Capita plc

2017 Full Year Results

Financial summary

- As previously announced, Capita has early adopted IFRS 15, the new revenue recognition standard, and this report on our performance in 2017 is under the new standard.
- Underlying revenue declined by (4.3)%. Underlying revenue fell on a like-for-like basis[1] by (0.6)% including (1.5)% organic decline.
- Underlying profit before tax[1] increased by 43% to £383.0m (2016: £268.5m) and underlying profit before tax before significant new contracts and restructuring costs increased by 23% to £400.9m (2016: £325.7m), in line with expectations.
- Reported loss before tax of £(513.1)m was impacted by £850.7m of specific non-underlying items, including £551.6m goodwill impairment and a number of other asset impairments and provisions. The events and circumstances leading to the goodwill impairment are summarised in the financial review overleaf.
- There was a £445.4m gain on the disposal of the Capita Asset Services businesses, which has been treated as a discontinued operation and, as such, is not included in the below table.
- Free cash flow from continuing operations before non-underlying expenses was£38.0m (2016: £397.3m). Free cash flow was constrained by the partial elimination of cyclical cash management activity to avoid June and December peaks and a reduction of deferred income in the second half of the year.
- Net debt at end December 2017 was £1,117.0m (2016: £1,778.8m).

Year ended 31 December					
Financial highlights - continuing operations	**Reported 2017**	**Reported 2016**	**Underlying[1] 2017**	**Underlying[1] 2016**	**Underlying YOY change**
Revenue	£4,234.6m	£4,368.6m	£4,167.9m	£4,357.3m	(4)%
Operating profit/(loss)	(£420.1m)	(£16.1m)	£447.4m	£334.6m	34%
Profit/(loss) before tax	(£513.1m)	(£89.8m)	£383.0m	£268.5m	43%
Earnings/(loss) per share	(80.14)p	(14.27)p	45.61p	31.68p	44%
Total dividend per share	11.1p	31.7p	11.1p	31.7p	(65)%
Free cash flow	£37.7m	£367.3m	£38.0m	£397.3m	(90)%

The following table sets out the main differences between reported and underlying profit for 2017

2017 reported operating loss bridge to underlying operating profit	
Reported operating loss	**(£420.1m)**
Impairment of goodwill	£551.6m
Impairment of other non-current assets	£63.5m
Impairment of life and pension assets	£61.2m
Claims and litigation provisions	£30.0m
Amortisation and impairment of acquired intangibles	£124.3m
Business exits	£14.7m
Other	£22.2m
Underlying operating profit	**£447.4m**

Refer to note 5 for further details of the above items.

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

Strategy and transformation plan

Today, Capita is separately publishing an update on its strategy and transformation plan, which includes the announcement of the launch of a rights issue to raise gross proceeds of £701 million, which is fully underwritten by Citigroup Global Markets Limited and Goldman Sachs International.

Current trading

Capita continues to expect that its underlying pre-tax profits[1], before significant new contracts, restructuring costs and implementation costs of the strategy, will be between £270m and £300m for the year ending 31 December 2018. Trading in the first quarter was in line with our full year guidance.

- ENDS -

Annual Report

Our 2017 Annual Report and Accounts has been published today and is available on www.capita.com/investors.

Investor presentation

A presentation for institutional investors and analysts hosted by Jon Lewis will be held today, starting 08.30am and expected to finish by 10:00. The presentation will be webcast live on www.capita.com/investors and subsequently available on demand. A dial-in facility is also available. See access details below:

Webcast:

http://www.investis-live.com/capita/5a8d973b2ce68913005b2a70/rwmi

Conference Call:

From UK: 0800 640 6441 or 020 3936 2999

From all other locations: +44 20 3936 2999

Participant access code: 165987

Participant names and company names will be collected as they dial in. Capita must be quoted to the Operator to gain access.

This call will be available on a seven day replay:

UK: 020 3936 3001

US: 1 845 709 8569

All other locations: + 44 20 3936 3001

Replay access code: 300416

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

LEI no. CMIGEWPLHL4M7ZV0IZ88.

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

Capita plc

Results for the year ended 31 December 2017

Strategy and transformation plan

Capita is today separately announcing its new strategy, which includes the announcement of the launch of a Rights Issue to raise gross proceeds of £701 million, which aims to simplify and strengthen the business in order to deliver future success. Capita's objective is to become a more focused and predictable, client-centric company, generating sustainable free cash flow. Capita believes that under its new strategy, through introducing greater rigour in how it operates, together with re-focusing the business on its areas of strength, it will deliver enhanced performance through increased simplification, efficiency, standardisation and focus. The Rights Issue forms a key component of the new strategy and is being undertaken in order to provide Capita with a sustainable capital base to support its clients and operations.

Financial review

This preliminary announcement is extracted from Capita's financial statements for the year ended 31 December 2017 and the basis of its preparation can be found in the notes to the statements in this announcement. Importantly this sets out the assessment performed by the Board regarding going concern and the viability of the Group.

In assessing the going concern assumptions, the Board has reviewed the base case plans, identified downsides and anticipated receipt of proceeds from the Rights Issue. Following this assessment, the Board has a reasonable expectation that the Company and the Group will be able to operate as a going concern for the foreseeable future.

The Board is confident that the Rights Issue will be approved and the proceeds received and based on this expectation believes that, even in a reasonable downside scenario, the Group and Parent Company will continue to have adequate financial resources to realise their assets and discharge their liabilities as they fall due. Accordingly, the Directors have formed the judgement that it is appropriate to prepare the financial statements on the going concern basis. Therefore, the financial statements do not include any adjustments which would be required if the going concern basis of preparation is inappropriate.

Revenue

Reported revenue decreased by 3.1% to £4,234.6m (2016: £4,368.6m) and underlying revenue[1] decreased by 4.3% to £4,167.9m (2016: £4,357.3m). Underlying revenue on a like for like basis[1], excluding results from businesses exited in both years, decreased by 0.6% including 1.5% organic decline and 0.9% growth from acquisitions.

Our revenue mix in 2017 was 70% long term contracts, 16% short term contracts of up to 2 years and 14% transactional.

Underlying operating profit

Underlying operating profit[1] increased by 34% to £447.4m (2016: £334.6m). This included restructuring costs of £(17.9)m (2016: £(57.2)m), relating to professional fees associated with the broadened transformation plan and, separately, the restructuring of a small number of businesses. Underlying operating profit before significant new contracts and restructuring[1] costs increased by 19% to £465.3m (2016: £391.8m).

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

Divisional performance

Our segmental reporting is aligned with management's view of divisional performance, including allocating only direct overheads, such as payroll administration, pension and insurance costs, to the divisions, and showing central costs separately. Underlying revenue and profit are used by management to assess the performance of the divisions and exclude certain items, as detailed in note 5. This and the impact of IFRS 15 on the timing of recognition of revenue and costs are reflected in the discussion of divisional performance below:

Private Sector Partnerships

Underlying revenue increased by 3%, driven by growth in Capita Europe, including the benefit of our new contract with mobilcom-debitel, an increase in TV Licensing and mortgage solutions. There was a modest decline in UK customer management, which reflected weakness in remediation services.

Underlying profits increased due to the renegotiation of The Co-operative Bank contract, a £26m swing from loss to profit on a major contract which reflected the dropping out of one-off modification costs incurred in 2016, cost initiatives and lower restructuring costs, partially offset by a lower contribution from remediation and additional costs on the transformation of mobilcom-debitel in Germany.

In January 2018, we announced that the administration of Prudential's life and pensions business, around 2% of our revenue, will be transferring from Capita to a new supplier later in 2018. As previously disclosed, another of our life and pensions clients is conducting a strategic review, the outcome of which remains uncertain but is expected to result in the continuation of the contract with amended terms or the termination of the contract.

We expect Private Sector Partnerships profits to decline in 2018 due to a combination of higher contract and volume attrition and increase in costs, including adoption of the General Data Protection Regulation, in insurance services and customer management.

Public Services Partnerships

Underlying revenue fell by 4% due to weakness in real estate and central government services, which was partially offset by growth in our Department for Work and Pensions (DWP) PIP and DCC Smart Metering contracts. The majority of our contracts are performing well but we continue to face challenges in our NHS Primary Care Support England (NHS PCSE) contract. NHS PCSE has improved operationally during the year and we continue to drive improvements across the service in conjunction with stakeholders and NHSE, but we have had to invest in the service in order to achieve this and the cash cost of recovering performance has been high.

Underlying profits increased as a result of our Transport for London contract, on which we incurred £25m one-off costs in 2016, the re-shaping of our Defence Infrastructure Organisation (DIO) contract and the aforementioned performances from our DWP PIP and DCC Smart Metering contracts. The results include a £22m benefit from the re-shaping of the DIO contract, arising from the recognition of previously deferred income, which is not expected to recur in 2018. This re-shaping arises as a result of our new revenue recognition policy under IFRS 15. We now defer revenue over the expected life of a contract. Where a contract is terminated early, all deferred revenue is pulled forward and recognised in the year of termination. Similarly, any associated contract specific assets that were being amortised over the expected life of the contract are written off in the year of termination, unless there are alternative uses on other contracts. The DIO contract is expected to end in 2019.

Professional Services

Underlying revenue fell by 30%, as a result of the disposal of our specialist recruitment businesses.

Underlying revenue also fell on a like-for-like basis, excluding specialist recruitment from both years, due to the loss of part of our Civil Service Learning contract, a decline in Capita Resourcing and the dropping out of property commercialisation revenue which was recognised in the second half of 2016. This was partially offset by growth in the Army Recruiting Partnering Project (RPP) contract and some of our trading businesses.

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

Underlying profits decreased due to the dropping out of property commercialisation profits, which was partially offset by costs reducing on RPP and good growth in parking services and Fera.

Digital and Software Solutions

With the introduction of IFRS 15, the majority of our software licence sales are recognised as 'active' licences, with revenue spread over the contract lifetime. Underlying revenue fell by 2%, reflecting a decline in software services (local government, social housing and social care) and the end of a long-term active software licence with The Co-operative Bank. There was good growth in AMT-Sybex (utilities) but education software services revenue was flat. The majority of division revenue is UK based but we are putting partnerships in place with a view to increasing international sales.

Underlying profits fell by 14%, reflecting the above decline in sales and increases in amortisation and staff costs. We continued to invest in product development and sales, including the next version of education software, and are progressing the offshoring of development work to enhance capability and efficiency.

IT Services

Underlying revenue increased by 5%, including the full year benefit from the acquisition of Trustmarque. Good organic growth in networking solutions and managed print services was offset by declines in technology solutions, managed IT solutions and major clients within enterprise services.

Underlying profits increased sharply, reflecting the benefits from our restructuring of the business in the second half of 2016 and a £9m one-off supplier settlement in 2017. Looking forward, we expect IT Services profits to decline in 2018, as a result of contract and volume attrition and the dropping out of the supplier settlement.

Underlying operating margin

Underlying operating margin[1] was 10.7% (2016: 7.7%), reflecting the aforementioned items which have impacted upon our trading performance. Underlying operating margin[1] before significant new contracts and restructuring costs[1] was 11.2% (2016: 9.0%).

Underlying net finance costs

The underlying net interest charge[1] was £64.4m (2016: £66.1m), including a £2.6m increase in pension finance costs.

Profit before tax

Underlying profit before tax[1] increased by 43% to £383.0m (2016: £268.5m) and underlying profit before tax before significant new contracts and restructuring costs increased by 23% to £400.9m (2016: £325.7m).

Reported loss before tax was £(513.1)m (2016: £(89.8)m), including a charge for specific items of £850.7m (2016: £361.2m). The significant movement from 2017 arises from the impairment of goodwill, intangible assets, other non-current assets, and investment loans as at 31 December 2017, detailed in notes 3 and 5 of this statement.

Impairment of goodwill

The Group tests intangible assets, including goodwill, for impairment on an annual basis or more frequently if there are indications that any of these assets may be impaired. In undertaking the annual impairment review, the Directors have considered any observable indications that may suggest that the carrying value of goodwill may be impaired. The continued operational and external challenges faced by the Group have led to a significant deterioration in new business opportunities from earlier positions. In addition, the Group has experienced contract terminations and attrition as highlighted in the divisional performance reviews (and in particular in the Private Sector Partnerships division) and the transformation plan has identified areas that need to be addressed to rebuild and reposition Capita. These events and circumstances have led to the recognition of goodwill impairment charges of £551.6m (2016: £66.6m).

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

Discontinued operations

The results above exclude the profit on the disposal of the Capita Asset Services businesses, which was treated as a discontinued operation, as detailed in note 4 of this statement.

Earnings per share

Underlying earnings per share[1] for continuing operations increased by 44.0% to 45.61p (2016: 31.68p).

The reported loss per share for continuing operations was (80.14)p (2016: (14.27)p) and the reported loss per share for total operations was (17.58)p (2016: (8.72)p).

Dividends

Given the short term outlook and level of indebtedness, the Board is not recommending the payment of a final dividend, making a total of 11.1p for the year (2016: 31.7p). However, the Board recognises the importance of regular dividend payments to investors in forming part of their total shareholder return, and will consider the payment of dividends once Capita is generating sufficient sustainable free cash flow.

Cash flow

Free cash flow[1] from continuing operations before non-underlying expenses was £38.0m (2016: £397.3m).

Capita's free cash flow in 2017 was impacted by two changes in our working capital profile. Firstly, there was a partial elimination of cyclical cash management activity to avoid June and December peaks, having historically optimised the working capital position at the end of reporting periods. Secondly, there was a reduction of deferred income in the second half of the year, which reflects the relatively low level of new business signed in 2016 and 2017 which meant that we received less cash payments from clients to undertake work than revenue recognised in the period. These items were largely responsible for a £311.8m working capital outflow from continuing operations.

Net capital expenditure on continuing operations was £114.1m in 2017 (2016: £139.7m), including an increase in discretionary spend in areas such as software and employee solutions and lower contract related and maintenance spend.

Looking forward, we expect a free cash outflow in 2018, which will be impacted by a number of known restructuring costs presented within underlying results, non-underlying payments and working capital items. We expect around £300m spend in relation to known commitments, including £66m cash costs on the Connaught settlement, £51m in relation to the separation of Capita Asset Services (including a pension contribution), £40m costs in relation to realising cost savings and efficiencies from the transformation plan, £26m restructuring costs relating to Capita's previously announced cost reduction plan, contingent and deferred considerations, professional fees in order to create and implement the proposed transformation plan, litigation and other items. In addition, we expect a £130m cash outflow from the final elimination of period end cash management activity, and a £130m cash outflow on continued reduction in deferred income, reflecting the ongoing low level of new business wins.

Net debt

Net debt at end December 2017 was £1,117.0m (2016: £1,778.8m). As at 31 December 2017, we had £1,484m of private placement bond debt of which £153m matures in 2018 and the remainder matures over the period up to 2027. In addition, we have £100m of bank debt which matures in 2019, and an undrawn £600m revolving credit facility of which £81m matures in August 2020 and £519m in August 2021.

Our adjusted net debt to adjusted EBITDA[1] ratio in 2017 was 2.27 and interest cover[1] was 8.6 times. This excludes our receivables financing, which was a balance of £110m at 31 December 2017.

Pension

As announced on 31 January 2018, Capita intends, as a matter of good corporate responsibility, to reduce the remaining actuarial pension deficit in its defined benefit plan. The current deficit is supported by an

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

asset backed funding arrangement of £69m as at 31 March 2017, the value of which is not included in the IAS 19 deficit of £406.8m at 31 December 2017 (31 December 2016: £345.2m). The triennial actuarial valuation of the scheme, as at 31 March 2017 is due to be completed by 30 June 2018. In addition to our annual contributions, further contributions totalling £21.5m were paid in January 2018. Capita is fully committed to addressing the remainder of the deficit in the medium term.

Return on capital employed

Our post-tax return on average capital employed[1] (ROCE) in 2017 was 19.2% (2016: 12.8%), which compares to our estimated post-tax WACC of 7.46%.

Sales and business development review

The market for major business process management contracts remained subdued throughout 2017, reflecting continued weakness of the central government market, changes in the opportunities across local government and some delays in contract decisions. Capita secured major contract wins, renewals and extensions with an aggregate total value of £676m in the year (2016: £1.34bn), comprising 41% new business and 59% renewals and extensions.

Wins in 2017 included a new £135m contract with Transport for London (TfL) for the provision and ongoing management of its Access and Wide Area Network services, a new contract to deliver apprenticeship services to the Civil Service and a new seven-year contract with the Cabinet Office to administer the Royal Mail Statutory Pension Scheme (RMSPS).

We extended a number of contracts in 2017, including Personal Independence Payments with the Department for Communities, Northern Ireland until end July 2019, the Marks & Spencer digital customer contact partnership worth £70m over a further five years, IT services with the Northern Ireland Education Authority to March 2019, customer management with British Gas to April 2019 and London Borough of Lambeth revenue, benefits and customer services to 2026. We have also renewed our RSPCA customer management contract, Royal London life and pensions contracts and mortgage administration contract with Tesco Bank.

Order book and rebids

Capita's order book at 31 December 2017 stood at £8.2bn, including £8.1bn of long term contracts and £0.1bn of contracts with a duration of less than two years. The order book represents the consideration to which Capita will be entitled to receive from clients when it satisfies the remaining performance obligations in its contracts. However, the total revenue that will be earned by Capita will also include volumetric revenue, new wins, scope changes and anticipated contract extensions. The amounts presented do not include orders for which neither party has performed and each party has the unilateral right to terminate a wholly unperformed contract without compensating the other party.
We chose not to rebid our Home Office escorting contract, worth slightly less than 1% of our revenue, which is due to transfer to a new supplier in the first half of 2018. Our next material contract (defined as being in excess of 1% of revenue) renewal is the DWP Personal Independence Payments contract, which is due for renewal in 2019.

Disposals and acquisitions

At the end of 2016, we announced our intention to dispose of the majority of the Capita Asset Services division and our stand-alone specialist recruitment businesses. Both disposals were completed in the year, and contributed to the reduction in leverage at the year end.

We made several small acquisitions in 2017 including Acutest, a provider of software testing services, Optilead, a provider of on-line shopping tracking solutions, NYS, a travel management business, and Call

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

Vision Technologies, a provider of contact management services. The aggregate consideration for these businesses was £20.0m, excluding deferred and contingent consideration.

Our Board and people

We have worked to improve Capita's governance, streamlining the Board and bringing it in line with current good practice. Today, we have two Executive Directors - the CEO and CFO - and six Non-Executive Directors. We believe that this will bring focus and facilitate challenge as Capita undergoes its transformation.

We should like to thank Vic Gysin and Chris Sellers, who left in recent months, having made meaningful contributions to Capita over many years of service. We were delighted to welcome Baroness Lucy Neville-Rolfe to the Board as a Non-Executive Director with effect in December 2017. A backbencher in the House of Lords and former Government minister, Lucy brings extensive private and public sector experience from her time on the Boards of Tesco plc, ITV plc and Metro AG.

The Board would like to take this opportunity to thank all our people for their hard work, dedication, resilience and commitment throughout an uncertain period. We are determined to give all our staff the sound basis for a stable and happy career with us, doing what they do best: delivering outstanding solutions to our customers.

Agreement with holders of US Private Placement Notes

Capita has reached a comprehensive arrangement with the holders of its US Private Placement Notes in order to address certain issues which arose from the early adoption of IFRS 15. The arrangement provides increased headroom and flexibility under Capita's financial covenants, and thereby sets up a robust framework to support the new strategy. In return for this increased flexibility, Capita has agreed (i) to prepay £150m of principal of the US Private Placement Notes (plus an estimated make-whole payment of £7m) from the proceeds of the Rights Issue; (ii) to apply 50 per cent. of the net proceeds from future disposals to the prepayment of principal of the US Private Placement Notes, with payment of make-whole, until such time as an estimated £315m of US Private Placement Notes have been pre-paid; and (iii) to pay a coupon uplift of 75 basis points, representing approximately £5m of incremental costs through 2018.

Current trading

On 31 January 2018, Capita highlighted that there is likely to be a significant negative impact upon underlying profits from contract and volume attrition, the elimination of certain specific items including contract and supplier-related profits that benefited Capita in 2017 and increases in some cost items, including depreciation and adoption of the General Data Protection Regulation. Capita does not expect to be able to offset these challenges through the benefit of cost actions and new business wins. Capita continues to expect that its underlying pre-tax profits, before significant new contracts, restructuring costs and implementation costs of the strategy, will be between £270m and £300m for the year ending 31 December 2018. Trading in the first quarter was in line with our full year guidance.

-Ends-

Consolidated income statement

for the year ended 31 December 2017

	Notes	2017 Underlying (note 1) £m	2017 Non-underlying Business exit (note 3) £m	2017 Non-underlying Specific items (note 5) £m	2017 Total reported £m	Restated[1] 2016 Underlying (note 1) £m	2016 Non-underlying Business exit (note 3) £m	2016 Non-underlying Specific items (note 5) £m	2016 Total reported £m
Continuing operations:									
Revenue		4,167.9	66.7	—	4,234.6	4,357.3	11.3	—	4,368.6
Cost of sales		(3,121.8)	(54.7)	(5.5)	(3,182.0)	(3,418.5)	(6.7)	(42.3)	(3,467.5)
Gross profit		1,046.1	12.0	(5.5)	1,052.6	938.8	4.6	(42.3)	901.1
Administrative expenses	1,3,5	(598.7)	(26.7)	(847.3)	(1,472.7)	(604.2)	(1.8)	(311.2)	(917.2)
Operating profit / (loss)	1,5	447.4	(14.7)	(852.8)	(420.1)	334.6	2.8	(353.5)	(16.1)
Net finance costs	6	(64.4)	(0.1)	2.1	(62.4)	(66.1)	—	(7.7)	(73.8)
(Loss) / gain on business disposal	3	—	(30.6)	—	(30.6)	—	0.1	—	0.1
Profit / (loss) before tax		383.0	(45.4)	(850.7)	(513.1)	268.5	2.9	(361.2)	(89.8)
Income tax (expense) / credit		(68.0)	—	54.0	(14.0)	(46.4)	0.5	47.1	1.2
Profit / (loss) for the year from continuing operations		315.0	(45.4)	(796.7)	(527.1)	222.1	3.4	(314.1)	(88.6)
Discontinued operations:									
Profit / (loss) for the year	4,5	—	482.5	(66.1)	416.4	—	50.6	(13.7)	36.9
Total profit / (loss) for the year		315.0	437.1	(862.8)	(110.7)	222.1	54.0	(327.8)	(51.7)
Attributable to:									
Owners of the Company		303.6	437.1	(857.8)	(117.1)	210.6	54.0	(322.5)	(57.9)
Non-controlling interests		11.4	—	(5.0)	6.4	11.5	—	(5.3)	6.2
		315.0	437.1	(862.8)	(110.7)	222.1	54.0	(327.8)	(51.7)
Earnings / (loss) per share	7								
Continuing:									
– basic		45.61p	(6.82)p	(118.93)p	(80.14)p	31.68p	0.51p	(46.46)p	(14.27)p
– diluted		45.61p	(6.82)p	(118.93)p	(80.14)p	31.68p	0.51p	(46.46)p	(14.27)p
Total operations:									
– basic		45.61p	65.66p	(128.86)p	(17.58)p	31.68p	8.12p	(48.52)p	(8.72)p
– diluted		45.61p	65.66p	(128.86)p	(17.58)p	31.68p	8.12p	(48.52)p	(8.72)p

[1]2016 restatement was due to the adoption of IFRS 15 during the year. Refer tonote 38 of the financial statements in the Annual Report for further details.

Consolidated statement of comprehensive income

for the year ended 31 December 2017

		2017		Restated[1] 2016
	£m	£m	£m	£m
Loss for the year		(110.7)		(51.7)
Other comprehensive income / (expense):				
Items that will not be reclassified subsequently to profit or loss				
Actuarial loss on defined benefit pension schemes	(51.4)		(157.7)	
Income tax effect	8.8		26.5	
		(42.6)		(131.2)
		(42.6)		(131.2)
Items that will or may be reclassified subsequently to profit or loss				
Exchange differences on translation of foreign operations		(4.6)		26.7
Net investment hedge of foreign operations	10.4		(11.7)	
Income tax effect	—		—	
		10.4		(11.7)
Gain on cash flow hedges	2.0		14.3	
Reclassification adjustments for losses included in the income statement	0.3		3.3	
Income tax effect	(0.4)		(5.6)	
		1.9		12.0
		7.7		27.0
Other comprehensive expense for the year net of tax		(34.9)		(104.2)
Total comprehensive expense for the year net of tax		(145.6)		(155.9)
Attributable to:				
Owners of the Company		(152.0)		(162.1)
Non-controlling interests		6.4		6.2
		(145.6)		(155.9)

[1]2016 restatement was due to the adoption of IFRS 15 during the year. Refer to note 38 of the financial statements in the Annual Report for further details.

Consolidated balance sheet

As at 31 December 2017

	Notes	2017 £m	Restated[1] 2016 £m	Restated[1] As at 1 January 2016 £m
Non-current assets				
Property, plant and equipment	9	219.3	394.7	406.0
Intangible assets	10	1,812.1	2,754.2	2,810.0
Contract fulfilment assets	13	252.5	240.6	277.6
Financial assets		132.3	337.6	186.6
Deferred taxation		159.3	222.4	181.6
Trade and other receivables		28.0	48.8	44.4
		2,603.5	3,998.3	3,906.2
Current assets				
Financial assets		88.7	92.6	44.3
Disposal group assets held for sale	3	5.9	—	84.1
Funds assets		—	173.6	161.7
Trade and other receivables		775.8	842.7	768.2
Cash		921.7	1,098.3	534.0
Income tax receivable		25.6	—	—
		1,817.7	2,207.2	1,592.3
Total assets		4,421.2	6,205.5	5,498.5
Current liabilities				
Trade and other payables		755.2	977.0	873.0
Deferred income	14	1,201.2	1,374.9	1,157.3
Overdrafts		443.3	532.5	448.7
Financial liabilities		265.6	224.2	230.8
Disposal group liabilities held for sale	3	1.4	—	40.4
Funds liabilities		—	173.6	161.7
Provisions	15	164.1	112.5	69.4
Income tax payable		—	18.6	46.2
		2,830.8	3,413.3	3,027.5
Non-current liabilities				
Trade and other payables		17.0	21.0	13.8
Deferred income	14	314.0	216.7	228.5
Financial liabilities		1,721.7	2,694.4	2,163.4
Deferred taxation		12.2	19.6	17.0
Provisions	15	48.5	48.2	49.0
Employee benefits		406.8	345.2	188.3
		2,520.2	3,345.1	2,660.0
Total liabilities		5,351.0	6,758.4	5,687.5
Net liabilities		(929.8)	(552.9)	(189.0)
Capital and reserves				
Issued share capital		13.8	13.8	13.8
Share premium		501.3	501.3	500.7
Employee benefit trust and treasury shares		(0.2)	(0.2)	(0.3)
Capital redemption reserve		1.8	1.8	1.8
Foreign currency translation reserve		(0.4)	(6.2)	(21.2)
Cash flow hedging reserve		1.9	—	(12.0)
Retained deficit		(1,517.2)	(1,131.8)	(738.2)
Deficit attributable to owners of the Company		(999.0)	(621.3)	(255.4)
Non-controlling interests		69.2	68.4	66.4
Total deficit		**(929.8)**	**(552.9)**	**(189.0)**

[1]2016 restatement was due to the adoption of IFRS 15 during the year. Refer tonote 38 in the financial statements in the Annual Report for further details.

Consolidated statement of changes to equity

for the year ended 31 December 2017

	Share capital £m	Share premium £m	Employee benefit trust and treasury shares £m	Capital redemption reserve £m	Retained earnings / (deficit) £m	Foreign currency translation reserve £m	Cash flow hedging reserve £m	Total £m	Non-controlling interests £m	Total equity / (deficit) £m
At 1 January 2016, as reported	13.8	500.7	(0.3)	1.8	196.5	(21.2)	(12.0)	679.3	74.0	753.3
Impact of change in accounting standards - IFRS 15	—	—	—	—	(934.7)	—	—	(934.7)	(7.6)	(942.3)
At 1 January 2016, restated[1]	13.8	500.7	(0.3)	1.8	(738.2)	(21.2)	(12.0)	(255.4)	66.4	(189.0)
Profit / (loss) for the year, restated[1]	—	—	—	—	(57.9)	—	—	(57.9)	6.2	(51.7)
Other comprehensive (expense) / income	—	—	—	—	(131.2)	15.0	12.0	(104.2)	—	(104.2)
Total comprehensive income/ (expense) for the year	—	—	—	—	(189.1)	15.0	12.0	(162.1)	6.2	(155.9)
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 1 January 2017, restated[1]	13.8	501.3	(0.2)	1.8	(1,131.8)	(6.2)	—	(621.3)	68.4	(552.9)
Profit/(loss) for the year	—	—	—	—	(117.1)	—	—	(117.1)	6.4	(110.7)
Other comprehensive (expense)/ income	—	—	—	—	(42.6)	5.8	1.9	(34.9)	—	(34.9)
Total comprehensive (expense)/ income for the year	—	—	—	—	(159.7)	5.8	1.9	(152.0)	6.4	(145.6)
Share based payment	—	—	—	—	2.9	—	—	2.9	—	2.9
Equity dividends paid	—	—	—	—	(211.0)	—	—	(211.0)	(5.6)	(216.6)
Investment in non-controlling interest	—	—	—	—	(11.1)	—	—	(11.1)	—	(11.1)
Movement in put options held by non-controlling interests	—	—	—	—	(6.5)	—	—	(6.5)	—	(6.5)
At 31 December 2017	13.8	501.3	(0.2)	1.8	(1,517.2)	(0.4)	1.9	(999.0)	69.2	(929.8)

Share capital – The balance classified as share capital is the nominal proceeds on issue of the Company's equity share capital, comprising $2^1/_{15}$p ordinary shares.
Share premium – The amount paid to the Company by shareholders, in cash or other consideration, over and above the nominal value of shares issued to them.
Employee benefit trust and treasury shares – Shares that have been bought back by the Company which are available for retirement or resale; shares held in the employee benefit trust have no voting rights and do not have entitlement to a dividend.
Capital redemption reserve – The Company can redeem shares by repaying the market value to the shareholder, whereupon the shares are cancelled. Redemption must be from distributable profits. The Capital redemption reserve represents the nominal value of the shares redeemed.
Foreign currency translation reserve – Gains or losses resulting from the process of expressing amounts denominated or measured in one currency in terms of another currency by use of the exchange rate between the two currencies. This process is required to consolidate the financial statements of foreign affiliates into the total Group financial statements and to recognise the conversion of foreign currency or the settlement of a receivable or payable denominated in foreign currency at a rate different from that at which the item is recorded.
Cash flow hedging reserve – This reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge. Also recorded here are fair value changes on available-for-sale investments.
Retained earnings – Net profits kept to accumulate in the Group after dividends are paid and retained in the business as working capital.
Non-controlling interests (NCI) – This represents the equity in a subsidiary that is not attributable directly or indirectly to the parent company.

[1]2016 restatement was due to the adoption of IFRS 15 during the year. Refer tonote 38 of the financial statements in the Annual Report for further details.

Consolidated cash flow statement

for the year ended 31 December 2017

	Notes	Continuing	Discontinued	2017 £m	Continuing	Discontinued	Restated[1] 2016 £m
Cash generated from operations before non-underlying cash items	17	196.8	20.1	216.9	650.3	89.2	739.5
Non-underlying net movement in payables and receivables		2.5	—	2.5	(12.3)	—	(12.3)
Asset Services settlement provision cash paid	15	—	(18.5)	(18.5)	—	(23.2)	(23.2)
Business exit provision cash paid	15	(2.8)	—	(2.8)	(14.4)	0.0	(14.4)
Insurance asset recovery		—	8.2	8.2	—	—	—
Pension settlement		—	—	—	(3.3)	—	(3.3)
Cash generated from operations		196.5	9.8	206.3	620.3	66.0	686.3
Income tax received/(paid)		9.5	(3.2)	6.3	(53.7)	(10.0)	(63.7)
Net interest received / (paid)		(54.2)	0.1	(54.1)	(59.6)	0.2	(59.4)
Net cash inflow from operating activities		151.8	6.7	158.5	507.0	56.2	563.2
Cash flows from investing activities							
Purchase of property, plant and equipment	9	(66.2)	(2.7)	(68.9)	(74.0)	(8.4)	(82.4)
Purchase of intangible assets	10	(71.0)	(1.9)	(72.9)	(66.3)	(5.9)	(72.2)
Proceeds from sale of property, plant and equipment/ intangible assets	9,10	23.1	—	23.1	0.6	—	0.6
Acquisition of subsidiary undertakings and businesses		(24.5)	—	(24.5)	(100.5)	—	(100.5)
Cash acquired with subsidiary undertakings		4.5	—	4.5	4.0	—	4.0
Proceeds on disposal of subsidiary undertakings		17.0	909.5	926.5	30.6	—	30.6
Cash disposed of with subsidiary undertakings		(0.1)	(45.8)	(45.9)	(4.2)	—	(4.2)
Deferred consideration received		11.8	—	11.8	3.0		3.0
Deferred consideration paid		(5.8)	(5.0)	(10.8)	(10.7)	—	(10.7)
Contingent consideration paid		(11.7)	—	(11.7)	(18.5)	—	(18.5)
Purchase of financial assets		(0.7)	—	(0.7)	—	(0.9)	(0.9)
Net cash inflow/(outflow) from investing activities		(123.6)	854.1	730.5	(236.0)	(15.2)	(251.2)
Cash flows from financing activities	17						
Issue of share capital		—	—	—	0.6	—	0.6
Intercompany dividends received/(paid)		46.6	(46.6)	—	—	—	—
External dividends paid	8	(216.6)	—	(216.6)	(219.0)	—	(219.0)
Capital element of finance lease rental payments		(2.1)	—	(2.1)	(5.5)	—	(5.5)
Proceeds on issue of bonds		—	—	—	170.8	—	170.8
Proceeds on issue of term debt		—	—	—	350.0	—	350.0
Proceeds on issue of loan note		—	—	—	0.3	—	0.3
Repayment of bonds		(124.1)	—	(124.1)	(141.0)	—	(141.0)
Repayment of term debt		(550.0)	—	(550.0)	—	—	—
Repayment of fixed rate swaps		(84.6)	—	(84.6)	—	—	—
Receivable funding		—	—	—	—	—	—
Financing arrangement costs		(2.1)	—	(2.1)	(0.6)	—	(0.6)
Net cash inflow / (outflow) from financing activities		(932.9)	(46.6)	(979.5)	155.6	—	155.6
Increase in cash and cash equivalents		(904.7)	814.2	(90.5)	426.6	41.0	467.6
Cash and cash equivalents at the beginning of the period				565.8			85.3
Impact of movement in exchange rates				3.1			12.9
Cash and cash equivalents at 31 December				478.4			565.8
Cash and cash equivalents comprise:							
Cash at bank and in hand				921.7			1,098.3
Overdrafts				(443.3)			(532.5)
Total				478.4			565.8

[1] *2016 restatement was due to the adoption of IFRS 15 during the year. Refer to note 38 in the financial statements in the Annual Report for further details.*

Notes to the financial statements

Basis of preparation

The preliminary announcement is extracted from the financial statements of the Group for the year ended 31 December 2017. Those financial statements have been 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 determining the appropriate basis of preparation of the financial statements for the year 31 December 2017, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future. The Board has concluded that it is appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts but importantly with consideration of the anticipated net proceeds from the announced rights issue which the Board is confident will be approved.

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

The Group has net debt of £1,117.0m at 31 December 2017 (2016: £1,778.8m) and adjusted net debt of £1,219.4m at 31 December 2017 (2016: £1,809.3m). The components of net debt and adjusted net debt are shown in the table below. Net debt is reported in note 16 - additional cash flow information. Adjusted net debt is used to calculate the gearing ratio adjusted net debt to adjusted EBITDA (refer to Alternative Performance Measures).

The Group's calculation of adjusted net debt to adjusted EBITDA at 31 December 2017 is 2.27 times and is compliant with the relevant ratios.

Net debt and adjusted net debt

	Notes	2017 £m	Restated 2016 £m
Cash, cash equivalents and overdrafts	17	478.4	565.8
Other loan notes	17	(0.3)	(0.3)
Private placement loan notes	17	(1,664.0)	(1,961.7)
Interest and currency swaps in relation to USD denominated loan notes	17	176.8	357.9
Interest rate swaps in relation to GBP denominated loan notes	17	5.4	7.7
Term loan	17	(100.0)	(650.0)
Finance leases	17	(0.2)	(2.3)
Total net liabilities from financing activities		(1,582.3)	(2,248.7)
Underlying net debt		(1,103.9)	(1,682.9)
Fixed rate interest rate swaps	17	—	(85.1)
Deferred consideration	17	(13.1)	(10.8)
Net debt		(1,117.0)	(1,778.8)
Contingent obligations under bonds and guarantees		(88.4)	(30.5)
Money Market Funds		(14.0)	—
Adjusted net debt		(1,219.4)	(1,809.3)

On 31 January 2018, the Group announced a multi-year transformation plan, encompassing strategy, cost competitiveness, sales, IT and its capital structure, to improve the performance of Capita over the medium-to-long term. This transformation plan includes an assessment of the appropriate financial leverage for the Group over the medium term, to ensure that Capita has a sustainable capital base to support its customers and operations, increase investment in the business and deliver future strategy. The Board's view is that the appropriate leverage for Capita over the medium term should be between 1.0 and 2.0 times adjusted net debt to adjusted EBITDA (prior to the adoption of IFRS 16). Accordingly, the Board has decided to raise additional equity of £701m by way of a rights issue, which is fully underwritten by Citigroup Global Markets Limited and Goldman Sachs International.

The transformation plan is being finalised, and the key actions and forecast impacts incorporated into detailed business plans. These are in support of the new strategy that has been reviewed and approved by the Board.

For the purpose of the going concern assessment the Directors have considered a 'base-case' set of projections that cover the first two years of the new strategic plan, to 31 December 2019. This base-case includes cost reduction identified to date but not the anticipated proceeds from the rights issue and planned strategic disposals, and therefore importantly does not include the investment these will enable the Group to make, and the benefits these will deliver over the longer term.

The Group's committed facilities and private placement notes are subject to compliance with covenant requirements including maximum ratios of adjusted net debt to adjusted EBITDA. This covenant threshold is tested semi-annually, and is set at 3.0 times to 3.5 times depending on the debt instrument in question. The Directors have applied judgement in terms of how the ratio is calculated by applying the same treatment that has been applied in preparing and presenting 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), as are restructuring costs that are now presented within the underlying results as set out in note 1. This basis of calculation is consistent with the approach adopted in prior years.

In assessing the going concern assumption, the Board has undertaken a rigorous assessment of the forecast outturns and assessed identified downside risks and mitigating actions, by reference to the relevant covenant tests. The downside risks include a number of severe but plausible scenarios, incorporating underperformance against the business plan, unexpected cash outflows and customer attrition and unwillingness to award the group new contracts and extensions to existing arrangements. The Board has considered mitigating actions available to the Group in response to these sensitivities

Whilst the 'base case' scenario shows the business can operate in compliance with its adjusted net debt to adjusted EBITDA covenants, applying the reasonable downside scenarios indicate that, absent the anticipated net proceeds from the announced rights issue, and

assuming no other mitigating actions are taken by the Group, the available headroom is not sufficient to operate within the 3.0 times adjusted net debt to adjusted EBITDA covenant test. The Board has therefore considered the rights issue net proceeds in its assessment of going concern and the Group's ability to realise their assets and discharge their liabilities in the normal course of business.

Rights issue

The Company has today launched a rights issue to raise gross proceeds of £701m.

The rights issue will be subject to shareholders' approval and the general meeting to approve the equity raise is scheduled for 9 May 2018.

The rights issue is fully underwritten for £701m, by Citigroup Global Markets Limited and Goldman Sachs International.

Material uncertainties

In assessing the going concern assumptions, the Board has reviewed the base case plans, identified downsides and anticipated receipt of proceeds from the rights issue. Following this assessment, the Board has a reasonable expectation that the Company and the Group will be able to operate as a going concern for the foreseeable future.

In undertaking the assessment, the Board has considered the fact that a shareholder vote is required in order to raise additional capital through the rights issue, and that the underwriting agreement is subject to certain specific conditions which, although customary in nature, are outside the control of the Company. These events and conditions indicate a material uncertainty on the completion of the rights issue which may cast significant doubt about the Group's and Parent's ability to continue as a going concern.

The Board is confident that the rights issue will be approved and the proceeds received and based on this expectation believes that, even in a reasonable downside scenario, the Group and Parent Company will continue to have adequate financial resources to realise their assets and discharge their liabilities as they fall due. Accordingly, the Directors have formed the judgement that it is appropriate to prepare the financial statements on the going concern basis. Therefore, the financial statements do not include any adjustments which would be required if the going concern basis of preparation is inappropriate.

Underlying profit

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

Those items which relate to the ordinary course of the Group's operating activities remain within underlying. Following the adoption of IFRS 15, the Board has adopted a policy to separately disclose in the notes to the financial statements the operating profit/loss from significant new contract wins in-period and significant restructuring, in order for users of the financial statements to obtain a proper understanding of the financial information and the performance of the business. A new contract is assessed as that which is significant and either entirely new to the Group, or a significant amendment to the scope and scale of an existing contract. The Group continually assesses the resourcing levels, both at a divisional level and also in relation to the management and delivery of individual contracts. This results in restructuring in the normal course of business and any such charges are recorded in "Underlying before significant new contracts and restructuring" results. A significant restructuring is assessed as that above this normal level of restructuring. As previously announced, a major transformation plan has been launched and costs incurred in support of this, including external advisor costs, are also presented as restructuring charges. Contract terminations arising in the normal course of business and which result in the disposal of a contract fulfilment asset and/or a true-up of revenue recognised, will be included within "Underlying before significant new contracts and restructuring", and separately disclosed if considered material (see note 1).

Items within non-underlying include intangible amortisation, non-current 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. In the Directors' judgement, these need to be disclosed separately (see notes 3, 4, and 5) by virtue of their nature, size and/or incidence, in order for users of the financial statements to obtain a proper understanding of the financial information and the underlying performance of the business.

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

Preliminary announcement

A duly appointed and authorised committee of the Board of Directors approved the preliminary announcement on 23 April 2018. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2017 and 2016 but is derived from those accounts. Statutory accounts for 2016 have been delivered to the Registrar of Companies and those for 2017 will be delivered in due course. The auditor has reported on those accounts. Their report for 2017 was (i) unqualified, (ii) contains a material uncertainty in respect of going concern to which the auditor drew attention by way of emphasis without modifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006. Their report for the accounts of 2016 was (i) unqualified, (ii) did not include a reference of any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

1 Underlying operating profit

	2017			Restated 2016		
	Underlying before significant new contracts and restructuring	**Significant new contracts and restructuring**	**Total underlying**	Underlying before significant new contracts and restructuring	Significant new contracts and restructuring	Total underlying
	£m	**£m**	**£m**	£m	£m	£m
Continuing operations:						
Revenue	4,167.9	—	4,167.9	4,357.3	—	4,357.3
Cost of sales	(3,121.8)	—	(3,121.8)	(3,418.5)	—	(3,418.5)
Gross profit	1,046.1	—	1,046.1	938.8	—	938.8
Administrative expenses	(580.8)	(17.9)	(598.7)	(547.0)	(57.2)	(604.2)
Operating profit	465.3	(17.9)	447.4	391.8	(57.2)	334.6
Net finance costs	(64.4)	—	(64.4)	(66.1)	—	(66.1)
Profit before tax	400.9	(17.9)	383.0	325.7	(57.2)	268.5

Following the adoption of IFRS 15, the Board has adopted a policy to separately disclose the operating profit/loss from significant new contract wins in-period and restructuring, in order for users of the financial statements to obtain a proper understanding of the financial information and the performance of the business.

A new contract is assessed as that which is significant and either entirely new to the Group, or a significant amendment to the scope and scale of an existing contract. Neither of these have occurred in 2017 or 2016.

In 2016, the Board announced a major programme, with the restructuring of the Group into new reporting divisions under a Group-wide programme, the cost of which was £57.2m. In 2017, a further charge of £17.9m was recognised in relation to the restructuring of a small number of businesses, and costs incurred relating to professional fees associated with the broadened transformation plan initiated by the new Chief Executive Officer, which will benefit the Group over the long term.

Contract terminations arising in the normal course of business and which result in the disposal of a contract fulfilment asset and/or a true-up of revenue recognised, will be included within "Underlying before significant new contracts and restructuring", and separately disclosed if considered material.

In 2017, we concluded discussions with the Ministry of Defence in relation to the The Defence Infrastructure Organisation (DIO) contract, which is expected to end in 2019. The 2017 results include a £22.0m benefit from the re-shaping of the DIO contract which will not recur in 2018.

In preparing the financial statements, the Group undertook a comprehensive review of its major contracts to identify indicators of impairment of contract fulfilment assets. Following this review, management has taken the decision to impair costs capitalised as contract fulfilment assets of £14.1 m (2016: £nil) within underlying cost of sales. The review also resulted in the derecognition of £4.4m (2016: £17.0m) of contract fulfilment assets as no further economic benefits are expected to flow from the Group's use of the assets. These amounts are recognised in underlying before significant new contracts and restructuring. Refer to note 13 for further details of the review.

The IT Services division benefited from a one-off supplier settlement of £9.2m (2016: £nil).

Customer contracts sometimes contain provisions to compensate the Group for exit costs and future profits in the event of early termination. In-year customer contract terminations for customer convenience have led to associated exit fees paid to Capita of £6.4m (2016: £21.7m) being recorded as income. These are included in "underlying before significant new contracts and restructuring" because these amounts are payable to the Group under the terms of the respective contracts being terminated.

2 Segmental information

The Group’s operations are managed separately according to the nature of the services provided, with each segment representing a strategic business division offering a different package of client outcomes across the markets the Group serves.

As announced at the 2016 year-end, the Group from 1 January 2017 introduced a new structure after the disposal of Capita Asset Services businesses. This is now reflected in the segment reporting and the comparatives have been restated on this same basis. No segments are aggregated to form the operating segments below, and the information presents the information as it is reported to the Group Board. In preparing the financial statements, the Board has considered how business performance is assessed internally and in addition to the announced new business divisions, Group trading and central functions will also be reported separately going forward. Comparative information has been restated accordingly. The Board believe the changes improve accountability and transparency across the Group. Specific items are not allocated to reportable segments in the below analysis which is in line with that reported to the Group Board.

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

The tables below present revenue, trading result and certain asset and liability information for the Group’s business segments for the years 2017 and 2016. All operational divisions are continuing except for Capita Asset Services businesses which was disposed of in the year and is disclosed as discontinued in both 2017 and 2016. The 2016 consolidated income statement has not been restated for the impact of business exits and other non-underlying items (except for Capita Asset Services businesses). If the 2016 underlying consolidated income statement was restated for businesses exited or held for sale in 2017, revenue would be decreased by£173.9m and profit before tax would be reduced by £5.8m.

Year ended 31 December 2017	Private Sector Partnerships	Public Services Partnerships	Professional Services	Digital and Software Solutions	IT Services	Group trading and central functions	Total underlying	Business Exit	Specific Items	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Continuing operations										
Long-term contractual	1,214.0	774.1	225.1	370.9	323.3	22.6	2,930.0	—		2,930.0
Short-term contractual	306.3	165.4	90.7	32.6	63.6	9.1	667.7	10.8		678.5
Transactional (point in time)	68.0	147.7	217.0	7.4	120.9	9.2	570.2	55.9		626.1
Total segment revenue	1,588.3	1,087.2	532.8	410.9	507.8	40.9	4,167.9	66.7		4,234.6
Trading revenue	1,730.3	1,161.5	667.9	451.2	770.2	97.4	4,878.5			4,878.5
Inter-segment revenue	(142.0)	(74.3)	(135.1)	(40.3)	(262.4)	(56.5)	(710.6)			(710.6)
Total underlying segment revenue	1,588.3	1,087.2	532.8	410.9	507.8	40.9	4,167.9			4,167.9
Non-underlying revenue	1.5	10.1	55.1	—	—	—		66.7		66.7
Total segment revenue	1,589.8	1,097.3	587.9	410.9	507.8	40.9				4,234.6
Underlying operating profit before significant contracts and restructuring	131.4	79.0	105.7	116.1	79.5	(46.4)	465.3			465.3
Significant costs and restructuring	6.1	(6.0)	(0.8)	(2.2)	(1.4)	(13.6)	(17.9)			(17.9)
Underlying operating profit	137.5	73.0	104.9	113.9	78.1	(60.0)	447.4			447.4
Business exits	0.7	—	(1.7)	—	—	—		(1.0)		(1.0)
Total trading result	138.2	73.0	103.2	113.9	78.1	(60.0)				446.4
Non-trading items:										
Business exits - non-trading								(13.7)		(13.7)
Specific Items - See note 5									(852.8)	(852.8)
Operating profit / (loss)							447.4	(14.7)	(852.8)	(420.1)
Net finance costs							(64.4)	(0.1)	2.1	(62.4)
Loss on business disposal							—	(30.6)	—	(30.6)
Profit/(loss) before tax							383.0	(45.4)	(850.7)	(513.1)
Income tax (expense) / credit							(68.0)	—	54.0	(14.0)
Profit/(loss) for the year - continuing operations							315.0	(45.4)	(796.7)	(527.1)
Profit/(loss) for the year - discontinued operations							—	482.5	(66.1)	416.4
Profit/(loss) for the year - total							315.0	437.1	(862.8)	(110.7)

Year ended 31 December 2016 - Restated	Private Sector Partnerships	Public Services Partnerships	Professional Services	Digital and Software Solutions	IT Services	Group trading and central functions	Total underlying	Business Exit	Specific Items	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Continuing operations										
Long-term contractual	1,199.3	791.8	226.9	380.5	298.6	24.6	2,921.7	—		2,921.7
Short-term contractual	274.4	216.4	82.1	32.3	82.2	—	687.4	—		687.4
Transactional (point in time)	70.7	119.7	449.3	7.5	100.7	0.3	748.2	11.3		759.5
Total segment revenue	1,544.4	1,127.9	758.3	420.3	481.5	24.9	4,357.3	11.3		4,368.6
Trading revenue	1,656.5	1,192.8	895.8	451.8	792.1	68.8	5,057.8			5,057.8
Inter-segment revenue	(112.1)	(64.9)	(137.5)	(31.5)	(310.6)	(43.9)	(700.5)			(700.5)
Total underlying segment revenue	1,544.4	1,127.9	758.3	420.3	481.5	24.9	4,357.3			4,357.3
Non-underlying revenue	8.9	0.9	—	1.5	—	—		11.3		11.3
Total segment revenue	1,553.3	1,128.8	758.3	421.8	481.5	24.9				4,368.6
Underlying operating profit before significant contracts and restructuring	104.6	6.5	111.8	136.4	57.2	(24.7)	391.8			391.8
Significant costs and restructuring	(33.2)	(6.0)	(3.5)	(2.0)	(10.1)	(2.4)	(57.2)			(57.2)
Underlying operating profit	71.4	0.5	108.3	134.4	47.1	(27.1)	334.6			334.6
Business exits	—	—	0.1	—	—	—		0.1		0.1
Total trading result	71.4	0.5	108.4	134.4	47.1	(27.1)				334.7
Non-trading items:										
Business exits - non-trading								**2.7**		2.7
Specific items - see note 5									(353.5)	(353.5)
Operating profit / (loss)							334.6	2.8	(353.5)	(16.1)
Net finance costs							(66.1)	—	(7.7)	(73.8)
Gain on business disposal							—	0.1		0.1
Profit / (loss) before tax							268.5	2.9	(361.2)	(89.8)
Income tax (expense) / credit							(46.4)	0.5	47.1	1.2
Profit / (loss) for the year - continuing operations							222.1	3.4	(314.1)	(88.6)
Profit / (loss) for the year - discontinued operations							—	50.6	(13.7)	36.9
Profit / (loss) for the year - total							222.1	54.0	(327.8)	(51.7)

The tables below show the order book for each division, categorised into long-term contractual (contracts with length greater than 2 years) and short term contractual (contracts with length less than 2 years). The length of the contract is calculated from the start of the service commencement date. The figures represent the aggregate amount of currently contracted transaction price allocated to the performance obligations that are unsatisfied or partially unsatisfied. Revenue expected to be recognised upon satisfaction of these performance obligations as of 31 December 2017 is as follows:

Order book	**Private Sector Partnerships**	**Public Services Partnerships**	**Professional Services**	**Digital and Software Solutions**	**IT Services**	**Group trading and central functions**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Long-term contractual	4,002.0	2,670.2	328.2	550.4	494.3	6.4	8,051.5
Short-term contractual	—	94.7	22.1	—	20.0	2.7	139.5
Total	4,002.0	2,764.9	350.3	550.4	514.3	9.1	8,191.0

The table below shows the time bands of the expected timing of revenue to be recognised on long-term contractual as of 31 December 2017:

Time bands of long-term contractual in order book	Private Sector Partnerships	Public Services Partnerships	Professional Services	Digital and Software Solutions	IT Services	Group trading and central functions	Total
	£m	£m	£m	£m	£m	£m	£m
< 1 year	952.8	523.1	83.5	269.7	166.1	5.1	2,000.3
1-5 years	2,480.3	1,491.0	244.7	268.6	240.8	1.3	4,726.7
> 5 years	568.9	656.1	—	12.1	87.4	—	1,324.5
Total	4,002.0	2,670.2	328.2	550.4	494.3	6.4	8,051.5

The order book represents the consideration to which the Group will be entitled to receive from the customers when the Group satisfies the remaining performance obligations in the contracts. However, the total revenue that will be earned by the Group will also include volumetric revenue, new wins, scope changes and anticipated contract extensions. These elements have been excluded from the figures in the tables above as they are not contracted. In addition, revenue from contract extensions is also excluded in the order book unless they are pre-priced extensions whereby the Group has a legal binding obligation to deliver the performance obligations during the extension period. The total revenue related to pre-priced extensions that has been included in the tables above amounted to £502.0m. The amounts presented do not include orders for which neither party has performed and each party has the unilateral right to terminate a wholly unperformed contract without compensating the other party.

Of the £8.1bn revenue to be earned on long term contractual, £4.9bn relates to material contracts to the Group. This amount excludes revenue that will be derived from frameworks (transactional (point in time) contracts) and non-contracted volumetric revenue from these material contracts, which together are expected to contribute an additional £1.8bn of revenue to the Group over the life of these contracts.

3 Business exit

Business exits are businesses that have been exited during the year or in the process of being disposed of.

Except for the disposal of Capita Asset Services (disclosed separately in note4 'Discontinued Operations'), none of the Group's business exits meet the definition of "discontinued operations" as stipulated by IFRS 5, which requires disclosure and comparatives to be restated where the relative size of a disposal or business closure is significant, which is normally understood to mean a reported segment. Accordingly, the separate presentation described below does not fall within the requirements of IFRS 5 concerning discontinued operations.

In the 2016 Annual Report, we disclosed that the Group intended to dispose of the majority of its specialist recruitment business which no longer fit the Group's business strategy. At 31 December 2016, this business did not meet the criteria to be treated as held for sale.

During the year, the disposal of the specialist recruitment business has completed along with the closure of a number of small businesses, and their results are all included within business exits for the period. As at 31 December 2017, the Group was in an active process to sell a non-core property business and has treated this as a disposal group held for sale at this date.

Income statement impact		Non-trading disposal			
	Trading £m	Cash £m	Non-cash £m	Total £m	Total £m
Revenue	66.7	—	—	—	66.7
Cost of sales	(54.7)	—	—	—	(54.7)
Gross profit	12.0	—	—	—	12.0
Administrative expenses	(13.0)	(4.7)	(9.0)	(13.7)	(26.7)
Operating loss	(1.0)	(4.7)	(9.0)	(13.7)	(14.7)
Net finance costs	(0.1)	—	—	—	(0.1)
Loss on business disposal	—	16.3	(46.9)	(30.6)	(30.6)
(Loss) / Profit before tax	(1.1)	11.6	(55.9)	(44.3)	(45.4)
Taxation	—	—	—	—	—
(Loss) / profit after tax	(1.1)	11.6	(55.9)	(44.3)	(45.4)

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

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

The loss on disposal of £(30.6)m arises from the disposal of net assets of £47.0m for £17.0m cash consideration and costs of disposal of £(0.6)m.

Non-trading administrative expenses comprise £(4.7)m of disposal and closure costs and £(9.0)m of accelerated depreciation, amortisation and impairments.

4 Discontinued operations

In the 2016 Annual Report, we disclosed that the Group intended to dispose of the Capita Asset Services businesses. At 31 December 2016, this business did not meet the criteria to be treated as held for sale as the sale process had not progressed sufficiently to be reasonably certain at that time. The disposal completed in the year.

The disposal meets the definition of a discontinued operation as stipulated by IFRS 5. The comparatives have been restated. The following presentation, and that included in other notes, follows the requirements of IFRS 5.

	2017					2016				
Discontinued operations:	Trading **£m**	Non-trading **£m**	Total **£m**	Specific Items **£m**	**Total** **£m**	Trading £m	Non-trading £m	Total £m	Specific Items £m	Total £m
Revenue	261.9	—	261.9	—	261.9	316.3	—	316.3	—	316.3
Cost of sales	(94.0)	—	(94.0)	—	(94.0)	(111.8)	—	(111.8)	—	(111.8)
Gross profit	167.9	—	167.9	—	167.9	204.5	—	204.5	—	204.5
Administrative expenses	(120.3)	—	(120.3)	(66.2)	(186.5)	(144.5)	—	(144.5)	(17.7)	(162.2)
Operating (loss) / profit	47.6	—	47.6	(66.2)	(18.6)	60.0	—	60.0	(17.7)	42.3
Net finance costs	0.1	—	0.1	0.8	0.9	0.1	—	0.1	0.1	0.2
Profit on disposal	—	445.4	445.4	—	445.4	—	—	—	—	—
Profit before tax	47.7	445.4	493.1	(65.4)	427.7	60.1	—	60.1	(17.6)	42.5
Income tax expense	(10.6)	—	(10.6)	(0.7)	(11.3)	(9.5)	—	(9.5)	3.9	(5.6)
Profit for the period	37.1	445.4	482.5	(66.1)	416.4	50.6	—	50.6	(13.7)	36.9

Specific item administrative expenses are analysed in note 5. Specific item net finance costs includes fair value movements on available-for-sale assets.

The earnings per share impact from discontinued operations is 62.56p (2016: 5.55p) on basic earnings per share and 62.56p (2016: 5.55p) on diluted earnings per share.

Profit on business disposal	**Cash** **£m**	**Non-cash** **£m**	**Total** **£m**
Property, plant and equipment	—	73.0	73.0
Intangible assets	—	250.2	250.2
Trade and other receivables	—	74.6	74.6
Financial assets	—	3.3	3.3
Cash	45.8	—	45.8
Trade and other payables	—	(40.0)	(40.0)
Income tax payable	—	(2.7)	(2.7)
Financial liabilities	—	(0.2)	(0.2)
Deferred tax	—	(5.0)	(5.0)
Provisions	—	(3.2)	(3.2)
Total net assets disposed of	45.8	350.0	395.8
Cash consideration received	909.5	—	909.5
Recycled gains in foreign currency translation reserve	—	7.6	7.6
Recycled losses on hedges of a net investment in foreign operations	—	(17.0)	(17.0)
Costs of disposal	(58.9)	—	(58.9)
Proceeds, less costs, on disposal	850.6	(9.4)	841.2
Profit on business disposal	804.8	(359.4)	445.4

Costs of disposal include IT related separation costs, advisers fees and stranded costs such as property lease payments.

5 Specific items

Included within non-underlying specific items column are:

	Notes	Cash in year £m	Cash in future £m	Non-cash £m	2017 Total £m	Cash in year £m	Cash in future £m	Non-cash £m	Restated 2016 Total £m
Cost of sales - continuing:									
Co-op contract dispute		—	—	—	—	—	—	42.3	42.3
Impairment of life and pension assets		—	—	5.5	5.5	—	—	—	—
Total cost of sales - continuing		—	—	5.5	5.5	—	—	42.3	42.3
Administrative expenses - continuing:									
Amortisation of acquired intangibles	10	—	—	124.3	124.3	—	—	147.9	147.9
Impairment of acquired intangibles	10	—	—	14.0	14.0	—	—	14.7	14.7
Impairment of loan and investment		—	—	9.0	9.0	—	—	2.6	2.6
Impairment of contract related assets	9/10	—	—	—	—	—	—	58.3	58.3
Impairment and disposals of other non-current assets	9/10	—	—	63.5	63.5	—	—	—	—
Impairment of goodwill	11	—	—	551.6	551.6	—	—	66.6	66.6
Co-op contract dispute		—	—	—	—	1.8	4.9	4.2	10.9
Impairment of life and pension assets	9/10	—	—	55.7	55.7	—	—	—	—
Claims and litigation provisions	15	—	30.0	—	30.0	—	—	—	—
Contingent consideration movements		—	—	(2.5)	(2.5)	—	—	1.2	1.2
Professional fees on acquisitions	12	1.0	0.5	—	1.5	6.4	2.0	—	8.4
Stamp duty paid on acquisitions	12	0.2	—	—	0.2	0.6	—	—	0.6
Total administrative expenses - continuing		1.2	30.5	815.6	847.3	8.8	6.9	295.5	311.2
Operating loss - continuing		1.2	30.5	821.1	852.8	8.8	6.9	337.8	353.5
Net finance costs - continuing					(2.1)				7.7
Income tax credit - continuing					(54.0)				(47.1)
Loss for the year - continuing					796.7				314.1
Administrative expenses - discontinued:									
Amortisation of acquired intangibles	10	—	—	0.6	0.6	—	—	4.3	4.3
Capita Asset Services indemnity and settlement provision	15	(0.7)	69.1	(2.8)	65.6	0.9	12.5	—	13.4
Total administrative expenses - discontinued		(0.7)	69.1	(2.2)	66.2	0.9	12.5	4.3	17.7
Operating loss - discontinued	4	(0.7)	69.1	(2.2)	66.2	0.9	12.5	4.3	17.7
Net finance costs - discontinued					(0.8)				(0.1)
Income tax expense / (credit) - discontinued					0.7				(3.9)
Loss for the year - discontinued					66.1				13.7
Total loss for the year					862.8				327.8

The above items are presented as specific non-underlying items as the Board have concluded that it is appropriate to do so. These amounts are (or have been) material, and require separate disclosure in order for the users of the financial statements to obtain a proper understanding of the financial information and the underlying performance of the business. The tax impact of the above items is a £53.3m credit. These items are discussed below:

Continuing:

Co-op contract dispute: the impact of the dispute with The Co-operative Bank plc on the prior year financial statements was a charge of £53.2m representing the write-off of contract fulfilment assets relating to the transformation plan of £42.3m to cost of sales; and software licence costs of £4.2m (included within other intangibles, see note 10), other costs of £5.8m and a provision for 2017 legal costs of £0.9m to administrative expenses. This was included within specific items because it was one-off in nature and was due to a contractual dispute rather than service credit penalties.

Impairment of life and pensions assets: The Group's life and pension business has developed a platform to support an existing life and pensions contract, but which could provide services to multiple clients in the future. The Group's transformation programme has identified there is no longer a market for this platform and accordingly the carrying value of this and associated assets has been written off. The impact on the financial statements is a non-underlying charge of £61.2m (£54.7m property, plant and equipment - see note9; £1.0m capitalised software intangible assets - see note 10; £5.5m contract fulfilment asset - see note 13) representing the write-off of the non-current assets. The charge has been included within non-underlying as the assets have no further value to the Group.

Amortisation and impairment of acquired intangible assets: the Group carries on its balance sheet significant balances related to acquired intangible assets. The amortisation of these assets, and any impairment charges, are reported separately as they distort the in-year trading results, and performance of the acquired businesses is assessed through the underlying operational results.

Impairment of loan and investment: the Group has fully impaired a historic loan and investment in the year. The charge is reported separately due to its nature and to be consistent to prior years.

Impairment of contract related assets: as part of its year-end close process in 2016, Capita undertook a comprehensive review across its major contracts. Following this review management took the decision to impair, at 31 December 2016, a number of historical 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 9; £41.8m capitalised software development intangible assets - see note 10) were written off as a non-underlying charge as the assets have no further value to the Group.

Impairment and disposals of other non-current assets: as part of its year-end close process in 2017, Capita has undertaken a comprehensive review of its tangible and intangible assets. Following the review, management has taken a decision to impair, at 31 December 2017, a number of assets relating to specific programmes resulting from changes in client and Capita strategy in the second half of 2017. These impairments will have no adverse impact on future cash or trading. Non-current assets amounting to £63.5m (£35.2m property, plant and equipment - see note 9; £28.3m capitalised software intangible assets - see note 10) have been written off as a non-underlying charge as the assets have no further value to the Group.

Impairment of goodwill: the Group carries on its balance sheet significant balances related to acquired goodwill. Goodwill is subject to annual impairment testing, and any impairment charges are reported separately as they distort the in-year trading results and IFRS does not permit the recognition of enhanced value of acquisitions, potentially leading to an unbalanced picture being shown over time. Refer to note 11 for further detail on the impairments.

Claims and litigation provisions: these significant litigation costs provided in the year, relate to two claims in respect of:

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

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

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.

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 specific items.

Discontinued:

Amortisation of intangible assets: the Group carries on its balance sheet significant balances related to acquired intangible assets. The amortisation of these assets, are reported separately as they distort the in-year trading results and performance of the acquired businesses is assessed through the underlying operational results. The discontinued element of the amortisation of intangible assets charge relates to the Capita Asset Services businesses disposed of in the year.

Capita Asset Services indemnity and settlement provision: these significant litigation costs are historic in nature, being tied to previous acquisitions, comprising mainly £69.1m of provisions for future costs (see note 15), and are included in specific items due to their size and nature. The discontinued element relates to the Capita Asset Services businesses disposed of in the year. The prior year charge was £13.4m.

6 Net finance costs

	2017 £m	Restated 2016 £m
Interest receivable	(0.7)	(0.5)
Loan notes	37.7	35.6
Fixed rate interest rate swaps	2.6	12.6
Finance lease	—	0.2
Bank loans and overdrafts	15.6	11.6
Net interest cost on defined benefit pension schemes	9.2	6.6
Interest payable	65.1	66.6
Underlying net finance costs	64.4	66.1
Fixed rate interest rate swaps – mark-to-market	(0.5)	18.1
Discount unwind on public sector subsidiary partnership payment	1.8	2.3
Fair value movement in trade investments	0.6	(0.1)
Non-designated foreign exchange forward contracts – mark-to-market	(3.4)	(13.6)
Interest payable - business exit	0.1	—
Fair value hedge ineffectiveness[1]	(0.6)	1.0
Non-underlying net finance costs	(2.0)	7.7
Total net finance costs	62.4	73.8

[1] This mark-to-market movement on hedge derivatives represents the extent to which the fair value of these instruments has been affected by the perceived change in the creditworthiness of the counterparties to those instruments and own credit risk. It also includes the ineffectiveness of the fair value hedge relationships arising from changes in the currency basis risk.

7 Earnings per share

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

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

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

	2017		Restated 2016	
	Continuing operations £m	Total operations £m	Continuing operations £m	Total operations £m
Underlying profit attributable to shareholders	303.6	303.6	210.6	210.6
Total loss attributable to shareholders	(533.5)	(117.1)	(94.8)	(57.9)

	2017 m	2016 m
Weighted average number of ordinary shares (excluding trust and treasury shares) for basic earnings per share	665.7	664.7
Dilutive potential ordinary shares:		
Employee share options	—	—
Weighted average number of ordinary shares (excluding trust and treasury shares) adjusted for the effect of dilution	665.7	664.7

At 31 December 2017, 3,395,030 options (2016: 30,754) were excluded from the diluted weighted average number of ordinary shares calculation because their effect would have been anti-dilutive. Under IAS 33-Earnings per Share, potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations. The Group made a loss in the current year from continuing operations hence the diluted profit / (loss) per share for each component of continuing and total operations needs to be the same amount as the basic profit / (loss) per share.

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

The earnings per share figures are calculated based on underlying earnings attributable to ordinary equity holders of the parent company of £303.6m (2016 restated: £210.6m) and, after non-underlying costs, losses of £(117.1)m (2016 restated: losses of £(57.9)m). They are both included to provide a better understanding of the underlying trading performance of the Group.

		2017		Restated 2016	
		Continuing operations p	**Total operations p**	Continuing operations p	Total operations p
Basic earnings / (loss) per share	– reported underlying	45.61	45.61	31.68	31.68
	– reported	(80.14)	(17.58)	(14.27)	(8.72)
Diluted earnings / (loss) per share	– reported underlying	45.61	45.61	31.68	31.68
	– reported	(80.14)	(17.58)	(14.27)	(8.72)

8 Dividends paid and proposed

	2017 £m	2016 £m
Declared and paid during the year		
Ordinary shares (equity):		
Final for 2016 paid: 20.6p per share (2015: 21.2p per share)	**137.1**	140.9
Interim for 2017 paid: 11.1p per share (2016: 11.1p per share)	**73.9**	73.9
Dividends paid to shareholders	**211.0**	214.8
Dividends paid to non-controlling interest	**5.6**	4.2
Total dividends paid	**216.6**	219.0
Proposed for approval at AGM (not recognised as a liability at 31 December)		
Ordinary shares (equity):		
Final for 2017: nil per share (2016: 20.6p per share)	**–**	137.0

9 Property, Plant and Equipment

	Leasehold improvements, land and buildings	Plant and machinery	Total
	£m	£m	£m
Cost:			
As at 1 January 2016	110.5	547.5	658.0
Subsidiaries acquired	—	2.7	2.7
Disposal of business	—	(0.5)	(0.5)
Transfer to 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 (net)	—	(2.6)	(2.6)
Exchange movement	2.9	12.3	15.2
As at 31 December 2016	105.0	420.3	525.3
Subsidiaries acquired	**0.1**	**0.1**	**0.2**
Disposal of business	**(15.8)**	**(98.2)**	**(114.0)**
Additions	**5.8**	**63.1**	**68.9**
Disposals - underlying	**(3.6)**	**(10.7)**	**(14.3)**
Disposals - specific items	**(7.3)**	**(91.9)**	**(99.2)**
Asset retirements	**(7.6)**	**(75.2)**	**(82.8)**
Re-class to intangible assets	**—**	**(13.1)**	**(13.1)**
Exchange movement	**0.5**	**0.6**	**1.1**
As at 31 December 2017	**77.1**	**195.0**	**272.1**
Depreciation and impairment:			
As at 1 January 2016	43.2	208.8	252.0
Depreciation charged during the year	12.3	69.6	81.9
Impairment - specific items	—	16.5	16.5
Disposal of business	—	(0.2)	(0.2)
Transfer to 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
Depreciation charged during the year	**11.1**	**58.9**	**70.0**
Impairment - specific items	**—**	**10.0**	**10.0**
Disposal of business	**(6.9)**	**(32.9)**	**(39.8)**
Disposals - underlying	**(1.4)**	**(7.0)**	**(8.4)**
Disposals - specific items	**(1.5)**	**(17.8)**	**(19.3)**
Asset retirements	**(7.6)**	**(75.2)**	**(82.8)**
Re-class to intangible assets	**—**	**(8.0)**	**(8.0)**
Exchange movement	**0.2**	**0.3**	**0.5**
As at 31 December 2017	**32.7**	**20.1**	**52.8**
Net book value			
At 1 January 2016	67.3	338.7	406.0
At 31 December 2016	66.2	328.5	394.7
At 31 December 2017	**44.4**	**174.9**	**219.3**

The net book value of plant and machinery includes an amount of £0.2m (2016: £2.3m) in respect of assets held under finance leases.

Depreciation charged during the year includes £0.2m of accelerated depreciation in relation to businesses disposed of.

As part of its year-end close process in 2017, Capita has undertaken a comprehensive review of its tangible and intangible assets. Following the review, management has taken a decision to fully write down, at 31 December 2017, a number of assets relating to specific programmes resulting from changes in client and Capita strategy in the second half of 2017. Property, plant and equipment amounting to £89.9m has been fully written down as a non-underlying charge. The charge is shown above within impairment - specific items (£10.0m) and disposals - specific items (£79.9m, being cost £99.2m less accumulated depreciation £19.3m).

The above non-underlying write-downs relate to life and pensions assets (£54.7m) and other non-current assets (£35.2m). Refer to note 5 for further details.

The table below reconciles the disposals and impairments of non-current assets between notes 5, 9 and 10.

	Property, plant and equipment	Intangible assets	Notes	Total	Notes
	£m	£m		£m	
Life and pension assets					
Disposals - cost	56.2	1.0		57.2	
Disposals - accumulated depreciation/amortisation	(1.5)	—		(1.5)	
	54.7	1.0		55.7	5
Other non current assets					
Impairment	10.0	4.0		14.0	
Disposals - cost	43.0	39.3		82.3	
Disposals - accumulated depreciation/amortisation	(17.8)	(15.0)		(32.8)	
	35.2	28.3		63.5	5
Total					
Total impairment	10.0	4.0	10	14.0	
Total disposals - cost	99.2	40.3	10	139.5	
Total disposals - accumulated depreciation/ amortisation	(19.3)	(15.0)	10	(34.3)	
	89.9	29.3		119.2	

In 2016, the Group experienced difficult market conditions, and management conducted a review of contract related balances on major contracts across the Group. This review led to assets in the Insurance and Benefits Services division with a total net book value of £16.5m being fully written down.

10 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 2016	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	—	—	—	—	—	—	0.0	(0.3)	(0.3)	(0.3)
Transfer from assets held for sale	—	—	—	5.3	10.3	15.6	0.5	0.0	0.5	16.1
Re-class from property, plant and equipment	—	0.6	—	—	—	0.6	0.6	1.3	1.9	2.5
Asset retirement	(21.7)	(19.5)	(62.2)	(168.7)	—	(272.1)	(1.9)	(0.5)	(2.4)	(274.5)
Fair value adjustments in 2016 relating to 2015 acquisitions	—	—	—	—	1.7	1.7	—	—	—	1.7
Exchange movement	1.7	2.2	—	26.1	16.2	46.2	0.8	0.3	1.1	47.3
At 31 December 2016	69.3	96.5	75.3	742.7	2,327.6	3,311.4	197.0	57.9	254.9	3,566.3
Subsidiaries acquired	**0.4**	**6.8**	**1.3**	**3.9**	**15.1**	**27.5**	**—**	**—**	**—**	**27.5**
Business disposal	**(3.0)**	**(0.4)**	**—**	**(50.3)**	**(266.9)**	**(320.6)**	**(17.2)**	**(0.7)**	**(17.9)**	**(338.5)**
Additions	**—**	**—**	**—**	**—**	**—**	**—**	**43.4**	**29.5**	**72.9**	**72.9**
Disposals - underlying	**—**	**—**	**—**	**—**	**—**	**—**	**(2.7)**	**(17.5)**	**(20.2)**	**(20.2)**
Disposals - specific items	**—**	**—**	**—**	**—**	**—**	**—**	**(31.0)**	**(9.3)**	**(40.3)**	**(40.3)**
Transfer to held for sale	**(0.2)**	**—**	**—**	**(3.7)**	**(7.1)**	**(11.0)**	**—**	**—**	**—**	**(11.0)**
Re-class from property, plant and equipment	**—**	**—**	**—**	**—**	**—**	**—**	**13.1**	**—**	**13.1**	**13.1**
Asset retirement	**(9.7)**	**(3.4)**	**(6.1)**	**(201.9)**	**—**	**(221.1)**	**(46.6)**	**(1.9)**	**(48.5)**	**(269.6)**
Fair value adjustments in 2017 relating to 2016 acquisitions	**—**	**—**	**—**	**—**	**1.2**	**1.2**	**—**	**—**	**—**	**1.2**
Exchange movement	**(0.3)**	**0.7**	**—**	**(2.6)**	**1.3**	**(0.9)**	**0.4**	**0.1**	**0.5**	**(0.4)**
At 31 December 2017	**56.5**	**100.2**	**70.5**	**488.1**	**2,071.2**	**2,786.5**	**156.4**	**58.1**	**214.5**	**3,001.0**
Amortisation and impairment										
At 1 January 2016	37.2	42.3	89.4	492.7	85.4	747.0	21.3	7.0	28.3	775.3
Amortisation charged during the year	12.3	13.3	8.7	117.9	—	152.2	11.7	5.7	17.4	169.6
Impairment - specific items	0.6	—	—	14.1	66.6	81.3	41.8	4.2	46.0	127.3
Impairment - business exit	—	—	—	4.2	—	4.2	—	—	—	4.2
Business disposal	—	—	—	(0.7)	—	(0.7)	—	—	—	(0.7)
Disposals	—	—	—	—	—	—	—	(0.3)	(0.3)	(0.3)
Asset retirement	(21.7)	(19.5)	(62.2)	(168.7)	—	(272.1)	(1.9)	(0.5)	(2.4)	(274.5)
Transfers from assets held for sale	—	—	—	3.6	—	3.6	0.4	—	0.4	4.0
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
Amortisation charged during the year	**11.4**	**12.8**	**9.0**	**92.0**	**—**	**125.2**	**16.6**	**6.6**	**23.2**	**148.4**
Impairment - specific items	**0.7**	**—**	**4.0**	**9.3**	**551.6**	**565.6**	**4.0**	**—**	**4.0**	**569.6**
Impairment - business exit	**—**	**—**	**—**	**—**	**7.1**	**7.1**	**—**	**—**	**—**	**7.1**
Business disposal	**(2.6)**	**(0.3)**	**—**	**(45.2)**	**(0.2)**	**(48.3)**	**(7.1)**	**(0.1)**	**(7.2)**	**(55.5)**
Disposals - underlying	**—**	**—**	**—**	**—**	**—**	**—**	**(0.8)**	**(6.7)**	**(7.5)**	**(7.5)**
Disposals - specific items	**—**	**—**	**—**	**—**	**—**	**—**	**(13.5)**	**(1.5)**	**(15.0)**	**(15.0)**
Asset retirement	**(9.7)**	**(3.4)**	**(6.1)**	**(201.9)**	**—**	**(221.1)**	**(46.6)**	**(1.9)**	**(48.5)**	**(269.6)**
Transfer to assets held for sale	**(0.1)**	**—**	**—**	**(2.3)**	**(7.1)**	**(9.5)**	**—**	**—**	**—**	**(9.5)**
Re-class from property, plant and equipment	**—**	**—**	**—**	**—**	**—**	**—**	**8.0**	**—**	**8.0**	**8.0**
Exchange movement	**(0.3)**	**0.1**	**—**	**0.8**	**(0.1)**	**0.5**	**0.1**	**0.2**	**0.3**	**0.8**
At 31 December 2017	**28.0**	**45.9**	**42.8**	**321.3**	**703.3**	**1,141.3**	**34.6**	**13.0**	**47.6**	**1,188.9**
Net book value										
At 1 January 2016	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
At 31 December 2017	**28.5**	**54.3**	**27.7**	**166.8**	**1,367.9**	**1,645.2**	**121.8**	**45.1**	**166.9**	**1,812.1**

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

Goodwill impairments: During the year, the Group recognised an impairment charge relating to goodwill of £551.6 (2016: £66.6m). A full description of the impairment review process and assumptions made can be found in note 11.

Intangible assets acquired in business combination impairments: In 2017, £14.0m of intangible assets acquired in business combinations in relation to the Insurance, Life and Pensions businesses were identified as being impaired. During the prior year, intangible assets relating to the Capita Asset Services businesses were impaired by £14.7m and on the closure of a business in the period, acquired intangibles were impaired by £4.2m.

Intangible assets capitalised impairment and disposals: As part of its year-end close process in 2017, Capita has undertaken a comprehensive review of its tangible and intangible assets. Following the review, management has taken a decision to fully write down, at 31 December 2017, a number of assets relating to specific programmes resulting from changes in client and Capita strategy in the second half of 2017. Intangible assets amounting to £29.3m have been fully written down as a non-underlying charge. The charge is shown in the table within impairment - specific items (£4.0m) and disposals - specific items £25.3m, being cost £40.3m less accumulated depreciation £15m). This impairment charge relates to life and pensions assets (£1.0m) and other non-current assets (£28.3m). Refer to note 5 for further details.
During the prior year, a similar review was undertaken which led to capitalised software development being written down by £41.8m. This 2016 impairment is reported within impairment of contract related assets of £58.3m in note 5.
The table in note 9 reconciles the disposals and impairments of non-current assets between notes 5, 9 and 10.

Other intangible asset impairments: During 2017, no other intangible asset impairments were identified. In the prior year, the impact of the dispute with the Co-operative Bank plc included a write down of software licence costs of £4.2m.

11 Goodwill

Goodwill acquired through business combinations has been allocated to Cash-Generating Units ("CGUs"), which are expected to benefit from that business combination.

Following the simplification of the group structure in 2017 from 11 to 5 divisions, the Group has reviewed the historical assessment of CGUs and the allocation of goodwill. As part of this simplification within each division, business units were reorganised to be recognisable, identifiable businesses. It was therefore concluded that the Group's business units are the most appropriate lowest level at which cash flows can be identified and goodwill has been reallocated to these new CGUs. As at 31 December 2017, the Group has 45 CGUs. The opening goodwill balance has been restated for comparable purposes. The remaining disclosures have not been restated as they are not comparable, due to the change in CGU and goodwill allocation.

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

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

	Private Sector Partnerships	Public Services Partnerships	Professional Services	Digital and Software Services	IT Services	Asset Services	Total
Total number of CGUs (No.)	**9**	**10**	**12**	**8**	**6**	**—**	**45**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
31 December 2016	582.6	209.0	354.6	416.4	375.3	237.7	2,175.6
Additions	5.9	—	1.7	—	7.5	—	15.1
Fair value adjustment	—	—	—	—	1.2	—	1.2
Disposals	—	—	(29.0)	—	—	(237.7)	(266.7)
Held for sale	—	(7.1)	—	—	—	—	(7.1)
Exchange movement	1.4	—	—	—	—	—	1.4
Impairment	(389.1)	(7.5)	—	(125.1)	(29.9)	—	(551.6)
31 December 2017	200.8	194.4	327.3	291.3	354.1	—	1,367.9

The table below sets out the split between significant and non-significant CGUs.

A significant CGU is defined as a CGU exceeding 10% of opening goodwill, 10% of closing goodwill or a CGU that was impaired or disposed of during the year. The remaining 36 CGUs that have not been impaired, are included in the 'Other CGUs' column.

	Insurance, Life & Pensions	Asset Services	Secure Solutions & Services	Real Estate & Infrastructure	AMT	Specialist Recruitment	Capita Europe	Enterprise Services	Technology Solutions	Other CGUs	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
31 December 2016	323.4	237.7	191.9	138.8	63.3	29.0	84.5	83.0	90.6	933.4	2,175.6
Additions	—	—	—	—	—	—	—	—	7.0	8.1	15.1
Fair value adjustments	—	—	—	—	—	—	—	—	1.2	—	1.2
Disposals	—	(237.7)	—	—	—	(29.0)	—	—	—	—	(266.7)
Held for sale	—	—	—	(7.1)	—	—	—	—	—	—	(7.1)
Exchange movements	0.8	—	—	—	—	—	—	—	—	0.6	1.4
Impairment	(324.2)	—	(113.2)	(7.5)	(11.9)	—	(64.9)	(26.5)	(3.4)	—	(551.6)
31 December 2017	—	—	78.7	124.2	51.4	—	19.6	56.5	95.4	942.1	1,367.9

The impairment test

The Group tests intangible assets, including goodwill, for impairment on an annual basis or more frequently if there are indications that any of these assets may be impaired.
The Group's impairment test compares the carrying value of each CGU with its recoverable amount. The recoverable amount of a CGU is determined by its value in use which is derived from discounted cash flow calculations. The key inputs to the calculations are described below, including changes in market conditions.

As reported in the Chief Executive Officer's review, significant actions are required to address recent operational and external challenges and a major transformational plan has been launched. Actions were taken in the prior year to implement a new simplified market facing organisation structure, and at the time of the interim results the Group announced an improved win rate against the backdrop of a quiet market. Since that date the Group has continued to experience a higher level of revenue attrition than expected, and continued to experience delays in customer decision making and weakness in new sales.

In January 2018, the Group announced that the administration of Prudential's life and pensions business, around 2% of Group revenue, will be transferring from Capita to a new supplier later in 2018. As previously disclosed, another of the Group's life and pensions clients is conducting a strategic review, the outcome of which remains uncertain but is expected to result in the continuation of the contract with amended terms, or the termination of the contract.

As announced in January 2018, Capita has shifted its strategy, and set a T plan focusing on investment in people, sales capability and its transformation plan. The business plan for the divisions indicate there is likely to be a significant negative impact upon profits from contract and volume attrition, the dropping out of one-off items including contract and supplier-related profits which were reported in 2017 and increases in some cost items.

The transformation plan encompasses strategy, cost competitiveness, sales, IT and the Company's capital structure, to improve the performance of Capita over the medium-to-long term. The Board is confident that the transformation plan will deliver significant benefits to Capita over the medium-to-long-term and the associated disposal programme will support the re-positioning of the Group.

In undertaking the annual impairment review, the Directors have considered both external and internal sources of information, and any observable indications that may suggest that the carrying value of goodwill may be impaired. The continued operational and external challenges faced by the Group have led to a significant deterioration in new sales opportunities from the positions in March and September 2017. In addition, the Group has experienced contract terminations and attrition as highlighted above, and the transformation plan has identified areas that need to be addressed to rebuild and reposition Capita. These events and circumstances have led to the recognition of the impairment charge as set out in this note.

Forecast cash flows

Previously, the Group prepared a one year business plan. For 2018, the Group prepared a five-year strategic plan The cash flow forecasts are derived from the most recent Board approved strategic plan for the years ended 31 December 2018-2022 and are based upon:

- past performance and known changes and expectations of current market conditions;
- the sales volume assumptions underlying the forecasts are based on the Directors' estimates of the route to new sales and renewals; and
- the efficiency of the cost base and whether it is at the correct level for the business currently and is supportive of future growth.

Accounting standards require that cash flows after the forecast period, which for Capita is the period covered by the Board approved strategic plan, are extrapolated into the future over the useful life of the CGU, using a steady or declining growth rate that is consistent with that of the product, industry or country.
As the strategic plan covers a period of 5 years, no extrapolation is required and instead an appropriate terminal value has been applied to each year 5 CGU cash flow. The resulting cash flows are then discounted at a rate, which is discussed further below. The major assumptions in this extrapolation are:

- long-term growth rate; and

- the pre-tax discount rates to be used.

Long-term growth rates

The rates are based on long term inflation rates specific to each CGU, adjusted for management's view of renewal rates on contracts. The growth rate assumptions do not exceed the average long term growth rate forecast for UK GDP growth of 1.5%.

Discount rates

The resulting cash flows are discounted at a rate that recognised their CGU specific characteristics and is based on the overall Group Weighted Average Cost of Capital ("WACC").

The Group's post-tax WACC is 7.46% (2016: 7.11%). 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 1.23% (2016: 1.22%), a market risk premium of 13.89% (2016: 9.23%) and a Beta of 0.57 (2016: 0.79). These assumptions are based on publicly available sources.

For the discount rate used in the cash flows of each CGU, we have adjusted 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.

The below table represents the range of pre-tax discount rates used and the range of implied compound annual growth rates for the years 2017 to 2022 for each CGU. The table also includes the divisions' compound annual growth rate for the same period.

	Pre-tax discount rate		Growth rate	
Division	**Min**	**Max**	**Min**	**Max**
Private Sector Partnerships	9.2%	14.1%	(13.9)%	9.5%
Public Services Partnerships	9.2%	14.1%	(5.7)%	25.4%
Professional Services	9.2%	9.2%	(2.9)%	14.1%
Digital and Software Services	9.2%	12.9%	1.1%	14.3%
IT Services	9.2%	9.2%	(11.9)%	6.7%

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 table below shows how the impairment test would be impacted (with all other variables being equal) by an increase in discount rate of 1%, or if the business plan was missed by 10% for each of the 5 years or a decrease of 1% in the long-term growth rate for the Group in total and each of its divisions. We have also considered the impact of all of the scenarios together and disclosed the impact on impairment in the final column.

	Increase / (decrease) in NPV					
	No. of CGUs	**1% increase in WACC**	**Miss targets by 10%**	**Long term growth rate decrease by 1%**	**Combination sensitivity**	**(Increase) / Decrease in 2017 Impairment using combination sensitivity scenario**
Private Sector Partnerships	9	(92.6)	(111.8)	(65.7)	(241.9)	(19.6)
Public Services Partnerships	10	(52.6)	(74.6)	(34.2)	(148.2)	(34.2)
Professional Services	12	(146.7)	(138.3)	(111.0)	(349.2)	-
Digital and Software Services	8	(134.1)	(141.2)	(98.7)	(332.6)	(59.2)
IT Services	6	(78.8)	(76.5)	(59.2)	(189.2)	(64.4)
	45	(504.8)	(542.4)	(368.8)	(1,261.1)	(177.4)

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

12 Business combinations

2017 acquisitions

The Group made a number of acquisitions in 2017 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	0.2
Intangible assets	12.4
Trade and other receivables due in less than one year	7.5
Corporation tax	(0.3)
Cash and cash equivalents	4.5
Trade and other payables (excluding accruals) due in less than one year	(2.9)
Accruals due in less than one year	(2.6)
Deferred tax	(2.2)
Net assets	16.6
Goodwill arising on acquisition	15.1
	31.7
Discharged by:	
Cash	23.3
Deferred consideration	2.0
Contingent consideration accrued	6.4
	31.7

In all cases, 100% of the ordinary share capital was acquired. The companies acquired have been mainly in the areas of IT Services, Travel and Events, Customer Management 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 £10.8m of deferred consideration and £11.7m of contingent consideration payments with regard to previous acquisitions, all of which had been accrued.
Where this can be determined, the acquired subsidiaries contributed £1.8m to the profit before tax of the Group. If these acquisitions had occurred on 1 January 2017, Group's revenue would have been an estimated £4,237.7m and Group loss before tax would have been an estimated £512.8m. 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 2017. 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 (2016: £nil).
The fair value exercise has been completed on a provisional basis for acquisitions made in 2017. The Group will complete this review in 2018 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 £1.2m.

Contingent consideration

In respect of the acquisitions made in 2017, the Group has agreed to pay the vendors additional consideration dependent on the achievement of performance targets in the periods post acquisition. These performance periods are of up to 3 years in duration and will be settled in cash on their payment date on achieving the relevant targets. The range of the additional consideration payment is estimated to be between £nil and £24.7m. The Group has included £6.4m 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 £1.7m 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 consistent with prior years. Absent any material acquisitions, they will be included in underlying in future periods.

13 Contract fulfilment assets

	Total £m
As at 1 January 2016	277.6
Additions	76.5
Derecognition	(59.3)
Utilised during the year - underlying	(54.2)
As at 31 December 2016	240.6
Additions	101.2
Impairment and derecognition	(24.0)
Utilised during the year - underlying	(65.3)
As at 31 December 2017	252.5

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

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

Following this review, management has taken the decision to impair costs capitalised as contract fulfilment assets of £14.1m (2016: £nil) within underlying cost of sales.

The review also resulted in the derecognition of £9.9m (2016: £59.3m) of contract fulfilment assets as no further economic benefits are expected to flow from the Group's use of the assets.

Of these assets derecognised, £5.5m (2016: £42.3m) is included within non-underlying cost of sales. The Group's life and pension business has developed a platform to support an existing life and pensions contract, but which could provide services to multiple clients in the future. The Group's transformation plan has identified there is no longer a market for this platform and accordingly the carrying value of this and associated assets has been written off. The impact on the financial statements is a non-underlying charge of £61.2m (£54.7m property, plant and equipment - see note 9; £1.0m capitalised software intangible assets - see note 10; and £5.5m contract fulfilment assets) representing the write-off of the non-current assets. The charge has been included within non-underlying as the assets have no further value to the Group. In 2016, £42.3m of the charge relates to the impact of the dispute with the Co-Operative Bank plc representing the write-off of contract fulfilment assets relating to the transformation plan. Refer to note5 for full details of the non-underlying events.

14 Deferred income

Current	2017 £m	Restated 2016 £m
Deferred income	1201.2	1,374.9

Non-current	2017 £m	Restated 2016 £m
Deferred income	314.0	216.7

The Group's deferred income balances solely relate to revenue from contracts with customers. Movements in the deferred income balances were driven by transactions entered into by the Group within the normal course of business in the year, other than the accelerated revenue recognised of £22.0m relating to the benefit from the re-shaping of the DIO contract which is not expected to recur in 2018.

15 Provisions

	Restructuring provision £m	Business exit provision £m	Asset services indemnity provision £m	Claim and litigation provision £m	Property provision £m	Other £m	Total £m
As at 1 January 2017	49.4	6.0	23.1	41.5	28.0	12.7	160.7
Provided/(released) in the year (net)	6.8	33.5	66.8	28.4	(3.7)	8.1	139.9
Utilisation	(45.5)	(2.8)	(18.5)	(5.6)	(1.5)	(10.7)	(84.6)
Disposal of subsidiaries	(0.1)	—	(2.3)	—	(0.1)	(0.7)	(3.2)
Reclassification between categories	—	0.3	—	—	—	(0.3)	—
Transfer to held for sale	—	—	—	—	(0.2)	—	(0.2)
As at 31 December 2017	10.6	37.0	69.1	64.3	22.5	9.1	212.6

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

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

Restructuring provision: The brought forward 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. During the year, additional provision has been made for costs as further restructuring opportunities related to this major restructuring programme have been identified.

Business exit provision: The provision relates to the cost of exiting businesses through disposal or closure including professional fees related to business exits and the costs of separating the businesses being disposed. As described in notes 4 and 5, this includes a provision for costs of disposal for Capita Asset Services.

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

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

CFM has agreed to a further £66.0m being made available for the benefit of the Fund's investors, with Capita agreeing to fund this amount. The FCA considers that this payment will be sufficient to return the amount originally invested, taking into account any interest, distributions and other payments that have already been received, with the intention of placing investors as closely as possible back into the position they would have been in if they had never invested in the Fund. Capita is expecting to make redress payments to the Fund's investors via the FCA and their agents during the first half of 2018.

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

As the FCA had previously indicated to Capita that it was minded to seek a financial penalty against CFM, Capita had made provision for the full potential amount of the financial penalty and associated legal costs of £37.0m as at 30 June 2017. Based on the information available at that time it was not however possible to determine what the ultimate outcome of the FCA investigation would be. That provision was released and £66.8m provided as at 31 December 2017 which is expected to unwind in less than 1 year.

Capita completed the disposal of its Capita Asset Services businesses, including CFM, to the Link Group on 3 November 2017. Capita plc, as part of the sale of the Capita Asset Services businesses, has provided an indemnity against certain legacy claims. The provisions held, namely the Asset Services settlement provision which includes provisions for Arch Cru, Connaught and other legacy claims, have therefore been retained within the Group. Giving due consideration to these claims, the Group has a provision of £69.1m (including the £66.8m above) at 31 December 2017 (31 December 2016: £23.1m).

Claims and litigation provision: In addition to the Capita Asset Services Indemnity provision, the Group is exposed to other claims and litigation. The Group makes a provision when a claim has been made where it is more probable than not that a loss might occur. These provisions are reassessed regularly to ensure that the level of provisioning is consistent with the claims that have been reported. The range of values attached to these claims, can be significant and, where obligations are probable and estimable, provisions are made representing the Group's best estimate of the expenditure to be incurred. The Group robustly defends its position on each claim and they are often

settled for amounts significantly smaller than the initial claim and may result in no transfer of economic benefits. Therefore we do not disclose a range of possible outcomes for these claims.

In the period, the Group has settled a number of liabilities which it had provided for in previous years with the settlements being not materially different to the provisions held as at 31 December 2016. 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.

Included in the amounts provided in the year, £30.0m relates to two claims:

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

The amount provided in respect of these two claims have been recognised in non-underlying specific items due to their historical nature being tied to previous acquisitions.

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

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

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

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

16 Contingent liabilities

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

The Group has provided, through the normal course of its business, performance bonds and bank guarantees of£88.4m (2016: £91.7m).

One of the Group’s major life and pensions clients is conducting a strategic review, the outcome of which is uncertain but could result in the continuation of the contract with amended terms or the termination of the contract. If the operation is terminated, the Group may incur associated costs. As the outcome of the client's review is uncertain, the Group has not made any provision for a future outflow of funds that might result from the eventual outcome.

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

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

As set out in note 15, provisions have been recorded in the year for two historic claims that came to light during the year. At any time there are a number of claims or notifications that need to be assessed across the Group. The disparate nature of the group entities heightens the risk that not all potential claims are known at any point in time. Under the new transformation plan, the support functions including commercial and legal will be strengthened and a Chief General Counsel will be appointed. This will enhance the current processes in place to assess the likelihood of historic claims arising.

17 Additional cash flow information

Operating cash flow for the year ended 31 December 2017

	Note	2017 Continuing operations £m	2017 Discontinued operations £m	2017 Total £m	Restated 2016 Continuing operations £m	Restated 2016 Discontinued operations £m	Restated 2016 Total £m
Cash flows from operating activities							
Operating profit before interest and tax		(420.1)	(18.6)	(438.7)	(16.1)	42.3	26.2
Adjustment for underlying non-cash items:							
Depreciation	9	63.5	6.3	69.8	72.1	9.8	81.9
Amortisation of intangible assets (treated as depreciation)	10	19.9	1.9	21.8	15.4	2.0	17.4
Share based payment expense		2.9	—	2.9	(4.5)	—	(4.5)
Employee benefits		1.0	—	1.0	(4.1)	—	(4.1)
(Profit)/loss on sale of property, plant and equipment/ intangible assets		0.5	—	0.5	0.8	—	0.8
Adjustments for business exit non-cash items:							
Accelerated depreciation/amortisation on business exit	3	1.9	—	1.9	—	—	—
Other assets written-off on business exit	3	—	—	—	(1.3)	—	(1.3)
Business exit provision	15	33.5	—	33.5	(2.7)	—	(2.7)
Adjustment for specific item non-cash items:							
Capita Asset Services businesses settlement provision	15	3.4	63.4	66.8	9.5	13.4	22.9
Remeasurement of businesses held for disposal	3	8.6	—	8.6	—	—	—
Amortisation of intangible assets recognised on acquisition	5,10	124.3	0.6	124.9	148.3	3.9	152.2
Impairment of contract related assets and investment loan	5	128.2	—	128.2	60.9	—	60.9
Impairment of goodwill	5	551.6	—	551.6	66.6	—	66.6
Impairment of intangibles acquired in business combinations	10	14.0	—	14.0	14.7	—	14.7
Contingent consideration	5	(2.5)	—	(2.5)	1.2	—	1.2
Co-op dispute costs	5	—	—	—	18.4	—	18.4
Professional fees on acquisitions	5	0.5	—	0.5	—	—	—
Movement in underlying provisions (net)	15	(22.6)	(1.1)	(23.7)	51.1	—	51.1
Movements in working capital:							
Trade and other receivables		(116.6)	45.0	(71.6)	(63.2)	1.0	(62.2)
Trade and other payables		(116.5)	(80.8)	(197.3)	46.2	19.1	65.3
Deferred income and contract fulfilment assets		(78.7)	3.4	(75.3)	237.0	(2.3)	234.7
Cash generated from operations before non-underlying cash items (see cash flow statement)		196.8	20.1	216.9	650.3	89.2	739.5
Income tax paid		9.5	(3.2)	6.3	(53.7)	(10.0)	(63.7)
Net interest paid		(54.2)	0.1	(54.1)	(59.6)	0.2	(59.4)
Purchase of property, plant and equipment	9	(66.2)	(2.7)	(68.9)	(74.0)	(8.4)	(82.4)
Purchase of intangible assets	10	(71.0)	(1.9)	(72.9)	(66.3)	(5.9)	(72.2)
Proceeds from sale of property, plant and equipment/ intangible assets		23.1	—	23.1	0.6	—	0.6
Underlying free cash flow		38.0	12.4	50.4	397.3	65.1	462.4

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

	Net debt at 1 January 2017 £m	Cash flow movements £m	Non-cash flow movements Acquisitions in 2016 £m	Non-cash flow movements Foreign exchange movements £m	Non-cash flow movements Fair value changes £m	Non-cash flow movements Other[2] £m	Net debt at 31 December 2017 £m
Cash, cash equivalents and overdrafts	**565.8**	**(90.5)**	**—**	**3.1**	**—**	**—**	**478.4**
Other loan notes	**(0.3)**	**—**	**—**	**—**	**—**	**—**	**(0.3)**
Private placement loan notes[1]	**(1,961.7)**	**126.2**	**—**	**(10.7)**	**184.0**	**(1.8)**	**(1,664.0)**
Interest and currency swaps in relation to USD denominated private placement loan notes[1]	**357.9**	**—**	**—**	**—**	**(181.1)**	**—**	**176.8**
Interest rate swaps in relation to GBP denominated private placement loan notes[1]	**7.7**	**—**	**—**	**—**	**(2.3)**	**—**	**5.4**
Term loan	**(650.0)**	**550.0**	**—**	**—**	**—**	**—**	**(100.0)**
Finance leases	**(2.3)**	**2.1**	**—**	**—**	**—**	**—**	**(0.2)**
Total net liabilities from financing activities	**(2,248.7)**	**678.3**	**—**	**(10.7)**	**0.6**	**(1.8)**	**(1,582.3)**
Underlying net debt	**(1,682.9)**	**587.8**	**—**	**(7.6)**	**0.6**	**(1.8)**	**(1,103.9)**
Fixed rate interest rate swaps	**(85.1)**	**84.6**	**—**	**—**	**0.5**	**—**	**0.0**
Deferred consideration	**(10.8)**	**10.8**	**(2.0)**	**—**	**—**	**(11.1)**	**(13.1)**
Net debt	**(1,778.8)**	**683.2**	**(2.0)**	**(7.6)**	**1.1**	**(12.9)**	**(1,117.0)**

[1] The sum of these items held at fair value equates to the underlying value of the Group's private placement loan note's debt of£1,481.8m (2016: £1,596.1m). Cash flow movement in private placement loan notes includes both repayment of private placement loan notes of£(124.1)m and financing arrangement costs of £(2.1)m.

[2] Other comprises the amortisation of loan note issue costs and the amortisation of the discount on the euro debt issue.

The aggregate private placement loan note's fair value above of £1,664.0m (2016: £1,961.7m)includes the GBP value of the USD denominated loan notes at 31 December 2017. To remove the Group's exposure to currency fluctuations it has entered into currency swaps which effectively hedge the movement in the underlying loan notes' fair value. The interest rate swap is being used to hedge the exposure to changes in the fair value of GBP denominated private placement loan notes.

	Net debt at 1 January 2016 £m	Cash flow movements £m	Non-cash flow movements Acquisitions in 2015 £m	Non-cash flow movements Foreign exchange movements £m	Non-cash flow movements Fair value changes £m	Non-cash flow movements Amortisation of bond issue costs £m	Net debt at 31 December 2016 £m
Cash, cash equivalents and overdrafts	85.3	467.6	—	12.9	—	—	565.8
Other loan notes	—	(0.3)	—	—	—	—	(0.3)
Private placement loan notes[1]	(1,749.4)	(29.2)	—	(36.0)	(145.8)	(1.3)	(1,961.7)
Interest and currency swaps in relation to USD denominated private placement loan notes[1]	213.9	—	—	—	144.0	—	357.9
Interest rate swaps in relation to GBP denominated private placement loan notes[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)
Net debt	(1,838.8)	104.3	(0.8)	(23.1)	(19.1)	(1.3)	(1,778.8)

[1] The sum of these items held at fair value equates to the underlying value of the Group's private placement loan notes debt of £1,596.1m (2015: £1,528.6m). Cash flow movement in private placement loan notes includes issue of private placement loan notes of £170.8m repayment of private placement loan notes of £141.0m and financing arrangement costs of £0.6m.

18 Related party transactions

Compensation of key management personnel

	2017 £m	2016 £m
Short-term employment benefits	**11.3**	11.1
Pension	**0.2**	0.3
Share based payments	**0.1**	0.8
	11.6	12.2

Gains on share options exercised in the year by Capita plc Executive Directors were£0.7m (2016: £6.2m) and by key management personnel £0.2m (2016: £4.5m), totalling £0.9m (2016: £10.7m).

During the year, the Group rendered administrative services to Smart DCC Ltd, a wholly-owned subsidiary which is not consolidated. The Group received £55.5m (2016: £40.3m) of revenue for these services. The services are procured by Smart DCC on an arm's length basis under the DCC licence. The services are subject to review by Ofgem to ensure that all costs are economically and efficiently incurred by Smart DCC.

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

The following companies are substantial shareholders in the Company and therefore a related party of the Company (in each case, for the purposes of the Listing Rules of the UK Listing Authority). The number of shares held on 18 April 2018 was as below:

Shareholder	No. of shares	% of voting rights
Veritas Asset Management LLP[1]	89,035,975	13.3
Woodford Investment Management LLP	66,758,754	10.0
Investec Asset Management Ltd	63,080,896	9.5
Invesco Ltd	60,574,558	9.1
BlackRock Inc.	44,104,108	6.6
Marathon Asset Management LLP	21,694,771	3.3
Vanguard Group	20,654,592	3.1

[1] *This includes the holding of Veritas Funds PLC.*

19 Post balance sheet event

There are no post balance sheet events that have an adjusting effect on the financial statements. In January 2018, we announced that the administration of Prudential's life and pensions business, around 2% of Group revenue and £0.3bn of the order book disclosed in the Segmental Information note, will be transferring from Capita to a new supplier later in 2018. This has no adjusting effect on the financial statements for 2017.

20 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 on 23 May 2018. It will be available to members of the public at the registered office and on the Company's Corporate website www.capita.co.uk/investors/Pages/Investors.aspx from that date.

Appendix - Alternative Performance Measures

The Group presents various APMs as the Directors believe that these are useful for users of the financial statements in helping to provide a balanced view of, and relevant information on, the Group's financial performance, position and cash flows. These APMs are mainly measures which disclose the '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 3, 4 and 5) 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	2017	Restated 2016	% change	Source
Revenue - Continuing operations				
Total revenue as reported	£4,234.6m	£4,368.6m	(3.1)%	Line item in income statement
Deduct: Business exit	(£66.7m)	(£11.3m)		Non-underlying item item in income statement
1. Underlying revenue	**£4,167.9m**	**£4,357.3m**	**(4.3)%**	
Deduct: business exits		(£165.1m)		Revenue from businesses exited in 2017 (excluding discontinued operations)
2. Underlying revenue on a like-for-like basis	**£4,167.9m**	**£4,192.2m**	**(0.6)%**	Underlying revenue excluding results from businesses exited in both years
Deduct: 2016 acquisitions	(£29.7m)			Additional contribution in 2017 of acquisitions acquired in 2016
Deduct: 2017 acquisitions	(£7.0m)			Contribution in 2017 of acquisitions acquired in 2017
3. Underlying organic revenue	**£4,131.2m**	**£4,192.2m**	**(1.5)%**	Underlying revenue excluding businesses exited and acquired
Prior year underlying revenue on a like-for-like basis	£4,192.2m			From line 2 above
Total acquisitions	**£36.7m**			2016 acquisitions plus 2017 acquisitions
4. Growth from acquisitions	**0.9 %**			Total acquisitions / Prior year underlying revenue on a like-for-like basis
Profit - Continuing operations				
Operating loss as reported	(£420.1m)	(£16.1m)		Line item in income statement
Add back: Business exit	£14.7m	(£2.8m)		Non-underlying item item in income statement
Add back: Specific items	£852.8m	£353.5m		Non-underlying item item in income statement
5. Underlying operating profit	**£447.4m**	**£334.6m**	**33.7 %**	
6. Underlying operating margin [KPI]	**10.7 %**	**7.7 %**		Underlying operating profit / underlying revenue
Add back: Significant new contracts and restructuring	£17.9m	£57.2m		Line item in note 1 - Underlying operating profit
7. Underlying operating profit before significant new contracts and restructuring	**£465.3m**	**£391.8m**	**18.8 %**	
Loss before tax as reported [KPI]	(£513.1m)	(£89.8m)		Line item in income statement
Add back: Business exit	£45.4m	(£2.9m)		Non-underlying item item in income statement
Add back: Specific items	£850.7m	£361.2m		Non-underlying item item in income statement
8. Underlying profit before tax [KPI]	**£383.0m**	**£268.5m**	**42.6 %**	
9. Underlying earnings per share [KPI]	**45.61p**	**31.68p**	**44.0 %**	Line item in income statement and note 7 - earnings per share
Cash flow - Continuing operations				
10. Underlying free cash flow [KPI]	**£38.0m**	**£397.3m**	**(90.4)%**	Line item in note 17 - additional cash flow information
Non-underlying payments	(£0.3m)	(£30.0m)		Non-underlying payments in 2017 include movement in payables and receivables and Business exit provision paid
11. Free cash flow after non-underlying items	**£37.7m**	**£367.3m**	**(89.7)%**	

		2017	As reported 2016	Source
Gearing				
Underlying EBIT		£447.4m	£541.3m	Underlying operating profit
Deduct: non-controlling interest		(£14.1m)	(£13.4m)	Underlying EBIT attributable to non-controlling interests
Deduct: acquisition costs		(£1.7m)	(£9.0m)	Line items in note 5 - specific items
Add back: Significant new contracts and restructuring		£17.9m	—	Line items in note 1 - underlying operating profit
Add back: (profit)/ loss on disposal of non-current assets		£0.5m	—	Line item in note 17 - additional cash flow information
Add back: share based payment charge		£2.9m	—	Line item in note 17 - additional cash flow information (note: charge only)
Add back: non-current service pension charge		£0.8m	£2.4m	
Add back: amortisation on purchased intangibles		£19.9m	—	Line item in note 17 - additional cash flow information
Adjusted EBIT	a	**£473.6m**	**£521.3m**	
Add back: pre-acquisition underlying profit		£0.3m	£5.6m	Disclosure in note 12 - business combinations
Add back: depreciation		£63.5m	£99.3m	Line item in note 17 - additional cash flow information
Adjusted EBITDA	b	**£537.4m**	**£626.2m**	
12. Underlying interest charge		**(£64.4m)**	**(£66.0m)**	Line item in income statement
Interest cost attributable to pensions		£9.2m	£6.6m	
Borrowing costs	c	(£55.2m)	(£59.4m)	Underlying interest charge excluding pension interest
13. Interest cover	**a/c**	**8.6x**	**8.8x**	Adjusted EBITA / Borrowing costs
Equity attributable to shareholders	d	(£999.0m)	£408.2m	Line item on balance sheet
15% of equity attributable to shareholders	e = d x 15%	(£149.9m)	£61.2m	
Contingent obligations under bonds and guarantees	f	£88.4m	£91.7m	
	g	£88.4m	£30.5m	If f > e, the difference is treated as debt
Money Market Funds	h	£14.0m	—	
Net debt	i	£1,117.0m	£1,778.8m	Line information in note 17 - additional cash flow information
Adjusted net debt	j = g +h+i	£1,219.4m	£1,809.3m	
14. Adjusted net debt to Adjusted EBITDA ratio [KPI]	**j/b**	**2.27x**	**2.89x**	Adjusted net debt / Adjusted EBITDA

ROCE

		2017	Restated 2016	Source
Underlying operating profit	A	465.3	391.8	Operating profit excluding non-underlying items and restructuring cost (note 1)
Tax rate	B	17.7%	17.3%	
Tax	C = A x B	82.4	67.8	Underlying profit multiplied by tax rate
Underlying operating profit after tax	D = A - C	382.9	324.0	Underlying profit less tax
Current year net liabilities	E	(929.8)	(552.9)	Line in balance sheet
Current year underlying net debt	F	1,103.9	1,682.9	Line item in note 16 – additional cash flow information
Adjustments to capital employed	G	1,359.7	1,280.3	Includes post-tax impact of accumulated acquired intangible amortisation, fixed rate swaps, put options and pensions
	M^1 = E+F+G		2,410.3	used in 2017 average capital employed
Less acquisition spend in year	H	(18.8)	(89.5)	Consideration paid - cash acquired + debt acquired, per note 12
Current year capital employed	I = E+F+G+H	1,515.0	2,320.8	
Prior year net liabilities	J		(189.0)	
Prior year underlying net debt	K		1,750.3	
Comparative prior year adjustments	L		1,046.2	Includes post-tax impact of accumulated acquired intangible amortisation, fixed rate swaps, put options and pensions
Prior year capital employed	M^2 = J+K+L		2,607.5	used in 2016 average capital employed
Average capital employed pre-acquisitions	N = (I+M)/2	1,962.7	2,464.2	
Weighted average acquisition spend in year	O	35.8	59.7	Pro rata number of months post-acquisition (including contingent and deferred consideration payments)
Average capital employed	P = N+O	1,998.5	2,523.9	
15. ROCE [KPI]	**Q = D/P**	**19.2%**	**12.8%**	