | 0.6 | 1.7 |
| Dividends paid | 6 | (219.0) | (200.5) |
| Capital element of finance lease rental payments | 12 | (5.5) | (5.0) |
| Repayment of loan notes | 12 | — | (0.2) |
| Repayment of bonds | 12 | (141.0) | (97.0) |
| Proceeds on issue of term debt | 12 | 350.0 | — |
| Proceeds on issue of bonds | 12 | 170.8 | 496.6 |
| Proceeds on issue of loan note | 12 | 0.3 | — |
| Financing arrangement costs | 12 | (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 | | 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 | | 1,098.3 | 534.0 |
| Overdrafts | | (532.5) | (448.7) |
| **Total** | | 565.8 | 85.3 |

# Notes to the financial statements

## Basis of preparation

The preliminary announcement is prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The preliminary announcement has 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 preliminary announcement is 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 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 Company's calculation of adjusted net debt to adjusted EBITDA at 31 December 2016 is 2.9 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 the preparation of the financial statements upon which the covenant calculations are based. For the purpose of the calculation the Company 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 Company'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 Company 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 will be able to operate as a going concern for the foreseeable future and is satisfied that the accounts should be prepared on a going concern basis.

## 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 revenue.

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 2, 3 and 4) 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.

## Preliminary announcement

A duly appointed and authorised committee of the Board of Directors approved the preliminary announcement on 1 March 2017. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2016 or 2015 but is derived from those accounts. Statutory accounts for 2015 have been delivered to the registrar of companies, and those for 2016 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

## 1 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. 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 and the trading result 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 reduced by £61.6m and profit before tax would reduce by £4.7m.

### *Year ended 31 December 2016*

| | Segment revenue | | | | | Segment profit | | |
|---|---|---|---|---|---|---|---|---|
| **Trading** | Underlying trading revenue £m | Inter-segment revenue £m | Third party revenue £m | Non-underlying trading £m | Total segment revenue £m | Underlying trading profit £m | Non-underlying trading £m | Total trading profit £m |
| Digital & 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 & 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 & 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 2

2 See note 3

3 See note 4

## 1 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 & 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 & 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 & 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 2.

2 See note 3.

3 See note 4.

## 2 Business exit

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

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 the 31 December 2016, none of these disposals met any of the criteria to be treated as held for sale.

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.

### *Income statement impact*

| | | Non-trading | | | |
|---|---|---|---|---|---|
| | Trading £m | Cash £m | Non-cash £m | 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 (see below) | — | 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 the ongoing 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 the Administrative expenses relating to business exits.

### *Profit on business disposal*

The table below summarises the profit on 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 £12.3m.

## 3 Other non-underlying

Included within other non-underlying column are:

| | Notes | Cash in year £m | Cash in future £m | Non-cash £m | 2016 Total £m | Cash in year £m | Cash in future £m | 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 | 8 | — | — | 152.2 | 152.2 | — | — | 165.0 | 165.0 |
| Impairment of acquired intangibles | 8 | — | — | 14.7 | 14.7 | — | — | — | — |
| Contingent consideration movements | | — | — | 1.2 | 1.2 | — | — | (5.4) | (5.4) |
| Asset Services settlement provision | 11 | 0.9 | 12.5 | — | 13.4 | 11.5 | 5.7 | — | 17.2 |
| Restructuring expense | 11 | 10.0 | 49.4 | — | 59.4 | — | — | — | — |
| Impairment of investment loan | | — | — | 2.6 | 2.6 | — | — | — | — |
| Impairment of contract related assets | 7,8 | — | — | 58.3 | 58.3 | — | — | 76.7 | 76.7 |
| Co-op contract dispute | | 1.8 | 4.9 | 4.2 | 10.9 | — | — | — | — |
| Impairment of goodwill | 9 | — | — | 66.6 | 66.6 | — | — | 28.3 | 28.3 |
| Xchanging transaction | | — | — | — | — | (3.7) | — | — | (3.7) |
| Professional fees regarding acquisitions | 10 | 6.4 | 2.0 | — | 8.4 | 8.0 | 7.0 | — | 15.0 |
| Stamp duty paid on acquisitions | 10 | 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 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 six 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, 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.

*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.

## 4 Net finance costs

| | 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 | 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 | 18.1 | 3.7 |
| Discount unwind on public sector subsidiary partnership payment | 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 | 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 |

## 5 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 income 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 Number million | 2015 Number million |
|---|---|---|
| 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 trading performance of the Group.

| | 2016 p | 2015 p |
|---|---|---|
| Basic earnings per share – underlying | 56.67 | 70.73 |
| – after non-underlying | 5.55 | 7.96 |
| Diluted earnings per share – underlying | 56.67 | 69.85 |
| – after non-underlying | 5.55 | 7.86 |

## 6 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 dividend 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 |

## 7 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** |

## 7 Property, Plant and Equipment (continued)

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 & Benefits Services division with a total net book value of £16.5m being fully written down.

## 8 Intangible assets

| | Intangible assets acquired in business combinations | | | | | | Intangible assets capitalised/purchased | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Brands £m | IP, software and licences £m | Contracts and committed sales £m | Client lists and relationships £m | Goodwill £m | Total acquired in business combinations £m | Capitalised software development £m | Other intangibles £m | Total capitalised /purchased £m | Total £m |
| **Cost** | | | | | | | | | | |
| 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 | — | — | — | — | 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 | **—** | **—** | **—** | **—** | **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 |
| 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) |
| 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)** |
| Accelerated amortisation | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| 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** |

## 8 Intangible assets (continued)

*Goodwill impairments:* refer to note 9.
*Intangible assets acquired in business combination impairments:* following the impairment of certain goodwill, intangible assets relating to the Financial Services CGU were impaired by £14.7m (refer to note 3), and on the closure of a business in the period, acquired intangibles were impaired by £4.2m (refer to note 3).
*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 £41.9m (refer to note 3), being the amount the carrying value exceeds 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 3).

## 9 Goodwill

Goodwill acquired through business combinations has been allocated to Cash-Generating Units (CGUs), for impairment testing purposes, on the basis of the expected benefit that will accrue to the individual CGU through synergies realised from the 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 & Pension Services £m | Customer Management £m | IT & 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 & Pension Services CGU (within the Insurance and Benefits division), and £44.1m relating to four 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; and
- 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; and
- the efficiency of the cost base and whether it is at the correct level for the business currently and supportive of future growth.

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

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; and
- 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.

## 9 Goodwill (continued)

### *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 & Pensions Services | **2.0%** | 5.0% | **7.2%** | 8.2% |
| Customer Management | **2.9%** | 4.2% | **8.1%** | 7.6% |
| IT & 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 Statemen

## 10 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 a loss before tax of £1.6m to the profit before tax of the Group. If these acquisitions had occurred on 1 January 2016. Reported Group revenue would have been an estimated £4,989.9m and Reported 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.

## 11 Provisions

| | Restructuring provision £m | Business exit provision £m | Asset Services settlement provision £m | Claims and litigation provision £m | Property provision £m | Other £m | Total £m |
|---|---|---|---|---|---|---|---|
| At 1 January 2016 | — | 21.7 | 23.4 | 36.6 | 35.3 | 1.4 | 118.4 |
| Provided 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 from accruals | **—** | **—** | **—** | **—** | **(0.2)** | **—** | **(0.2)** |
| 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.

**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 1-2 years.

**Business exit provision:** The provision relates to the cost of exiting businesses through disposal or closure. As described in note 2, in 2015, additional provision was made in light of the program 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:** relates to three matters:

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. Whilst this matter is almost concluded it is expected that it will close in 2017.

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 bought a claim against both former Operators. The Financial Conduct Authority (FCA) was supporting the negotiations being undertaken between all parties but on 10 March 2015 confirmed that it had withdrawn from the negotiations and 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, this matter is now likely to come to a conclusion 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 virtually certain to be received in connection with this matter. The expected timeline to resolution of these matters cannot 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

## 11 Provisions (continued)

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 provision:** 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.

## 12 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 | 7 | 81.9 | 82.1 |
| Amortisation of intangible assets (treated as depreciation) | 8 | 17.4 | 13.2 |
| Share based payment | | (4.5) | 11.4 |
| Employee benefits | | (4.1) | (1.9) |
| (Profit)/loss on sale of property, plant and equipment | | 0.8 | (1.2) |
| Write down of accrued income | | 39.6 | — |
| Adjustments for business exit non-cash items: | | | |
| Accelerated depreciation on business exit | | — | 2.2 |
| Other assets written-off on business exit | 2 | — | 1.4 |
| Business exit provision | 2 | (1.3) | 16.8 |
| Non-underlying trading | 2 | (2.7) | — |
| Accelerated depreciation on business closure | | — | 0.1 |
| Adjustment for non-underlying non-cash items: | | | |
| Asset Services settlement provision | 11 | 22.9 | 17.2 |
| Remeasurement of businesses held for disposal | | — | 116.4 |
| Amortisation of intangible assets recognised on acquisition | 3 | 152.2 | 165.0 |
| Impairment of contract related assets and investment loan | 3 | 60.9 | 76.7 |
| Impairment of goodwill | 3 | 81.3 | 28.3 |
| Contingent consideration | 3 | 1.2 | (5.4) |
| Co-op dispute costs | | 18.4 | — |
| Movement in restructuring provision | 11 | 59.4 | — |
| Movement in underlying provisions (net) | 11 | 1.7 | 5.7 |
| Xchanging transactions | 3 | — | (3.7) |
| Net movement in payables and receivables | | 76.1 | (45.1) |
| **Underlying cash flow from operations** | | 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 |

## 12 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)** |
| 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)** |

| | 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 | Other[2] £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) |
| 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 £1,596.1m (2015: £1,528.6m; 2014:£1,122.0m).

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

The aggregate bond fair value above of £1,961.7m (2015: £1,749.4m) 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.

## 13 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 |

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 | **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** |

## 14 Post balance sheet event

There are no post balance sheet events that require disclosure.

## 15 Preliminary announcement

Copies of the announcement can be obtained from the Company's registered office at 71 Victoria Street, Westminster, London SW1H 0XA, or on the Company's corporate website www.capita.com/Investors.

It is intended that the Annual Report and Accounts will be posted to shareholders in April 2017. It will be available to members of the public at the registered office and on the Company's Corporate website www.capita.com/Investors from that date.

## 16 Statement of Directors responsibilities

The Directors confirm that, to the best of their knowledge the extracts from the consolidated financial statements included in this report, which have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, (IFRS), IFRIC interpretations, and those parts of the Companies Act 2006 applicable to companies reporting under IFRS, fairly presents the assets, liabilities, financial position and profit of the Group taken as a whole and that the management report contained in this report includes a fair review of the development and performance of the business.

By order of the Board

**A Parker** | **N Greatorex**

Chief Executive | Group Finance Director

*1 March 2017*

# Preliminary Statement

## *Appendix - Alternative Performance Measures*

The Group presents various APMs as the Directors believe that these are useful for users of the financial statements in helping to provide a balanced view of, and relevant information on, the Group's financial performance, position and cash flows. These APMs are mainly measures which disclose the 'underlying' performance of the Group excluding specific items which are regarded as non-underlying. The Group separately presents intangible amortisation, asset impairments, acquisition contingent consideration movements, acquisition expenses, the financial impact of business exits or businesses in the process of being exited, movements in the mark to market valuation of certain financial instruments and other specific items in the income statement which, in the Directors' judgement, need to be disclosed separately (see notes 4, 5 and 6) 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.

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

| APMs presented | | 2016 | 2015 | % change | Source or calculation |
|---|---|---|---|---|---|
| **Total revenue as reported** | | **£4,909.2m** | **£4,836.9m** | **1.5 %** | **Line item in income statement** |
| Businesses held for sale | | (£11.3m) | (£162.6m) | | Line item in income statement |
| **Underlying revenue** | | **£4,897.9m** | **£4,674.3m** | **4.8 %** | **Line item in income statement** |
| Disposals | | — | (£10.2m) | | |
| Justice business transferred from held for sale | | — | £71.8m | | |
| **Underlying revenue on a like-for-like basis** | | **£4,897.9m** | **£4,735.9m** | **3.4 %** | **Underlying revenue excluding businesses exited** |
| 2015 acquisitions | | (£76.2m) | — | (1.6)% | Additional contribution in 2016 of acquisitions acquired in 2015 |
| 2016 acquisitions | | (£81.4m) | — | (1.7)% | Contribution in 2016 of acquisitions acquired in 2016 |
| Underlying organic revenue | | **£4,740.3m** | **£4,735.9m** | **0.1 %** | **Underlying revenue excluding businesses exited and acquired** |
| Underlying operating profit | | £541.3m | £639.0m | (15.3)% | Line item in income statement |
| Businesses held for sale like-for-like comparison | | n/a | (£4.7m) | | Business exited during 2016 and businesses that were held for sale in 2015 but not exited in 2016 |
| **Like-for-like operating profit** | | **£541.3m** | **£634.3m** | **(14.7)%** | Underlying operating profit excluding businesses exited |
| Underlying operating margin | | 11.1 % | 13.7 % | | Calculation (underlying operating profit/underlying revenue) |
| Like-for-like operating margin | | 11.1 % | 13.4 % | | Calculation (like-for-like operating profit/like-for-like underlying revenue) |
| Underlying operating margin before impairment of accrued income | | 11.9 % | 13.7 % | | Calculation (underlying operating profit plus £39.6m impaired accrued income/underlying revenue) |
| Underlying profit before tax | | £475.3m | £585.5m | (18.8)% | Line item in income statement |
| Underlying earnings per share | | 56.67p | 70.73p | (19.9)% | Line item in income statement and note 5 |
| **Cash Flow** | | | | | |
| Cash generated by operations before non-underlying cash items | | **£749.5m** | **£685.8m** | **9.3%** | Line item in cash flow statement |
| Cash conversion[1] | | **139%** | **108%** | | Calculation (cash generated from operations before non-underlying cash items/underlying operating profit) |
| **Underlying free cash flow** | A | **£472.4m** | **£347.4m** | 36.0% | Line item in note 12 |
| Non-underlying payments | B | (63.2) | (43.3) | | Includes non-underlying movement in payables and receivables, Asset Services settlement provision paid, Business exit provision paid, Gwent pension settlement and Restructuring provision paid provision, |
| **Free cash flow after non-underlying items** | A+B | **409.2** | **304.1** | **34.6%** | |

[1]Cash conversion % calculated using precise number before rounding to one decimal place

# Preliminary Statement

| Gearing | | 2016 | 2015 | Comment |
|---|---|---|---|---|
| **Underlying EBIT** | | **£541.3m** | **£639.0m** | Line item in income statement |
| Deduct: non-controlling interest | | (£13.4m) | (£11.1m) | |
| Deduct: acquisition costs | | (£9.0m) | (£16.2m) | Line items in note 3 |
| Add back - disposal of non-current assets | | — | (£1.2m) | Line items in note 12 |
| Add back - share based payment charge | | — | £11.4m | Line item in note 12 - note: only charges |
| Add back: non-current service pension charge | | £2.4m | (£1.9m) | |
| **Adjusted EBIT** | a | **£521.3m** | **£620.0m** | |
| Add back: pre-acq underlying profit | | £5.6m | £34.2m | |
| **Adjusted EBIT** | | **£526.9m** | **£654.2m** | |
| Depreciation and amortisation | | £99.3m | £95.3m | Line items per Cash Flow |
| **Adjusted EBITDA** | b | **£626.2m** | **£749.5m** | |
| Underlying interest charge | | (£66.0m) | (£53.5m) | Line item in income statement |
| Interest cost attributable to pensions | | £6.6m | £6.4m | Line item in note 4 |
| **Borrowing costs** | c | **(£59.4m)** | **(£47.1m)** | Calculation (underlying interest charge excluding pension interest) |
| Equity attributable to shareholders | d | £408.2m | £679.3m | Line item on balance sheet |
| 15% of equity attributable to shareholders | e | £61.2m | £101.9m | Calculation (d x 15%) |
| Contingent obligations under bonds and guarantees | f | £91.7m | £88.1m | |
| | g | £30.5m | — | If f > e, the difference is treated as debt |
| Net debt | h | £1,778.8m | £1,838.8m | Line information in note 12 |
| **Adjusted net debt** | i | **£1,809.3m** | **£1,838.8m** | Calculation (g + h) |
| **Interest cover** | | **8.8x** | **13.2x** | Calculation (a / c) |
| **Adjusted net debt to Adjusted EBITDA ratio** | | **2.89x** | **2.45x** | Calculation (i / b) |

| ROCE | | 2016 | 2015 | Comment |
|---|---|---|---|---|
| Underlying operating profit | A | 541.3 | 639.0 | Line item in income statement |
| Tax rate | B | 18.5% | 18.5% | |
| Tax | C = A x B | 100.1 | 118.2 | Calculation (underlying profit multiply tax rate) |
| **Underlying operating profit after tax** | **D = A - C** | **441.2** | **520.8** | Calculation (underlying profit less tax) |
| Current year net assets | E | 483.4 | 753.3 | Line in balance sheet |
| Current year underlying net debt | F | 1,682.9 | 1,750.3 | Line item in note 12 |
| Adjustments to capital employed | G | 1,228.8 | 1,046.2 | Includes post-tax impact of accumulated acquired intangible amortisation, fixed rate swaps, put options and pensions |
| Less acquisition spend in year | H | (89.5) | (415.7) | Consideration paid - cash acquired + debt acquired, per note 10 |
| **Current year capital employed** | I = E + F + G + H | **3,305.6** | **3,134.1** | |
| Prior year net assets | J | | 915.5 | |
| Prior year underlying net debt | K | | 1,405.0 | |
| Comparative prior year adjustments | L | | 890.8 | Includes post-tax impact of accumulated acquired intangible amortisation, fixed rate swaps, put options and pensions |
| Prior year capital employed | M = J + K + L | | **3,211.3** | |
| Average capital employed pre-acquisitions | N = (I + M)/2 | 3,427.7 | 3,172.7 | |
| Weighted average acquisition spend in year | O | 59.7 | 288.2 | Pro rata no of months post-acq profit |
| **Average capital employed** | **P = N + O** | **3,487.4** | **3,460.9** | |
| **ROCE** | Q = D / P | **12.7%** | **15.0%** | |