CAPITA

Capita plc

ANNUAL REPORT AND ACCOUNTS 2016

WHAT'S IN OUR REPORT

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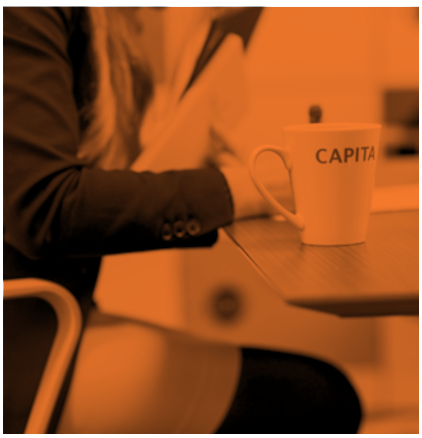


WE UNLOCK VALUE WITH TALENT AND TECHNOLOGY

We are the UK's leading provider of technology-enabled business process and customer management services and professional services.
We combine our expertise with technology to make processes smarter, organisations more efficient and customer experiences better.

CAPITA AT A GLANCE

UK LEADER IN TECHNOLOGY-ENABLED BUSINESS PROCESS AND CUSTOMER MANAGEMENT SERVICES, UNLOCKING VALUE FOR CLIENTS AND STAKEHOLDERS.

NEW ORGANISATIONAL STRUCTURE[1]

DIGITAL AND SOFTWARE SOLUTIONS

SECTOR AND TASK SPECIFIC SOFTWARE AND SERVICES

DIGITAL SOLUTIONS AND DATA

EXTERNAL AND INTERNAL FACING

PRIVATE SECTOR PARTNERSHIPS

BPM AND CUSTOMER MANAGEMENT ACROSS UK AND EUROPE

PUBLIC SERVICE PARTNERSHIPS

BPM AND CUSTOMER MANAGEMENT

HEALTH AND WELFARE BUSINESS ADMINISTRATION

REAL ESTATE AND INFRASTRUCTURE

PROFESSIONAL SERVICES

CORPORATE AND SPECIALIST SERVICES, INCLUDING COMMERCIALISED PUBLIC SECTOR ASSETS AND JVS

ASSET SERVICES

SHAREHOLDER TREASURY AND FUND SOLUTIONS

TRUST AND CORPORATE SERVICES

DEBT AND BANKING SOLUTIONS

EXTERNAL FACING

IT SERVICES

NETWORK SOLUTIONS

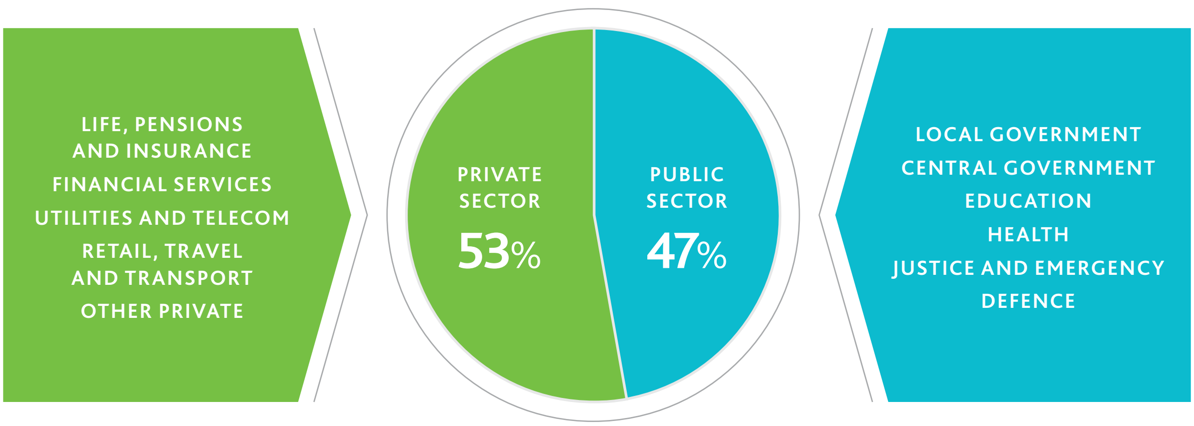
IT INFRASTRUCTURE AND MANAGED SERVICES

IT EQUIPMENT SOLUTIONS

EXTERNAL AND INTERNAL FACING

1 Effective from 1 January 2017.

HIGHLY DIVERSIFIED ACROSS PRIVATE AND PUBLIC SECTORS



CAPITA AT A GLANCE CONTINUED

OPERATING IN A GROWING MARKET

No. 1

CAPITA HAS MAINTAINED ITS UK NUMBER ONE MARKET POSITION FOR THE LAST 16 YEARS

STRUCTURAL DRIVERS FOR OUR SERVICES REMAIN STRONG:

DIGITISATION OF SERVICES

PUBLIC SERVICE FUNDING PRESSURES

RAPID SPEED OF TECHNOLOGY CHANGE

CUSTOMER EXPECTATION AND PLATFORM GROWTH

SUPPORTED BY OUR PEOPLE AND KEY OPERATING CENTRES

73,000 EMPLOYEES

75% ONSHORE (UK)

13% NEARSHORE (EUROPE)

12% OFFSHORE AND REST OF WORLD

CHAIRMAN'S INTRODUCTION

"Capita had a challenging 2016. After many years of strong profit growth, the Group underperformed against its targets. We have made a number of key changes to seek to return the Group to acceptable levels of performance."

Sir Ian Powell, Non-Executive Chairman

I joined the Board last September, becoming Chairman on 1 January 2017, and have spent my first few weeks understanding the Group, meeting with its people, clients and investors. It is apparent that, despite the difficult year the Group experienced in 2016, the fundamentals of the Group are compelling. It is systemically important to the UK economy and its core proposition has not changed, Capita exists to improve the efficiency and productivity of its clients so that they can provide superior services to their own customers and end-users.

2016 performance

The Group's performance in 2016 was disappointing but I have seen the Board and Executive team work with openness and commitment to begin the process of returning Capita to acceptable levels of profitability, growth and financial strength to pursue its strategic goals and build on its market-leading position in many key business areas.

The Board's reaction to the Group's issues was swift and decisive, leadership changes have been effected, operational changes made, the divisional structure has been simplified and the Group refocused on its core markets and products.

We have announced the decision to sell the majority of our Asset Services division and our specialist recruitment businesses. It is intended that these transactions will complete in 2017. The disposals bring more clarity to the Group and help reposition the balance sheet.

CHAIRMAN'S INTRODUCTION CONTINUED

Dividend

The Group maintained its full year dividend of 31.7p per share in 2016 in line with 2015. The payment date for the final dividend will be 3 July 2017.

Culture and values

It is apparent from my early weeks with the Group that it has a strong culture and its people are committed to the values of the organisation but as with any organisation, the culture and values need to evolve to ensure a long-term sustainable business that always exhibits the right behaviours. There are real opportunities to focus on Capita's strategic people agenda, engagement and diversity to ensure everyone has equal opportunity to fulfil their potential and to ensure we recruit, retain and develop our people. This will be a key area for the Board in 2017. In addition, there is significant opportunity to improve the service satisfaction of our clients and to further develop long-term, value-based partnerships with our clients by always bringing the best of Capita.

The Board

2016 and early 2017 has been a period of significant Board change.

On behalf of all the Board members, I would like to thank Martin Bolland, who served as Chairman for six years and as a Non-Executive Director for eight years. Martin has overseen enormous changes in Capita, a company which has more than doubled in size in that time and gained leadership positions in many of its markets.

We are pleased to welcome Matthew Lester to our Board on 1 March 2017 and to the role of Chair of the Audit and Risk Committee with effect from 1 June. Matthew is currently the Chief Financial Officer of Royal Mail plc and a Non-Executive Director at Man Group PLC. He brings a wealth of financial experience and we look forward to his contribution.

Chris Sellers also joins the Board, replacing Maggi Bell, who has chosen to retire after 17 years at Capita and eight years as a Board member. Maggi made a significant contribution to the Group's growth over the years and built a strong and experienced business development team who are well placed to continue to support the Group's market strategies. Dawn Marriott-Sims stepped down from the Board and left the Group in November after 16 years of service while Paul Bowtell will stand down and leave the Company at the end of May 2017 after seven years as Audit Committee chair. We wish them all well and thank them for their important contribution to the Group.

The constitution of the Board, particularly in respect of the diversity of the Board, will be kept under constant review and development.

Although 2016 has been a difficult year, the Board remained committed to the highest standards of corporate governance. Governance must work within the structure of the whole organisation and while the tone from the top is key to the organisation's culture and to the governance of the organisation, the behaviour of its people is crucial. Overall in my short time with Capita I have seen a transparent culture which seeks to enable the Group to identify and address issues as they arise.

On behalf of the Board I wish to thank the management team for their hard work in what has been a difficult year.

Outlook

2017 will be a transitional year for Capita; it will be a period of stabilisation in order to strengthen the Company's position. The Board has tasked the management team with a number of strategic challenges, which they will report on regularly.

We need a period of consistent delivery. We need to build on existing relationships and develop new relationships with clients, we must continue to increase our efficiency, reduce our costs and innovate in how we deploy market-leading technology to help our clients achieve their goals.

The market for outsourcing in the UK and Europe remains attractive and by bringing more of our wide range of services to more of our existing and new clients, with focus, we can improve organic growth.

Like any service company, our people are central to everything we do. I want to thank them for their continued hard work, commitment and support.

I strongly believe that we are starting to make the changes required to ensure we are in a good position to get back to an acceptable level of profitability and growth by continuing to deliver the best services our industry has to offer.

OUR BUSINESS MODEL

HOW WE UNLOCK VALUE FOR ALL STAKEHOLDERS

Our business model is straightforward. We generate revenue and profits and focus on unlocking value for all stakeholders by designing and delivering services which can solve challenges and enhance services for our clients and their end-customers. Services can be delivered under long-term contracts or partnerships or through our short-term contracts and trading businesses.

What we do

APPLYING TALENT AND TECHNOLOGY

+

SERVICE EXCELLENCE AND VALUE

+

MEETING CLIENT NEEDS

+

LONG-TERM CONTRACTUAL
c60% SOURCE OF REVENUE

+

SHORT-TERM CONTRACTUAL AND TRADING BUSINESSES
c40% SOURCE OF REVENUE

SUPPORTED BY ROBUST GOVERNANCE + FINANCIAL CONTROL

What drives our business model

1. Generating revenues and profit in two main ways

We generate revenues and profits in two ways:

a. Long-term contractual: source of 61% of revenues in 2016. Good visibility of forward revenues from long-term private and public sector contracts and partnerships to deliver customer-facing, middle or back office services, with contract lengths ranging from two years to 15 years.

b. Short-term contractual and trading businesses: source of 39% of revenues in 2016. Revenues are generated from annual or rolling contracts, particularly in areas such as software, employee benefits, outsourced resourcing partnerships, business travel, and shareholder solutions. Shorter-term transactional revenue is generated from property and real estate services, IT reseller and recruitment businesses.

Find out more **page 16**

2. Maintaining a leading position in a growing market

Capita is the leading provider of technology-enabled customer service and business process management (BPM) and professional services in the UK. In 2016 we maintained our position as number one BPM provider in the UK with 29.2% market share, despite a year of slower growth for the Group. The UK market had an annual value of £13.9bn[1] and grew by just over 1% during the year. The total UK BPM market potential is estimated at £140bn and annual growth is expected to return to 5% per annum by 2020. In Germany we are number three in the customer management market with a 4.5% market share in a market valued at €3.2bn[2].

1 Source: Ovum 2016.
2 Source: Nelson Hall 2016.

Find out more **page 19**

3. Maintaining our scale and competitive advantage

With a growing share of the UK BPM market, our service offering remains attractive and competitive across our 11 target markets. Our operational scale across our business centres and operational sites, unique breadth of capabilities and track record of solution design and delivery positions us well for future growth. We have strong credentials, with an increasing emphasis on the enabling role of technology in our solutions across the Group, alongside our development of proprietary technology, process re-engineering and wider capabilities.

Find out more **page 17**

OUR BUSINESS MODEL CONTINUED

HIGH QUALITY, RECURRING, REVENUE VISIBILITY

+

SUSTAINABLE, PROFITABLE GROWTH

DELIVERING SHAREHOLDER RETURNS
+
WIDER STAKEHOLDER BENEFITS

The cash generated from operations allows us to maintain a good dividend whilst also funding investment in the future growth of the business. Over the last 10 years we have returned £614m to shareholders.

Our wider stakeholders benefit from our application of smarter thinking through deploying our talent and technology to solve business and service challenges for our clients and the communities in which we work.

4. Meeting and anticipating the needs of our clients

Meeting and anticipating the needs of our clients is an important reason why we have a high renewal and retention rate and continue to grow the business, achieving an increased UK BPM market share for the last 16 consecutive years. We have a deep understanding of the market dynamics and the competitive and cost challenges and customer service needs that our clients face. We understand what it takes to deliver a truly transformational service – encompassing people, processes, technology and property. During economic cycles we have a track record of anticipating and adapting to changes in our clients' buying behaviour and market conditions, helping them adapt to their altered landscape.

Find out more **page 15**

5. Strong cash generation with a disciplined approach to financial and risk management

We are focused on running an efficient business with a disciplined approach to managing and controlling costs and allocating capital investment. We have consistently generated strong underlying free cash flow from our operations, generating over £1.1bn over the last three years. As we deliver complex services, risks are inherent across a number of areas of our businesses and contracts. We have therefore embedded strong governance and risk management principles and procedures across our operations, and regularly review their appropriateness and evolve them as necessary.

Find out more **pages 28–31**

6. A strong organisation and culture

Our 73,000 people are a core asset to the Group. We work hard to foster an open culture where we act with integrity and transparency. Individuals are encouraged to do things differently and smarter, and we seek ways to combine talent and capability from across the business to benefit our clients. 2016 was a challenging year and we have taken the opportunity to re-focus the organisation on our core business, streamline and strengthen our management and ensure comprehensive accountability. Delivering what we promise and believing that great service can always be better is a core principle of the business, from senior management to customer-facing employees.

Find out more **pages 56–57**

7. Running a responsible business

At Capita, being a responsible business means that we operate with integrity and transparency, with security a key priority. We aim to create a culture for our employees that is inclusive, inspiring and supportive. This allows us to innovate and deliver smarter services for our clients. We are also able to make a positive contribution to society, both indirectly through the services we provide and directly through our community investment programmes. We also work collaboratively with our clients to support their own corporate responsibility agendas.

Find out more **pages 58–60**

CHIEF EXECUTIVE'S REVIEW

"2016 was a tough year, with weaker financial performance. We are confident that the decisive actions we are taking will create a clear path to return to sustainable profitable growth in 2018 and beyond."

Andy Parker, Chief Executive

A challenging year

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

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

DECISIVE ACTIONS TAKEN

- NEW MANAGEMENT AND ORGANISATION STRUCTURE IMPLEMENTED
- COMPREHENSIVE BUSINESS REVIEW UNDERTAKEN
- PERFORMANCE IMPROVEMENT INITIATIVES COMMENCED
- RENEWED FOCUS ON ORGANIC GROWTH

CHIEF EXECUTIVE'S REVIEW CONTINUED

Financial highlights

Underlying results

	Underlying[1] 2016	Underlying[1] 2015	Underlying[1] YOY change
Revenue	£4,898m	£4,674.3m	+5%
Operating profit	£541.3m	£639.0m	(15)%
Profit before tax	£475.3m	£585.5m	(19)%
Earnings per share	56.67p	70.73p	(20)%
Total dividend per share	31.7p	31.7p	–

1 Refer to Alternative Performance Measures on pages 32–33. Further details on our underlying performance are contained in our Consolidated Income Statement and in note 4, 5 and 9 to the financial accounts.

The Board has adopted a policy to separately disclose those items that it considers outside the underlying operating results for the particular year under review and against which the Group's results are assessed. Items within non-underlying include: intangible amortisation, asset impairments, acquisition contingent consideration movements, the financial impact of business exits or businesses in the process of being exited, acquisition expenses, movements in the mark-to-market valuation of certain financial instruments, and specific non-recurring items in the income statements, which in the Directors' judgement need to be disclosed separately. In 2016, specific non-recurring items include the impact of The Co-operative Bank contract dispute, the expense from the Group-wide restructuring announced in November 2016, and the impairment of non-current contract related assets.

Reported results

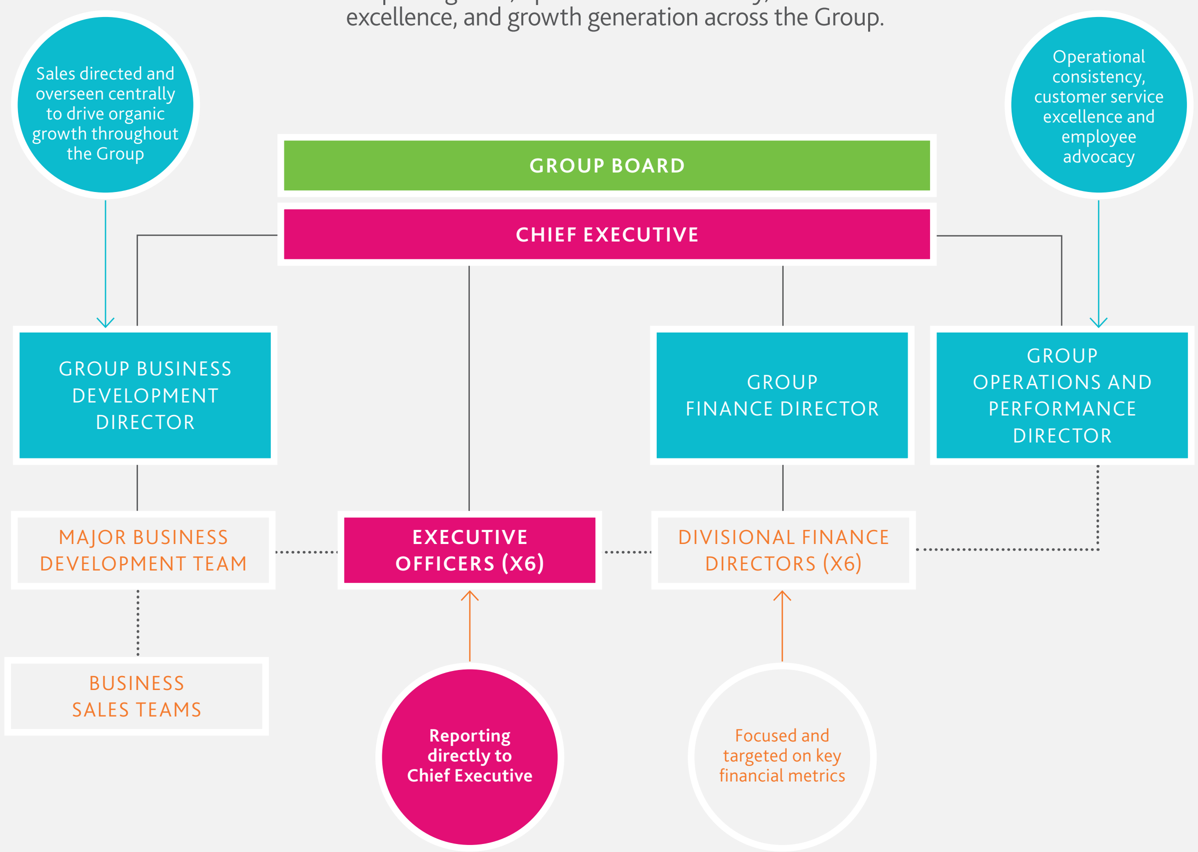
	Reported 2016	Reported 2015	Reported YOY change
Revenue	£4,909.0m	£4,836.9m	+1%
Operating profit	£148.3m	£206.6m	(28)%
Profit before tax	£74.8m	£112.1m	(33)%
Earnings per share	5.55p	7.96p	(30)%
Total dividend per share	31.7p	31.7p	–

CHIEF EXECUTIVE'S REVIEW CONTINUED

A ROBUST MANAGEMENT STRUCTURE

FROM 1 JANUARY 2017

Renewed focus on clear strategic leadership, greater transparency, shorter reporting lines, operational consistency, customer service excellence, and growth generation across the Group.



Decisive actions taken

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

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

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

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

CHIEF EXECUTIVE'S REVIEW CONTINUED

A simplified structure

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

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

Strategic disposals

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

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

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

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

NEW ORGANISATIONAL STRUCTURE[1]

1 Effective from 1 January 2017.

CHIEF EXECUTIVE'S REVIEW CONTINUED

2016 Acquisitions and disposals

Capita acquires small- to medium-sized businesses to build capability in existing markets, enter new markets and enhance our future organic growth potential.

In 2016, we invested a total of £86.5m, excluding deferred and contingent considerations, in acquiring eight businesses, the largest of which was Trustmarque, a software reseller and provider of software asset management, IT and cloud services, for £57m.

Acquisitions

Company	Value*
Metacharge and Paypoint.net	**£14m**
International Translation Resources	**£0.2m**
Orange Bus	**£6m + (£9m)**
3C Dialogue	**€3m/£2.5m**
Health Analytics	**£4m + (£4m)**
Trustmarque	**£57m**
Amity Communications	**£2.25m + (£1.25m)**
Westpoint	**£0.6m + (£0.4m)**

* Value in brackets represents maximum contingent consideration.

We also completed the disposals of Capita Medical Reporting and Fish Administration in 2016, both of which were held for sale at the 2015 year-end. We expect a limited amount of acquisition activity over the next 12 to 18 months.

Disposals

Company	Value
Capita Medical Reporting	**£20m**
Fish Administration	**£21m**
Denmark Insurance Services	**€0.7m/£0.6m**
Vertex Software Services (Canada)	**C$5.7m/£3.5m**

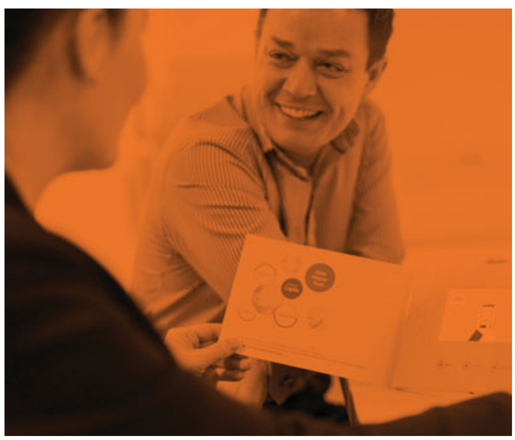
Sales and business development review

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

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

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

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



CHIEF EXECUTIVE'S REVIEW CONTINUED

Bid pipeline

Our bid pipeline shows the total contract value of our major sales bids at a specific point in time, which we disclose three times a year. It contains all bids with total contracted revenue worth between £25m and a capped ceiling of £1bn, where we have been shortlisted to the last four or fewer. The total contract value of the bid pipeline stood at £3.8bn on 2 March 2017 (December 2016: £3.8bn), comprised of 26 bids including 78% new business and 22% renewals and extensions, 61% private sector and 39% public sector, with a weighted average contract length of 7 years (December 2016: 7 years). We continue to have a large, active prospect list of opportunities behind the pipeline.

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

Future prospects

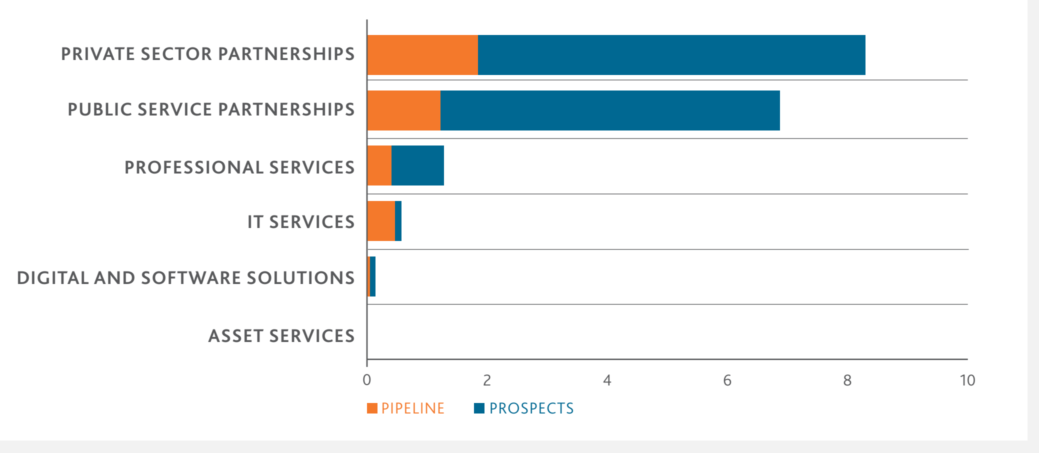
2017 will be transitional year for Capita, as we complete our disposals, bed down the structural changes inside the business and re-position the Group for a return to growth in 2018.

The headwinds we faced in the second half of 2016 will affect trading performance in the first half of 2017, which we expect to be slightly weaker than the second half of last year excluding the write-down of accrued income.

The structural and cost reduction actions we announced toward the end of 2016 will support progress in the second half of 2017. For the full year, we expect a similar trading performance to 2016 before the impact of the expected increase in pension costs. This excludes the write-down of accrued income and the potential impact from planned disposals.

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

2017 SALES PIPELINE AND PROSPECTS (£bn)



BID PIPELINE – MARCH 2017

CHIEF EXECUTIVE'S REVIEW CONTINUED

We consider that the following financial and non-financial key performance indicators (KPIs) are important in measuring the delivery of our strategic goals.

FINANCIAL KPIs

UNDERLYING PROFIT BEFORE TAX[1]

Aim: achieve long-term, consistent growth in profits

£475.3m
(2015: £585.5m)
See **page 28**

UNDERLYING OPERATING MARGIN[1]

Aim: consistently maintain underlying operating margins

11.1%
(2015: 13.7%)
See **page 28**

UNDERLYING EARNINGS PER SHARE (EPS)[1]

Aim: achieve long-term, consistent growth in EPS

56.67p
(2015: 70.73p)
See **page 28**

REPORTED PROFIT BEFORE TAX

Aim: achieve long-term, consistent growth in profits

£74.9m
(2015: £112.1m)
See **page 29**

UNDERLYING FREE CASH FLOW[1]

Aim: maintain an operating cash conversion ratio of at, or around, 100% and high level of free cash flow

£472m (2015: £347m)
139% (2015: 108%)
See **page 29**

CAPITAL EXPENDITURE

Aim: invest capital to generate good returns for our shareholders

£154m
(2015: £198m)
See **page 29**

RETURN ON CAPITAL EMPLOYED (ROCE)[1]

Aim: deliver ROCE which is well in excess of our cost of capital

12.7%
(2015: 15.0%)
See **page 30**

GEARING – INTEREST COVER[1]

Aim: maintain an efficient capital structure, with an appropriate level of gearing

8.8x
(2015: 13.2x)
See **page 30**

DIVIDEND

Aim: maintain the dividend in 2017, rebuild the dividend cover in the medium term and return to steady dividend growth more reflective of the organic growth of the Company thereafter

31.7p
(2015: 31.7p)
See **page 29**

KPI
This symbol is used to indicate our KPIs throughout the report.

1 Further details on our underlying performance are contained in our Consolidated Income Statement and in note 4, 5 and 9 to the financial accounts.

The calculation of underlying figures and our KPIs are contained in our Alternative Performance Measures (APMs) on pages 32–33.

NON-FINANCIAL KPIs

CLIENT RESOURCES

Aim: continue to develop our infrastructure of business centres to meet the needs of our business

98 multi-service delivery centres
(2015: 94)
See **page 03**

CREATE SUCCESSFUL SUPPLIER RELATIONSHIPS

Aim: annually audit all material suppliers[1] against Capita's standards of business

51%
(2015: 31%)[2]
See **page 59**

EMPLOYEE RESOURCES – LEADERSHIP

Aim: maintain high retention rate for senior managers (Executive Directors and senior management teams)

96%
(2015: 98%)
See **page 57**

EMPLOYEE RESOURCES – SKILLS & FLEXIBILITY

Aim: maintain high employee retention

78%
(2015: 81%)

CONTROLLING OUR ENVIRONMENTAL IMPACTS

Aim: continue to measure and assess our carbon footprint[3] and minimise wherever possible

108,613 tonnes CO_2eq
(2015: 111,173 tonnes CO_2eq)[4]
See **page 60**

SUPPORTING OUR COMMUNITIES

Aim: continue to grow and measure our community investment annually, using London Benchmarking Group methodology

£2.0m
(2015: £2.3m)
See **page 61**

KPI
This symbol is used to indicate our KPIs throughout the report.

1 Material supplier refers to our top 250 (approximately) suppliers, prioritised each year by spend and relevance.

2 2015 figure restated based on new definition of material supplier.

3 Calculated using UK Government GHG conversion factors 2016.

4 Figure restated based on updated data.

DRIVING OUR GROWTH – OUR SOLUTIONS

Delivering value for our clients through our unique solutions

Our strategy and focus is on providing the expertise and capability to deliver technology-enabled business process and customer management solutions and professional support services, creating value for clients across the private and public sectors in the UK and Europe.

We drive growth through helping our clients to deliver services more effectively, become more efficient, solve challenges and enhance and maintain their competitive positions. By applying our talent, technology and expertise, we make their processes smarter, their organisations more efficient and their customer experiences better.

Delivering value through innovative solutions

Transforming business processes to drive down administration costs while also improving the end-user experience is a key goal of the majority of work we do for our clients.

Through our outsourced solutions, we support private and public sector clients to improve customer and citizen services. We deliver them at a lower cost by using the insight provided by data and analytics to develop appropriate ways to engage, digitally and otherwise. For our private sector clients, our focus is on improving customer attraction and retention and keeping our clients at the forefront of their industries.

Our software, digital, IT and professional support services provide business critical services to clients. Whether it is optimising their workforce, providing specialist operational software, IT, networking or cyber security, transforming their digital capability, running their core corporate functions or rationalising their property portfolio, we strive to improve the efficiency of their organisation and reduce their operational overhead.

Evolving nature of service delivery

The market continues to evolve beyond the conventional outsourcing of services based on cost reduction alone. Clients and service providers are increasingly focusing on service improvements and wider service transformation. They are taking a longer-term view, moving towards a partnership-based model to deliver shared aims. The type of commercial model we use to engage with our clients is increasingly driven by the changing nature of their procurement objectives. We are leading this change as we seek ways to ensure we are remunerated and incentivised in line with the commercial outcomes for our clients, ensuring we both achieve mutual benefit and we are an integral and valued partner.

Clients' objectives in working with an outsourcing provider align to their own business ambitions, and can include elements, such as:

- **Service transformation:** These are solutions that completely re-engineer how services are delivered. This often involves reviewing existing activities to redefine how services are shaped and the way we interact with customers, resulting in streamlined, more efficient processes, upgraded IT, new service delivery channels, modernised work environments and improvements to the overall customer experience.
- **Revenue opportunities and commercialisation:** These are typically delivery models where there is a shared growth objective. In the public sector, we have enabled clients to commercialise their existing assets. These solutions can deliver a revenue stream, return funds to taxpayers and create new jobs as well as protect existing employment. In the private sector, our solutions are increasingly designed around financial models which incentivise revenue growth for the client and result in mutual benefit to both the client and Capita.

KEY NEW CLIENTS IN 2016

Client	Service	Contract value	Term (years)
Five District Councils	Shared services platform	£139m	9
Tesco Mobile	Customer management	£140m	5
Three UK	Customer management	£70m	7
mobilcom-debitel	Customer management transformation (Germany)	£197m	7

DRIVING OUR GROWTH – OUR SOLUTIONS CONTINUED

- **Customer experience:** Clients increasingly recognise that services that are easy to use deliver downstream savings. By understanding customers' experiences, expectations and behaviours, we can proactively tackle the frustration and points of failure customers experience from a service, reducing the need for additional contact and improving customer loyalty.
- **Digitisation and technology:** We apply our own proprietary technology and business solutions, alongside bespoke and off-the-shelf solutions, to improve our clients' services with immediate effect and build in future proofing to ensure we can take advantage of progressive innovations. Shared platforms and the introduction of proprietary software solutions enable us to re-engineer and streamline administrative processes. Analysing big data along with other sources creates highly personalised and productive customer interactions and the latest digital technologies allow us to smoothly follow and analyse customer touch points across multiple channels.

Business growth

Our growth is primarily driven by new contract wins and extensions alongside growth in our transactional businesses, supported by targeted acquisitions of small- to medium-sized organisations. New contracts are secured from three sources:

1. Our market-focused Group business development team works across our 11 target sectors, identifying new opportunities and developing propositions in order to secure long-term multi-service contracts, usually valued in excess of £50m. These propositions are brought together drawing on expertise, assets and services from across the Group.
2. The Group business development team also drives the campaigns of opportunities of between £25m and £50m, which are of strategic value or provide opportunity for future growth. We measure the success of these sales opportunities through the Group Pipeline, which contains all live opportunities greater than £25m total contract value, where we are shortlisted to one in four or better, with all bids capped at £1bn. We announce this pipeline to the market three times a year.
3. Additional opportunities below £25m total contract value are managed within our trading businesses' sales teams.

In 2016, we announced 15 contract wins and extensions, generated from the Group Pipeline, valued at £1.34bn (2015: 13 wins, £1.8bn). This was lower than anticipated, translating into a win rate of one in three (2015: one in two) and reflecting a quieter market across public and private sectors.

See **pages 34–45** Divisional Performance for more details on contracts won or extended during the year.

Opportunities for growth come from across our 11 target markets spread across the public and private sector. Our revised organisational structure, effective from 1 January 2017, comprising six market-facing divisions, will help better focus the organisation on generating organic growth across the Group. Acquisitions will remain at the lower end of our historic level of activity as we focus on de-leveraging the balance sheet.

Our track record of growth has been consistent, and our potential to grow remains, and is due to a number of factors: operating in a growing market, investing in our people and our infrastructure, winning and retaining new business, anticipating and adapting our solutions to changing client markets, and developing and investing in enabling technologies to support future organic growth.

LEADING PROVIDER OF CONTROL ROOM, CASE MANAGEMENT AND MOBILE SOLUTIONS TO JUSTICE/EMERGENCY SERVICES

DRIVING OUR GROWTH – OUR SOLUTIONS CONTINUED

Delivery enabled by our resources

Capita is a people-based business, with a strong culture and set of values. We employ over 73,000 people across our operations, with the majority having joined us through contracts or acquisitions. Over 70% of our employees are based in the UK, with the remainder located across the Republic of Ireland, Northern Europe, and at our offshore locations in India, South Africa and Dubai. Our people's capabilities, experience and sector knowledge are key to our success. See Developing our talent page 56-57 for more details on our people and values.

Delivery network

Our delivery network consists of 98 multi-service centres across our onshore, nearshore and offshore locations and these are complemented by 450 business sites, with additional smaller satellite offices in global locations supporting specific businesses and financial jurisdictions.

Our network of multi-service centres means we are able to leverage a mixture of service delivery options to offer our clients maximum flexibility, quality and cost-effectiveness through onshore, nearshore and offshore locations. We also leverage our own experience as a large organisation to rationalise our property and associated back office functions where appropriate and to drive down costs through our procurement expertise.

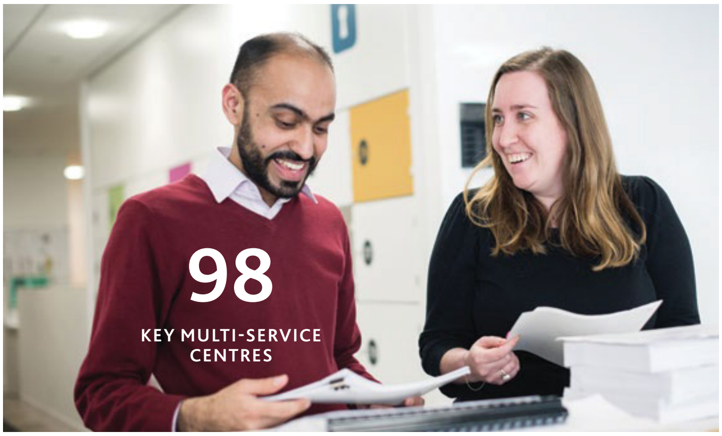
Information technology (IT), digital and software

Our inherent skill base is in IT and over our history we have built up extensive expertise in IT and software, and more recently, digital technology and services.

Our growing capability has been built through in-house investment in our product and service portfolio and through strategic acquisitions. We have built up a strong position in niche sectors through our market-leading proprietary software solutions and platforms.

Across education, justice and emergency services, local government, financial services, health, utilities and transport and central government, our software is supporting mission critical services on behalf of our clients. This sector knowledge and expertise provides a competitive edge when bidding for larger opportunities in these sectors, enabling us to use our proprietary technology and unique market understanding to shape broader innovative solutions for clients.

Our IT capability serves both our large outsourcing contracts as well as external customers requiring niche IT solutions. We can act as a specialist systems integrator, help clients move their organisation to a cloud platform, or provide mission critical software platforms, IT networks and support. Across our outsourcing contracts technology and digitisation underpin the back office processes and customer services we run. It also acts as a significant catalyst for change through the life of a contract as we seek new cost and process efficiencies, drive service improvements or gain a competitive edge for our clients.



DRIVING OUR GROWTH – OUR SOLUTIONS CONTINUED

Digitisation
Capita is increasingly helping clients deliver digital transformation across their organisations. We use smarter technologies which help us to analyse and understand customer interactions, engage our staff in more creative ways and make them more productive, and drive efficiencies through introducing self-serve channels and automation.

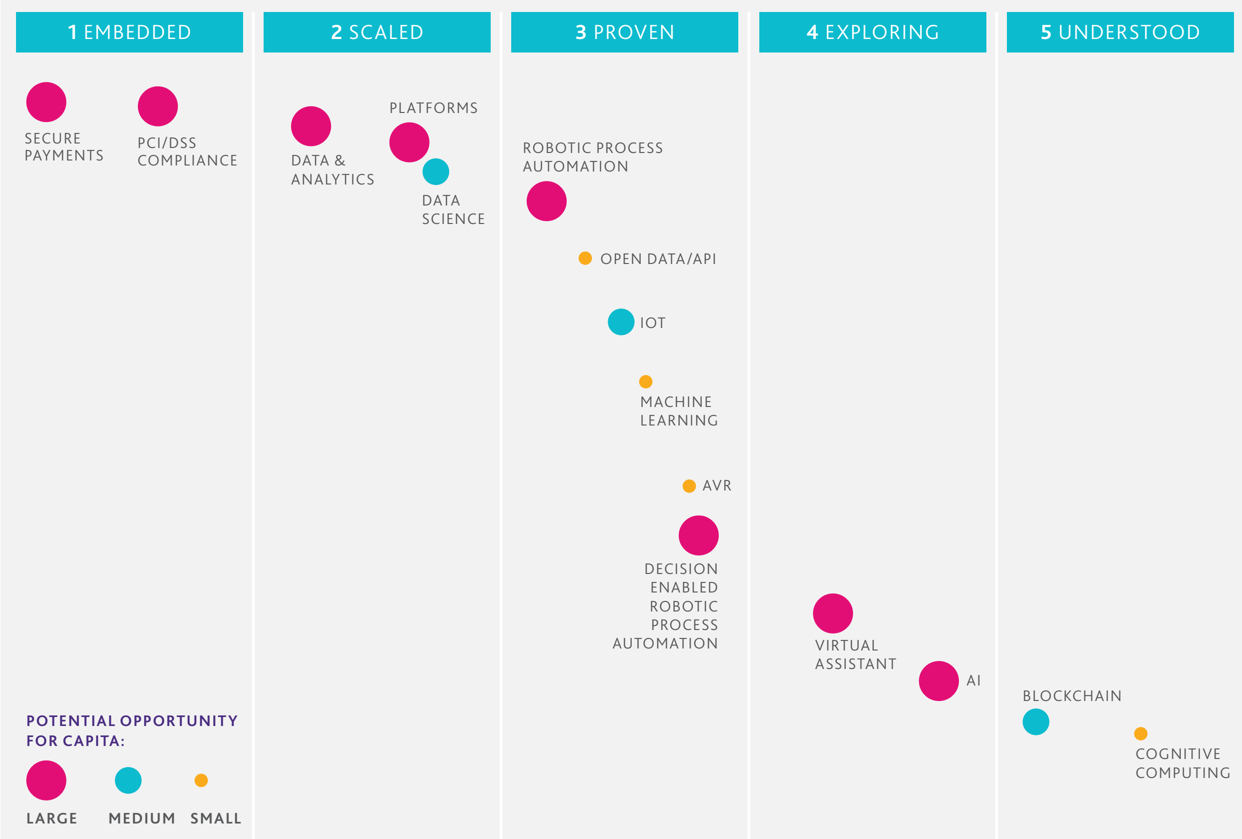
Software
Our portfolio of over 300 niche software products, modules and platforms are critical to the running of our clients' operations – from curriculum planning and timetabling or supporting learning attainment in schools, connecting emergency services with their control rooms, delivering critical intelligence to government agencies or enabling the timely collection of taxes and distribution of benefits by local authorities. Both our off the shelf products sold to multiple clients and our bespoke client applications are delivered across multiple platforms and as a service.

Embedding new technology
Technology underpins service delivery across the majority of our long-term large outsourced contracts and short-term contracts, supporting the people and business process transformations we undertake: whether it is a new telephony system or customer relationship management (CRM) system in our customer management operations, a processing platform in our life and our pensions businesses, a revenues and benefits system for our local authority clients, or a payments system to collect the London Congestion Charge. Coupled with these core IT platforms, we constantly look for opportunities to introduce new technology innovation and digitisation to bring about further cost savings and service improvements for our clients.

We deploy our broad range of proprietary software, automation and digital solutions, and the best of established and emerging third party software and technology in our client solutions and our own operations.

As technology continues to evolve at speed, we seek to find ways to smartly combine technologies to deliver the best outcomes for our clients.

EMBEDDING TECHNOLOGIES ACROSS OUR OPERATIONS



DRIVING OUR GROWTH – OUR MARKETS

Targeting growing markets

We operate in the growing market of BPM and customer management, where structural drivers of growth continue to be strong.

Focused on our growth markets

Capita operates in the growing business process and customer management services market, maintaining the UK number one market position for the last 16 years, with 29.2% market share (2015: 28.4%). The market is well established with plenty of scope for growth across our 11 target vertical sectors. Industry analysts Ovum were commissioned to size the current market and market opportunity and have valued the UK outsourced market at £13.9bn in 2016 (2015: £13.7bn), with a potential annual market valued at £140bn (2015: £132bn)[1].

Structural drivers of growth continue to be strong and include:

- The transformation and modernisation of services
- The growing shift to digitisation of services and enhanced customer experiences
- Public service funding challenges
- Growing regulation and competition for our clients
- A need to commercialise and maximise the value of their assets.

Organisations are facing increased challenges from the speed of technology change, which is driving engagement with providers as they seek to take advantage of the opportunities technology change brings, whilst mitigating the risk of disruption in their market.

2016 was a year of increased uncertainty and change for our clients in our core UK markets. During the year we saw a reduction in new opportunities coming to market across the public sector and, to a lesser extent, in the private sector, and a delay to client decision-making in general. This was compounded by the UK's referendum decision to leave the EU, which impacted the financial services sector and added to the lack of decision-making.

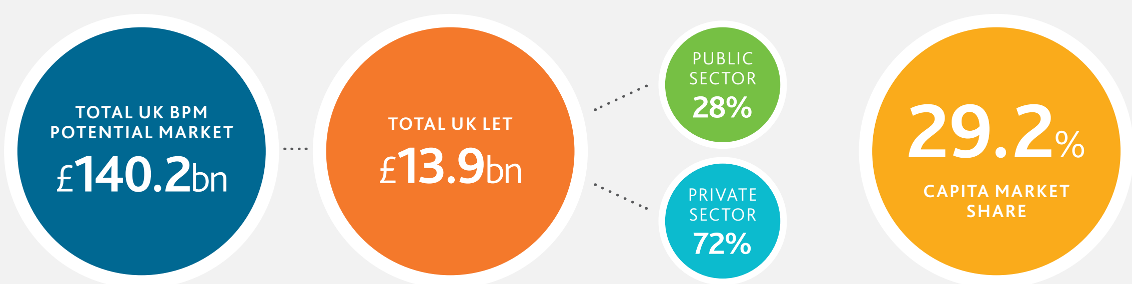
The slowdown in new opportunities across central government is expected to continue into 2017 but we anticipate this improving from 2018 onwards as the UK Government's timetable for exiting the EU becomes clearer. Other areas of the public sector such as health, police and defence are expected to grow at a healthy rate, and local government is expected to focus on shorter, smaller opportunities. See 'Public sector' on page 22.

In the private sector we are seeing increased engagement across all sectors, in particular financial services, travel & transport and telecoms. Historically, periods of economic pressure, uncertainty and market instability can drive opportunities for Capita as we help clients with the changing landscape.

The competitive landscape varies widely across the breadth of services in which we operate but in the majority of markets remains stable. Across large outsourcing opportunities, we compete with companies ranging from large consultancies, IT system integrators, offshore service specialists, and support services peers, but rarely compete with the same provider across more than 10% of the opportunities we pursue. The breadth of our digital, software and support services portfolio, and each of our trading businesses, competes with a unique set of competitors in each market segment.

1 Source: Ovum.

TOTAL UK BPM AND CUSTOMER MANAGEMENT MARKET 2016



DRIVING OUR GROWTH – OUR MARKETS CONTINUED

Private sector

Accounting for over half of our 2016 revenue, the private sector has been an important driver for Capita's growth over the last two decades.

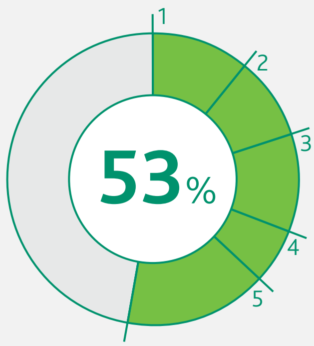
Our capability

Whether it is through our fully outsourced business process or customer management solutions or our specialist professional support services or software, we help our private sector clients remain competitive in their industries by reducing their operational costs, introducing efficient processes and technology, transforming their digital capabilities, attracting and retaining customers and driving new revenue growth, whilst ensuring regulatory adherence. We work with a wide range of clients across the sector, including O2, BBC, Zurich, Swisscom, Tesco Bank, nPower and John Lewis.

Our private sector experience extends back to the late 1990s when we added payroll and pensions administration to our public sector capabilities, enabling us to target larger corporates. This was soon followed by the acquisition in 2000 of IRG plc, a market leading share registrar. Our entry into the life and pensions outsourcing market in 2002, followed by our move into large-scale customer management through the acquisition of Ventura in 2011, have provided the platforms for our wider penetration of the private sector business process and customer service management market. In 2015 we extended our customer management expertise into Europe with the acquisition of avocis, a leading customer management provider in Germany and Switzerland. avocis is our largest ever acquisition to date and provides us with a platform to take our transformation outsourcing solutions into another growing market. Performance in Germany during the year was impacted by changes in the minimum wage and increased competition for our Telco clients, see page 44.

Our private sector revenue mix

The private sector now accounts for 53% of Capita's revenue, and our clients are spread across a broad range of vertical markets.



1	Life, Pensions and Insurance	11%
2	Financial Services	9%
3	Utilities and Telecoms	11%
4	Retail, Travel and Transportation	6%
5	Other private sector	16%

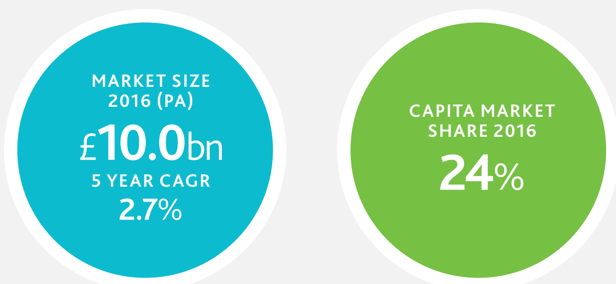
According to industry analysts Ovum, the private sector accounted for 72% of the total UK BPO market spend in 2016 and is expected to grow at a compound annual growth rate of 2.7% to 2020, with significant potential for future growth.

Customer management

Nelson Hall predicts the global customer management services market growth to be 4.5%, with factors such as: increased adoption of digital services, pressure to improve customer experience, ability to drive demand for higher value services and revenue generating service lines. Conversely, automation and self-service will reduce some of our traditional revenue streams. In the UK & Ireland the customer management market is valued at £5.2bn, where Capita is the largest provider with 16.4% market share. In Germany, Capita is the third largest provider with a 4.5% share of the €3.2bn customer management market[1].

1 Source: Nelson Hall 2016.

UK BPM MARKET SIZE – PRIVATE SECTOR



Source: Ovum 2016.

DRIVING OUR GROWTH – OUR MARKETS CONTINUED

Sector drivers, opportunities and challenges

Private sector organisations are facing challenges in 2017 across a number of fronts. The demand from customers for personalised customer experiences across multiple platforms, alongside increasing ease of customer switching is forcing organisations to look to providers to help them transform their companies and delivery channels to be truly customer centric. This customer expectation has been a driver for telecom companies and retailers but has more recently broadened across to financial services, insurance and life and pensions sectors. With a growing volume of customer data available, organisations need to be able to tap into this rich data source to understand their customer needs and behaviours. In 2016 the uncertainty created by the EU referendum result impacted our clients' decision-making. However, as with the public sector, the fundamental pressures facing the private sector remain in place and we are already seeing an increase in opportunities from private sector clients.

Drivers, opportunities and challenges

Telecoms:

Driver: In the telecoms sector the main demand for outsourced services in recent years has come from providers looking for customer-facing support given the highly competitive nature of their markets and the relative ease with which users can switch providers. It is anticipated that the next generation of Business Process Management (BPM) across the sector will seek to reduce revenue leakage, scale personalised content delivery, accelerate go-to-market strategies, integrate multi-platform customer engagement and utilise automation and low complexity transactions.

Opportunity and challenge: There are strong market opportunities for providers who can provide scalable, digital solutions and manage customer engagement and retention across multiple channels. Capita has already seen this shift in demand from clients and we have adopted our customer management model to move relationships to an outcome based model, where our outcomes and compensation are aligned with achieving our clients' goals. The customer management market in the UK and Europe is increasingly competitive as niche players look to gain a share of this growing market.

Retail and e-commerce:

Driver: Technology is profoundly changing the way we shop and managing customer engagement across multiple devices is the biggest challenge for retailers. The proliferation of devices and access to information has raised customer expectations around their brand experience. This shift to online shopping has also increased the volume of customer contacts across channels, with the contact centre becoming a revenue channel for retail rather than a servicing channel. Over time this shift will change the role of voice to a channel of choice for escalated complaints, sales and customer advocacy campaigns.

Opportunity and challenge: Capita is already providing multi-channel customer management for retailers such as John Lewis, Debenhams and Marks & Spencer. Our existing client relationships are circa 10% focused on the non-voice channel – web, web chat and email – and we actively seek routes to drive this shift to digital channels based on our commercial model, where we share the benefits of automating contact or moving it to self-serve. In a market which is under-penetrated we can deploy these resources into new opportunities. The rate with which we can maintain this shift and continue to create value-generating propositions for clients will enable us to remain competitive against existing and new providers.

Utilities:

Driver: Utilities are facing increased energy costs due to the weakened sterling, ongoing regulatory pressures and increased competition from entry of new suppliers. Improving customer experience will remain a critical issue for utilities.

Opportunity and challenge: The need to deliver on customer expectations while managing increased costs will drive further demand for digitally enabled transformation. Capita has been at the forefront of taking clients on their digital transformation journey, reducing their customer service cost base and improving on their Net Promoter Scores (NPS).

Financial services:

Driver: Banks and insurers are facing customer demands for real time data and analytics and increasing competition from new entrants, against a backdrop of regulatory change and increased risks. They are mid-way through major structural transformation programmes as they need to improve IT capability and modernise legacy systems. They are also looking to improve efficiency and increase resources allocated to client and market-facing processes and systems.

Opportunity and challenge: 2016 saw a weakening in activity in the sector following the EU referendum, and uncertainty remains over the longer term post-EU regulatory environment across the sector. In the shorter term we expect the sector to engage with providers as they tackle digital transformation of their organisations and to act with urgency to the rapidly shifting customer expectations and evolving markets. Deploying automation technologies at scale offers the potential for enormous gains in productivity and cost reduction. Capita is already developing a proprietary scale solution in the life sector which will have application across financial services.

Life and pensions:

Driver: Life companies are facing the challenge to transform their organisations digitally. They accept the urgent need to act in response to changing customer expectations and rapidly shifting markets, but what is less clear is how to achieve this change in a pragmatic and sustainable way against a backdrop of an uncertain regulatory environment.

Opportunity and challenge: There is a huge opportunity for providers who can deliver digital transformation for life insurers. The provision of online portals are key initiatives to enable self-service, multi-platform functionality for policy holders. Robotics also presents an opportunity for life insurers to re-engage with their customers with more affordable financial advice, but against a backdrop of managing this risk in the current regulatory environment. Capita is the largest provider to life companies, administering 21 million policies. We have an opportunity to deploy new platforms and automation to both new and existing clients, transforming their cost base and meeting the self-service demands from policy holders.

Travel and transport:

Driver: Traditionally focused on buying single, discreet services, the sector has yet to fully embrace the outsourcing model. The growing customer expectation is focusing airline, rail and travel companies on the need to differentiate its customer service experience beyond its traditional frontline service.

Opportunity and challenge: Our experience in helping our clients across telecoms and retail to transform their customer experience will enable us to target new opportunities across travel and transport. The use of insight and analytics for data-driven decision-making will be a differentiator in this sector as clients seek to gain a competitive edge.

DRIVING OUR GROWTH – OUR MARKETS CONTINUED

Public sector

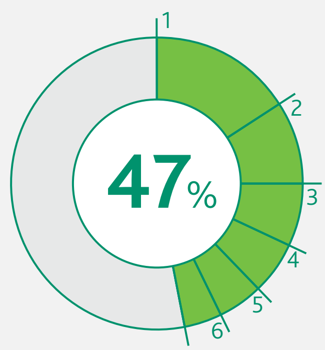
Capita's roots are in the public sector, having started as a provider of IT and support services to UK local authorities in 1984. Since then we have consistently grown our service offering, increased our market share and grown revenues across the wider public sector.

Our capability

Whether it is through our fully outsourced solutions, software or specialist professional services, we help our public sector clients respond to their growing budgetary pressures and the service expectations of citizens.
We achieve this by either transforming and modernising their existing public service provision, supporting a new service or benefit, releasing value in existing property assets or IP or jointly seeking new sources of revenue to help fund their organisations. Our clients across the sector include Barnet Council, Birmingham City Council, Blackburn with Darwen Council, Salford City Council, The Cabinet Office, Department for Work & Pensions, Ministry of Justice, the NHS and the Ministry of Defence.

Our public sector revenue mix

In 2016, 47% (2015: 47%) of the Group's revenues were generated from our work in the public sector, with local government remaining our largest market overall.



1	Local Government	16%
2	Central Government	9%
3	Education	7%
4	Health	6%
5	Justice and Emergency Services	5%
6	Defence	4%

According to industry analysts Ovum, in 2016 the public sector accounted for 28% of the total UK outsourced market, with local and central government still accounting for the largest share of spend. 2016 was a quieter year but this market is expected to pick up from 2018.

Market drivers, opportunities and challenges

Whilst our revenues from public sector clients remained at 47% during the year, the UK's decision to leave the EU and the weaker economic environment led to delays in buying decisions across the sector, impacting our expected revenues and profits in the second half of 2016.
It was a relatively quiet year for major new outsourcing opportunities, especially from central government, but we believe the drivers for change still remain strong across the sector, with added impetus from the increased pace of technology advancements and funding challenges affecting the services sector.

UK BPM MARKET SIZE – PUBLIC SECTOR

MARKET SIZE 2016 (PA)
£3.9bn
5 YEAR CAGR
3.5%

CAPITA MARKET SHARE 2016
41%

Source: Ovum 2016.

DRIVING OUR GROWTH – OUR MARKETS CONTINUED

Drivers, opportunities and challenges

Local government:	
Driver: The devolution of powers to regions and the move to full business rate retention for local government by 2020 means that local authorities have more scope to generate income and flexibility to develop innovative service offerings, but this brings with it more demand for supporting administration of these services. Local authorities are seeking help to shape a place-based agenda for their region by attracting skilled people, housing, infrastructure and trade, therefore generating new revenue streams. The immediate funding gap authorities are facing, and uncertainty about their future funding, is focusing them on shorter-term solutions rather than long-term partnerships.	**Opportunity and challenge:** Capita's capability across people, finance, property and infrastructure and experience of already putting new generation partnerships in place with Blackburn with Darwen Council, and also our Urban Vision partnership in Salford, positions us strongly to shape new place-based opportunities in this market. Our service solutions have adapted to the shorter-term funding focus of our clients and we are working with existing clients and targeting new opportunities to help shape new, sustainable revenue streams. The wider place-based agenda may potentially attract new entrants from the construction sector, or small niche players looking to carve out new opportunities. However, we do not believe that they have the operational breadth or scale to address major place-based opportunities.
Driver: The need to invest in digital technology is recognised across local government but many are struggling with how to do it due to the size of the task, stretched management and a cautious environment.	**Opportunity and challenge:** Having worked across local government for the past 30 years, we know that a depth of knowledge of the processes and back office systems and front end integration which underpin service delivery is essential to deliver an end-to-end digital service and have a meaningful impact on cost of delivery.
Driver: The funding gap in Adult Social Care is estimated by the Local Government Association to reach £1.3bn by the end of the decade, putting additional pressure on councils to manage their care budget more tightly and ensure only appropriate care services are funded.	**Opportunity and challenge:** Capita is well positioned to help local authorities manage their care budgets. Our new adult social care digital solution and payment platform, ChooseCare, will allow people seeking care to self-assess and self-manage their own care options and budgets. Local authorities who use the platform will be able to manage all direct payments, providing complete visibility, simplified administration and potential cost savings.
Central government:	
Driver: The Government's Autumn Statement revealed increased investment in infrastructure and housing, in particular construction of new homes and support of Housing Association spend, investment to tackle congestion and ensuring the UK's transport networks are fit for the future. The launch of its Industrial Strategy to build a successful, modern economy includes plans to invest in infrastructure, technology skills and research to drive up productivity, and build up our technical education.	**Opportunity and challenge:** Capita is a strong player in the housing sector, both as adviser and technology partner, and can provide key support for the housing sector. As a strategic partner to Transport for London, we are already working to support planned programmes to reduce emissions and further tackle congestion in London. Our real estate and infrastructure business is well placed to benefit from increased investment in the UK's transport infrastructure. We have the required experience and expertise to manage large, complex change programmes.
Driver: Cost cutting remains a critical driver across central government as austerity continues and departments need to take a more radical approach to digital transformation of citizen services to realise the level of cost savings and productivity improvements needed.	**Opportunity and challenge:** Capita has a deep understanding of the challenges of working in public service provision and is well positioned to help our public sector partners through the digital transformation challenges. Clients can benefit from our experience of implementing complex digital programmes in other sectors including local government, telecom and retail. The uncertainty felt across the public sector in the second half of 2016 may continue throughout 2017, with UK Government's timetable for exiting the EU constraining its ability to procure significant new outsourcing projects until exit negotiations have concluded.
Education:	
Driver: All UK education sectors are facing funding challenges. Mainstream schools will have to make £3bn in efficiency savings by 2019–20 despite growing pupil numbers and a real-term reduction in funding per pupil. The new funding formula for schools, to take effect from 2018, will redistribute monies from urban schools to areas which receive less. The higher education sector is becoming more competitive and commercial in outlook. Universities may lose access to EU research funding following the exit from the EU, forcing them to rely more heavily on tuition fees and making them work harder to attract and retain candidates.	**Opportunity and challenge:** The Schools' funding gap is likely to open up new opportunities for outsourcing as schools are forced to reduce staffing costs. Efficiency savings will increase demand for cloud services and new technologies to improve teaching and administrative efficiencies. There will be an increased demand amongst colleges and universities for consultancy, CRM and marketing to attract and retain pupils. They will also need to look to their existing assets to release new sources of revenue as funding is under threat. Capita has extensive experience and relationships across the schools and higher education sector and can leverage these relationships to create solutions to address long-term funding challenges. This is not a market used to strategic partnerships and as such our challenge is to find those institutions with appropriate experience and leadership.
Health:	
Driver: The NHS is facing a crisis in delivery of care against a backdrop of growing patient numbers, demand for seven-day working and staffing shortages. The NHS 'Five Year Forward View' sets a clear direction, defining new models of care and setting out a savings challenge of £22bn. While the spending review provided welcome additional funding for the NHS, it also established additional challenges, especially for those central bodies outside the NHS 'ring-fence'.	**Opportunity and challenge:** Exiting the EU will have little impact on NHS procurement as this activity is done at a local level, enabling the sector to look at partnering and digital technologies to support their front and back office transformation activities. The new Health and Social Care Network (HSCN), a data network for health and care organisations, will provide the underlying network arrangements to support the integration and transformation of health and social care services. Whilst demand for services will grow, implementing change in the sector does come with a higher level of complexity, challenge and scrutiny and will need robust oversight is in place to govern these challenges.
Justice, emergency services and defence:	
Driver: The 2015 spending review requires The Ministry of Justice to achieve savings of 15% by 2019–20, whilst all emergency services are mandated to look for opportunities to work together. The National Audit Office (NAO) has already stated its belief that a transformation in policing is required to meet the cost cutting challenge which cannot be met by tactical or efficiency savings. The Ministry of Defence (MoD) is committed to cutting its civilian staff by 30% over the coming years as resources are focused on delivering military capability.	**Opportunity and challenge:** We work across 40 police forces, 36 fire services and all 10 ambulance services and our existing relationships position us well to provide transformational services and to support the increased use of technology across the sector. The focus for growth in the defence sector will be on improving the capability to manage risk, to better enable operations, in an environment of significant and continuing budgetary challenge. This is an area in which we have considerable expertise and a considerable track record across the wider public sector.

GROUP FINANCE DIRECTOR'S OVERVIEW

> "We continue to progress the key initiatives instigated in the year to drive down our costs, work more smoothly and enhance our financial reporting."
>
> **Nick Greatorex,** Group Finance Director

Introduction

2016 was a challenging year in which we faced a number of headwinds driven by a slow-down in customer decisions, a reduction of activity in our transactional businesses and challenges on a number of specific contracts. The major items contributing to our 2016 profit downturn are detailed within the following summary of financial performance.

I would also like to direct you to the disclosure of Alternative Performance Measures (APMs) that gives more detail on the criteria that the Board believes give a balanced view of and relevant information on the Group's financial performance, position and cash flows. In addition, these measures provide useful information which is not otherwise readily available from the financial statements. These are disclosed on page 32. Further disclosure of the Group's reporting of underlying and non-underlying presentation is included in note 2 to the financial statements – Summary of significant accounting policies (page 110).

CAPITA'S FINANCIAL MANAGEMENT DISCIPLINE

INPUTS

- ORGANIC REVENUE GROWTH
- ACQUISITION REVENUE GROWTH
- STRONG OPERATING MARGINS
- OPERATIONAL LEVERAGE
- HIGH FREE CASH FLOW (FCF) CONVERSION
- RETURN ON CAPITAL EMPLOYED (ROCE) WELL ABOVE COST OF CAPITAL

STRONG FINANCIAL DISCIPLINE

CAPITA

- DISCIPLINED APPROACH TO M&A
- APPROPRIATE LEVERAGE LEVEL
- TIGHT WORKING CAPITAL MANAGEMENT
- FOCUSED CAPEX SPEND

DELIVERING SHAREHOLDER RETURNS

- GROWTH
- DIVIDEND

GROUP FINANCE DIRECTOR'S OVERVIEW CONTINUED

Summary of financial performance

Revenue

In 2016, the Group increased reported revenue by 1.5% to £4,909m (2015: £4,837m). Underlying revenue on a continuing basis, including a business which was previously held for sale in 2015, increased by 3.4% including 0.1% organic growth and 3.3% from acquisitions. Major contracts growth was 4.8%, including the full benefit from Primary Care Support England and the continued expansion of Department for Work and Pensions PIP assessments. Attrition was 3.4%, including the planned completion of transformation work on Telefónica UK (O2). Divisional trading was mixed, with a steady performance in the Digital and Software Solutions division outweighed by organic declines in our specialist recruitment, property and technology and enterprise solutions businesses. Looking forward, currently we have booked 2.9% growth from major contracts and expect 4.4% attrition in 2017. Whilst we have no major contract renewals until 2019, one of our major life and pensions clients is conducting a strategic review, the outcome of which is uncertain but could result in the termination of the contract with any associated costs.

Operating profit

Reported operating profit for the year declined by 28% to £148.3m (2015: £206.6m) and underlying operating profit fell by 15% to £541.3m (2015: £639.0m). This underlying operating profit performance was driven largely by the step down in O2 and weak trading in technology and enterprise solutions, property and Capita Europe. It was additionally impacted by a number of items which are separately identified here, given their quantum in-year:

- **Transport for London:** As announced during the year, the Group encountered delays on the implementation of the new IT system on the Transport for London (TfL) congestion charge contract. The system is now live, operational, and performing operationally in line with TfL's requirements. As a result of the delays, costs of circa £25m, including penalties for delays, were incurred in-year and recorded within underlying cost of sales.
- **Accrued income write-downs:** Alongside the normal processes undertaken by the Group throughout the year and following the impact of the challenging trading conditions being experienced subsequent to the first half of the year, Capita undertook a comprehensive review across its major contracts and their attendant balance sheet positions adopting a more conservative view.

  Following this review, management has taken the decision to impair, at 31 December 2016, a number of historic accrued income assets relating to a few specific contracts, which were being amortised over their contract life. These impairments will have no adverse impact on cash or future trading. This historic accrued income of £39.6m has been written down as a charge to underlying results.

  The Board considers that this review ensures that the balance sheet at 31 December 2016 reflects a balanced view of the ongoing contract portfolio. In reaching its view the Board acknowledges that the assumptions and judgements required to ascertain recoverable amounts of contract related accrued income assets, including the consideration of onerous contracts, can lead to a broad range of possible outcomes and is satisfied that in reaching a more balanced view, based on circumstances at the balance sheet date, does not indicate prior year re-statements are necessary. It specifically considered this point and concluded that it was appropriate to recognise all of the adjustments in 2016.
- **Property commercialisation:** These transactions, executed in the ordinary course of business, have delivered profits of £28m (2015: £11m). Part of the Group's strategy is to create and deliver maximum value from assets that are either owned by its clients or are acquired by Capita as part of a wider transaction. By combining the Group's capabilities with the expertise and assets of any organisation, we can significantly increase the value that can be generated from often under-utilised assets. Our strategy often involves the commercialisation of property assets, where the Group will invest in real estate improvements to maximise the future capital value or commercial letting potential. Such an investment approach can generate substantial benefits that can be realised up-front or over time. Examples of up-front value creation include entering into transactions when current market values offer opportunities to generate immediate shareholder returns. During the year the Group acquired with a view to resale and then subsequently completed a sale and lease back transaction resulting in a profit of £28m (2015: £11m) recorded in the year. There is judgement over the categorisation of such transactions as operating or finance leases. Consistent with previous transactions of this nature, the Group's view is that the resulting risks and rewards of ownership over the asset have passed at the point of sale and as such has recognised the profit in the year, and as part of underlying earnings.
- **Other underlying:** The Group recognised a number of other gains and losses in the ordinary course of business which taken in aggregate are immaterial, included within these was a £17.0m profit resulting from the termination of a contract in-year.

The Board concluded that the above items are appropriately recorded within underlying results as they occur in the ordinary course of the Group's operating activities. In prior years the Group has incurred contract accrued income impairments and recorded income related to property commercialisation transactions but, unlike this year, none have been material to warrant separate disclosure.

Consistent with previous years, the underlying operating profit is before charging a number of specific non-underlying items. A description of these items is given below:

- **The Co-operative Bank contract:** As previously disclosed in trading updates given during the year, the Group reached a position with the execution of its contract with The Co-operative Bank plc where it believes it had been placed in an untenable position by the bank. The Group and the bank reached a resolution of their contractual differences in February 2017. The Group will continue to provide mortgage administration services and new mortgage application processing for the bank and its clients. Work on the IT system transformation will cease.

1 Refer to Alternative Performance Measures on pages 32–33.

GROUP FINANCE DIRECTOR'S OVERVIEW CONTINUED

The amended contract will run until December 2020 with an option to extend. The impact on the financial statements is a non-underlying charge of £18.4m representing the write off of accrued income relating to the transformation programme of £7.5m to cost of sales; and software licence costs of £4.2m, other costs of £5.8m and a provision for legal costs of £0.9m to administrative expenses.

- **Restructuring costs:** The Group continually assesses the resourcing levels, both at a divisional level and also in relation to the management and delivery of individual contracts. This results in restructuring actions in the ordinary course of business and any such charges are recorded within the underlying results. In 2016 the Board announced a major programme, with the restructuring of the Group into six new reporting divisions under a Group-wide programme. The charge of £59.4m in relation to this Group-wide programme has been recorded as a specific non-underlying item as, in the view of the Board, it is above the normal level of restructuring incurred by the Group.
- **Non-current asset write-downs:** As noted above, as part of its year-end close process Capita has undertaken a comprehensive review across its major contracts. This included assets held within property, plant and equipment and software development. Following this review management has taken the decision to impair, at 31 December 2016, a number of historic assets relating to a few specific contracts, which were being amortised over their contract life. These impairments will have no adverse impact on cash or future trading. Non-current assets amounting to £58.3m have been written off as a non-underlying charge consistent with prior year treatment, as in the view of the Board it does not reflect the contract performance in-year.

Other items separately recorded:

The Group continues to separate the following operating costs, consistent with prior years, to allow a better understanding of the business performance in-year:

- **Business exits:** These amounted to a £2.9m gain (2015: £164.4m loss): the Group has exited a number of non-core and low growth businesses, and linked with certain disposals there has been an impairment of the associated acquired goodwill and other assets. These charges are specific to the disposed entities and are therefore excluded from the underlying results of the continuing operations to allow a year-on-year comparison of the Group's performance.
- **Impairment and amortisation of intangible assets (including goodwill):** These amounted to £233.5m (2015: £193.3m). The Group remains acquisitive and carries on the balance sheet significant balances related to acquired intangible assets. The amortisation of these assets, and any impairment charges, are reported separately due to the size of the annual charges and because the performance of the acquired businesses is assessed through the underlying operational results which for internal purposes excludes any amounts associated with the acquired intangible assets. During the year impairment charges have been recorded in relation to businesses within the Commercial Services, IT Services, Insurance and Benefits Services, Capita Europe and Asset Services divisions (2015: in respect of the Insurance Services business) of £66.6m. The judgements and estimates related to these balances are set out in note 15.
- **Acquisition related costs:** of £9.0m (2015: £16.2m): 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.
- **Fair value movements on financial instruments:** that do not meet the criteria for hedge accounting £7.6m (2015: £14.7m): certain of the Group's financial instruments do not qualify for hedge accounting and accounting standards require these to be marked to market at each reporting date with any movements recorded in the income statement. Such charges or credits are dependent on external market factors and are not related to the underlying performance of the Group. For that reason the amounts are reported as specific non-underlying items and therefore are not considered by the Board in assessing the performance of the Group.
- **Asset Services settlement provisions:** of £13.4m (2015: £17.2m) are separately identified due to the significance and the historic nature of the claims to which they relate.

The Board concluded that it is appropriate to disclose the above items as specific non-underlying items as these charges are not reflective of the in-year performance of the Group's operational activities.

Financing

Underlying interest cost for the year, excluding the fair value movement on mark-to-market fixed rate swaps, is £66.0m (2015: £53.5m). The increased interest cost is due to the level of net debt the Group carries as well as a step up in the coupon rates charged on the fixed rate swaps that have delivered in-year.

Interest cover stands at 8.8x for the year (2015: 13.2x). This reduction is a result of the increased interest cost and the decline in underlying operating profits in the year.

Net debt at 31 December 2016 stands at £1.8bn (2015: £1.8bn). The level of net debt coupled with the reduced profitability in the year has led to our debt covenant ratio (adjusted net debt to adjusted EBITDA) to increase to 2.89x (2015: 2.45x), which is outside of our target range of 2.0x to 2.5x. However, we have already taken action to address this through the anticipated sale of the majority of our Asset Services division, which is expected to complete by year end 2017. It is anticipated that acquisition activity will be muted in 2017 as we attend to the de-leveraging of the balance sheet.

1 Refer to Alternative Performance Measures on pages 32–33.

GROUP FINANCE DIRECTOR'S OVERVIEW CONTINUED

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

The Group generated underlying operating cash of £750m (2015: £687m), with an underlying cash conversion ratio of 139% (2015: 108%) which underlines the importance we place on cash within the business and how we embed this at all levels of the organisation. With actions taken on work in progress in-year and the continued emphasis on driving the divisions to 'own' working capital requirements, we expect this ratio to remain at, or around, 100% for the foreseeable future.

Dividends

Despite the performance of the business in the year we have decided to maintain the total dividend for the year. Therefore the total dividend will be held at the 2015 value of 31.7p per share, meaning that the final dividend of 20.6p per share compares with a 2015 final dividend of 21.2p per share, a reduction of 3% (having paid a half year dividend in 2016 of 11.1p per share, an increase of 6% on the 2015 interim dividend of 10.5p).

Capita expects to maintain the dividend in 2017, rebuild dividend cover in the medium term and return to steady dividend growth more reflective of the organic growth in the business rather than that exhibited by earnings per share of the Company thereafter. The Board believes this is a more sustainable model for the longer term whilst continuing to provide good returns to its shareholders.

Initiatives

We continue to progress the key initiatives I instigated in the year to drive down our costs, work more smoothly and enhance our financial reporting. The initiatives focus on: improving the involvement of procurement across the Group to drive optimal purchasing decisions; engaging the Group's property expertise to address rationalisation and the effectiveness of the Group's property portfolio; and improving the Group's financial reporting systems.

I have continued to lead initiatives to further improve the Group's control over expenditure, both capital and operational, and ensure that as a Group we are making the best buying decisions, whether that be for longer-term investment or shorter-term through improved pricing with suppliers. We have successfully driven down capital expenditure to £154m in-year (2015: £204m) through stricter and more transparent rules on investment and through gating projects to ensure that the project is progressing in line with expectations. This process has been used more widely to also encompass large customer programme deliveries such as scale transformation projects. Operationally, the Group's procurement expertise has been centralised and given a wider ranging brief to find value, working with the divisions, through consolidated buying power and through better supplier interactions and relationships.

Additionally, the Group's property business has been engaged to identify opportunities in the organisation's property footprint to drive best value through rationalisation of sites both regionally and in metro centres and through the better allocation of property space to need. These initiatives are all expected to yield significant savings over the medium to longer term.

During the year we have reviewed the risk framework of the Group to create a robust top down approach that ensures that the major risks faced by the Group are thoroughly disclosed and considered at Board level. This ensures that if the level of risk exceeds the Group's risk appetite that this is identified early and that appropriate action is taken. The Divisional Boards also employ this approach to ensure the same level of awareness of risk within the divisional businesses.

The internal audit function has been reviewed, centralised and a co-sourcing arrangement put in place, principally with PwC LLP, that will ensure an enhanced level of focus and breadth of coverage across the Group providing the Board with reasonable surety over compliance with Group policies and procedures and also wider governance.

The improvement of the Group's financial reporting systems continues with a comprehensive list of projects identified and in train to improve and strengthen the existing apparatus to ensure a robust finance infrastructure for the Group over the medium term with further programmes to be put in place for the longer term.

Taxation

Capita has an open and positive working relationship with HMRC and has a designated customer relationship manager, and is committed to prompt disclosure and transparency in all dealings with HMRC. The Group does not have a complex tax structure, nor does it pursue any aggressive tax avoidance activities and in recognition of this and the aforementioned relationship it enjoys a low risk rating from HMRC recognising our strong corporate governance, control processes and attitude to compliance and tax planning. Due to client requirements and also due to the location of some of our businesses, the Group does have operations in a number of countries outside of the UK. All Capita operations in non-UK jurisdictions are trading operations and account for the appropriate local taxes for these activities.

In total Capita contributed £273.0m (2015: £305.6m) in taxes across its UK operations in the year. This consisted of £48.6m (2015: £82.6m) in UK corporation tax; £23.9m (2015: £25.1m) in irrecoverable VAT payments; £163.7m (2015: £165.2m) in employer NIC; and £36.8m (2015: £40.7m) in other levies including business rates, import duties and environmental taxes. Additionally the Group collected and remitted to the UK Government £463.6m (2015: £487.3m) of VAT and £399.1m (2015: £405.3m) of employee PAYE and NIC.

1 Refer to Alternative Performance Measures on pages 32–33.

FINANCIAL REVIEW

Capita's focus on creating value for shareholders is supported by strong financial controls and effective governance across the Group and we monitor performance against KPIs, for which we have clear aims.

The financial statements have been prepared under IFRS and the Group's accounting policies are set out on pages 110–120. Management also presents revenue, operating profit, profit before tax and earnings per share excluding non-underlying items to provide additional useful information on underlying trends to shareholders. More detail on the Alternative Performance Measures adopted by the Group can be found on pages 32–33.

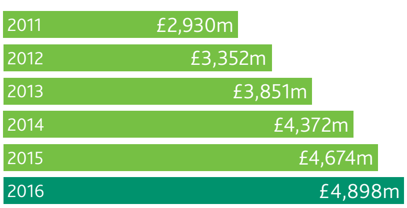
Underlying results

Underlying revenue

Aim: drive profitable, sustainable growth through a combination of organic growth and acquisitions.

Underlying revenue[1] increased by 5% to £4,897.9m in 2016 (2015: £4,674.3m). Underlying revenue on a continuing basis[1], including a business which was previously held for sale in 2015, increased by 3.4% including 0.1% organic growth and 3.3% from acquisitions completed in 2015 (1.6%) and 2016 (1.7%).

UNDERLYING REVENUE (£m)



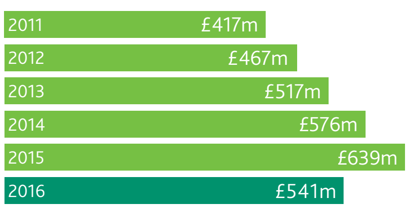
Underlying operating profit and margin

Aim: consistently maintain underlying operating margins.

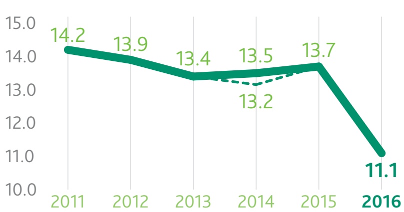
Underlying operating profit[1] decreased by (15)% to £541.3m in 2016 (2015: £639.0m). As previously stated, following a comprehensive review of major contracts, we have written down £39.6m of accrued income as a result of taking a balanced view of the recoverability of historic deferred costs over the remaining life of a number of established contracts. This impairment was included in underlying operating profit in 2016 but is not recurring. Underlying operating profit before historic accrued income write offs was £580.9m (2015: £639.0m).

Our underlying operating margin[1] was 11.1% (2015: 13.7%), reflecting the above.

UNDERLYING OPERATING PROFIT (£m)



UNDERLYING OPERATING MARGIN (%) KPI



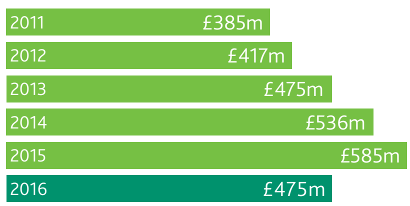
The 2014 comparatives in the above chart show the value on a continuing basis (13.5%) and include the results from businesses disposed or held for disposal in 2014 (13.2%). The 2016 values are on a continuing basis i.e. excluding the businesses disposed of or held for disposal in 2016.

Underlying profit before tax

Aim: achieve long-term, consistent growth in profits.

Underlying profit before tax[1] decreased by (19)% to £475.3m (2015: £585.5m). Underlying profit is disclosed after the impact of the £39.6m historic accrued income write offs.

UNDERLYING PROFIT BEFORE TAX (£m) KPI



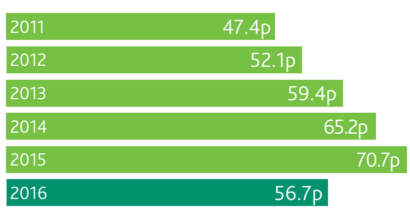
Underlying earnings per share (EPS)

Aim: achieve long-term, consistent growth in EPS.

Long-term growth in EPS is a fundamental driver of shareholder value. To align their interests with shareholders, 75% of Board Directors' long-term incentive remuneration is based upon underlying EPS targets.

Underlying earnings per share[1] decreased by (20)% to 56.67p in 2016 (2015: 70.73p). The Group's EPS has grown at a compound annual rate of 4% over the five years to 31 December 2016.

UNDERLYING EARNINGS PER SHARE (p) KPI



1 Refer to Alternative Performance Measures on pages 32–33.

FINANCIAL REVIEW CONTINUED

Non-underlying income and expenses

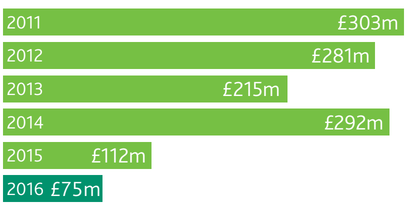
Non-underlying income and expenses were £400.5m (2015: £473.4m), including intangible amortisation of £152.2m (2015: £165m), goodwill impairment of £66.6m (2015: £28.3m), restructuring costs of £59.4m in relation to a major reorganisation programme and contract related asset impairments of £58.3m (2015: £76.7m).

Reported results

Reported profit before tax

Reported profit before tax in 2016 was £74.8m (2015: £112.1m), reflecting the impact of non-underlying charges outlined above.

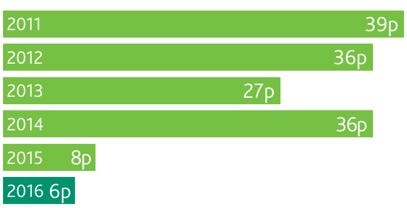
REPORTED PROFIT BEFORE TAX (£m) KPI



Reported earnings per share

Reported earnings per share in 2016 was 5.55p (2015: 7.96p), reflecting the impact of non-underlying charges outlined above.

REPORTED EARNINGS PER SHARE (p)

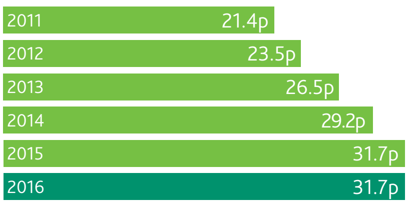


Dividends

Aim: maintain the dividend in 2017, rebuild dividend cover in the medium term and return to steady dividend growth more reflective of the organic growth of the Company thereafter.

The Board is recommending a final dividend of 20.6p per ordinary share (2015: 21.2p), making a total of 31.7p for the year (2015: 31.7p). The final dividend will be payable on 3 July 2017 to shareholders on the register at the close of business on 26 May 2017. The Group's total dividend has grown at a compound annual rate of 8% over the five years to 31 December 2016.

TOTAL DIVIDEND PER SHARE (p) KPI



Cash flow

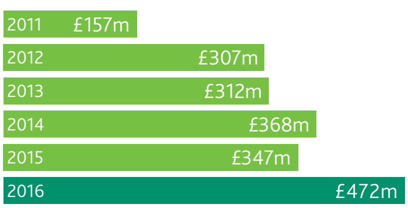
Aim: maintain an operating cash conversion ratio of, at or around, 100% and high level of free cash flow.

The Group is focused upon generating cash, actively managing working capital and capital expenditure, to fund organic growth, dividends and acquisitions.

In 2016 the Group generated £750m (2015: £686m) of underlying operating cash, representing a cash conversion ratio (defined as underlying cash generated from operations divided by underlying operating profit for the year) of 139% (2015: 108%). Underlying free cash flow[1] was £472m (2015: £347m).

In 2017 and for the foreseeable future we expect our cash conversion to be at or around 100%.

FREE CASH FLOW (£m) KPI



Capital expenditure

Aim: invest capital to generate good returns for our shareholders.

We aim to allocate capital efficiently, focusing upon opportunities that generate the best return for shareholders and avoiding tying up too much capital in long-term projects.

In 2016, net capital expenditure was £154m (2015: £198m), reflecting lower contract specific and maintenance spend. Investment will continue to be made on the basis of returns on the value of capital being deployed.

1 Refer to Alternative Performance Measures on pages 32–33.

FINANCIAL REVIEW CONTINUED

Gearing

KPI

Aim: maintain an efficient capital structure, with an appropriate level of gearing.

It is important to our clients that we are a low risk, stable partner, particularly where we are delivering large scale operations on their behalf. We aim to keep the ratio of adjusted net debt to adjusted EBITDA in the range of 2.0 to 2.5 over the long term.

Net debt at end December 2016 was £1,779m (2015: £1,838.8m). As at 31 December 2016, we had £1,596m of private placement bond debt, of which £124m matures in 2017 and the remainder matures over the period up to 2027. In addition, we have £650m of bank debt which matures over 2018 and 2019, and an undrawn £600m revolving credit facility of which £81m matures in August 2020 and £519m in August 2021.

In 2016, our adjusted net debt to adjusted EBITDA ratio[1] was 2.89 times (2015: 2.45 times) and interest cover[1] was 8.8 times (2015: 13.2 times).

Debt maturity profile as at 31 December 2016 (£m)

Year	Bond debt[1]	Bank debt	Total
2017	124	–	124
2018	153	550	703
2019	100	100	200
2020	294	–	294
2021	282	–	282
2022	302	–	302
2023	89	–	89
2024	–	–	–
2025	101	–	101
2026	45	–	45
2027	106	–	106
Total	**1,596**	**650**	**2,246**

1 Bond debt shown after the effect of currency and interest rate swaps.

Return on capital employed (ROCE)

Aim: deliver ROCE which is well in excess of our cost of capital.

ROCE reflects how productively we deploy capital and is incorporated into senior managements' long-term incentive schemes, which are 25% based upon performance against ROCE targets.

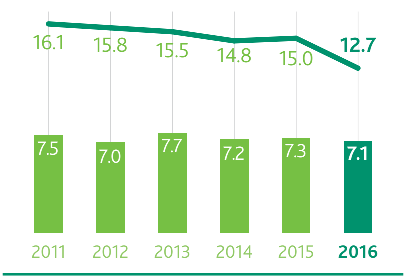
ROCE is calculated as underlying net operating profit after tax[1] (NOPAT) divided by average capital employed. Capital employed[1] (CE) is the total of equity shareholders' funds, net debt, pension deficit and cumulative equity impact from non-underlying items such as amortisation.

In the chart below, the post-tax weighted average cost of capital (WACC) indicates the return which could be expected from the capital invested in the business. It 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 WACC assuming a risk-free rate of 1.22%, a market risk premium of 9.23% and a beta of 0.79 times. In 2016, our ROCE[1] was 12.7% (2015: 15.0%), which compares to our estimated post-tax WACC of 7.1%.

NET RETURN ON CAPITAL (%)

KPI



1 Refer to Alternative Performance Measures on pages 32–33.

FINANCIAL REVIEW CONTINUED

Delivering shareholder value

The table below reflects distributions to shareholders:

Performance summary

	2016	2015	2014	2013	2012	2011
Dividends per share						
Interim dividend (p)	**11.1**	10.5	9.6	8.7	7.9	7.2
Final dividend (p)	**20.6**	21.2	19.6	17.8	15.6	14.2
Total ordinary dividend (p)	**31.7**	31.7	29.2	26.5	23.5	21.4
Dividend cover	**1.79x**	2.23x	2.23x	2.24x	2.26x	2.27x
Totals						
Interim dividend (£m)	**74**	70	63	57	51	44
Final dividend (£m)	**137**	140	130	117	102	87
Total ordinary dividend (£m)	**211**	210	193	174	153	131
Share buybacks						
% of share capital authorised to repurchase	**10%**	10%	10%	10%	10%	10%
% of share capital repurchased	**–%**	–%	–%	–%	–%	–%
Issued share capital at year-end (m)	**665**	662	659	656	652	608
Shareholder returns						
Total return to shareholders (£m)	**211**	210	193	174	153	131

1 Refer to Alternative Performance Measures on pages 32–33.

ALTERNATIVE PERFORMANCE MEASURES

The Group presents various Alternative Performance Measures (APMs) as the Directors believe that these are useful for users of the financial statements in helping to provide a balanced view of, and relevant information on, the Group's financial performance, position and cash flows.

These APMs are mainly measures which disclose the 'underlying' performance of the Group, excluding specific items which are regarded as non-underlying.
The Group separately presents intangible amortisation, asset impairments, acquisition contingent consideration movements, acquisition expenses, the financial impact of business exits or businesses in the process of being exited, movements in the mark-to-market valuation of certain financial instruments and other specific items in the income statement which, in the Directors' judgement, need to be disclosed separately (see notes 4, 5 and 9) by virtue of their nature, size and incidence in order for users of the financial statements to obtain a proper understanding of the financial information and the underlying performance of the business.

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

APMs presented		2016	2015	% change	Source or calculation
Revenue					
Total revenue as reported		**£4,909.2m**	£4,836.9m	1.5%	Line item in income statement
Businesses held for sale		**(£11.3m)**	(£162.6m)		Line item in income statement
Underlying revenue		**£4,897.9m**	£4,674.3m	4.8%	Line item in income statement
Disposals		**–**	(£10.2m)		
Justice business transferred from held for sale		**–**	£71.8m		
Underlying revenue on a like-for-like basis		**£4,897.9m**	£4,735.9m	3.4%	Underlying revenue excluding businesses exited
2015 acquisitions		**(£76.2m)**	–	(1.6)%	Additional contribution in 2016 of acquisitions acquired in 2015
2016 acquisitions		**(£81.4m)**	–	(1.7)%	Contribution in 2016 of acquisitions acquired in 2016
Underlying organic revenue		**£4,740.3m**	£4,735.9m	0.1%	Underlying revenue excluding businesses exited and acquired
Profit					
Underlying operating profit		**£541.3m**	£639.0m	(15.3)%	Line item in income statement
Businesses held for sale like-for-like comparison		**n/a**	(£4.7m)		Business exited during 2016 and businesses that were held for sale in 2015 but not exited in 2016
Like-for-like operating profit		**£541.3m**	£634.3m	(14.7)%	Underlying operating profit excluding businesses exited
Underlying operating margin		**11.1%**	13.7%		Calculation (underlying operating profit/ underlying revenue)
Like-for-like operating margin		**11.1%**	13.4%		Calculation (like-for-like operating profit/ like-for-like underlying revenue)
Underlying profit before tax		**£475.3m**	£585.5m	(18.8)%	Line item in income statement
Underlying earnings per share		**56.67p**	70.73p	(19.9)%	Line item in income statement and note 11 – earnings per share
Cash flow					
Cash generated by operations before non-underlying cash items		**£749.5m**	£685.8m	9.3%	Line item in cash flow statement
Cash conversion[1]		**139%**	108%		Calculation (cash generated from operations before non-underlying cash items/underlying operating profit)
Underlying free cash flow	A	**£472.4m**	£347.4m	36.0%	Line item in note 29
Non-underlying payments	B	**(63.2)**	(43.3)		Includes non-underlying movement in payables and receivables, Asset Services settlement provision paid, business exit provision paid, Gwent pension settlement and restructuring provision paid provision, per cash flow statement
Free cash flow after non-underlying items	A+B	**409.2**	304.1	34.6%	

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

ALTERNATIVE PERFORMANCE MEASURES CONTINUED

APMs presented (continued)		2016	2015	Source or calculation
Gearing				
Underlying EBIT		**£541.3m**	£639.0m	Line item in income statement
Deduct: non-controlling interest		**(£13.4m)**	(£11.1m)	
Deduct: acquisition costs		**(£9.0m)**	(£16.2m)	Line items in note 5
Add back – disposal of non-current assets		**–**	(£1.2m)	Line item in note 29
Add back – share based payment charge		**–**	£11.4m	Line item in note 29; note: charge only
Add back: non-current service pension charge		**£2.4m**	(£1.9m)	Line item in note 32
Adjusted EBIT	a	**£521.3m**	£620.0m	
Add back: pre-acquisition underlying profit		**£5.6m**	£34.2m	
Adjusted EBIT		**£526.9m**	£654.2m	
Depreciation and amortisation		**£99.3m**	£95.3m	Line items per cash flow
Adjusted EBITDA	b	**£626.2m**	£749.5m	
Underlying interest charge		**(£66.0m)**	(£53.5m)	Line item in income statement
Interest cost attributable to pensions		**£6.6m**	£6.4m	Line item in note 32 – employee benefits
Borrowing costs	c	**(£59.4m)**	(£47.1m)	Calculation (underlying interest charge excluding pension interest)
Equity attributable to shareholders	d	**£408.2m**	£679.3m	Line item on balance sheet
15% of equity attributable to shareholders	e	**£61.2m**	£101.9m	Calculation (d x 15%)
Contingent obligations under bonds and guarantees	f	**£91.7m**	£88.1m	Disclosure in note 31
	g	**£30.5m**	–	If f > e, the difference is treated as debt
Net debt	h	**£1,778.8m**	£1,838.8m	Line information in note 29
Adjusted net debt	i	**£1,809.3m**	£1,838.8m	Calculation (g + h)
Interest cover		**8.8x**	13.2x	Calculation (a / c)
Adjusted net debt to Adjusted EBITDA ratio		**2.89x**	2.45x	Calculation (i / b)
Return on capital employed (ROCE)				
Underlying operating profit	A	**541.3**	639.0	Line item in income statement
Tax rate	B	**18.5%**	18.5%	Line item note 10
Tax	C = A x B	**100.1**	118.2	Calculation (underlying profit multiply tax rate)
Underlying operating profit after tax	D = A – C	**441.2**	520.8	Calculation (underlying profit less tax)
Current year net assets	E	**483.4**	753.3	Line in balance sheet
Current year underlying net debt	F	**1,682.9**	1,750.3	Line item in note 29 – additional cash flow information
Adjustments to capital employed	G	**1,228.8**	1,046.2	Includes post-tax impact of accumulated acquired intangible amortisation, fixed rate swaps, put options and pensions
	$M^1 = E + F + G$		3,549.8	Used in 2016 average capital employed
Less acquisition spend in year	H	**(89.5)**	(415.7)	Consideration paid – cash acquired + debt acquired, per note 17
Current year capital employed	I = E + F + G + H	**3,305.6**	3,134.1	
Prior year net assets	J		915.5	
Prior year underlying net debt	K		1,405.0	
Comparative prior year adjustments	L		890.8	Includes post-tax impact of accumulated acquired intangible amortisation, fixed rate swaps, put options and pensions
Prior year capital employed	$M^2 = J + K + L$		3,211.3	Used in 2015 average capital employed
Average capital employed pre-acquisitions	N = (I + M)/2	**3,427.7**	3,172.7	
Weighted average acquisition spend in year	O	**59.7**	288.2	Pro rata no of months post-acquisition profit
Average capital employed	P = N + O	**3,487.4**	3,460.9	
ROCE	Q = D / P	**12.7%**	15.0%	

DIVISIONAL PERFORMANCE

The divisions are focused on creating new and additional organic growth opportunities within the businesses, and continuous service and product innovation and development.

In 2016, the Group and its businesses were organised into 11 divisions, each led by a divisional Executive Director, and overseen by two Joint Chief Operating Officers. The divisions are focused on creating new and additional organic growth opportunities within the businesses, and continuous service and product innovation and development to ensure we are being proactive in addressing the needs of our clients and responding to evolving market conditions.

After a challenging trading period in the later part of 2016, the Board undertook a strategic review of the businesses, and announced a reshaped and simplified organisation structure, effective 1 January 2017, comprised of six market-facing divisions, each led by an Executive Officer reporting directly to the Chief Executive. The roles of Joint Chief Operating Officers were removed from the Board. This new structure will provide increased management strength, shortened reporting lines, better alignment of sales and operations to our external markets and greater Board oversight and strengthened operational control.

For further details on the new structure see **page 11**

Divisional financial performance

On the following pages we review the performance of the 11 divisions as they were organised in 2016. The reported underlying profit disclosed for each division includes, where relevant, the accrued income impairment arising from the major contracts review performed by the Board as part of the year-end close process. Reported profit is not included in our review of the divisions, as the items included within non-underlying are not within the results against which each division's performance is assessed by the Board, however we have highlighted non-current asset and goodwill impairments where relevant.

The cost of the announced Group-wide restructuring programme (£59.4m) is included within non-underlying charges in 2016, being the element that is above the normal level of restructuring undertaken by the Group. The divisions with the most significant share of the charge are: Insurance & Benefits Services (£22.5m), IT Enterprise Services (£8.9m), Europe (£6.5m) and Customer Management (£6.3m).

For further details see Group Financial Director's overview **pages 24–27**

CUSTOMER MANAGEMENT

Customer Management BPO
BBC

see **page 35**

INTEGRATED SERVICES

DWP PIP
Electronic Monitoring
NHS PCSE
TfL & Parking Services

see **page 36**

LOCAL GOVERNMENT, HEALTH & PROPERTY

Local Government BPO
Health & Education
Property, Real Estate & Infrastructure

see **page 37**

DIGITAL & SOFTWARE SOLUTIONS

Software
AMT-Sybex
Orange Bus
Barrachd
Translation & Interpreting

see **page 38**

INSURANCE & BENEFIT SERVICES

Life & Pensions BPO
Employee Benefits
Insurance BPO

see **page 39**

COMMERCIAL SERVICES

AXELOS/Fera/FSC
Learning Services
Travel & Events
Supplier Assessment Services

see **page 40**

STRATEGIC SERVICES

DIO
DCC Smart Metering
Escorting & Enforcement
Central Government Services
India

see **page 41**

IT ENTERPRISE SERVICES

Updata
Technology Solutions
Enterprise Services
Managed IT Solutions
Trustmarque

see **page 42**

WORKPLACE SERVICES

Resourcing
HR Solutions
Specialist Recruitment
RPP Army Recruitment

see **page 43**

EUROPE

Customer Management
Poland

see **page 44**

ASSET SERVICES

Shareholder and Treasury Solutions
Fund Solutions
Debt & Banking Solutions
Corporate & Trust

see **page 45**

DIVISIONAL PERFORMANCE CONTINUED

CUSTOMER MANAGEMENT

Divisional overview

This division works with clients to grow the value of their customer base, supporting them with voice and digital contact centre services including customer acquisition, customer services, order fulfilment, upsell and collections. Our commercial model allows us to seek routes to drive channel shift and deliver value back to our clients. Every year, we handle over 100 million customer contacts through our UK and offshore contact centres and operate across a wide variety of sectors including telecoms, retail and utilities.

Financial summary

	2016	2015
Underlying revenue	**£503.7m**	£580.8m
Underlying operating profit	**£27.4m**	£57.5m
Underlying operating margin	**5.4%**	9.9%
Capex	**£15.2m**	£27.0m

Performance summary

- Revenue reduced in 2016 primarily due to the planned step down in the Telefónica UK (O2) contract, following the completion of our transformation programme. The end of transformation on a number of other contracts was partly offset by account growth and a new contract with Tesco Mobile.
- Both underlying operating profit and margin were impacted by contract step downs.
- Underlying operating profit in 2016 includes an impairment of accrued income following the review performed by the Board as part of the year-end close process (£14.9m).

Trading summary

- We continue to see a strong interest across the outsourced customer service market in longer-term transformational partnerships as clients seek providers who can reduce revenue leakage, scale personalised content delivery, accelerate go-to-market strategies and integrate multi-platform customer engagement.
- Contract wins: during the year we secured a five-year engagement with Tesco Mobile valued at £140m and a seven-year contract with Three to run their UK customer services, expected to be worth £70m. Contract extensions were secured with Debenhams and Volkswagen.
- Transformational customer services contracts: notably O2, TV Licensing, npower and Dixons Carphone, are operationally performing well, irrespective of contract step downs.
- We continue to invest in insight and analytical tools and capability, such as Engage 'voice of the agent' tool and VScreen technology, delivering continuous innovation for our existing clients.
- With customer contact continuing to move online, we are re-purposing voice contact to support our clients sales and customer advocacy campaigns. Our insight and analytics capability and Voice business, which we acquired in April 2015, provides the necessary skills to drive sales and retention on behalf of clients.
- During the year, we introduced a programme of colleague engagement to drive continued service improvement. We used Capita's broader Group capability to support staff retention, including Capita's Resourcing Team, ThirtyThree (employee attraction and engagement), Brightwave (digital learning) and Blue Sky (driving service improvement through coaching). The programmes have already had a positive impact with attrition reducing in both the UK and South Africa.

DIVISIONAL PERFORMANCE CONTINUED

INTEGRATED SERVICES

Divisional overview
This division brings together a number of public service business process management contracts providing services to both central government departments and the NHS including: Department of Work and Pensions, Department for Communities in Northern Ireland, Ministry of Justice, Transport for London and NHS England. The division also includes our Parking Services business.

Financial summary

	2016	2015
Underlying revenue	**£269.7m**	£203.2m
Underlying operating profit	**£(8.8)m**	£16.3m
Underlying operating margin	**(3.3)%**	8.0%
Capex	**£3.5m**	£14.4m

Performance summary
- Revenue increased due to the full year impact of the NHS PCSE contract, which started in September 2015, increased volumes on our DWP PIP contract and growth in parking services.
- Underlying operating profit was impacted by the one-off costs of £25m from the TfL system go-live overrun.
- Underlying operating profit in 2016 includes an impairment of accrued income following the review performed by the Board as part of the year-end close process (£2.3m).

Trading summary
- DWP PIP extended: we secured a two-year extension of our PIP assessments contract in England and Wales worth in the region of £210m to 2019. We have invested in building our productive capability and substantially improving the quality of the service throughout 2017.
- Commenced delivery of PIP assessments on behalf of the Department for Communities in Northern Ireland (DfC). Following complex preparations, recruitment and training, Capita successfully compressed this work into a six-month period to meet DfC's requirements and continued to deliver high quality assessments during the remainder of the year. We are currently in mature discussions with DfC to extend the service contract for an additional two years until 2019.
- Major transformation for NHS England: we are in the early stages of a programme to deliver primary care administration support services for NHS England. Over the past year we have moved the breadth of historic, locally agreed services and disparate processes from over 40 to three locations and launched a new national service for supplies. 2016 has been an intense period of change for staff and users, with some initial challenges, and in 2017 we look forward to making further improvements and progress towards realising NHS England's objectives.
- We continue to provide a high quality Electronic Monitoring Service (EMS) to the Ministry of Justice (MoJ). Following the MoJ delays to the 'new world' programme, involving the provision of GPS tagging from another supplier, we are working collaboratively with the MoJ on the transition from legacy service and infrastructure to the 'new world'.
- Transport for London (TfL) congestion charging: the enhanced and upgraded solution went live in September 2016, later than the original date of May 2016. The overrun on the implementation led to additional one-off costs and penalties in the year of £25m. We have experienced teething issues, but overall the service is performing well and will run until September 2021, with an option to extend for a further five years.
- A number of other initiatives are underway with TfL in support of their increasing cost challenges and need to drive efficiencies. We commenced work on the implementation of the Emission Surcharge scheme, due to be introduced in London in 2017. Work is also planned around the expansion of the Emission Surcharge into the Ultra Low Emission Zone (ULEZ) due to be introduced during 2019/20.
- Our parking business has continued to perform well, delivering organic growth of 22% year-on-year. It won a number of new contracts in 2016, including a five-year deal with Asda to manage 400 car parks.

2 year
CONTRACT EXTENSION FOR DWP PIP

DIVISIONAL PERFORMANCE CONTINUED

LOCAL GOVERNMENT, HEALTH & PROPERTY

Divisional overview

This division brings together our local government, health partners, real estate, property and infrastructure businesses. It provides a wide range of business process management, regulatory and property services across the public and private sectors and is the largest provider of revenue and benefits administration, IT, finance and accountancy, HR and customer-facing services to local government, including the operation of larger strategic partnerships.

Financial summary

	2016	2015
Underlying revenue	**£639.6m**	£650.3m
Underlying operating profit	**£64.1m**	£65.2m
Underlying operating margin	**10.0%**	10.0%
Capex	**£4.9m**	£7.8m

Performance summary

- The reduction in revenues in 2016 was primarily due to the reduced volume of large infrastructure work in our real estate and infrastructure business, which is expected to improve in 2017. This was offset to a degree by the full year impact of the GL Hearn acquisition made in 2015.
- Improved trading performance in local government offset the real estate and infrastructure business, with underlying operating margins being maintained.

Trading summary

- Our local government business performed well in 2016 and was awarded a number of new deals with new clients and extensions from existing clients, including:
- A new nine-year contract with Five Councils in the West of England, for the delivery of a flexible shared services platform, valued at £139m.
- A new flexible partnership with Blackburn with Darwen Borough Council. Our innovative 'place based partnership' model is focused on creating new opportunities around the development of land, local assets and skills to generate income and transform the Borough.
- The extension of our Urban Vision technical services joint venture with Salford City Council and Galliford Try for a further three years.
- Southampton City Council digital transformation partnership: has used technology to transform almost 200 end-to-end customer journeys, which has secured significant efficiencies in the first nine months. The programme was awarded the 'Best Use of Agile in the Public Sector by a Team' at the industry Agile Awards and was shortlisted for the 'Digital Council of the Year' at the LGC awards and 'Digital and Technology' category at the MCA awards.
- Capita has grown significantly in the area of adult social care, delivering information and advice at the first point of contact, and the capability to carry out full assessment and reviews.
- ChooseCare launched: a new adult social care digital solution developed by Capita, that will allow people seeking care to self-assess and self-manage their own care options and budgets, enabling councils to gain better control over their stretched adult social care budgets.
- Delivering value for Barnet Council: in October a major Council cross-party review of the Customer and Support Group contract between Barnet Council and Capita has demonstrated that, three years in, the contract is delivering significant benefits to the Borough, with savings of £31m to date achieved alongside increased user satisfaction.
- Our ability to support the growth of new housing has made good progress in 2016, providing multidisciplinary services including development management, quantity surveying and general property-related services.
- A new digital platform is in development for Entrust, our Staffordshire County Council education joint venture, which will allow schools to view their performance and take instant actions to address issues and monitor performance over time.
- Recognising that the local government market has changed due to immediate funding challenges, we have implemented a new regional operating model within our local government business. This recognises the regional nature of many of our discussions with customers and is designed to support wider transformation within our partnerships and generate organic transactional growth.

DIVISIONAL PERFORMANCE CONTINUED

DIGITAL & SOFTWARE SOLUTIONS

Divisional overview

Capita is a leading supplier of specialist software and wider solutions to the education, local government, justice and emergency services, financial services, health, utilities and central government markets in the UK and increasingly overseas.

Financial summary

	2016	2015
Underlying revenue	**£521.6m**	£494.1m
Underlying operating profit	**£139.1m**	£131.5m
Underlying operating margin	**26.7%**	26.6%
Capex	**£30.8m**	£19.0m

Performance summary

› The division continued to grow revenues due to a number of strategic acquisitions and organic growth in the education, justice, cyber security consulting and software testing businesses.

› We continued to focus on opportunities to reduce cost through rationalisation of our property portfolio and creating additional offshore development capacity to complement our onshore teams.

Trading summary

› Capita SIMS continues to deliver value through the use of technology within the classroom for teachers, pupils and parents and is well positioned to meet the needs of the increasing influence of Multi Academy Trusts.

› Capita Mortgage Software Services is investing in and already delivering the latest customer focused technologies in preparation for disruption in their market caused by automation and new digital mortgage offerings. We now offer an end-to-end mortgage services solution, covering: origination, services, administration and recovery.

› AMT-Sybex, our mobile solutions business, is supporting HTML5, enabling them to support a wider range of mobile devices. The shift to a data-driven environment is providing new opportunities for the business across its core markets.

› We acquired Orange Bus, an award-winning specialist digital agency that designs solutions to complex problems for clients across the private and public sector. Their work includes designing applications, testing and optimising websites and improving user experience.

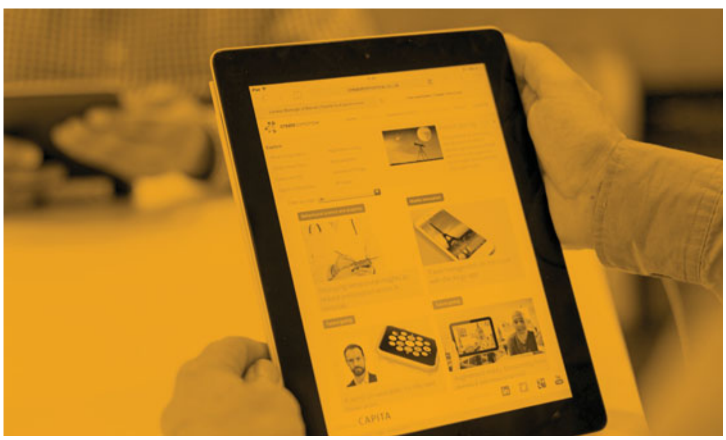
› Technology and innovation is playing an increasing role in the operations of our clients in the emergency services. Working in partnership with West Midlands Fire Service, we have been able to create and bring our 999Eye emergency streaming service to market within three months.

› The need by our NHS and local government clients to identify cost and efficiency savings has led to them embracing big data, business process automation and mobility services. To support this need, our Integra finance suite has delivered new mobile and analytics modules, which will be further enhanced in 2017.

› Capita One, our social care system, developed a new solution incorporating predictive analytics and machine learning, to allow authorities to identify the most vulnerable, reduce the costly impact of late intervention, ensuring interventions can have the maximum impact.

› Our online payments service Pay360's latest development provides merchants with the ability to prioritise the collection of customer information at an early stage in the service, allowing them to make more informed business decisions and improve services to their customer.

› In response to new employee regulations, our Workforce Management Solutions business will be first to market with a compliant e-solution to verify employee identity and their Right to Work.



DIVISIONAL PERFORMANCE CONTINUED

INSURANCE & BENEFIT SERVICES

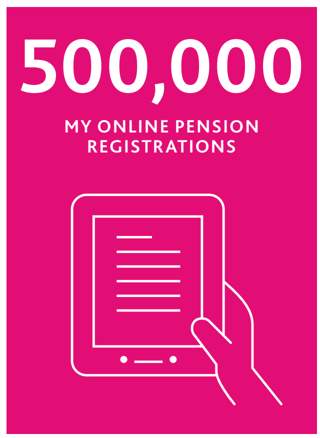
Divisional overview
This division offers business processing and specialist solutions to regulated markets including life and pensions, insurance, and employee benefits for all types of organisations. It operates across a number of geographical regions, including the UK, Ireland, the Isle of Man, mainland Europe, and the Middle East.

Financial summary

	2016	2015
Underlying revenue	**£492.4m**	£502.0m
Underlying operating profit	**£15.5m**	£27.3m
Underlying operating margin	**3.1%**	5.4%
Capex	**£38.0m**	£35.5m

Performance summary
- Revenue fell slightly in the year as closed books in our life business continued to run off and we experienced a reduction in discretionary spend by clients in our employee benefits business.
- Underlying operating profit and margin improved mainly due to cost initiatives and exit fees on the termination of a contract in the year.
- Underlying operating profit in 2016 includes an impairment of accrued income following the review performed by the Board as part of the year-end close process (£16.4m).
- Included within non-underlying charges in 2016 is £16.5m in relation to non-current asset impairments (2015: £76.7m), and the impairment of goodwill of £5.5m (2015: £28.3m).

Trading summary
- During the year, we secured a contract extension with The Pensions Regulator (TPR) for the continued delivery of pensions auto-enrolment, and extensions with a global insurance client and a global life company for business process management (BPM) services.
- More than seven million people have now been put into a pension by their employer as a result of automatic enrolment (AE) which Capita delivers in partnership with TPR.
- We celebrated the 20th anniversary of our administration of the Teachers' Pension Scheme on behalf of the Department for Education and continued our successful digital transformation programme, reaching the milestone of 500,000 My Online Pension registrations.
- Our employee benefits business secured a record level of new contract wins over the course of 2016 with total contract values of £68m. New clients included Marks & Spencer, the Mineworkers' Pension Scheme, the British Coal Staff Superannuation Scheme and Unilever.
- Our award-winning partnership with Flood Re (winner of Financial Services Outsourcing Project of the Year 2016 at The Global Sourcing Association awards) launched a Flood Reinsurance Scheme to make domestic flood insurance more affordable and available to an estimated 350,000 UK households in high flood risk areas.
- Our life and pensions business in Ireland, in partnership with Financial Risk Solutions (FRS), commenced a five-year contract to provide fund administration for Hawthorn Life. We are providing secure cloud-based investment fund management administration using FRS's Invest|Pro software.
- We are investing in virtual robotics automation to not only drive efficiencies for Capita but also offer a faster, more robust and seamless experience for our clients' customers.



DIVISIONAL PERFORMANCE CONTINUED

COMMERCIAL SERVICES

Divisional overview
This division comprises a number of our businesses operating in growth markets and those with partnership models, including the leader in global best practice qualifications, travel and events, learning and training services, supply chain management, and food and agriculture science solutions. 25% of the division's revenues were outside the UK in 2016.

Financial summary

	2016	2015
Underlying revenue	**£289.0m**	£263.0m
Underlying operating profit	**£63.9m**	£52.1m
Underlying operating margin	**22.1%**	19.8%
Capex	**£5.6m**	£13.0m

Performance summary
- Revenue increased by nearly 10% due to continued strong performance from our high growth businesses, in particular Constructionline and AXELOS.
- Underlying operating profit and margin improved, benefiting from the above as well as restructuring and cost initiatives across a number of transactional businesses.
- Included within non-underlying charges in 2016 is £6.6m in relation to the impairment of goodwill (2015: £nil).

Trading summary
- AXELOS, our joint venture with the Cabinet Office to promote and grow the Best Management Practice portfolio, has continued to grow in its global markets, with revenues and margins improving. The RESILIA™ Awareness Learning Programme, which has been developed to improve cyber resilience for organisations, was recognised at the prestigious Mega Corporate Film Awards.
- Capita Learning Services successfully integrated the acquisition of Brightwave, which specialises in providing technologies such as mobile learning, bespoke learning solutions and online training. The acquisition added increased scale and specialist expertise to the existing digital learning business.
- Capita Learning Services also focused on the impending launch of the Apprenticeship Levy during 2017, putting in place the people, platforms and infrastructure to capitalise on this changing landscape, and established a European service centre in Krakow.
- Capita Travel and Events maintained its position as the UK's leading specialist provider in business travel and meeting services. Customer retention has been strong at 98%, in what is an increasingly challenging market as clients seek continued travel cost savings. A market leading behavioural change programme was launched to enhance our service offering and provide invaluable data insights on traveller behaviour to inform clients' policies and drive further efficiencies for them.
- Supplier Assessment Services which includes Constructionline, a provider of procurement and supply chain management services, has successfully launched its new digital platform for dynamic data verification services. This platform will underpin the continued growth of the business into new sectors beyond construction, including suppliers to Capita, delivering the second consecutive year post acquisition of 30% annual growth.
- The Fire Service College has continued to grow its international activity, with an increasing number of international fire authorities and corporate clients seeking accreditation. A transformation programme has been undertaken to ensure the business continues to meet the increasing international and digital learning demand, with a greater focus on the broader emergency services sector.
- Fera Science, our joint venture with the Department for Environment, Food & Rural Affairs, had its first full year of trading since joining the Group in March 2015. It has successfully increased its commercial activity and operational efficiencies achieved during the year will provide a solid platform for future growth.

30%
GROWTH FOR CONSTRUCTIONLINE

DIVISIONAL PERFORMANCE CONTINUED

STRATEGIC SERVICES

Divisional overview
This division contains a number of central government services and commercial businesses delivering key services including estates strategy for the Ministry of Defence (MoD), the roll out of Smart Metering across the utilities sector, enforcement services, print and managed services, and procurement supply chain management.

Financial summary

	2016	2015
Underlying revenue	**£434.6m**	£332.6m
Underlying operating profit	**£72.2m**	£69.2m
Underlying operating margin	**16.6%**	20.8%
Capex	**£32.7m**	£34.6m

Performance summary
- We ceased the disposal process of a justice business, which is now included in our 2016 results having previously been treated as a disposal held for sale in 2015. This distorts year-on-year comparative financial performance.
- Underlying revenue improved year-on-year due to growth across our central government contracts, our document and print solutions business and procurement.
- Underlying operating profits improved slightly but margin was down to 16.6%, reflecting the above.
- Included within non-underlying charges in 2016 is £41.9m in relation to non-current asset impairments (2015: £nil), and £1.6m from the impairment of goodwill (£nil).

Trading summary
- MoD Defence Infrastructure Organisation (DIO): we have delivered the Estate Optimisation Plan (Footprint Strategy) to reduce the size of the military estate, making it smaller and cheaper to service while creating an estate that better fits the needs of the MoD. We have injected significant industry expertise and we have driven efficient, cross-functional management of PFI and housing contracts. The Department is undertaking a review of how its infrastructure is managed across all involved parties and considering the role each will play as the estate is right-sized. Savings that have been delivered to date remain under review with the MoD.
- DCC Smart Meter Communication Licence contract: we have designed and built a smart metering infrastructure system for the Energy industry. The new national smart meters infrastructure went live in November across Britain, enabling energy suppliers to start rolling out the next generation of smart meters. This is one of the biggest national infrastructure projects in our lifetime and it will enable a more energy-efficient system for Great Britain.
- Our Indian and Middle East offshore operations are in a position to take advantage of technology automation as it continues to be advanced in the market. Our range of services and history of excellent customer service have been key differentiators for the operations.
- Our continued partnership with the NHS Business Services Authority resulted in a new dentist contract management and payment system being implemented. We also extended our dental claims processing contract for two years, worth £34m.
- In our procurement and print solutions businesses our advisers have helped clients make significant savings from areas such as holistic supply chain management to bespoke printing solutions for private sector and local government clients.
- We are on track to deploy the new army recruitment IT system in 2017 which will allow further service enhancement. As this deployment has taken longer than anticipated, it has inevitably resulted in additional costs, but has enabled us to evolve the solution and incorporate current leading edge technologies. See page 43 for further information regarding army recruitment.

£34m
EXTENDED CONTRACT FOR NHS DENTAL CLAIMS PROCESSING

DIVISIONAL PERFORMANCE CONTINUED

IT ENTERPRISE SERVICES

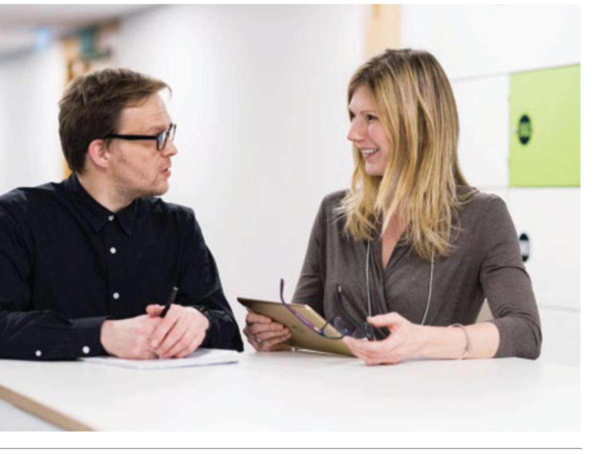
Divisional overview
This division is a cloud, IT services and specialist solutions provider, delivering transformational IT solutions for more than 3,800 clients and Capita's large-scale contracts and trading businesses.

Financial summary

	2016	2015
Underlying revenue	**£616.7m**	£534.9m
Underlying operating profit	**£30.0m**	£49.7m
Underlying operating margin	**4.9%**	9.3%
Capex	**£7.8m**	£34.2m

Performance summary
- The acquisition and integration of Trustmarque Solutions in 2016 into Technology Solutions and Enterprise Services, the full year benefit from Pervasive and Electranet, both acquired in 2015, and contract wins helped grow underlying revenue by 15%.
- Improved profitability in our networks business was offset by reduced profitability in Technology Solutions and Enterprise Services and the cost of restructuring during 2016.
- Tighter controls over capital expenditure led to a marked decline in the capex spend for the division, which we expect to continue at this lower level for the foreseeable future.
- Underlying operating profit in 2016 includes an impairment of accrued income following the review performed by the Board as part of the year-end close process (£6.0m).
- Included within non-underlying charges in 2016 is £30.0m from the impairment of goodwill (2015: £nil).

Trading summary
- We made significant management and organisational changes toward the year-end to address challenges in trading and sales performance. Business development resources have been refocused and strengthened and the cost base significantly reduced, and it is anticipated that these changes will return the division to profitable growth in the medium term.
- Updata significantly enhanced its service portfolio, bringing together the provision of intelligent infrastructure services, enterprise mobility, customer engagement and unified communications solutions and our Cisco solutions team during 2016.
- In November, Capita, Updata and SSE Enterprise Telecoms signed a major fixed line network sharing deal in a seven-year strategic partnership valued at £45m.
- A key strategic partnership was secured this year with Smartschools, a leading ICT service and hardware provider to schools and colleges in the Republic of Ireland. The partnership will better support ICT learning and education in schools throughout Ireland and provide Capita with access to a new geographic market.
- We secured the re-tender of the Connect Plus Service (Balfour Beatty Joint Venture) M25 Managed Service Contract and the successful bid in partnership with HCL to Transport for London for an additional two years Hosting Service.
- In local government, we signed new contracts with two Northern Ireland councils, Mid and East Antrim Council and Derry and Strabane District Council to deliver infrastructure services and an Office 365 solution.
- The cyber security threat is growing exponentially for businesses due to digitalisation and Capita is able to support businesses in the auditing of their systems, the build of their protection plan and the monitoring of any incoming attack. Capita Cyber Security was named as a finalist in the 2016 Computing Security Awards for 'Security Reseller of the Year'. To further increase our capabilities in cyber resilience services, we acquired WestPoint Ltd.
- Despite the progress above, trading in the second half of the year proved challenging across the division, particularly in Technology Solutions, our reseller business.



DIVISIONAL PERFORMANCE CONTINUED

WORKPLACE SERVICES

Divisional overview

This division caters to the needs of clients throughout the whole employment life cycle, from pre-employment screening, search and selection, to temporary staffing, payroll administration and HR advice. It serves public and private clients in markets including financial and professional services, transport, pharmaceutical, telecoms, aviation, insurance, logistics, retail, construction, engineering and property, utilities, healthcare, defence and security.

Financial summary

	2016	2015
Underlying revenue	**£452.3m**	£498.5m
Underlying operating profit	**£35.0m**	£46.0m
Underlying operating margin	**7.7%**	9.2%
Capex	**£4.4m**	£4.2m

Performance summary

- Revenue was down mainly as a result of a weak performance in our specialist recruitment businesses, which were impacted by the NHS price caps and budget pressures in schools.
- Operating profit and margins were impacted by the above and negative operating leverage.

Trading summary

- Army recruitment: applications to join the British Army have increased significantly and the time to hire has been reduced thanks to the improvements we have made to the recruitment process. We have introduced a streamlined application process, redesigned recruitment offices, and introduced new innovative ways to attract and prepare young people, for example with the use of virtual reality technology and a highly popular fitness app. See page 41 for information regarding the army recruitment IT system.
- Security Watchdog created a dedicated aviation division with real growth potential for 2017, having taken on three household aviation sector clients in 2016. We are experiencing significant take up of services following the emergence of continuous or 'in-employment screening' as a standard annual check and expect this trend to continue into 2017.
- The education staffing market has been challenging as a result of the forced move to Academies and budget pressure. Access to the international talent pool will be crucial for agencies to effectively address a long-term staffing shortage. To address this, Capita have developed an offshore sourcing model and an enhanced advertising campaign that will increase candidate attraction.
- Capita Resourcing is developing its agile resourcing capability (ARC) product as an alternative to an outsourced recruitment model. This is designed to work alongside internal teams and provide an agile solution at all levels of hiring from volume to executive.
- The outcome of the UK EU referendum has impacted Capita Resourcing's more transactional businesses, with delayed decisions across private sector clients due to uncertainty regarding the UK exit strategy. To date the impact on our publicly funded contracts has been minimal.
- As the market moves towards ever more global delivery models with multinational deals becoming the default position, we are responding to this with a shared sourcing and administrative function with language capability in Krakow, Poland, and have identified organisations with global capabilities for strategic partnerships.
- Following unsolicited approaches, we have announced our intention to exit our specialist recruitment businesses – education, health and social care. We expect to complete these disposals by mid-year.

3

NEW AVIATION SECTOR CLIENTS FOR SECURITY WATCHDOG

DIVISIONAL PERFORMANCE CONTINUED

EUROPE

Divisional overview

This division provides multilingual customer management, back office administration and BPO services from its operations in Germany, Switzerland, Austria and Poland, primarily to the telecommunications, utilities, financial services, retail and healthcare markets.

Financial summary

	2016	2015
Underlying revenue	**£205.4m**	£178.5m
Underlying operating profit	**£6.1m**	£19.8m
Underlying operating margin	**3.0%**	11.1%
Capex	**£3.4m**	£8.8m

Performance summary

- Revenue increased due to the full year benefit of the acquisition of avocis, acquisition of 3C and a new contract with Unity Media.
- However, operating profit and margin were negatively affected by the indirect impact of the introduction of the minimum wage in Germany, making alternative jobs more attractive, and increasing staff attrition.
- Included within non-underlying charges in 2016 is £5.8m from the impairment of goodwill (2015: £nil).

Trading summary

- We were awarded our first transformational customer service contract in Germany by mobilcom-debitel, valued at £197m (€210m), which commenced in March 2017. The contract is designed to focus on valuable outcomes, rather than the transactional model traditionally used across the German customer management sector.
- Secured our first client in the airline sector, with the signing of a three-year contract with airberlin.
- In July we signed an agreement for 200 FTE spread across Rostock and Leipzig for another leading German telecommunications provider. In September the initial training started and the first calls were taken from October.
- We signed a contract with another leading utility provider and we now work for three of the big four utility companies in Germany.
- In difficult market conditions we were able to deliver ongoing high class customer service for one of the most important German telecom providers and defended our premium ranking against the competition. We managed further growth and negotiated improved terms and conditions with the client for 2017.
- We have been harnessing automation and AI technologies to improve the quality and efficiency of the services we can provide to our clients' customers; using Robotic Process Automation (RPA) to automate back office processes, using 'chat bots' to automate elements of web chat and messaging forums and utilising visual and natural voice Interactive Voice Response technology (IVR) to automate voice channels.
- Our social media analytics tools enable us to identify trends that are emerging before traditional media channels and tools know that something is happening. Joining data together from different sources and different customer channels enables Capita to significantly enrich the customer experience.

DIVISIONAL PERFORMANCE CONTINUED

ASSET SERVICES

Divisional overview

Asset Services encompassed shareholder and private client and UK retail banking service solutions, fund solutions, banking and debt solutions to corporate, institutional and private clients. Capita's clients and sponsors collectively entrust it to administer and support assets across multiple categories. The majority of this division, excluding UK retail banking services (which includes The Co-operative Bank contract), is to be disposed. We expect to complete the transaction by the end of 2017.

Financial summary

	2016	2015
Underlying revenue	**£472.9m**	£436.4m
Underlying operating profit	**£96.8m**	£104.4m
Underlying operating margin	**20.5%**	23.9%
Capex	**£14.9m**	£16.4m

Performance summary

- Revenue growth was driven by the full year benefit from The Co-operative Bank contract and the acquisition of Vertex mortgage services.
- Profits were impacted by the scheduled run-off of a large contract in our debt business and some slippage in client decision-making as a result of the UK EU referendum.
- Included within non-underlying charges in 2016 is £18.4m arising from the dispute with The Co-operative Bank. This comprises the write-off of accrued income relating to the transformation programme of £7.5m, software licence costs of £4.2m, other costs of £5.8m and a provision for 2017 legal costs of £0.9m. This has been included within non-underlying because it is a one-off in nature and is due to a contractual dispute rather than service credit penalties.
- Included within non-underlying charges in 2016 is £17.1m from the impairment of goodwill (2015: £nil) and acquired intangibles £14.7m (2015: £nil), and charges of £13.4m in relation to settlement provisions (£17.2m).

Trading summary

- We have continued to drive up assets under administration and now administer over £600bn of assets for our clients.
- Our UK and Irish funds businesses have collectively increased assets under management and/or administration by 30%, from £53bn to £69bn.
- Our shareholder services business assisted 50% of all UK IPOs during 2016; and we now provide services to 50% of all listed companies in the UK. 2016 also saw the £1 trillionth dividend being paid since the turn of the century.
- In 2014, we secured a contract to service a 10% share of a residential and small commercial loan book of a European bank. In March 2016, the balance of that book moved to us. 160 employees transferred into Capita to manage 17,000 loans with a par value of €4bn.
- Our remediation services team has grown, with an expanding portfolio of clients primarily in the banking and insurance markets. Our increasing use of automation and technology is helping firms to improve remediation process efficiency and increase customer satisfaction.
- Following the resolution of our contractual differences, Western Mortgage Services will continue to provide mortgage administration services and new mortgage application processing for The Co-operative Bank and its clients. Work on the IT system transformation will cease. The four-year amended contract will run until December 2020, with an option to extend.
- The UK EU referendum impacted client decision making during the second half of the year, in particular there was a slow-down in new fund and IPO launches.

£600bn
WORTH OF ASSETS ADMINISTERED

RISK MANAGEMENT AND GOVERNANCE

A key element in Capita's business model is the approach we take to supporting and controlling growth. Clear policies, procedures and robust systems are embedded across finance, operations, governance and risk management, led by a strong management team.

Principal risks and controls

Appropriate controls and risk management

The application of appropriate controls across all of our businesses is a core part of managing our growth. We seek to set clear policies for our businesses to follow and to embed the right processes, reporting and culture across Capita.

Managing business operations and risk through effective controls

Managing our business

Capita's clear management structure and strong governance procedures help promote accountability across its business.

Financial, operational and key risk reporting is built into the Monthly Operating Board (MOB) reviews which report upwards from each business unit, ultimately to the Board Executive Directors. More informal collaboration is also encouraged through day-to-day reporting, team working mechanisms and incentive structures.

This straightforward reporting structure and culture of collaboration promotes knowledge sharing, encourages entrepreneurship and ensures the quality of service delivery for Capita's clients.

Ensuring transparency in a growing business

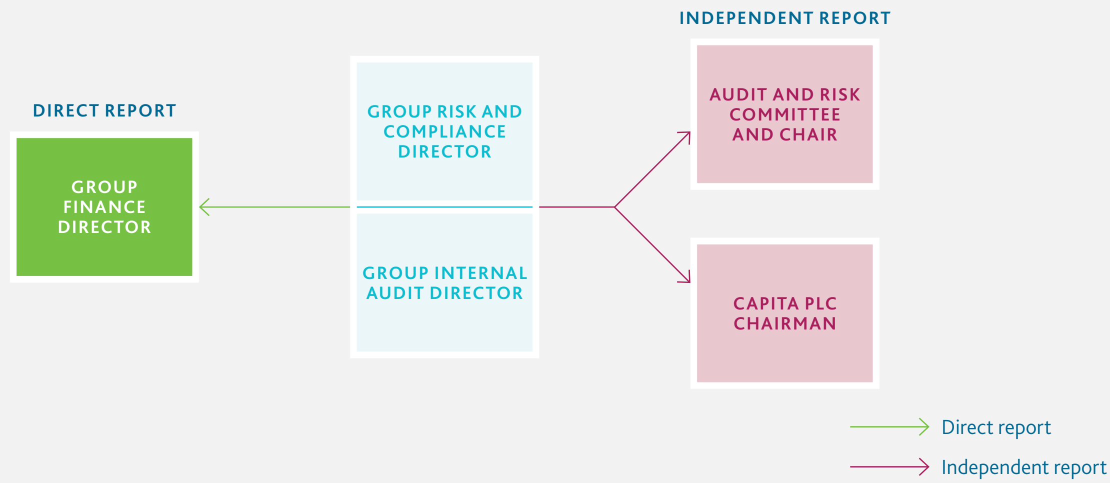
Capita has continued to grow across new business sectors, jurisdictions and regulatory footprints, all within the Board's risk appetite. Each new contract won and acquisition completed can widen the scrutiny of our operations by significant stakeholders. This can include regulatory bodies, parliamentary and local government oversight, end-user stakeholders as well as our private sector clients.

In recognition of the valid interests of these stakeholders, we operate a risk management framework that requires direct scrutiny of the knock-on effect to external parties. In this way we can deliver to both our shareholders and stakeholders.

We therefore expect all levels of management to understand and execute their responsibility for the performance of their business, for appropriate risk management and for the identification and actioning of market opportunities.

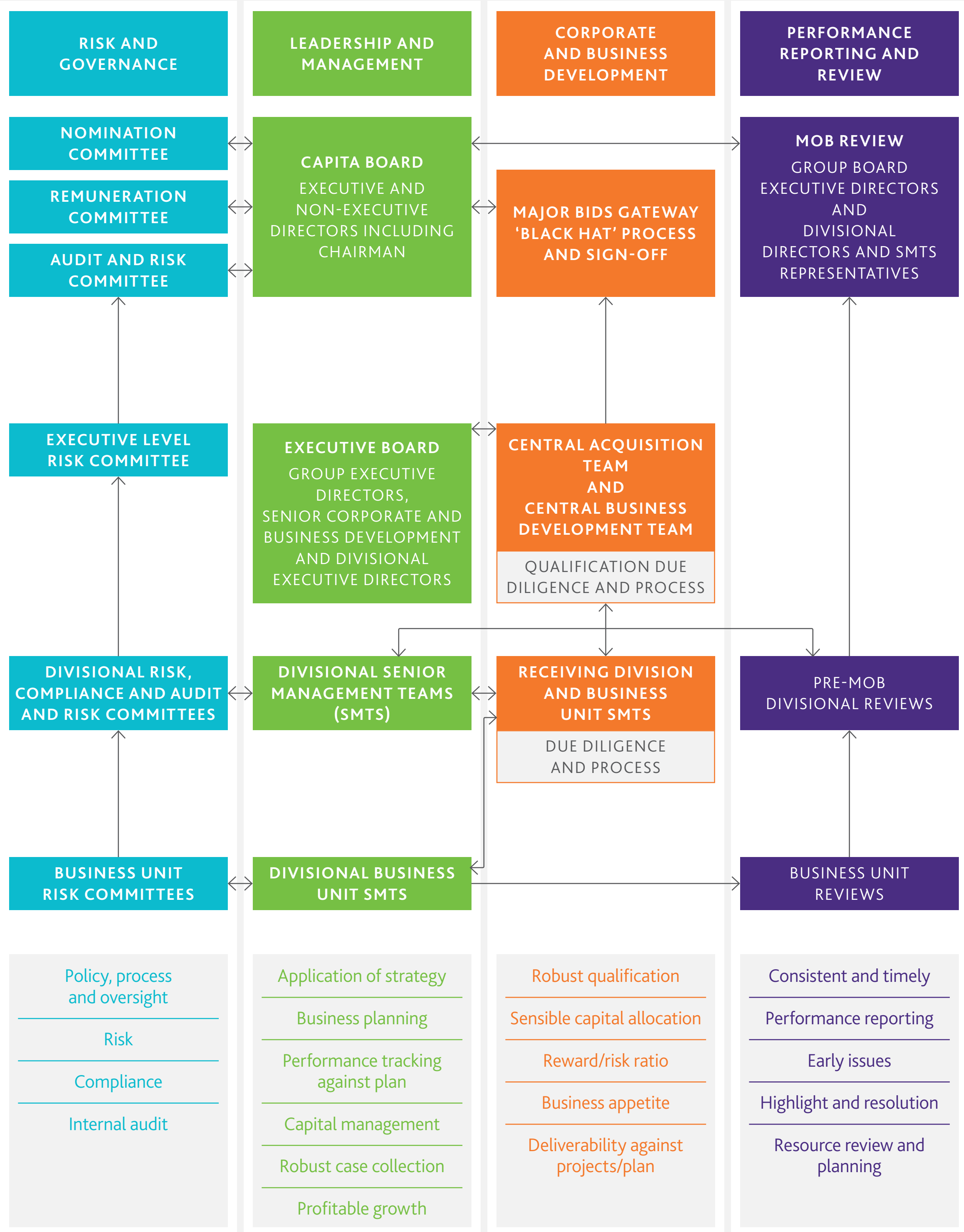
Our focus for 2016 has been on enhancing the maturity of the risk management framework introduced in 2014. Further strengthening accountable risk ownership, quality assurance of the risk process and alignment of operational and corporate level risk.

RISK, COMPLIANCE AND INTERNAL AUDIT



RISK MANAGEMENT AND GOVERNANCE CONTINUED

MANAGEMENT AND GOVERNANCE STRUCTURE



RISK MANAGEMENT AND GOVERNANCE CONTINUED

Business management
Capita's overall strategy and business model is based on the Board's strategic direction and risk appetite, together with the input of divisional executives who remain close to their markets and best understand the challenges and opportunities within them. A similar approach is adopted for acquisitions, where potential targets are identified either by division, to bolster specific propositions, or by the Executive Board as part of a more strategic direction for the business overall. Following a Group-wide business review by the Board at the end of 2016, our business strategy was refined and our management structure simplified to achieve greater Board oversight and alignment to our external markets. See Capita at a Glance, page 2. The allocation of investment capital, both internally and externally, is carefully considered to ensure sensible returns and achieve real value for the business. In 2016, the approval process for capital allocation was further tightened across the Group.

Divisional business planning
Every year, individual divisions develop their own business plans and strategy, against a backdrop of the macro trading environment, the opportunities and risks they face in their markets and the challenges and opportunities their clients face. These are then reviewed and challenged by the Board before being consolidated into the Capita-wide business plan.

Having set the strategic direction for the business, the Board monitors the ongoing achievement of these underlying goals. This is primarily the responsibility of the Chief Executive and the six divisional Executive Officers (EOs) who directly report to the Chief Executive, who in turn reports to the Board. The Chief Executive is supported by the newly created Board role of Group Operations and Performance Director, with overall responsibility for working with the divisional EOs and their management teams to ensure service excellence and client satisfaction across the Group.

During 2016, we have noted the following significant external risk factors which have to a greater or lesser extent, impacted Capita:

Economic outlook and uncertainty.
We have witnessed (and expect to continue to see) an uncertain macroeconomic climate and the likely continued impact of slowdown in the growth and opportunities within the service sector. This led to greater pressure on Capita's margins and performance during the second half of 2016.

Political and policy uncertainty brought about by the EU referendum vote.
The political debate which continues following the referendum, is creating an extended period of uncertainty regarding the breadth and impact of the exit and what changes will impact Capita and a large number of our clients across the UK and Europe.

International inter-government action to combat practices designed to reduce or remove tax payments for individuals and corporations.
In the UK, that is best illustrated by the tabling in late 2016 of the Criminal Finances Bill. This increased focus on tax transparency and scrutiny of the tax management sector will lead to changes for all UK businesses and those operating in the company management services sector to adapt to this important public policy objective.

More high-profile instances of 'cyber crime' against firms who control or process personal and/or financial data for individuals as well as the increasing complexity and interdependency of our data-enabled world, challenges us all to maintain appropriate defences against this form of crime.
Threat types are multiplying and growing more sophisticated; the threat actors behind them – individual or groups – are becoming more determined in their actions.

Performance management
Divisional performance is collated and discussed at 'pre-MOB' meetings, chaired by each Executive Officer with input from their divisional senior management teams. This performance is then reported by the individual divisional EO to the Executive Directors of the Board. Reporting business operations through this process allows the Executive team to fully understand financial performance and projected outturns, key business opportunities and priority risk mitigation strategies on a month-by-month basis. Further work is underway to strengthen the MOB process and the ability to have line of sight to performance. The removal of the previous Joint Chief Operating Officer layer will also allow more direct reporting from divisions to the Chief Executive and Board.

Risk management
Capita is not a risk averse business and seeks to leverage growth from its appetite to risk. But given the importance and sensitivity of its work to its clients, key risks are identified and managed through its comprehensive Risk Management Framework. This is designed to bring management action to bear on uncomfortable or critical risk issues and trends, but also where there is sufficient 'gap' between our residual risk level and our appetite, to identify and act on opportunities arising, thus making for profitable growth.

A key feature of Capita's historic growth has been its ever changing size and complexity. Each new sector and jurisdiction brings new considerations and the overall risk environment, within which we operate, continues to develop.

Our Risk Management Framework facilitates business management to identify and manage their risks with a methodology which seeks to sit alongside routine management practices rather than entirely separate. This approach, undertaken in reference to 22 risk categories, and the appetite thresholds is reconfirmed on an annual basis by the Board. The reporting of the residual risk profiles is fed into governance at every level of the business for assessment and challenge.

RISK MANAGEMENT AND GOVERNANCE CONTINUED

CONTROL FUNCTIONS

The Group Risk and Compliance Director has access to all members of the Board (Executive and Non-Executive Directors) and supports their ongoing training plan. He also has regular meetings with Executive Officers, Executive Directors and senior managers throughout the year, ensuring the appropriate management of risks for Capita by:

- The development and maintenance of appropriate risk management policies and frameworks on behalf of the Board.
- The provision, through oversight and effective challenge, of an ongoing assessment of risk across the Group's entities and informative reporting to Group governance.
- Strategic leadership and advice to the business on compliance and risk, reflecting the Group's agreed risk appetite.
- Supporting business development (bids, acquisitions, service and strategy development).
- Ensuring honest, open and effective relationships with all of our regulators.

To provide a 'top down' assessment of risks to the overall Group, we further operate a set of 12 Corporate Risks which are higher level articulations of the key risks which the Board can track. Four of these represent areas which, if crystallising to a significant degree, could have an immediate, material detrimental impact on the corporate health of Capita. Eight are risks which can hamper profitable growth. These Corporate Risks are reviewed and confirmed by the Board annually and hence help populate our Principal risks on page 50.

Our risk appetite

In our Risk Management Framework we define risk appetite as the degree of risk the Group is prepared to accept in the pursuit of its objectives before specific action is deemed necessary to reduce it. In determining this, Capita reconciles two thresholds:

- A risk tolerance: defined as the bearable level of variation Capita is willing to accept around specific objectives.
- A risk critical limit/concern: defined as the maximum risk Capita can bear and remain effective in delivering its strategy.

Capita has established the tolerance and critical limit/concern risk appetite to help the business to understand the relative significance of any of the business risks faced and better prioritise risk monitoring and control activities. Specifically, risk appetite helps determine the degree of control that needs to be applied to a particular area of risk. To focus risk reporting, emphasis is clearly given to the reporting of risks that are categorised at uncomfortable or critical limit to ensure appropriate action is being taken.

The Group internal audit function has free and full access to all activities, records, properties and employees throughout the Group.

The Group Internal Audit Director has access to and regular meetings with the Chair of the Audit and Risk Committee and members of the Board. The remit of the Group internal audit function includes:

- Reviewing the adequacy and effectiveness of the Group's governance, processes, controls and risk management strategies.
- Providing the Board, the Audit and Risk Committee and all levels of management with an objective opinion based on the results of its reviews and management's awareness and responsiveness to risk.
- Delivery of the Group internal audit plan as approved by the Audit and Risk Committee.
- Reporting regularly to the Audit and Risk Committee and the Executive Risk Committees on significant issues, risks and themes and management progress on addressing them.

Divisional risk and compliance teams support their divisional and business unit management with their risk management ownership and responsibilities under the risk management framework. The divisional risk and compliance teams are:

- 'Owned' by the businesses within which they sit, but have escalation routes to the Group Risk and Compliance Director.
- Structured and resourced depending on the complexity/regulatory footprint of the operations.

The Audit and Risk Committee approves both Group internal audit and Group risk and compliance's annual plans and in turn is provided with regular updates on progress throughout the year, with regular reports on findings, issues, risk incidents and themes for their attention.

Managing our bids and acquisitions

We continue to maintain a disciplined approach to assessing our bid and acquisition targets. These structured assessments consider the pricing and risk profile in depth. Multidisciplinary teams are involved – from finance to property, operations to tax – and external advice sought where appropriate. Risk and compliance teams assist businesses with this due diligence and are standing invitees to the key decision-making meetings.

The measure of the effectiveness of this work is the extent to which the outcome of our assessment has led us to not proceed where we have identified contractual terms which we believe are contrary to our best interests, material levels of residual operational risk and issues with sustainable profits.

Group Risk and Compliance maintains oversight over the businesses' bid pipelines to monitor key risk indicators, such as changes to the regulatory footprint of the business and non-core activity, maintains effective challenge through risk-based oversight and support of bids and acquisitions and continues to promote disciplined standards of due diligence and integration.

RISK MANAGEMENT AND GOVERNANCE CONTINUED

Tackling cyber risks
Information security attacks capture the headlines with an increasing frequency. We recognise the material threat that the evolving cyber threat landscape presents. Those threats are various and differ across the diverse set of Capita businesses. We believe it is important to recognise, for example, that the threats to our financial services businesses will differ from those to our employment businesses and to our call centre businesses.

During 2016, cyber threat assessment workshops have commenced for Capita management teams to help them better understand and mitigate cyber risk in their individual businesses. We have also adopted greater use of Threat Intelligence to allow us to be better warned as well as completing the refresh of our Information Security Policies. We have strengthened the Security Management in the businesses and unified our central Security Team and make use of the increasing cyber security and resilience services within the Group.

The Board has taken a keen interest in this area and continues to challenge our control functions and business management to keep up their focus on this area.

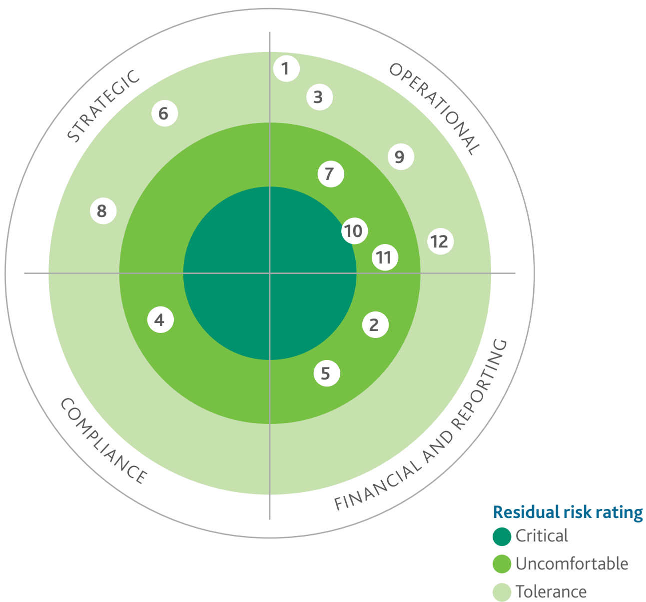
Principal risk categories

Corporate risks to the objectives of Capita plc

We operate a total of 22 risk categories within the risk management framework which are kept under regular review. In accordance with provision C.2.1 of the 2014 revised Code, the Directors confirm that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

The Board also operates 12 corporate risks which represent the principal risks to the objectives of Capita plc (our 'top down' risks). Our risk governance process maps the output of the 22 categories ('bottom up' risks) against these corporate risks and thus ensures these are monitored on an ongoing basis across all levels of the business.

CURRENT ASSESSMENT OF PRINCIPAL RISKS



CURRENT PRINCIPAL RISK CATEGORIES

1 Significant failures in internal systems of control

2 Lack of corporate financial stability

3 Failures in information security controls

4 Legal/Regulatory risk

5 Adverse financial/ business performance

6 Failure to innovate

7 Increased internal business complexity

8 Adverse changes in national, international political landscape

9 Operational issues leading to reputational risk

10 Operational IT risk

11 Failure to effectively manage Group's talent and human resources

12 Weaknesses in acquisition and contracting life cycle

RISK MANAGEMENT AND GOVERNANCE CONTINUED

1. Significant failures in internal systems of control

Description

A material failure in Capita's business processes may result in unanticipated financial loss or reputation damage.

2016 Mitigation and Outlook

Capita operates a framework of internal control designed to minimise the risk of unanticipated operational failure, financial loss or damage to our reputation.

Like any major business, risk incidents and control breakdowns can lead to isolated issues – for example fraud incidents and operational risk incidents. Whilst 2016 has seen a number of these limited incidents, they remained well below a level of materiality which would cause a concern to the Board.

We continue to seek that business management are actively engaged in maintaining an appropriate control environment, supported by risk functions led by the Group risk and compliance Director, with independent assurance from Group internal audit. In some businesses there is also use of external certifications and agreed upon procedure reviews to assure the control frameworks.

2. Lack of corporate financial stability

Description

The effective management of its financial exposures and access to finance is central to preserving Capita's profitability.

The Group is exposed to financial market risks and may be impacted negatively by matters such as loss of economic priced funding and extreme forex volatility.

2016 Mitigation and Outlook

Capita continually invests in the improvement of its systems and processes in order to ensure sound financial management.

The Group manages treasury risk through monitoring day-to-day liquidity as well as carefully managed funding of our acquisition strategy. Capita has been able to successfully raise new funds at a competitive rate throughout the year.

However, 2016 has seen a deterioration of business performance during the second half of the year.

This deterioration has had an effect on financial performance of the Group and a higher debt ratio.

The Board has acknowledged the need to bring the debt ratio back into Capita's medium-term target ratio of 2x to 2.5x and has launched a number of initiatives to address this through 2017. These include the planned sale of the majority of the Asset Services division and our specialist recruitment businesses. Open and regular communication with its lending institutions takes place.

3. Failures in information security controls

Description

Capita must protect its customer and corporate data and have in place loss prevention and detection measures.

A significant breach of security could impact the Group's ability to operate and deliver against its business objectives.

2016 Mitigation and Outlook

Capita takes measures ranging from physical and logical access controls to encryption, or equivalent technologies, raising employee awareness and monitoring of key partners to manage its information security risks.

2016 has seen heightened 'cyber risk' and Capita is not alone in facing an increase in recorded attacks. However, those attacks have to date not led to material breaches. Incidents, where they do occur, are reviewed for root cause analysis and we work with our business partners and national agencies to promote further corporate cooperation.

We are investing more resource into the evolving threats and enhanced regulatory framework. Further investment has been made in threat intelligence, security management and reviews of our systems.

RISK MANAGEMENT AND GOVERNANCE CONTINUED

4. Legal/regulatory risk

Description

Capita plc is subject to regulation primarily under UK legislation.

The regimes which apply to the Group's business include, but are not limited to: Financial Services, Communication Services, and Energy Market.

The Group is also subject to generally applicable legislation including, but not limited to: anti-bribery, consumer protection, data protection and taxation.

2016 Mitigation and Outlook

The Group's ability to operate or compete effectively could be adversely affected by the introduction of new laws, policies or regulations, changes in the interpretation or application of existing laws, policies and regulations or the outcome of regulatory investigations.

The Group manages these risks through active engagement in the regulatory processes that affect the Group's business.

The Group actively seeks to identify and meet its regulatory obligations and to respond to emerging requirements. For example, in Financial Services: compliance controls and processes are in place in the Group's financial services businesses. Interaction with the relevant regulatory authorities is coordinated between the businesses compliance team, Group Risk and Legal departments.

The Group maintains appropriate oversight and reporting, supported by training, to provide assurance that it is compliant with regulatory requirements.

2016 has seen a number of historic compliance and legal issues reach, or near, resolution. These include a fine from the Central Bank of Ireland and the ongoing enforcement investigation by the FCA into the operation of the 'Connaught' Fund in 2008–2009.

We continue to develop our regulatory controls to reflect the varied regulatory regimes but also in response to the increased focus by governments and regulators on 'Corporate Conduct'. For example, work is underway to position ourselves for the implementation of the EU Data Protection Regulation, the Criminal Finances Bill and the requirements of the Prevention of Modern Slavery Act.

5. Adverse financial/business performance

Description

Adverse performance against business plans can impact the wider corporate position and undermine investor confidence. It can also impact our ability to invest in future growth.

2016 Mitigation and Outlook

Reporting on financial performance is provided on a monthly basis to executive management and the Board.

2016 has seen a materially lower performance by several Capita businesses, particularly in the second half of the year. There are a number of factors for this including a deterioration in business confidence in a number of our key sectors following the EU referendum and a series of sector specific issues around our specialist recruitment business and some IT businesses. Not all of these were risks that management identified as material in the first half of 2016 and this has meant that mitigating actions by management were not as timely as the Board would have planned.

The consequent lower than predicted profits for 2016 are a result of the combination of these separate issues and this was disclosed to investors through market announcements in September and December.

An immediate learning from the second half of 2016 was that the forecasting processes used within the businesses, ultimately feeding through to the Group view, were in need of refresh and the management discipline in their execution required refocussing. This is likely a result of the rapid growth of the business and consequent greater number of input reports where lower level forecast errors/assumptions could roll up to a greater effect than when the systems and processes were first deployed when Capita was smaller.

Work in 2017 will focus on how these financial performance risks can be given greater transparency, through clearer and more timely disclosure and thus allow for contemporaneous action.

6. Failure to innovate

Description

It is important that Capita is able to stay at the forefront of the industry by identifying emerging trends, developing strategies to exploit competitive opportunities and question the status quo, striving for continuous improvement in all areas of activity. Capita continues to monitor and engage with industry, sector and stakeholder groups on developments in key service and product areas.

2016 Mitigation and Outlook

Capita has a central futures team, who primarily look to harness intelligence, insight and new technologies and processes to deliver real value to our clients, and work alongside sector and capability experts embedded in business across the Group.

Capita consistently deploys leading edge technologies and methodologies developed both by external suppliers and partners and by our own businesses.

The Group has a clear transformation governance framework to provide a consistent process to manage change within our client organisations. Executive management continue to develop strategies built on considering a wide range of possible directions for the business sectors in which we operate, and the products and services that the Group delivers to its stakeholders.

RISK MANAGEMENT AND GOVERNANCE CONTINUED

7. Increased internal business complexity

Description

Capita has consistently managed the pace of change, diversity and increasing scope of our business activities. However, where we take on major contracts with inherent complexity this increases the operational risk of failure to manage multiple complex contract requirements effectively with potentially adverse consequences.

Contract benefits may not be fully realised, costs of service delivery may increase, or business as usual activities do not perform in line with expectations.

2016 Mitigation and Outlook

The Congestion Charge, NHS PCSE and RPP are examples of complex projects which have proved challenging for Capita but where actions have been taken to react to any shortfalls to client expectations. These projects prove challenging because of their inherent complexity and whilst any operational issues are not welcome, there is often a recognition from the client of the complexity involved.

Given Capita's appetite for these complex projects remains, lessons from key projects are folded back into the bidding, planning and execution phases. A new initiative within our Transformation Team to better assess the levels of complexity and how best to address the 'unknowns' as well as the 'knowns' is designed to help mitigate risks in this area in 2017.

8. Adverse changes in national, international political landscape

Description

Capita operates and owns assets in a steadily increasing number of geographic regions and, as a result, is exposed to a wide range of political environments. The majority of its operations remain in the UK.

The political risks associated with operating across a broad number of jurisdictions and markets could affect the Group's ability to manage or retain interests in its business activities and could have a material adverse effect on the profitability, or, in extreme cases, viability of one or more of its services.

2016 Mitigation and Outlook

Political risk is managed through diversification of sectors and operations, continuous monitoring of key UK and international policies, and focus on the public sector and trade association relations.

The EU referendum in June presented a shock to many observers and whilst Capita had been shadowing the developments running up to the vote, like many firms it could not have predicted the result or the ensuing political turmoil in the UK.

The main downstream impact of Brexit has been experienced in the lack of major central government outsourcing contracts coming to market whilst Departments focus on the Brexit process and the performance of certain Capita businesses with exposure to sectors who have faced the most uncertainty after the vote.

Capita will actively track the developments of how the UK exits the EU and how its businesses remaining in EU jurisdictions (such as Ireland, Germany and Poland) can leverage opportunity.

We maintain a watching brief on the political landscape in all of the geographies we operate in and the impact any change of government will have on our markets.

9. Operational issues leading to reputational risk

Description

Capita's reputation, and that of our clients, could be damaged by a significant adverse event leading to a loss of trust and confidence amongst our stakeholders.

This could lead to contract retention risks, financial loss, and in the most significant of circumstances, direct cost of redress.

The widespread use of social media increases this risk.

2016 Mitigation and Outlook

Capita has a well proven reputational management and response process. Close links with the business units and a central team allow for rapid reaction to any issues.

A number of operational issues across certain businesses and contracts in 2016 have required ongoing support. Group PR work with Group Risk and other functions to address issues as they are raised.

RISK MANAGEMENT AND GOVERNANCE CONTINUED

10. Operational IT risk

Description

The services that Capita provides to its stakeholders are reliant on a robust and resilient technical infrastructure.

A failure in the operation of the Group's key systems or infrastructure, on which the Group relies, could cause a failure of service to our clients, impacting contractual obligations and negatively affecting our brand.

2016 Mitigation and Outlook

Capita makes significant investment in technology infrastructure to ensure that it continues to support the growth of the business and has a robust monitoring process of core systems and services.

Performance issues and management change in our IT Services Division have frustrated the improvement plans the Board had planned. The delineation of focus between first class service delivery to our businesses and also to our external client base has been, at times, stretching and this is now being addressed through management changes and remedial actions.

The transfer of experienced Capita management to this area from other businesses within the Group and the commitment of the Board to address the issues which have come to the fore in 2016 will deliver better outcomes and provide the growth platform the businesses require. In the meantime, the Board monitors this area as one of its critical risks.

11. Failure to effectively manage Group's talent and human resources

Description

People at Capita are critical to the Group's ability to meet the needs of its stakeholders and achieve its goals as a business.

Failure to attract or retain suitable employees across the business could limit the Group's ability to deliver its business plan commitments.

2016 Mitigation and Outlook

Capita's most valuable asset is its people, and investing in the training and development of those people, and supporting future talent development is a Board priority.

Capita champions diversity and develops talent through a number of activities, including Graduate apprenticeship programmes, a mentoring scheme, Capita Academy education and a leadership development programme.

The cost reduction actions and restructuring in Q4 2016 and Q1 2017 will inevitably cause some impact on staff morale and care will be taken to minimise the potential impact of this on any service. The Board accepts that such organisational and people changes raise people and other risks and are closely monitoring to ensure early identification of any issues arising during the process.

12. Weaknesses in acquisition and contracting life cycle

Description

Capita acquisitions and client contracting fail to generate anticipated revenue growth, synergies and/or cost savings.

2016 Mitigation and Outlook

Capita performs pre-transaction due diligence and closely monitors actual performance to ensure we are meeting operational and financial targets.

Any divergence from these plans will result in management action to improve performance and minimise the risk of service penalties or financial impact.

Executive management and the Board receive regular reports on the status of acquisitions and bid and contract activities, with formal review supported by commercial management and Group internal audit.

The integration of businesses through 2016 has, in the main, been well handled with the integration of Capita Europe a good example of integrating systems and policies in light of differing regulatory and legal requirements but also maintaining key controls and growth.

However, lessons learned from less successful contracting and integration during 2016 have been fed back into the process to identify improvements for future growth.

RISK MANAGEMENT AND GOVERNANCE CONTINUED

Viability statement

In accordance with provision C.2.2 of the 2014 revised Code, the Directors have assessed the viability of the Group over the three-year period to 31 December 2019, taking into account the Group's current position and the potential impact of the principal risks set out in the strategic report above. Based on this assessment, the Directors have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due over the period to 31 December 2019.

The Directors continue to believe this period to be appropriate as it is supported by our strategic, business and budgetary planning cycles. Within the overall Group strategic plan, detailed divisional business plans and budgets are prepared annually for a 12-month period and, in addition, financial models and projections are prepared for longer periods. A period of three years has been chosen because, although forecasts are prepared for longer periods, there is inevitably more uncertainty associated with a longer time frame and the Directors have a reasonable confidence over this time horizon. The period chosen also aligns with the long-term incentive plan (LTIP) performance element of the Directors' remuneration policy which is based on performance periods of three years.

As noted on page 50, the Directors have carried out a robust assessment of the principal risks facing the Group including those that would threaten its business model, future performance, solvency or liquidity. The principal risks and actions to mitigate them are discussed above. Our risk management and robust processes are also set out on pages 46–54.

Our assessment of the Group's prospects is based on its current position including the outcome of the going concern assessment included within these financial statements on page 73, its prospects as underpinned by the business planning and forecasting processes taking into account Group strategy and risk appetite and management.

We have also conducted stress testing and sensitivity analysis of the impact of various severe but plausible potential scenarios involving the threats posed by our critical principal risks in order to test the resilience of the Group taking into account the efficacy of possible mitigating actions. These have included (but not limited to) scenarios in respect of information security and regulatory risks, the efficacy of systems and controls and at the more extreme end a wider economic impact on Group funding or an impact on the ability of the Group to draw new or replace existing debt.

Over the three-year forecast period, in all but the most extreme case the stress testing assumed the Group had continued access to external funding for its businesses and was concentrated on the immediate cash flow impacts, as well as longer-term impacts on revenue and sales growth and business attrition.

The Directors considered mitigating factors that could be employed when reviewing these scenarios and the effectiveness of the actions at their disposal, which were applied to the models. The main actions identified were the postponement or halting of the Group's acquisition programme; to adjust its investment in discretionary and maintenance capital projects having given due regard to the need to ensure that the integrity of the Group's IT systems is not compromised nor the security of the data held therein; to identify and dispose of other non-strategic businesses and at the extreme end of the testing spectrum to reduce or remove distributions under the Group's dividend policy.

DEVELOPING OUR TALENT

From single services to transformational partnerships, we are able to draw on the knowledge and resources from across the Group to deliver compelling solutions in a cost-effective way.

The breadth of our capability is fundamental to our major sales propositions, allowing us to draw on a range of assets and ensure we have the right resources in place to create bespoke solutions, tailored to our clients' needs.

Our strategy of controlled and profitable growth has allowed us to invest and develop a highly refined set of assets and resources that underpin this offering.

Attracting and retaining talent

Our people are our biggest asset. We employ 73,000 people and to recruit and retain the best talent we need to provide a workplace that is inclusive, inspiring and supportive. We want our employees to be empowered and motivated, enabling them to make better decisions and respond to our clients' needs effectively.

Embedding our values

We have a common set of values – open, ingenious, collaborative and effective – which are reflected in our policies and embedded right across our business. These values and their associated behaviours shape who we are as a business and underpin our success.

In 2016, our ethical code was updated in line with our values setting out our commitments and ensuring that our employees speak up if they see behaviours that are not consistent with our values.

Transitioning employees

Over 70% of our employees transfer into our business from either acquisitions or an outsourcing arrangement and so we're experienced at managing large scale employee integrations. We have dedicated teams working closely with the client's teams from the beginning of the transfer process to date of service commencement. Transferring new staff gives us a constant flow of new skills.

Talent management

We work hard to build and retain strong, stable leadership. Our Leadership Framework details a clear set of behaviours that define what makes a great leader at Capita. We use this in conjunction with our performance management system to identify high performing individuals.

In 2016, we developed our training programmes for senior leaders including our leadership induction day and the masterclass programme. This programme gives employees the opportunity to develop the skills to create and sustain high performing teams and navigate some of the challenges they may face within their business. In 2016, our retention rate for senior managers across the Group was 96%.

We have a twice yearly succession planning cycle, which ensures we have robust succession plans in place for all our keys roles in the top three layers of our organisation and we will continue to cascade this throughout our business during 2017.

These processes allow us to support internal mobility so that managers can share their skills and innovation in different areas of the business, and this will continue to be one of our focus areas for 2017.

DEVELOPING OUR TALENT CONTINUED

Development and training

Training and development is not limited to senior leaders. We recognise that to deliver excellent service to our clients we need to ensure that our employees in our operations are equipped with the right skills. In 2016, we continued to deliver training support, investing £19m across the Group. We also want to ensure our people are managed in a consistent way and in 2016 we revitalised our training, developing a new 'Managing the Capita way' workshop, designed for managers to understand their role and responsibilities and where they can get support.

We have continued our 'Lead the Way' graduate programme, giving graduates the opportunity to have placements within different areas of our business and develop their career path.

Diversity and inclusion

Having a diverse workforce brings fresh perspectives and helps us to create truly innovative solutions that benefit our clients and help improve our own market competitiveness. We are committed to developing an inclusive culture that reflects the diversity of our clients, their customers and the communities in which we work. In 2016, we have continued to focus on embedding diversity in our business. We have improved our data analytics tool which allows us to better understand the diversity profile of our people and areas that we may want to focus on in 2017. In 2016, our gender split for senior managers was 78% male: 22% female, and for all employees 52% male: 48% female.

Health and safety

By making sure that we take care of the health and safety of our people we reduce risks across our business, protecting our reputation and that of our clients. We have an established Group-wide health and safety management system and all our employees have to complete training as part of their induction. Our health and safety team works with individual managers to assess risks on specific contracts, for example, with our network engineers, and implement tailored training where needed. In 2016, our accident rate was 1.41 per 1,000 employees (2015: 1.48), showing a 38% reduction in reported accidents from our baseline.

Employee wellbeing

We recognise that a healthy, motivated workforce is good for business, reducing sickness absence and increasing retention rates. In 2016, we ran a campaign 'Step Challenge' to encourage our employees to be active, whilst at the same time raising funds for our corporate charity partner. We are repeating this initiative in 2017 as well as a number of health awareness campaigns.

We provide opportunities for flexible working where it is operationally possible, allowing employees to achieve a healthy work-life balance. We have also developed smarter ways of working, providing employees with the technology they need to do their job remotely.

Reward and recognition

We want to retain the best talent across our business and believe in recognising and rewarding our employees. One way we do this is through the Capita People Awards scheme, recognising those employees who put our values into practice.

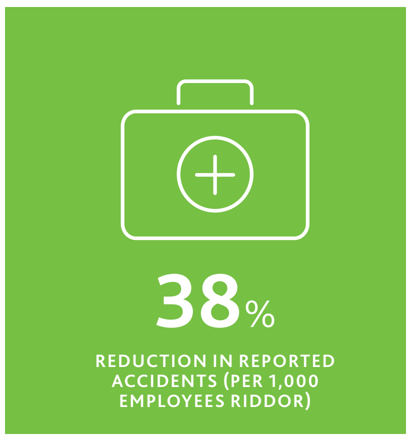
Employee engagement

Listening to and valuing the opinions of our people is good for productivity and it helps us shape our future business. We engage with our employees through a number of different ways, ensuring that they receive regular updates including those relating to the performance of our business. We actively encourage their feedback as they have a clear view of our operations and their ideas can help us deliver for our clients. Our next employee survey, structured around our values, will be conducted in early 2017.

Supporting people through change

So we can help our clients be more efficient and meet future business requirements it is sometimes necessary to reduce the headcount on a particular contract. Where this is the case, Capita take a proactive approach in seeking alternative employment options for those affected employees in order to redeploy them into other areas of our business.

Where suitable opportunities are not available we are open and honest about the situation. We go through a full redundancy consultation process involving individuals and their recognised trade union and employee representatives. Consultation with our trade unions is key to securing the most appropriate outcomes for affected employees.



MANAGING OUR BUSINESS RESPONSIBLY

At Capita, being a responsible business means that we operate with integrity, transparently and securely. It involves creating a culture for our employees that is inclusive, inspiring and supportive.

Our Corporate Responsibility (CR) strategy

At Capita, being a responsible business means that we operate with integrity, transparently and securely. It involves creating a culture for our employees that is inclusive, inspiring and supportive. It allows us to innovate and deliver smarter services for our clients. These allow us to make a positive contribution to society, both through the services we provide as well as through our community investment programmes. Further, it gives us the opportunity to work collaboratively with our clients to support their own CR agendas.

In 2016, we conducted a materiality assessment, engaging with a number of stakeholders, both internal and external, to understand what our significant economic, environmental and social impacts are, or those that influence the decisions of our stakeholders.

We have used their feedback to inform how we prioritise our core corporate responsibility impacts and where we will focus our efforts going forward.

For more details about this see our materiality matrix
www.capita.com/responsibility/

Our four priority focus areas are:

1. Responsible business practices

2. Delivering for our clients

3. Our people and culture

4. Community investment

Under each of these focus areas we have a number of programmes and align our time, resources and investment to those identified as having the most impact on our business. We have set a number of non-financial KPIs around each priority area, measuring and reporting our progress annually. See page 14.

As our activities in these areas are integral to our business performance, information relating to our impact areas is integrated throughout this report including how we manage our people see pages 56–57.

CR leadership and governance

Accountability for our CR programmes sits with the Board, with our Group Finance Director having overall responsibility for our CR strategy. Each Executive Director is responsible for one or more of the focus areas.

The CR steering group, which includes functional heads from key areas, is responsible for implementing our strategy, developing our policies, providing guidance and sharing best practice with the business, as well as reporting progress to the Board.

The group meets throughout the year to review our approach to CR, including any risks and opportunities. In 2016, the topics covered included our updated ethical code, our response to the Modern Slavery Act, our new procurement policy and the supplier auditing process.

Four

OUR FOUR PRIORITY FOCUS AREAS ARE:

1. RESPONSIBLE BUSINESS PRACTICES
2. DELIVERING FOR OUR CLIENTS
3. OUR PEOPLE AND CULTURE
4. COMMUNITY INVESTMENT

70%

OF OUR SUPPLIER BASE ARE SMES

MANAGING OUR BUSINESS RESPONSIBLY CONTINUED

Responsible business practices

We believe in operating with integrity, both in our business decision making and the conduct of our employees. We have a detailed framework of policies and procedures in place across the Group including our ethical code, bribery and corruption, human rights, environment and information security, as well as HR policies, which collectively set out how we do business. We also set out the standards that we expect our suppliers to meet. Through our risk management framework, we ensure that we identify, assess and mitigate against potential risks which could affect the growth of our business.

For more information on our principal corporate risks see **pages 50–54**

Our suppliers

We have a diverse supply chain, spending £1.8bn a year with 34,500 suppliers so good procurement practices and the purchasing decisions we make have a direct impact on our business performance. Through our policies and processes we can ensure the effective management of supply chain risks, work with suppliers to ensure we adapt to the needs of our clients, and procure goods and services cost-effectively.

In 2016, we developed a new procurement policy and standard which set out our strategic approach and key principles to ensure we manage our procurement activity and effectively. Our supplier requirements standard sets out our expectations of suppliers and their supply chain, ensuring that both Capita and our suppliers comply with the changing regulatory and legal landscape in which we operate, including the Modern Slavery Act.

We also reviewed how we categorise our suppliers, redefining what we categorise as a material supplier to our business. This new definition includes all those suppliers with whom we spend over £1m as well as those who have a potential risk based on our 10 identified impact areas, which include the products or services they supply and where in the world they operate. We use an external online assessment tool to audit our material suppliers and in 2016 we audited 51% of these suppliers (2015: 31%). In addition to this our due diligence toolkit was developed and will be rolled out in 2017 – initially to all new suppliers and then our existing ones. The toolkit assesses their labour practices, fair business practices, adherence to the Modern Slavery Act, environmental performance and data protection. If a supplier's response highlights a potential risk area, the supplier will be further assessed by subject matter experts from across our business who will work with the supplier to ensure they meet our standards.

We treat our suppliers fairly and actively encourage supplier diversity, providing all suppliers with the opportunity to work with us. Currently, 70% of our supplier base are SMEs.

Human rights

We are committed to respecting the human rights of our employees and those within the communities in which we work. We published our first human rights policy in 2014. We support the principles as set out in the UN Declaration of Human Rights and the International Labour Organisations Core Labour Principles. Following the introduction of the UK Modern Slavery Act we introduced our prevention of modern slavery policy. We have set out the detail, governance approach and steps taken in 2016 in our Modern Slavery Statement.

See **www.capita.com/about-us/policies-and-principles/**

MANAGING OUR BUSINESS RESPONSIBLY CONTINUED

Running a resource-efficient business

We are committed to tackling climate change and protecting our natural resources and so we take a proactive approach to good environmental management. We know that our environmental performance is important to our clients, our employees and other stakeholders and can create financial savings to support the long-term sustainability of our business. It also allows us to manage potential risks to our operations related to the environment, ensuring we have business continuity plans in place if, for example, our employees were prevented from getting to work.

As a predominately office-based business, our main environmental impact comes from carbon emissions generated from energy use in our offices and through business travel and so this is where we concentrate our efforts. We also manage our resource use and waste management where possible. In addition, although our water usage is not significant, we have made efforts towards conserving this resource.

Our carbon footprint

In 2016, our carbon footprint was 108,613 tonnes CO_2eq (scopes 1,2 and 3) down from 111,173 tonnes CO_2eq in 2015[1], representing a year-on-year decrease of 2%. This decrease was based on reductions in our energy usage in the UK and India, and a reduction in our business mileage.

At the start of 2016 we set ourselves a target to reduce energy usage across all of our sites that are within scope of the CRC Energy Efficiency Scheme. We achieved an 8% energy reduction, equating to £1m in savings. This was mainly through better data analysis, identifying where savings could be made and providing training to our facilities managers.

In 2010, we set ourselves a target to reduce our carbon intensity (scopes 1 and 2) by 4.5% a year. In 2016, our carbon intensity was 16.2 (2015: 17.5), a reduction of 7.4%.

Delivering for our clients

We create value for our clients by making processes smarter, organisations more efficient and customer experiences better. We do this by using smart technology and the skills and expertise of our people. We listen and respond to what our clients tell us, understanding their changing needs and working with them to ensure we meet their expectations.

We strive to deliver operational excellence and are committed to maintaining and improving the services we provide to our clients.

To provide us with an understanding of key client satisfaction, we undertake a survey of key clients across our divisions, looking at both how we work with them on an operational and strategic level. This survey, along with our regular feedback mechanisms, helps us to identify where we need to work harder and where there is the potential to add value to our clients' operations.

This survey provides a baseline to focus our operational performance improvement efforts and we will use the themes that emerge from this to create divisional action plans to drive ongoing performance improvement across the base. Progress against this will be measured through this annual client survey.

For more information about how we deliver for our clients see **pages 15–17**

1 2015 restated based on updated data.

MANAGING OUR BUSINESS RESPONSIBLY CONTINUED

Community investment programmes

We add value to our wider communities in a number of ways, as a major employer contributing to the wider economy, creating jobs, using local suppliers and through the services we deliver. We also invest in the local communities through our community programmes, ensuring that these communities benefit both socially and economically.

Our community programmes are aligned to our business activities. In 2016, we concentrated our support on working with young people to develop their employability skills. We encourage our employees to get involved in our programmes, sharing their expertise and developing their skills through our volunteering programme, whilst at the same time building connections with their local communities.

Group-wide corporate charity partnership

Since 2014, we have had a Group-wide charity partnership with The Prince's Trust, raising £853k to end of February 2016. Alongside support of our charity partner, we actively encourage employees to give regularly on an individual basis to the causes they care about, with employees donating over £403k via their payroll to 388 charities in 2016. We also have a matched funding scheme supporting our employees' own fundraising efforts, giving another £25k to charitable causes.

Measuring our impact

Tracking and reporting our community activity is key to demonstrating the impact of our programmes and ensuring we are achieving our programme aims. We use London Benchmarking methodology to measure the value of our programmes (financial, in-kind, and time given).

In 2016, we estimate that our community investment was £2.0m, based on data collection from nearly half of the Group.

In 2017, we will continue to develop our data gathering process to increase visibility of activity across the Group.

The strategic report was approved by the Board on 1 March 2017 and signed on behalf of the Board:

Andy Parker
Chief Executive

Nick Greatorex
Group Finance Director
1 March 2017

8%

REDUCTION IN ENERGY USAGE IN 2016

BOARD MEMBERS

As at 31 December 2016, the Board comprised ten Directors, made up of the Chairman, Chief Executive, three other Executive Directors and five independent Non-Executive Directors.

We have an experienced team in place to support our strategy and to meet the opportunities and challenges that the Group faces. As the Group develops, we will regularly review the Board composition to ensure it meets the needs of the business.

At 31 December 2016 we had two female Directors and eight male Directors.

LENGTH OF TENURE AS BOARD DIRECTORS

* Joined the Board 1 March 2017

Key
Chairman | CEO | Executive Director | Non-Executive Director | Capita role pre-Board

CHAIRMAN

Sir Ian Powell
Non-Executive Chairman (from January 2017)
Date appointed to Board: September 2016
Independent at appointment: Yes

Key skills and experience:
Chartered Accountant; Previously Chairman and Senior Partner of PwC responsible for expertise management and board chairmanship of PwC UK; Member of the PwC five-person network leadership team; Leader of PwC's EMEA network.

Other current appointments:
Chairman – Police Now; Trustee – The Old Vic; Trustee – Wellbeing of Women; Member of the Development Committee – The National Gallery.

Committee memberships:
Nomination (Chair).

EXECUTIVE DIRECTORS

Andy Parker
Chief Executive
Joined Capita: 2001
Date appointed to Board: January 2011

Board responsibilities:
Managing and developing Capita's business to achieve the Company's strategic objectives.

Additional Group responsibilities:
Group charitable approach; Group IT; Strategic Communications; Mergers and acquisitions strategy.

Previous experience in Capita:
Deputy Chief Executive (June 2013–March 2014); Joint Chief Operating Officer (2011–2013) overseeing non-financial services operations; Divisional Director for Capita's ICT, Health and Business Services Division; Senior Divisional Finance Director.

Other external appointments: None.

NON-EXECUTIVE DIRECTORS

Gillian Sheldon
Senior Independent Director
Date appointed to Board: September 2012 (appointed Senior Independent Director on 1 January 2013)
Independent: Yes

Key skills and experience:
Substantial experience of advising boards across a wide range of complex situations and transactions; previously worked at NM Rothschild & Sons.

Other current appointments:
Senior banker at Credit Suisse; Trustee of BBC Children in Need.

Committee memberships:
Audit and Risk; Nomination; Remuneration.

Paul Bowtell
Non-Executive Director
Date appointed to Board: June 2010
Independent: Yes

Key skills and experience: Chartered Accountant; Extensive experience across the UK Leisure sector; Significant financial and commercial knowledge; Previously on the Board of TUI Travel PLC as Chief Financial Officer and also on the Board of First Choice Holidays PLC and SThree PLC. Other senior positions held with British Gas, WHSmith and Forte.

Other current appointments: Chief Financial Officer of Ladbrokes Coral Group plc from 1 November 2016. (Previously CFO of Gala Coral Group until the merger with Ladbrokes); Non Executive Chairman of privately owned entity, Alua Hotels.

Committee memberships: Audit and Risk (Chair until 31 May 2017); Nomination; Remuneration.

BOARD MEMBERS CONTINUED

EXECUTIVE DIRECTORS

Nick Greatorex
Group Finance Director
Joined Capita: 2006
Date appointed to Board: March 2015

Board responsibilities:
Overall control and responsibility for all financial aspects of the business's strategy.

Additional Group responsibilities:
Property; Environment; Health and safety; Legal and commercial relationships; Trustee of the Capita Pension and Life Assurance Scheme; Supplier relationships.

Previous experience in Capita:
Executive Director for Life & Pensions, Insurance & Benefits Services; Commercial Director on major bids and contract implementations.

Other external appointments: None.

Chris Sellers
Group Business Development Director
Joined Capita: 2010
Date appointed to Board: January 2017

Board responsibilities:
Head of Group sales and driving forward business development across the Group.

Additional Group responsibilities:
Community, third sector and SME engagement.

Previous experience in Capita:
Director of Joint Venture with Staffordshire County Council; Technology-enabled transformation specialist for public and private sectors; Intellectual Property asset commercialisation specialist.

Other external appointments: None.

Vic Gysin
Group Operations and Performance Director
Joined Capita: 2002
Date appointed to Board: January 2011

Board responsibilities: Working with Divisional Executive Officers and their management teams to ensure service excellence and client satisfaction across the Group.

Additional Group responsibilities: Group Transformation and Procurement Services; Group HR and Talent; Maintaining strategic customer relationships.

Previous experience in Capita: Joint Chief Operating Officer; Executive Director for Insurance and Investor Services and Integrated Services divisions; Successful implementation and delivery of a number of key contracts.

Other external appointments: None.

NON-EXECUTIVE DIRECTORS

Andrew Williams
Non-Executive Director
Date appointed to Board: January 2015
Independent: Yes

Key skills and experience:
Chartered Engineer; Chief Executive of a FTSE 250 company, and a number of senior management positions within the organisation prior to appointment.

Other current appointments:
Chief Executive of Halma plc since 2005.

Committee memberships:
Audit and Risk; Nomination, Remuneration.

John Cresswell
Non-Executive Director
Date appointed to Board: November 2015
Independent: Yes

Key skills and experience:
Chartered Accountant; Substantial board level and commercial experience; Extensive knowledge and experience of the TMT Sector.

Other current appointments:
None.

Committee memberships:
Audit and Risk; Nomination; Remuneration (Chair).

Matthew Lester
Non-Executive Director
Date appointed to the Board: March 2017
Independent: Yes

Key skills and experience: Chartered Accountant; Chief Financial Officer of a FTSE 100 company; Previously Group Finance Director at ICAP plc, Group Financial Controller and Group Treasurer at Diageo plc.

Other current appointments: Chief Financial Officer of Royal Mail plc; Non-Executive Director of Man Group PLC.

Committee memberships: Audit and Risk (Chair from 1 June 2017); Nomination; Remuneration.

Changes in the year

Martin Bolland
Non-Executive Chairman
Retired from the Board 31 December 2016
Date appointed to Board: March 2008
(Chairman from 1 January 2010)

Maggi Bell
Group Business Development Director
Retired from the Board 31 December 2016
Joined Capita: 1999
Date appointed to Board: August 2008

Dawn Marriott-Sims
Joint Chief Operating Officer
Resigned from the Board 9 November 2016
Joined Capita: 2000
Date appointed to Board: January 2014

CORPORATE GOVERNANCE STATEMENT

SIR IAN POWELL
NON-EXECUTIVE CHAIRMAN

Chairman's report

I am pleased to present this report on the work of the Capita Board during 2016, formed of this section (pages 64–70) and the section headed 'Other statutory and regulatory information' (pages 71–75).

Although 2016 has been a challenging year, the Board has continued to pursue the highest standard of corporate governance with the intent to uphold the highest standards of business practice. However, I believe that there are a number of areas in which we can continue to improve particularly in respect of Capita's diversity agenda. As an organisation of 73,000 people and one of the UK's largest employers, we must ensure that Capita has leading edge people and incentivisation strategies to empower and encourage our people to have equal opportunities to maximise and fulfil their potential.

As part of the challenges we have faced, governance must work within the structure of a whole organisation, without being overly cumbersome. The balance struck across Capita is greatly assisted by the transparent culture. The changes to the operational structure will further assist our work in this area and ensure oversight and transparency consistently across the entire business.

Results for 2016

In Andy Parker's report on pages 8–14 we have detailed the results for the year. It has been a challenging year for the Group and the Board, and all Capita people were disappointed to have failed to deliver our expected profit for the year.

We have announced our intention to sell the majority of our Asset Services division and some other non-core businesses. We are on track to complete these in 2017.

The new and extended major contracts secured in 2016 were positive and are detailed within the strategic report. We enter 2017 with a strong pipeline of major sales opportunities and a reshaped and highly focused business development team working both on these deals and on increasing the success of our divisional sales teams.

See page **16** for more information.

Board activities in 2016

The Board has a standing schedule to meet nine times a year and holds further meetings as required, operating with an open culture in line with Capita's own values and behaviours. We adopt a structured approach when setting Board and committee meetings, which are aligned with the financial calendar of our Company. We set an agenda to cover the wide range of matters that are brought to our attention, ensuring each is given appropriate time and focus.

Some additional meetings took place during the later part of 2016 to deal with the challenging trading conditions facing Capita, focusing on these conditions and the strategic direction that needed to be taken to move forward in 2017.

Divisional senior management

Following a strategic review of the operations of our business, we restructured the divisions into six divisions from the previous 11. We continue to review the structures of our businesses and management and ensure that these are in line with our strategy for organic growth. These are detailed further on pages 34–44.

CORPORATE GOVERNANCE STATEMENT CONTINUED

Board evaluation in 2016

Board evaluation is undertaken annually, with external evaluation every three years.

An internal evaluation was undertaken in November 2016. This was carried out by questionnaire requiring written responses from all of the Directors. To ensure independence and objectivity, the questionnaire was conceived, administered and reviewed by the Group Company Secretary, the Chairman, Martin Bolland, and myself. The resultant report was presented in full to the Board.

The evaluation was completed whilst trading was challenging and the focus for the recommendations from the evaluation are detailed below:

i. A review of the Board pack would be considered by a working party of the Board;

ii. Additional strategy sessions would be considered for the Non-Executive Directors;

iii. An action plan would be formulated by the Nomination Committee on Board Diversity.

The report was concluded following the challenges of trading in the later part of the year and subsequent announcements made to the shareholders. The processes for contract reporting and trading updates are being reviewed and will be updated as necessary.

In terms of progress against actions agreed from last year, these were:

i. Develop risk topics further – working with the dedicated risk committees had enabled more focus to be undertaken in these areas and the Director of Risk and Compliance had provided more in-depth reporting to both these committees and the Audit and Risk Committee;

ii. Extend topic of talent and succession planning – work continued from that undertaken in 2015 and reported on last year. As shown with the appointment of myself, Chris Sellers and Matthew Lester, succession planning was in place in some areas. Further work would be undertaken in 2017 following the changes to the structure with dedicated time within the Nomination Committee for this work being diarised.

In 2015 a full external evaluation of the Board was undertaken by Corinna Gillies from the independent consultancy Illuminating Leaders, neither of which has any other connection with the Company.

As part of our Board evaluation process, a meeting was held with the Non-Executives and the Senior Independent Director to discuss the performance of Martin Bolland. The views of the Executive Directors were taken into consideration by the Non-Executives as part of the evaluation. Martin Bolland was not present at either meeting. A meeting of the Non-Executive Directors without Executive Directors was also held. Martin Bolland and I met with all members of the Board individually to receive feedback and discuss current and long-term opportunities.

Consideration of the Board balance is kept under review by the Chief Executive and myself.

BOARD EVALUATION PROCESS

COMPILATION	2017 RECOMMENDATIONS	2016 ACTIONS	PROGRESS AGAINST 2016 ACTIONS
Internal evaluation in November 2016 Questionnaire agreed with Sir Ian Powell, Martin Bolland and Group Company Secretary Written questionnaire responses provided by all Directors Report presented in full to the Board	1. A review of the Board pack would be considered by a working party of the Board 2. Additional strategy sessions would be considered by the Non-Executive Directors 3. An action plan would be formulated by the Nomination Committee on Board diversity	1. Develop risk topics further 2. Extend topic of talent and succession planning	1. More in-depth risk reporting provided to both risk committees and the Audit and Risk Committee 2. Good succession planning was in place in some areas in 2016 with further work to be undertaken in 2017 following the changes to the organisational structure

CORPORATE GOVERNANCE STATEMENT CONTINUED

Risk and Compliance and Internal Audit

On pages 46–55 of the strategic report we have described fully the roles of Risk and Compliance and Group Internal Audit together with the risks and internal controls for Capita.

In order for the Board to ensure that the strategic direction and growth of Capita can continue successfully and with the appropriate risk oversight, a number of meetings are held throughout the year. These include individual meetings between the Group Risk and Compliance Director and the Group Internal Audit Director with the Chairman of the Audit and Risk Committee, as well as normal scheduled meetings. Risks are identified and categorised in a number of ways and are prioritised and delegated in accordance with the risk ratings provided to the risk owner.

Both the Group Risk and Compliance Director and the Group Internal Audit Director report to the Group Finance Director and independently to the Audit and Risk Committee. Both report respectively on the internal audit programme and risk and compliance management activities and on the internal audit programme across Capita. They have access to all members of the Board and hold regular meetings with the Executive Directors and meet with the Audit and Risk Committee Chairman and myself at least quarterly. In 2017 a review will be undertaken of the risk sub-committees with a focus on operational, cyber security and IT risks.

Directors

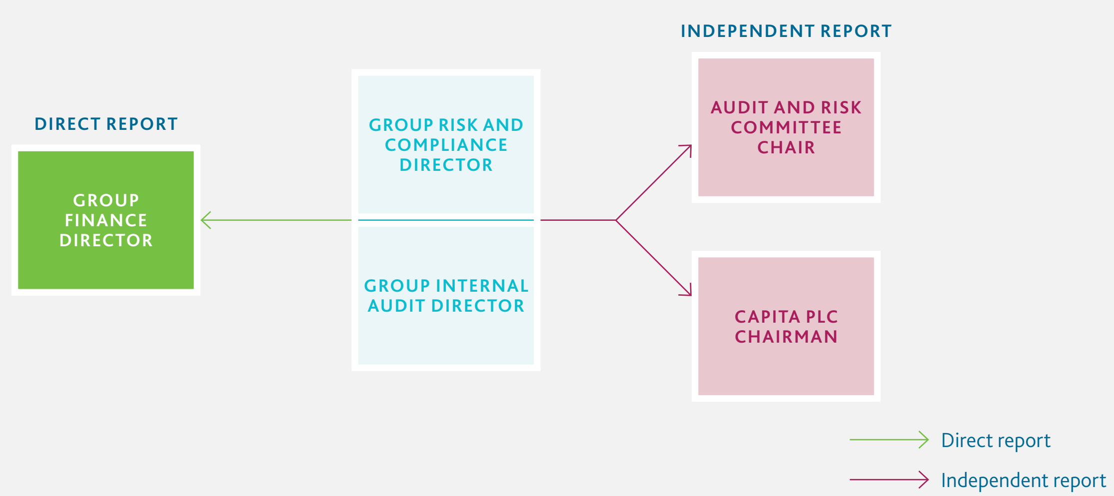
The Directors of the Company currently in office are listed on pages 62–63.

All members of the Board, with the exception of Paul Bowtell, will stand for re-election (Chris Sellers, Matthew Lester and myself for election) at the forthcoming AGM. All of the Board have received a formal performance evaluation, as described, which demonstrated that each Director continues to be effective and committed to the role.

The following pages in this section consist of our corporate governance and remuneration reports. I hope that you will find these and the entire annual report and accounts informative. The Board will be happy to receive any feedback you may have.

Sir Ian Powell
Non-Executive Chairman
1 March 2017

RISK, COMPLIANCE AND INTERNAL AUDIT



CORPORATE GOVERNANCE STATEMENT CONTINUED

Compliance with the Financial Reporting Council's UK Corporate Governance Code

Capita plc and its subsidiaries (the Group) remain committed to maintaining high standards of corporate governance.

The UK Corporate Governance Code 2014 (the Code) applies to accounting periods beginning on or after 1 October 2014. A copy of the Code is available from the Financial Reporting Council's website www.frc.org.uk. Throughout the accounting period to which this report relates, the Company complied with all relevant provisions set out in sections A to E of the Codes except as detailed below:

Code provision	Area of non-compliance	Position during 2016	Position at 1 January 2017
B.1.2 Composition of the Board	During part of the period the Board had an imbalance of Executive Directors to Independent Non-Executive Directors.	From 1 January to 31 August the balance was five Executive Directors, four Independent Non-Executive Directors and a Non-Executive Chairman. From 1 September to 9 November the balance was five Executive Directors, five Independent Non-Executive Directors and a Non-Executive Chairman. From 10 November to 31 December the balance was four Executive Directors, five Independent Non-Executive Directors and a Non-Executive Chairman.	As at 1 January 2017 the balance was four Executive Directors, four Non-Executive Directors and a Non-Executive Chairman.

As noted above, the balance of independent Non-Executives to Executives is now equal and we are compliant with the Code.

Given the diversity of the Group's activities, the Board considers it appropriate to have the four Executive Directors on the Group Board rather than the lower number that many boards have. The presence and membership on the Board of the Group Business Development Director, Chris Sellers, and the Group Performance and Operations Director, Vic Gysin, means that the Board is able to receive more detailed reports on proposed new contracts and major operational matters from formal Board members and discuss them directly with the responsible Directors.

The Board also believes that the Board should not be too large in order to ensure effective discussion and challenge and considers that the number of Non-Executive Directors provides a well-balanced Board overall.

Our Board has six strong independent Non-Executive Directors, including the Chairman, to provide robust challenge and independent review. This is a large group and provides a sufficiently powerful group to provide collective or individual thought and challenge. The Board feels that a Non-Executive group of six (including the Chairman) is large enough to provide independent strength. Overall the Board composition is specifically designed to ensure it remains an effective forum for appropriately detailed debate and challenge.

Board changes in the year

Name	Date	Position
Sir Ian Powell	1 September 2016	Appointed Non-Executive Director (Chairman with effect from 1 January 2017)
Dawn Marriott-Sims	9 November 2016	Resigned as Joint Chief Operating Officer
Martin Bolland	31 December 2016	Retired as Chairman
Maggi Bell	31 December 2016	Retired as Group Business Development Director

Further information on the changes to the Board is set out in the Nomination Committee report on **page 78**.

CORPORATE GOVERNANCE STATEMENT CONTINUED

Board composition

	Executive Directors	Non-Executive Directors
1 January 2016 – 31 August 2016	Andy Parker Nick Greatorex Maggi Bell Vic Gysin Dawn Marriott-Sims	Martin Bolland[2] Gillian Sheldon[1] Paul Bowtell[1] John Cresswell[1] Andrew Williams[1]
1 September 2016 – 9 November 2016	Andy Parker Nick Greatorex Maggi Bell Vic Gysin Dawn Marriott-Sims	Martin Bolland[2] Sir Ian Powell[2] Gillian Sheldon[1] Paul Bowtell[1] John Cresswell[1] Andrew Williams[1]
10 November 2016 – 31 December 2016	Andy Parker Nick Greatorex Maggi Bell Vic Gysin	Martin Bolland[2] Sir Ian Powell[2] Gillian Sheldon[1] Paul Bowtell[1] John Cresswell[1] Andrew Williams[1]
As at 1 January 2017	Andy Parker Nick Greatorex Vic Gysin Chris Sellers	Sir Ian Powell[2] Gillian Sheldon[1] Paul Bowtell[1] John Cresswell[1] Andrew Williams[1]
As at 1 March 2017	Andy Parker Nick Greatorex Vic Gysin Chris Sellers	Sir Ian Powell[2] Gillian Sheldon[1] Paul Bowtell[1] John Cresswell[1] Andrew Williams[1] Matthew Lester[1]

1 Independent in accordance with the Code.
2 Independent on appointment in accordance with the Code.

Frequency of meetings and attendance

During 2016, the Board met nine times, excluding ad hoc meetings solely to deal with procedural matters. Attendance of the Board Directors is recorded in the table below:

	Board meetings
Scheduled meetings	**9**
Martin Bolland	9
Sir Ian Powell[1]	3
Andy Parker	9
Nick Greatorex	9
Maggi Bell	9
Vic Gysin	8
Gillian Sheldon	9
Paul Bowtell	8
John Cresswell	9
Andrew Williams	9
Dawn Marriott-Sims[2]	8

1 Sir Ian Powell was appointed to the Board on 1 September 2016.
2 Dawn Marriott-Sims resigned from the Board on 9 November 2016.

Due to the nature of the acquisition and bid strategy, consideration of meeting times has to include flexibility to hold meetings outside of this timetable and meetings of this nature tend to be held by telephone.

Any Director's absence from Board meetings was previously agreed with the Chairman of the Board or the Chief Executive.

During 2016, the following formal Director meetings took place:

› The Chairman held one-to-one review sessions with each Executive Director and each Non-Executive Director.
› The Non-Executive Directors met without Executive Directors.
› The Non-Executive Directors met with just the Chief Executive.
› The Non-Executive Directors met without the Chairman, led by the Senior Independent Director.

Board leadership

Consistent with previous years, the Board continues to support the need to segregate the responsibility for operating the Board and managing the underlying business. This will continue in 2017 with Sir Ian Powell's role as Non-Executive Chairman and the role of Andy Parker as Chief Executive being separate.

Martin Bolland as Non-Executive Chairman, Sir Ian Powell as Chairman Designate and Gillian Sheldon as Senior Independent Director also held meetings solely comprising the Non-Executive Directors during 2016. Both Sir Ian and Gillian are also available to meet with shareholders when requested.

Role of the Board

In addition to their statutory duties, the Directors must ensure that the Board focuses effectively on all its accountabilities.

ROLE OF THE BOARD

The Companies Act 2006 requires Directors to act in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of shareholders as a whole. In doing so, the Directors must have regard (amongst other matters) to:

The likely consequences of any decision in the long term.

The interests of the Company's employees.

The need to foster business relationships with suppliers, customers and others.

The impact of the Company's operations on the community and the environment.

The desirability of the Company maintaining a reputation for high standards of business conduct.

The need to act fairly towards all shareholders of the Company.

CORPORATE GOVERNANCE STATEMENT CONTINUED

The Board determines the strategic objectives and policies of the Group to best support the delivery of long-term value, providing overall strategic direction within an appropriate framework of rewards, incentives and controls. The Board is collectively responsible for the success of the Company: the Executive Directors are directly responsible for running the business operations and the Non-Executive Directors are responsible for bringing independent judgement and scrutiny to decisions taken by the Board. The Non-Executive Directors must satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust. Following presentations by executive and divisional management and a disciplined process of review and challenge by the Board, clear decisions on policy or strategy are adopted, and the executive management are fully empowered to implement those decisions.

Board independence

Non-Executive Directors are required to be independent in character and judgement. All relationships that may materially interfere with this judgement are disclosed as required under the conflicts of interest policy. The Board has determined that all the Non-Executive Directors who served during the year were independent and before and upon appointment as Chairman, both Sir Ian Powell and Martin Bolland met the criteria of independence as outlined in the Code.

The Board does not believe that a Non-Executive's tenure materially interferes with their ability to act in the best interests of the Group. The Board also believes that each of the Non-Executives has retained independence of character and judgement and has not formed associations with management or others that may compromise their ability to exercise independent judgement or act in the best interests of the Group.

The Board is satisfied that no conflict of interest exists for any Director. This matter is a standing agenda item.

MATTERS RESERVED FOR THE BOARD

A formal schedule of matters reserved by the Board has been adopted and these include, but are not limited to:

Strategy and management, including responsibility for the overall leadership of the Group, setting the Group's values and standards and overview of the Group's operational management.

Structure and capital including changes relating to the Group's capital structure and major changes to the Group's corporate structure including acquisitions and disposals and changes to the Group's management and control structure.

Financial reporting including the approval of the half-yearly report, interim management statements and preliminary announcement for the final results. Also the approval of the dividend policy, the setting and approval of treasury policies and establishing and maintaining accounting policies.

Internal controls, ensuring that the Group manages risk effectively and approves all acquisitions, disposals of assets and share acquisitions.

Contracts, including approval of all major capital projects and major investments including the acquisition or disposal of interest of more than 3% in the voting shares of any company or the making of any takeover offer.

Ensuring satisfactory communication with shareholders.

Any changes to the structure, size and composition of the Board.

Board of Directors' inductions and training

Following appointment to the Board, all new Directors receive an induction tailored to their individual requirements. They are encouraged to meet and be briefed on the roles of key people across the Group and have open access to all business areas and employees to build up an appropriate level of knowledge of the business that extends beyond formal papers and presentations to the Board. All Directors have received an appropriate induction for their roles within Capita. These have included familiarisation with:

- Terms of reference for all committees and matters reserved for the Board
- Overviews of the business via Monthly Operating Board (MOB) review reports
- The Group approach to risk management.

On the announcement of the appointments of Sir Ian Powell, Chris Sellers and Matthew Lester to the Board, they received training and induction sessions with the previous Chairman, Executive Directors, the Group Company Secretary, the Group Risk and Compliance Director and the Group Internal Audit Director. Sir Ian Powell has held further induction meetings with the Divisional Executive Officers and other senior management.

Ongoing training and briefings are also given to all Directors, including external courses as required.

Group Company Secretary

All Board members have access to independent advice on any matters relating to their responsibilities as Directors and as members of the various committees of the Board at the Group's expense.

Francesca Todd, as Group Company Secretary, is available to all Directors and is responsible for ensuring that all Board procedures are complied with.

The Group Company Secretary has direct access and responsibility to the Chairs of the standing committees and open access to all the Directors. The Group Company Secretary has been appointed as Secretary to the Audit and Risk, Remuneration and Nomination Committees to ensure that there are no conflicts of interest.

CORPORATE GOVERNANCE STATEMENT CONTINUED

The Group Company Secretary meets regularly with the Chairman, the Chair of the Audit and Risk Committee and the Chair of the Remuneration Committee, and briefs them on areas of governance and committee requirements.

Dialogue with shareholders

The Board encourages and seeks to build a mutual understanding of objectives between Capita and its shareholders. As part of this process the Executive Directors make regular presentations and meet with institutional shareholders to discuss the Group's business model and growth strategy, address any issues of concern, obtain feedback and consider corporate governance issues. The Board welcomed the revised UK Stewardship Code 2012 and the steps it made to improve engagement and purposeful dialogue between companies and investors. All shareholders are encouraged to attend the Annual General Meeting and information for shareholders is available on the Company's website – www.capita.com. All the Non-Executive Directors are available to meet with shareholders to understand their views more fully. The Chairman is available to the significant shareholders of Capita.

The Corporate Communications team has effective day-to-day responsibility for managing shareholder communications and always acts in close consultation with the Board. Shareholders can also access up-to-date information through the Group's website at www.capita.com. A telephone helpline, 0871 664 0300, provides a contact point directly to the Group's registrars.

In 2016, the Corporate Communications team and the Board maintained active, targeted communications with existing and potential shareholders and the wider investment community. The team focused on creating opportunities for Capita's CEO to further build his relationships with the investment community. It ensured that all shareholders were appraised of the causes of the weaker financial performance in the second half of the year and offered meetings with both Executive and Non-Executive Board members as necessary. Capita's share register includes a balanced set of long-term shareholders from the UK and overseas with substantial shareholdings.

CASE STUDY: BOARD DIRECTOR'S INDUCTION AND TRAINING

Chairman – Sir Ian Powell

- Began four-month handover and shadowing of Martin Bolland
- Commenced meetings with Divisional Executive Officers and key heads of services
- Provided with terms of reference for all committees
- Provided with terms of reference for matters reserved for the Board
- Training from Group Company Secretary
- Briefing in governance and stakeholder relationships
- Briefing from Group Risk and Compliance Director
- Meetings with Head of Communications and Head of Investor Relations
- Attendance at Divisional Business Planning Presentations
- Commenced meetings with key shareholders

All members of the Board, including the Non-Executive Directors, receive a report on any significant discussions with shareholders and feedback that follows the annual and half-yearly presentations to investment analysts and shareholders. All analyst reports concerning Capita are circulated to the Directors.

Directors, including the Chair of the various committees, are present at the Annual General Meeting to answer any questions. The Board particularly encourages communication with and the participation of private investors at the Annual General Meeting.

Remuneration Committee

Details of the Remuneration Committee and its activities are given in the Directors' remuneration report on pages 89–105.

Risk management and internal control

The Board monitors the Company's risk management and internal control systems and annually carries out a review of their effectiveness. This is reported within the Audit and Risk Committee report. The monitoring and review includes all material controls, including financial, operational and compliance controls. This process is regularly reviewed by the Board. The Group's key internal control procedures are fully documented within the strategic report on pages 46–54.

CORPORATE GOVERNANCE STATEMENT CONTINUED

Other statutory and regulatory information

Strategic report
The Company is required to prepare a fair review of the Group's business during the financial year and its position at 31 December 2016 and a description of the principal risks and uncertainties facing the Group (known as a 'strategic report'). The purpose of the strategic report is to enable shareholders to assess how the Directors have performed their duty under Section 172 of the Companies Act 2006 (duty to promote the success of the Company). The information that fulfils the requirements of the strategic report can be found on pages 1–61. Details of the Group's business goals, strategy and model are on pages 6–7.

Corporate governance report
The corporate governance statement as required by Rule 7.2.1 of the Financial Conduct Authority's Disclosure and Transparency Rules is set out on pages 62–105.

Election to apply FRS101 – Reduced Disclosure Framework
The parent company continues to apply UK GAAP in the preparation of its individual financial statements in accordance with FRS101 and these are contained on pages 171–188. FRS101 applies IFRS as adopted by the European Union with certain disclosure exemptions. No objections were received from shareholders.

Management report
For the purposes of Rule 4.1.5R(2) and Rule 4.1.8R of the Financial Conduct Authority's Disclosure and Transparency Rules, this Directors' report and the strategic report on pages 1–61, comprise the management report.

Events after the balance sheet date
There are no post balance sheet events that require disclosure.

Appointment, re-appointment and removal of Directors
Directors are appointed and may be removed in accordance with the Articles of Association of the Company and the provisions of the Companies Act 2006.

All Directors are subject to election at the first Annual General Meeting after their appointment and to re-election at intervals of no more than three years in accordance with the Code and the Company's Articles of Association. However, all Directors (apart from Paul Bowtell) will retire and will offer themselves for re-election (Sir Ian Powell, Chris Sellers and Matthew Lester for election) at the Annual General Meeting in June 2017, in accordance with the UK Corporate Governance Code.

No person, other than a Director retiring at the meeting, shall be appointed or re-appointed a Director of the Company at any general meeting unless he/she is recommended by the Directors.

No person, other than a Director retiring at a general meeting as set out above, shall be appointed or re-appointed unless between seven and 35 days' notice, executed by a member qualified to vote on the appointment or re-appointment, has been given to the Company of the intention to propose that person for appointment or re-appointment, together with notice executed by that person of his/her willingness to be appointed or re-appointed.

Group activities
Capita is the UK's leading provider of technology-enabled business process and customer management services and professional services. We generate the majority of our revenues from long-term contracts and partnerships across the private and public sectors. The Group's chosen markets are in the private sector – life, pensions and insurance, financial services, utilities and telecoms, retail, travel and transport, and other private sector, and in the public sector – central government, local government, education, health, justice and emergency services and defence.

Transforming business processes to drive down administration costs while also improving the end-user experience is the goal of the majority of what we do for our clients. We focus on delivering technology-enabled solutions, providing excellent customer service and operational delivery. We will combine our expertise with technology to make processes smarter, organisations more efficient and customer experiences better.

A review of the development of the Group and its business activities during the year is contained in the strategic report on pages 1–61. Our divisional operations and financial performance are detailed on pages 34–45.

Profits and dividends
The Group's reported profit before taxation amounted to £74.8m (2015: £112.1m). The Directors recommend a final dividend of 20.6p per share (2015: 21.2p per share) to be paid on 3 July 2017 to ordinary shareholders on the Register on 26 May 2017. This gives a total dividend for the year of 31.7p per share (2015: 31.7p per share).

The employee benefit trust has waived its right to receive a dividend on the shares being held within the Trust.

Conflicts policy
Under the Companies Act 2006, Directors are under an obligation to avoid situations in which their interests can or do conflict, or may possibly conflict, with those of the Company. In response to the conflicts of interest provisions, a comprehensive project was undertaken in 2008 to identify and disclose any conflicts of interest that have arisen or may arise across Capita. Procedures were implemented for evaluating and managing conflicts that have been identified in a way that ensures that decisions are not compromised by a conflicted Director. In addition, the Company's Articles of Association give the Board the power to authorise matters that give rise to actual or potential conflicts. The Board reports annually on the Company's procedures for ensuring that the Board's powers of authorisation of conflicts are operated effectively and that the procedures have been followed. A policy for ongoing identification and disclosure of conflicts is in place and is kept under regular review.

CORPORATE GOVERNANCE STATEMENT CONTINUED

The Board has authorised the conflict of Nick Greatorex being a trustee of the Capita Pension and Life Assurance Scheme and gave specific guidance on this conflict going forward. Nick Greatorex did not participate in the discussion or vote on the guidance given. No other conflicts of interest declared were material to the Board. All conflicts of interest are reviewed on an annual basis by the Board and are revisited as part of the year-end process by the Directors. None of the Directors of the Company had a material interest in any contract with the Company or its subsidiary undertakings, other than their contracts of employment.

Major shareholders

At 31 December 2016, the Company had received notifications that the following were interested in accordance with the Disclosure and Transparency Rules (DTRs):

Shareholder	Number of shares	% of voting rights as at 31 December 2016	Number of shares direct	Number of shares indirect
Veritas Asset Management LLP*	74,851,477	11.22	–	74,851,477
Woodford Investment Management LLP	71,070,139	10.65	71,070,139	–
Invesco Asset Management	65,566,578	9.83	–	65,566,578
The Capital Group Companies, Inc.	54,667,036	8.19	–	54,667,036
Baillie Gifford & Co Limited	50,923,208	7.63	–	50,923,208
BlackRock, Inc.	37,844,547	5.67	–	37,844,547
Marathon Asset Management LLP	22,618,408	3.39	–	22,618,408
T. Rowe Price	21,888,589	3.28	–	21,888,589
Standard Life Investments	20,426,845	3.06	20,426,845	–

* This includes the holding of Veritas Funds PLC.

As at 17 February 2017, the Company had received notifications that the following were interested in accordance with the DTRs:

Shareholder	Number of shares	% of voting rights as at 17 February 2017	Number of shares direct	Number of shares indirect
Veritas Asset Management LLP*	81,163,342	12.17	–	81,163,342
Woodford Investment Management LLP	72,080,139	10.80	72,080,139	–
Invesco Asset Management	65,536,317	9.82	–	65,536,317
The Capital Group Companies, Inc.	60,297,424	9.04	–	60,297,424
Baillie Gifford & Co Limited	50,632,716	7.59	–	50,632,716
BlackRock, Inc.	38,567,956	5.78	–	38,567,956
Marathon Asset Management LLP	22,537,714	3.38	–	22,537,714
T. Rowe Price	19,521,004	2.93	–	19,521,004
Standard Life Investments	20,757,280	3.11	20,757,280	–

* This includes the holding of Veritas Funds PLC.

Directors' interests

Details of Directors' interests in the share capital of the Company are listed on page 102.

Share capital

As at 17 February 2017, 670,241,242 ordinary shares of 2 1/15p each have been issued and are fully paid up and are quoted on the London Stock Exchange. There are 3,100,242 shares held in treasury and the total number of voting shares is 667,141,000. During the year ended 31 December 2016, options were exercised pursuant to the Company's share option schemes, resulting in the allotment of 131,037 new ordinary shares. No shares have been allotted under these schemes since the end of the financial year to the date of this report. Of the total issued share capital, 1,714,041 shares are held within an employee benefit trust used for satisfying employee share options.

The share price at 31 December 2016 was 531p. The highest share price in the year was 1,206p and the lowest was 431.3p.

The Company renewed its authority to re-purchase up to 10% of its own issued share capital at the Annual General Meeting in May 2016. During the year, the Company did not purchase any shares (2015: nil).

Viability statement

This statement is detailed in full on page 55.

In accordance with provision C.2.2 of the 2014 revised Code, the Directors have assessed the viability of the Group over the three-year period to 31 December 2019, taking into account the Group's current position and the potential impact of the principal risks set out in the strategic report above. Based on this assessment, the Directors have a reasonable expectation that the Group is and will continue to be viable.

CORPORATE GOVERNANCE STATEMENT CONTINUED

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report on pages 1–61. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 28–31. In addition, note 26 to the financial statements on pages 145–154 includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

The Group has sufficient financial resources and available funding options together with long-term contracts with a wide range of public and private sector clients and suppliers. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully.

The Company has not defaulted on, or breached the terms of, any material loans during the year.

The Group not only assesses the liquidity available to it to meet liabilities as they fall due, it must also assess its position in relation to its debt covenants both at the balance sheet date and for the period covered by the going concern statement. The covenants provided are adjusted net debt to adjusted EBITDA and adjusted EBITA to underlying interest and have been provided in respect of the Group's debt and banking facilities. The certifications are bi-annually and cover 12 months to the June half-year and to the December full year.

Key judgements are required in making this assessment, as set out below, together with the Board's considerations:

› The Company's calculation of adjusted Net Debt to adjusted EBITDA at 31 December 2016 is 2.9 times and is in compliance with the ratios. Headroom has narrowed from previous periods in light of the performance of the Group in the year.

› The Directors have applied their judgement in the preparation of these financial statements upon which the covenants are based. For the purpose of the calculation the Company has calculated the ratios for 2016 by applying the same treatment that has been applied in preparing the financial statements. Accordingly, items that are presented as non-underlying are excluded from the covenant definition of adjusted EBITDA, with the exception of acquisition costs. The basis of calculation is also consistent with the approach adopted in prior years.

› The proposed disposal of non-core trading businesses but excluding the Asset Services division disposal. The expected proceeds from these disposals are assumed to be used to reduce the Company's gearing and strengthen the balance sheet in its forecast assumptions.

In concluding its assessment, the Board considered the above key measures and appropriate sensitivities, the Company's principal risks and uncertainties, the liquidity position of the Group taking into account the significant undrawn but committed facilities available, and reviewed compliance with and availability of headroom in relation to all key covenants.

The Board also considered a number of stress test scenarios to assess the robustness of the Group's cash flow forecasts. Under such scenarios, the Board considered the mitigating action available to it in managing its funding – these include deferral of capital and acquisition expenditure and arrangements with the Group's key suppliers.

After making enquiries, and having assessed the principal risks and other matters disclosed in relation to the viability statement on page 55, and in accordance with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting 2014, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they consider it appropriate to adopt the going concern basis in preparing the annual financial statements. There are no material uncertainties to the Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements.

Disabled persons

It is the Group's policy to give full consideration to suitable applications for employment of disabled persons and to ensure that any reasonable adjustments are made to either the workplace or job content to accommodate a person's disabilities. Employees with a disability are eligible to participate in career development opportunities available to all employees and will be supported to do so. Opportunities also exist for employees of the Group who become disabled to continue in their employment with any reasonable adjustments being made or to be retrained for other positions in the Group.

Employee involvement

Capita has a real focus on supporting talent and development within the Group. Capita's approach to employee development ensures that individuals are offered continual challenges in their roles, supported through learning opportunities and personal development. The Group offers employees a comprehensive range of key business and management skills and personal development programmes through our internal training partners, as well as externally recognised universities and learning partners. At the same time our businesses provide business-specific training for all employees relevant to their role. In addition, the Group supports the achievement of professional qualifications including a range of National Vocational Qualifications and apprenticeships.

CORPORATE GOVERNANCE STATEMENT CONTINUED

Employees receive news of the Group through: frequent email notices; internal notice board statements; the Group employee intranet, Capita Connections, and regular email updates on business performance from both Divisional and Group Directors. Capita Connections enables employees to find out what is happening in the wider Group and to share information within and between business units and employees are encouraged to contribute news, views and feedback. The Group maintains a strong communications network and employees are encouraged, through its open door policy, to discuss with management matters of interest to the employee and subjects affecting day-to-day operations of the Group. Employees are also encouraged to share their views through our employee survey and as outputs Divisions develop action plans to address any improvements that are highlighted.

Capita has an established employee share plan designed to promote employee share ownership and to give employees the opportunity to participate in the future success of the Group. In keeping with its belief that employees are the Group's most valuable asset, the Group operates employee recognition schemes both at Group and divisional level. The Capita People Awards, for example, celebrate the core values that embody the organisation and recognise employees for service excellence, teamwork, leadership, innovation and improvement, inter-divisional collaboration and charitable support and community engagement.

Political donations

The Group did not make any political donation or incur any political expenditure during the year (2015: £nil).

Greenhouse gas emissions

Details of the Group's greenhouse gas emissions are set out on page 60 of the strategic report.

Financial instruments

The Group's financial instruments comprise primarily bonds, bank loans, finance leases and overdrafts. The principal purpose of these is to raise funds for the Group's operations. In addition, various other financial instruments such as trade creditors and trade debtors arise directly from its operations. From time to time, the Group also enters into derivative transactions, primarily interest rate swaps, currency swaps and forward exchange contracts, the purpose of which is to manage interest risk and currency risk arising from the Group's operations and its sources of finance.

The main financial risks, to which the Group has exposure, are interest rate risk, liquidity risk, credit risk and foreign currency risk.

The Group borrows in selected currencies at fixed and floating rates of interest and makes use of interest rate swaps and currency swaps to generate the desired interest profile and to manage its exposure to interest rate fluctuations.

In respect of liquidity risk, the Group aims to maintain a balance between continuity of funding and flexibility through the use of multiple sources of funding including bonds, bank loans, loan notes, finance leases and overdrafts, over a broad spread of maturities.

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

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

The Group is not generally exposed to significant foreign currency risk, except in respect of its overseas operations in Europe, India and South Africa, which generates exposure to movements in the euro, Swiss franc, Indian rupee and South African rand exchange rates. The Group seeks to mitigate the effect of this exposure by entering into forward currency instruments, including non-deliverable forward contracts, to fix the sterling cost of highly probable forecast transactions denominated in Indian rupees and South African rand. Exposures to the euro and Swiss franc are mitigated through the use of foreign exchange derivatives or borrowings in those currencies. Further details of the Group's financial instruments can be found in note 26 to the consolidated financial statements on pages 145–154.

Qualifying third party indemnity provisions for the benefit of Directors

Under the Companies Act 2006, companies are under an obligation to disclose any indemnities which are in force in favour of their directors. The current Articles of Association of the Company contain a provision that enables the Company to indemnify the Directors of the Company in respect of certain liabilities and costs that they might incur in the execution of their duties as Directors. Such provisions have been in force during the year and are in force at the date this report is approved. Copies of the relevant extract from the Articles of Association are available for inspection at the registered office of the Company during normal business hours on any weekday and will be available at the venue of the 2017 Annual General Meeting from 15 minutes before the meeting until it ends.

All Directors have deeds of indemnity. These will be available for inspection at the Annual General Meeting with the service contracts.

CORPORATE GOVERNANCE STATEMENT CONTINUED

Powers of Directors

The business of the Company shall be managed by the Directors who are subject to the provisions of the Companies Act 2006, the Articles of Association of the Company and to any directions given by special resolution, including the Company's power to repurchase its own shares.

The Company's Articles of Association may only be amended by a special resolution of the Company's shareholders.

Change of control

All of the Company's share schemes contain provisions in relation to a change of control. Outstanding options and awards would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

Capita has a number of borrowing facilities provided by various banks and other financial institutions. Capita's bank debt contains a change of control provision under which the banks may require immediate repayment in full on change of control. The bonds issued by Capita contain a change of control provision which requires the Group to offer to prepay the bonds in full if a change of control event occurs and Capita does not obtain an investment grade credit rating.

There are a number of significant client agreements which contain provisions relating to change of control, which in some cases could present a right of termination of the contract.

Rights and restrictions attaching to shares

Under the Company's Articles of Association, holders of ordinary shares are entitled to participate in the receipt of dividends pro rata to their holding. The Board may propose and pay an interim dividend and recommend a final dividend in respect of any accounting period out of the profits available for distribution under English law. A final dividend may be declared by the shareholders in a general meeting by ordinary resolution, but no dividend may be declared in excess of the amount recommended by the Board.

At any general meeting a resolution put to vote at the meeting shall be decided on a poll. On a poll, every member who is present in person or by proxy shall have one vote for every share of which they are the holder.

No person holds securities in the Company carrying special rights with regard to control of the Company. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

Restrictions on transfer of shares

The Company's Articles of Association allow Directors to, in their absolute discretion, refuse to register the transfer of a share in certificated form unless the instrument of transfer is lodged, duly stamped, at the registered office of the Company, or at such other place as the Directors may appoint and (except in the case of a transfer by a recognised person where a certificate has not been issued in respect of the share) is accompanied by the certificate for the share to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer. They may also refuse to register any such transfer where it is in favour of more than four transferees or in respect of more than one class of shares.

The Directors may refuse to register a transfer of a share in uncertificated form in any case where the Company is entitled to refuse (or is exempted from the requirement) under the Uncertificated Securities Regulations to register the transfer.

Annual General Meeting

The 2017 Annual General Meeting (AGM) of the Company will be held at the London Conrad St James Hotel, 22-28 Broadway, Westminster, London, SW1H 0BH, on 13 June 2017. At the AGM a number of resolutions will be proposed. The resolutions are set out in the Notice of Meeting, which is sent to shareholders with the 2016 Annual Report and Accounts and includes notes explaining the business to be transacted and is also available on the Company's website at www.capita.com.

In May 2016, shareholders granted authority for the Company to purchase up to 66,531,995 ordinary shares – this authority will expire at the conclusion of the 2017 AGM. No shares were purchased during 2016. A resolution to renew this authority will be put shareholders at the 2017 AGM.

The Directors consider that each of the resolutions are in the best interests of the Company and the shareholders as a whole and recommend that shareholders vote in favour of all of the resolutions.

For other general meetings the notice given would be 14 working (clear) days.

Cross references

For the purposes of LR 9.8.4R, the following information is located as set out below:

Listing Rule	Subject	Page No.
9.8.4 (1)	Capitalisation of interest	115
9.8.4 (2) (4-11) and (14)	n/a	n/a
9.8.4 (12-13)	Shareholder waiver of dividends	71

CORPORATE GOVERNANCE STATEMENT CONTINUED

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- For the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU.
- For the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report, Directors' report, Directors' remuneration report and corporate governance statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Details of the principal risk categories can be found on page 50.

Approval of the annual accounts

Responsibility statement of Directors in respect of the annual financial statements

We, the Directors of the Company, confirm that to the best of our knowledge:

- The financial statements prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole.
- The Directors' report, including content by reference, includes a fair review of the development and performance of the business and the position of the Issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Directors' statement on the Annual Report

The Directors consider the Annual Report taken as whole, to be fair, balanced and understandable and that it provides the information necessary for the shareholders to assess the Company's position and performance, business model and strategy.

The Directors' report (pages 1–105) has been approved by the Board.

On behalf of the Board

Francesca Todd
Group Company Secretary
1 March 2017

Capita plc
Registered in England and Wales No. 2081330

COMMITTEES

Committees' terms of reference

The terms of reference of the Nomination, Remuneration and Audit and Risk Committees (standing committees) were reviewed during the year. The terms of reference are summarised below and, along with the matters reserved for the Board, are displayed in full in the investor centre at www.capita.com/investors.

Nomination Committee

- Reviews composition of the Board. Recommends appointment of new Directors
- Considers succession plans for Chairman and Executive positions
- Monitors corporate governance issues
- The Group diversity statement is reviewed and recommended by this committee.

Audit and Risk Committee

- Reviews accounting policies and the contents of financial reports
- Monitors the internal control environment. Considers the adequacy and scope of the external and internal audit programme
- Oversees the relationship with our external Auditor
- Monitors risk profile and obtains assurance that principal risks have been properly identified and appropriately managed.

Remuneration Committee

- Sets the policy for Executive Directors' and senior executives' remuneration
- Approves individual remuneration awards
- Agrees changes to senior executive incentive plans.

Disclosure Committee

A Disclosure Committee, comprising any two of the Chairman and the Executive Directors, together with the Executive Director, Corporate Development, is responsible for the appropriate identification and management of inside information, including any decision to delay public disclosure.

Membership of the committees

Membership of the Company's standing committees at the end of the year is shown below:

	Martin Bolland	Gillian Sheldon	John Cresswell	Paul Bowtell	Andrew Williams
Nomination	x	(C)x	x	x	x
Audit and Risk		x	x	(C)x	x
Remuneration		x	(C)x	x	x

(C) Chair.

Gillian Sheldon took over as Chair of the Nomination Committee to oversee the appointment of a new Chairman in place of Martin Bolland.

Membership of the Company's standing committees as at 1 January 2017 is shown below:

	Sir Ian Powell	Gillian Sheldon	John Cresswell	Paul Bowtell	Andrew Williams
Nomination	(C)x	x	x	x	x
Audit and Risk		x	x	(C)x	x
Remuneration		x	(C)x	x	x

Sir Ian Powell was appointed as Chair of the Nomination Committee with effect from 1 January 2017.

Frequency of committee meetings and attendance

During 2016, the Nomination Committee met eight times, the Remuneration Committee met nine times and the Audit and Risk Committee met eight times. The increase in Nomination and Remuneration Committee meetings during 2016 was due to changes in Board composition, including the Chairman's succession, that took place during the year. Attendance of the Board Directors at committee meetings is shown in the following table:

	Audit and Risk Committee	Remuneration Committee	Nomination Committee
Scheduled meetings	**8**	**9**	**8**
Martin Bolland[1]			3
Gillian Sheldon	8	9	8
Paul Bowtell	7	6	7
Andrew Williams	8	9	8
John Cresswell	8	9	8

1 Martin Bolland did not attend a number of Nomination Committee meetings where succession to the Chairmanship was discussed.

Due to the nature of the acquisition and bid strategy, consideration of meeting times has to include flexibility to hold meetings outside of this timetable and meetings of this nature tend to be held by telephone.

Any Director's absence from meetings of the Audit and Risk, Remuneration or Nomination Committees was previously agreed with the Chairman of the Board, the Chief Executive or the Chair of the relevant committee.

NOMINATION COMMITTEE

SIR IAN POWELL
CHAIR, NOMINATION COMMITTEE

I am pleased to present the report on the activities of the Nomination Committee for the year to 31 December 2016. Set out below is a summary of the work carried out during the year.

Members:

- Sir Ian Powell (Chair – from 1 January 2017)
- Gillian Sheldon (Chair during 2016)
- Paul Bowtell
- Andrew Williams
- John Cresswell

The Group Company Secretary acts as Secretary to the Committee and is available to assist the members of the Committee as required, ensuring that timely and accurate information is distributed accordingly.

The Committee met eight times in 2016 and the attendance is shown on page 77.

The Committee reports and makes recommendations to the Board in relation to its activities and deliberations.

It is authorised under its terms of reference to obtain the advice of independent search consultants. The terms of reference for the Nomination Committee can be found on Capita's website at www.capita.com/investors. These were reviewed and updated during the year.

Board diversity

In 2016, 22% of our senior management team and 20% of our Board were female. Capita sees significant business benefit in having access to the diversity of thinking that comes from people with a wide range of backgrounds at all levels in the Company. Only by encouraging this diversity and by fostering talent throughout the business can the Company expect to achieve further diversity in senior management. Capita has a network of diversity champions across the businesses and the Company's training and mentoring initiatives actively support the fostering of talent at all levels in the business across the Company's diverse workforce. The Board and senior management teams across Capita are fully committed to working to provide an environment where everyone has the opportunity to fulfil their potential. The Company will continue to appoint and promote people on merit and in line with the skills and attributes identified for each post while striving to increase diversity at the Board level during 2017. Further information is shown on page 57 of the strategic report.

Committee activities during 2016

Key responsibilities

- To identify and nominate appropriate candidates for appointment to the Board, having due regard to the provisions of the Code and, in particular, the balance of skills, knowledge and experience on the Board and the diversity of its composition.
- To keep the structure and size of the Board and the leadership needs of the organisation under review and ensure that plans are in place for orderly succession and appointment to the Board.
- To review the time commitment required from Non-Executive Directors, the performance of Directors and all declarations of interest made by Board members.
- To consider Capita's diversity position.

Activity in 2016

- Succession planning for the Board generally
- Recruitment and appointment of Chairman
- Recruitment and appointment of new Audit and Risk Chair
- Appointment of Chris Sellers as an Executive Director to succeed Maggi Bell
- Consideration of the performance of all Directors, length of service, interests and potential conflicts to ensure that all Directors could stand for re-election or election at the AGM
- Diversity of the Board
- Conflicts of Interests considered for the independence of the Non-Executive Directors
- For all the appointments to the Board the Committee considered the size and structure of the Board and the balance and range of the Directors' knowledge and experience
- External search agencies were used for the Non-Executive and Chairman appointments
- Discussed and approved the resignation of Dawn Marriott-Sims. The external search agencies used (Spencer Stuart for the Chairman and Lygon Group for the Audit and Risk Committee Chair) do not have any other connection with the Company.

AUDIT AND RISK COMMITTEE

PAUL BOWTELL
CHAIR, AUDIT AND RISK COMMITTEE

I am pleased to present the report on the activities of the Audit and Risk Committee for the year to 31 December 2016. This is the last time that I will present the report as I have a new, enlarged role as CFO of Ladbrokes Coral plc, which was created through the merger of Ladbrokes PLC and The Coral Group. Therefore it is with regret that I have chosen to step down from the Capita Board and from my position as Chair of the Audit and Risk Committee. A search process has been concluded and I am pleased that the new Audit and Risk Committee Chair will be Matthew Lester from 1 June 2017.

The year has been a complex one for the Committee. With the performance of the Group, key judgements have become a more material factor and as a Committee we have focused heavily where these are of most significance both to the overall balance of the results and the understandability of what is presented. This is to ensure that due clarity is given to material items and that the judgements that support their recognition or presentation are properly explained.

Members:

› Paul Bowtell (Chair)[1,2]
› Gillian Sheldon[1]
› Andrew Williams[1]
› John Cresswell[1]

The Board has reviewed the performance of the Committee and is satisfied that the combined knowledge and experience of its members is such that the Committee discharges its responsibilities in an effective, informed and challenging manner and that, as a whole, the Committee has the competence relevant to the sector in which the Company operates.

The Group Company Secretary acts as Secretary to the Committee and is available to assist the members of the Committee as required, ensuring that timely and accurate information is distributed accordingly.

Tim Brooke resigned as a member of the Audit and Risk Committee during 2016. He is not a Non-Executive Director of Capita plc but remains an independent Non-Executive Chair of Capita's Financial Services Risk Committee. His role is to provide quarterly feedback to the Committee from the Financial Services Risk Committee. He attended five meetings of the Audit and Risk Committee during 2016.

Set out below is a summary of the work carried out by the Committee

Audit and Risk Committee meetings are by invitation and generally attended by the: Non-Executive Chairman; Group Finance Director; Group Risk and Compliance Director; Group Internal Audit Director and by representatives of the external Auditor.

The Chairman of the Committee is directly available to and holds regular meetings with the Group Finance Director, Group Risk and Compliance Director, Group Company Secretary, Group Internal Audit Director and external Auditor.

The following areas were discussed at the meetings held:

Group Risk and Compliance	Inter-relationship between top-down identified risks and bottom-up risks identified by the divisional team structure and capability
	Cyber risk
	Information and data security
	Business continuity and going concern considerations
	Disaster recovery
	Training statistics
	Viability statement
Group Internal Audit	Strategy for Group Internal Audit
	Team structure
	Use of co-sourcing expertise and the choice of partners
	External review of the Group Internal Audit function
	Compliance with the control framework
	Risk awareness and awareness to risk of senior management
External Auditor	FRC desktop review of key judgements and estimates
	New standards and their potential impact on Capita
	Approval of non-audit services
	Accounting for key new contracts and acquisitions
	Key judgement areas

1 Independent Non-Executive Director.
2 Paul is a Chartered Accountant, with recent and relevant financial experience for the purposes of the Code and the FRC's Guidance on Audit and Risk Committees.

AUDIT AND RISK COMMITTEE CONTINUED

Role and responsibilities

The Audit and Risk Committee is responsible for carrying out the audit functions as required by DTR 7.1.3R and assists the Board in fulfilling its oversight responsibilities in respect of the Company and the Group. The Committee's key responsibilities are:

(i) To review the reporting of financial and other information to the shareholders of the Company and monitor the integrity of the financial statements, including the application of key adjustments in determining reported outcomes

(ii) To review the effectiveness and objectivity of the external audit process, assess the independence of the Auditor and ensure appropriate policies and procedures are in place to protect such independence

(iii) To review and assess the adequacy of the systems of internal control and risk management (which includes monitoring the Company's Internal Audit function) and monitor the risk profile of the business

(iv) To review and assess the cyber security risk and governance including the IT security for the Group and monitor the risks within this area

(v) To report to the Board on how it has discharged its responsibilities.

The Audit Committee's terms of reference set out in full the role, responsibilities and authority of the Committee and can be found on the Company's website at www.capita.com/investors. These were reviewed and updated during the year.

Committee activities during 2016

The Committee met eight times during the year and attendance at each meeting is shown on page 77. Meetings are planned around the financial calendar for the Company. Reports are received at all meetings from the Group Risk and Compliance and Group Internal Audit departments and new sales wins and their contract terms are reviewed from a risk and accounting perspective as appropriate.

In 2017 the Committee has held an additional unscheduled meeting to discuss the 2016 accounts for the Group with a particular focus on key judgements and estimates with regard to recognition and additionally their subsequent presentation as underlying or non-underlying.

During the year, the Committee undertook the following activities:

Internal controls and risk	Received and considered periodic reports, including an annual report, from the Group Internal Audit Director on the audit programme and the resulting actions
	Review of foreign operations risk assessment
	Review of qualifications and training given to individuals in control areas
	Met with the Group Risk and Compliance Director, Group Company Secretary and Group Internal Audit Director independently of Executive Directors
	Monitoring the internal controls that are operated by management to ensure the integrity of information reported to shareholders
	Review the schedule of the internal audits for the remainder of the year
	Review of major contract wins from a risk and accounting perspective
	Review of the business plan for Risk and Compliance and Internal Audit
	Continual review of available reporting on Group safety, health and environment
	Continued the programme to refresh our overall risk management framework to better support the ongoing development of the business
	Reviewed the activities and minutes of the Group Financial Services Risk Committee and receive an update from the Group Financial Services Risk Committee Chairman on a quarterly basis
	Reviewed the activities and minutes from the Non-Financial Services Risk Committee
	Reviewed the activities and minutes from the Group Security Risk Committee.
External Auditor	Considered and approved the audit approach and scope of audit to be undertaken by KPMG
	Meeting independently of Executive Directors
	Received updates and summaries of audit findings
	Considered the level of non-audit services being provided to satisfy itself that the objectivity and independence was safeguarded
	Review and approval of the representation letter
	Reviewed the audit planning for the annual audit
	Review of letter received from FRC on the review of audit papers.
Accounting, tax and financial reporting	Review and recommendation of the Annual Report and Accounts and the half-yearly accounts including the financial and non-financial aspects, including a review of the significant accounting policies and to ensure these accounts give a fair, balanced and clear presentation of the performance of the Group
	Corporate governance updates in relation to matters pertaining to the scope of the Committee
	Review of the disclosures of internal controls, risk management and principal risks and uncertainties within the report and accounts
	Review and challenge the key judgements made by management to ensure they were properly assessed and disclosed
	Received regular updates on the acquisition and contracts integration process.

AUDIT AND RISK COMMITTEE CONTINUED

During the year, the Committee reviewed a wide range of financial reporting and related matters, in addition to the review of the half-year and annual accounts prior to their submission to the Board. The Committee focused in particular on critical accounting policies and practices adopted by the Group and any significant areas of judgement that materially impact on reported results, including their presentation in the financial statements.

The Committee is responsible for the policies on whistleblowing (speak up) and the provision of the non-audit services by the external Auditor. Both policies are published on the Company's intranet and website www.capita.com.

The Committee also receives feedback from the Group Financial Services Risk Committee that brings together all the regulated areas within the Group.

2016 saw the ongoing programme to continually improve our risk management framework to better support the development of the business which included a review of the changes in the approach to internal audit, put forward by the Group Finance Director, involving a larger degree of co-sourcing through a contract with PwC LLP which will increase the breadth, available skillsets and efficiency of audits undertaken.

Significant issues in relation to the financial statements considered by the Audit and Risk Committee

Going concern

Consideration of the going concern assumption is the responsibility of the Board, and the Committee has included an independent assessment given the inherent judgements required to be made in relation to the forecasts and definitions within the covenant calculations.

The going concern assertion has a significant impact on the basis of preparation of the financial statements, and the Committee has challenged the key assumptions as set out on page 73.

The Committee has reviewed:

› The process by which forecasts have been prepared by management to support the going concern assessment. This includes an analysis of the funding, both committed and uncommitted, available to the Group including maturity dates.

› The covenant definitions within the funding agreements, and challenged management as to how these have been interpreted in the going concern assessment.

› The basis of preparation for the Group's future cash flow forecasts, and the link to the agreed Group strategy and principal risks and uncertainties. The Committee challenged the robustness of the forecasts and the assumptions that underpinned the covenant test analysis, and also considered the stress test scenarios applied by management.

› The going concern disclosures presented in the accounts to ensure that they are balanced, proportionate and provide sufficient information on the key judgements applied.

The Committee is satisfied that:

› The forecasts have been prepared on a basis consistent with prior years, and that the review undertaken has been rigorous including appropriate sensitivity analysis.

› There has been no change to the covenant definitions in the current year, and that the calculations have been prepared on a basis consistent with prior years. Importantly the Committee notes that the inclusion and exclusion of specific items in prior years has not been subject to disagreement with the loan providers in terms of interpretation of the covenant definitions and further commissioned an independent review by an expert which validated the approach taken.

› The forecasts incorporate the agreed strategic actions and the cash outflows associated with the major Group restructuring programme announced in 2016.

› That the conclusion reached is appropriate.

The Committee concluded that a robust assessment has been performed with appropriate stress testing to reflect the key risks and uncertainties relevant to the Group.

The Committee is satisfied that page 73 includes detailed disclosures concerning the going concern assertion and key assumptions applied to inform the users of the assessment undertaken by the Board.

Revenue and profit recognition

Due to the size and complexity of some of the Group's contracts, there are judgements and estimates to be applied, including the measurement and timing of revenue recognition and the recognition of assets and liabilities that result from the performance of the contract.

The Audit and Risk Committee receives a summary presentation for all new major contracts. These reports include an overall summary of the contract, the financial projections and key risks and assumptions. The proposed accounting is considered by the Group Finance Director and the Committee to ensure compliance with the Group's accounting policies and to understand their impact on the financial statements. Technical advice is taken where necessary from the Group's technical accounting team and views discussed with the external Auditor. Major contracts continue to be monitored through the Monthly Operating Board (MOB) reviews and the Committee is regularly updated on the performance of these contracts including contract balances and operational progress. Any significant issues identified in respect of these contracts are referred back to the Committee as required.

The Committee has also reviewed the external Auditor's findings and where necessary sought further confirmation or explanation from the Group Finance Director and the Board to concur that the revenue and profit recognition is appropriate and related assets held on the balance sheet are recoverable. The Committee also considers the sufficiency of related disclosures in the financial statements. Due to the significant review of major contracts undertaken by the Board in the year and their impact on the financial statements, the Committee undertook an additional meeting to those scheduled attended by the Board and the Auditor, alongside meetings with the Auditor without the Company representatives and additional discussions within the Committee itself to review the judgements being applied, the estimations of the impact to the accounts and the conclusions that were reached as well as the

AUDIT AND RISK COMMITTEE CONTINUED

disclosure contained within the accounts. The Committee has recommended further disclosure of the judgements exercised in this area (note 2 to the financial statements).

Carrying value of goodwill and intangibles
The Group has a significant goodwill balance representing consideration paid in excess of the fair value of the identified net assets acquired. The net assets acquired include intangible assets which are determined at the date of acquisition. The Committee recognises that there is a risk that businesses can become impaired, for example, due to market changes or product life cycles. As a result, the Group monitors carrying values of goodwill and intangibles to ensure that they are recoverable and any specific indicators of goodwill or intangible impairment are discussed in the Monthly Operating Boards.

This carrying value of goodwill is subject to impairment testing on an annual basis. The carrying value of goodwill and intangible assets are reviewed on the identification of a possible indicator of impairment, to ensure that carrying amounts are recoverable. This testing, including the key assumptions and sensitivity analysis, is reviewed by the Group Finance Director and Director of Group Finance.

During the year the Group disposed of a number of businesses, including a number of those held for sale at the previous year-end. As a result of this activity any goodwill impairment was recognised as a non-underlying transaction in the income statement representing the value of goodwill disposed and included in the loss on sale of assets calculation for those businesses exited (see note 4 to the consolidated financial statements). In relation to businesses held for sale on the balance sheet in the comparative year, goodwill and other assets identified as part of the disposal group were re-measured through the period up to sale, such that the held for sale value reflected the expected sale proceeds from their ultimate disposal.

This impairment of goodwill was recognised as a non-underlying item in the income statement. Subsequent to the aforementioned business exits the Group, as part of its impairment review, identified goodwill in relation to specific cash-generating units was in excess of its value in use and was impaired. This impairment was recognised as a non-underlying item in the income statement (see note 5 to the consolidated financial statements).

The Committee has reviewed the external Auditor's report and, where necessary, sought further confirmation or explanation from the Board, and specifically the Group Finance Director and Director of Group Finance, to ensure that the value of goodwill, the disposals and impairments recorded and the accompanying disclosures included in these financial statements are appropriate. The Audit and Risk Committee, having made these enquiries, agrees with management that no further impairment need be recognised and the transactions detailed above have been properly disclosed and explained in the financial statements.

Underlying and non-underlying presentation
The Committee remains of the view that the presentation of the underlying and non-underlying information provides useful disclosure to aid the understanding of the performance of the Group. The major considerations when reviewing the presentation of the non-underlying items (being the items labelled as other non-underlying and business exits) are:

› The nature of the item.
› The circumstances leading to recognition.
› The impact on the financial statements with regard to the requirement for a fair and balanced presentation of performance.
› Where management and the Committee concur with a need to separately disclose certain items to fully understand and give clarity to the continued activities of the Group.

The following material disclosures were considered by the Committee in year:

› The presentation of the exceptional restructuring costs as a non-underlying item.
› The matters covered in the 'Carrying value of goodwill and intangibles' as stated above and their presentation as non-underlying.
› Management's treatment of the impairment of contract assets in connection with the settled dispute with The Co-operative Bank plc.
› The timing of and the quantum of the impairment of assets employed to deliver significant long-term contracts and their inclusion as a non-underlying item.
› The timing and the quantum of the write off of contract accrued income balances and the inclusion of these items in the underlying result.
› The items that are consistent with previous years including: intangible amortisation, Asset Services Settlement provision movements, net contingent consideration movements, non-cash mark-to-market finance costs and acquisition costs.

In keeping with the Committee's main considerations for the presentation of non-underlying items, the Committee has reviewed the items included in the underlying and non-underlying columns alongside consideration of any representations made by the external Auditor. Having completed the exercise, the Committee determined that the disclosure met with the requirements of fairness and balance and, where extra disclosure was required, it has been included in the financial statements. The Committee also considered whether a prior year adjustment was required for any item of an historic nature and were satisfied that this was not the case, as any write off was the consequence of a change in estimate or judgement relating to circumstances in the year rather than an error or change in accounting policy.

The Committee confirmed that none of the 2016 business exits or businesses in the process of being exited meet the definition of 'discontinued operations' as stipulated by IFRS 5, which requires disclosure and restatement of comparatives where the relative size of a disposal or business closure is significant, normally understood to mean a reported segment. Accordingly, the separate presentation described above does not fall within the requirements of IFRS 5 concerning discontinued operations and the 2015 comparative has not been restated.

AUDIT AND RISK COMMITTEE CONTINUED

Acquisition activity and accounting
Significant acquisitions are approved by the Board to ensure that the acquisition is in line with Group strategy and that sufficient due diligence has been undertaken in order to understand the business being acquired and that any identified risks are quantified, explained and understood.

The Audit and Risk Committee receive acquisition reports which detail the nature, profitability and risk profile of potential acquisitions. As part of the on-boarding of acquisitions into the business, the Group Finance Director and Director of Group Finance determine the point at which the Group obtained control of the target business and conduct a review of the accounting policies of each acquisition and whether they are compliant with Group policy. Any difference is recognised in the opening balance sheet to ensure consistency. The assets and liabilities are reviewed to ensure that they are fairly stated and that there is sufficient evidence to support any adjustments to carrying values including the recognition of any previously unrecognised balances. The Group Finance Director and Director of Group Finance review the resulting acquired opening balance sheet for each acquisition. The profitability of acquisitions is monitored through the Monthly Operating Board reviews and any serious issues identified in respect of these acquisitions are referred back to the Committee.

The Committee has reviewed the acquisition disclosure in the financial statements in conjunction with the external Auditor's findings and where necessary sought further confirmation or explanation from the Board in order to conclude that the disclosures are appropriate and that acquisition accounting has been appropriately applied.

Defined benefit pension liabilities
The measurement of the defined benefit liability in respect of defined benefit pension schemes is a complex area, relying on assumptions on inflation, mortality, returns on corporate bonds, expectations of returns on assets and a number of other inputs. There is risk in any one of these areas of misstatement of the Group's liability in respect of these obligations and the pension charge that is recognised in the income statement.

The Committee reviews the disclosures in the financial statements along with the external Auditor's report and receives representations from the Group Finance Director and external Auditor with regard to the assumptions included in the valuation and their relative impact.

Having made these enquiries, the Committee determined that the valuation of the pension obligation and the accompanying disclosure is in line with expectations.

Provisions
There is judgement applied in the level of provisioning across the Group. This involves making an assessment of the size and timing of probable economic outflows due to the occurrence of a past event. The Committee has reviewed the disclosure in the financial statements and, where necessary, made enquiries of the Group Finance Director and management to gain an understanding of the amounts recorded.

In the current year, disclosure has been continued of the recognition of the significance of items held within the Asset Services Settlement provision. In addition, provision has been made in respect of the restructuring of the Group commenced in 2016.

Asset Services Settlement provision:

1. Arch Cru: The parties to the CF Arch Cru Funds group litigation have entered into a full and final settlement of the proceedings on confidential terms. This matter was largely completed in 2016.
2. Connaught: The potential costs in resolving the matter relating to Connaught Income Series 1 Fund ('the Fund'), of which CFM was the Operator until September 2009, when it was replaced by another Operator company unrelated to Capita (following which CFM had no further involvement with the Fund). The Fund went into liquidation in 2012 and its liquidator has brought a claim against both former Operators. The Financial Conduct Authority ('FCA') was supporting the negotiations being undertaken between all parties but on 10 March 2015 confirmed that it had withdrawn from the negotiations and has decided to formally review the activities of both Operators. At this time no conclusion has been reached on whether any wrongdoing has occurred and whether any enforcement action will be taken. Whilst there can be no certainty that a liability will not arise in respect of this matter, the Group is unable to determine what the outcome of the FCA review might be and as such no provision for a potential outflow of funds has been made. Due to the requirement to await the outcome of the formal review commenced by the FCA, the likely timeline for conclusion of this matter remains uncertain, however, it is expected to be discharged in the second half of 2017.
3. Further to the above provisions, £20m has been provided for potential additional legacy claims related to the activities of businesses that were instigated prior to the acquisition by the Group. A £7.5m asset has been recognised in respect of an insurance recovery that is certain (see note 26, p145). The expected timeline to resolution of these matters cannot be known for certain but it is expected to be within one year.

Restructuring provision:
In year the Group commenced a large restructuring programme and has at the year-end expensed £59.3m through the income statement with regard to the expected cost of completion. The Committee has reviewed the overall judgement for making the provision and its compliance with the relevant standard IAS 37 in respect of the timing of when such provision can be included in the financial statements. This is materially concerned with whether the business is committed to pursuing this course of action and whether there is a valid expectation of redundancy within the groups of individuals impacted. The Group, within this provision, has also made provision for excess property capacity that has resulted from the exercise. The expected cost is the Group's best estimate of the costs to complete as it cannot be measured precisely; the Committee has challenged the calculations accordingly.

AUDIT AND RISK COMMITTEE CONTINUED

The Committee is satisfied that the disclosure in the accounts is sufficient to gain an understanding of the nature of these provisions and their impact on the financial statements. The Committee has reviewed the inclusion in the financial statements of financial assets representing insurance or indemnity recoveries and whether they are virtually certain to be received (the required benchmark for recognition of a contingent asset). The Committee is comfortable that these items do pass that required threshold for recognition. It has reviewed the disclosure pertaining to these items and is comfortable that it gives sufficient detail for the items to be understood by a reader of the accounts.

Other issues in relation to the financial statements considered by the Audit and Risk Committee

Materiality

Materiality is important in determining the risk attached to any judgement. Audit materiality is set with the external Auditor to ensure that the Audit and Risk Committee is informed of individual items above a certain threshold that are most likely to have an impact on the financial statements. The Audit and Risk Committee reviews the external Auditor's report and the individual items that breach the materiality thresholds and assess their relative impact on the reported statements: income statement, balance sheet, statement of changes in equity and cash flow as well as the notes to the accounts.

The Committee requests further clarification from both the external Auditor, the Group Finance Director and Group Financial Controller as to the nature of these items and also their relative importance in the financial statements.

After having made such enquiries, the Audit and Risk Committee is satisfied that materiality has been applied correctly in the accounts and that material items brought to its attention remain unadjusted where its inclusion would not cause detriment to the overall reading of the financial statements.

Disclosure of information to Auditor

The Directors who held office at the date of the approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken all steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

Statutory Auditor

The Committee provides a forum for reporting by the Group's Auditor (KPMG), and it advises the Board on the appointment, independence and objectivity of the Auditor and on the remuneration for both statutory audit and non-audit work. It also discussed the nature, scope and timing of the statutory audit with the Auditor. The Audit and Risk Committee performs annually an independent assessment of the suitability and performance of the Auditor in making its recommendation to the Board for their re-appointment.

The external Auditor attends all meetings of the Committee and reports to the Committee on the statutory reporting, non-audit fees and ongoing audit items.

Auditor independence

The Committee takes seriously its responsibility to put in place safeguards to Auditor objectivity and independence. The Company is committed to ensuring appropriate independence in its relationship with the Auditor and the key safeguards are:

- The Group Finance Director monitors the independence of the Auditor as part of the Group's assessment of Auditor effectiveness and reports to the Audit and Risk Committee.
- The Audit and Risk Committee routinely benchmarks the level of the Group audit fee against other comparable companies, both within and outside of the Group's sector, to ensure ongoing objectivity in the audit process.
- The Group Finance Director monitors the level and nature of non-audit fees accruing to the Auditor, and specific assignments are discussed in advance with the Auditor and flagged for the approval of the Audit and Risk Committee, as appropriate, and in accordance with the Company's policy on the provision of non-audit services by the Auditor. The Audit and Risk Committee reviews, in aggregate, non-audit fees of this nature on a six-monthly basis and considers implications for the objectivity and independence of the relationship with the Auditor.

Ensuring conflicts of interest are avoided is a fundamental criterion in the selection of any third party auditor for assignments with which the Group is involved. Such conflicts may arise across public or private sector clients and key supplier relationships, for example, and are a key determinant in the award process for external audit assignments.

Non-audit fees

The Committee has established a policy on the provision of services by the Group's Auditor. The policy describes the circumstances in which the Auditor may be permitted to undertake non-audit work for the Group. The Committee oversees compliance with the policy and considers and approves requests to use the Auditor for non-audit work. Any assignment where the expected fee is above £150,000 requires specific approval from the Committee or a member of the Committee. The Group Company Secretary deals with day-to-day administration of the policy, facilitating requests for approval by the Committee. During 2016 an additional measure was put in place and all work with the external Auditor outside of the audit has to be pre-approved by Nick Greatorex, the Group Finance Director. The Auditor undertook various non-audit work such as assistance on acquisitions and bids across our business in 2016. Only the Audit and Risk Committee can authorise the scope and policy on non-audit fees.

Non-audit fees this year are at 21% (2015: 37%), as a percentage of all fees paid to the external Auditor. The Committee continued to receive updates throughout the year on the level of fees which have been approved where, as an individual instance, they were over the threshold stated above.

The policy is reviewed by the Committee annually. Details of audit and non-audit fees are given in note 7 on page 128 and a summary of non-audit fees is shown in the table overleaf.

The FRC's 2016 Revised Ethical Standard introduced further restrictions on the provision of non-audit services. The new Standard applies to Capita with effect from 1 January 2017 and steps were taken with the external Auditor to ensure that ongoing services prohibited by the new Standard from 1 January 2017 had been completed by 31 December 2016.

AUDIT AND RISK COMMITTEE CONTINUED

Non-audit fees

	2016 £m	2015 £m
Non-audit services		
Taxation compliance services	**0.1**	0.1
Taxation advisory services	**0.1**	–
Services related to corporate finance transactions	**0.1**	1.2
Other assurance services	**0.6**	0.6
Total non-audit services	**0.9**	1.9

External Auditor performance
The Committee discussed the performance of KPMG during the period and was satisfied that the level of communication and reporting was in line with requirements. This also included a review of effectiveness and quality of the audit process. The evaluation of KPMG also included the planning of the audit and a post-audit evaluation.

The evaluation focuses on understanding and challenging how the Auditor demonstrates the effectiveness of key professional judgement made throughout the audit and how this might be supported by evidence of the following critical Auditor competencies:

› A mindset and culture that exhibits integrity and objectivity and is aligned with the expectations and interests of stakeholders of their reports.
› The skills and knowledge to develop a thorough understanding of the Company's business and industry, the environment in which it operates and of the applicable legal and regulatory framework, and the strength of character to provide effective challenge in performing the audit.
› The ability to establish effective quality control by putting in place the processes necessary to deliver a consistently high quality audit.

The Audit and Risk Committee has ensured that the evaluation is integrated with other aspects of their role related to ensuring the quality of the financial statements – obtaining evidence of the quality of the Auditor's judgements made throughout the audit, in identifying audit risks, determining materiality and planning their work accordingly, as well as in assessing issues.

External Auditor re-appointment
The Company's audit services were last subject to a tender process in 2010, at which time KPMG Audit Plc, subsequently KPMG LLP, replaced Ernst & Young LLP as the Group's Auditor. The lead audit partner is rotated on a five-yearly basis. The current lead audit partner will rotate off the audit at the conclusion of the 2016 audit. There are no contractual obligations which restrict the Committee's choice of auditor.

Under the requirements of the Statutory Audit Services Order and the EU Audit Directive and Audit Regulation the provision of audit services should be re-tendered every 10 years. The complex nature and continued growth of the Group requires that a knowledge base is built up year-on-year by the incumbent to ensure that the external audit is conducted with a proper understanding of the Group's operations and the nature of the risks that it faces. This is an important factor in ensuring audit quality and it is not envisaged that the tender will be undertaken prior to the completion of the 10-year period. The Group has complied with the provisions of the Statutory Audit Services Order.

A resolution to re-appoint KPMG LLP as the Auditor of the Company will be put forward at the forthcoming Annual General Meeting. If passed, KPMG LLP will hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company, and their remuneration will be fixed by the Committee.

Risk management and internal control

The Committee is responsible for reviewing the effectiveness of the Group's system of internal control. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has established a clear organisational structure with defined authority levels. The day-to-day running of the Group's business is delegated to the Executive Directors of the Company.

The Executive Directors meet with both operational and finance management on a monthly basis through the Group's programme of Monthly Operating Board meetings where key financial and operational measures are reported on a monthly basis and measured against both business plan (budget) and monthly re-forecasts.

The Committee receives regular reports from the Director of Risk and Compliance and the Group Internal Audit Director, utilising the Risk Framework the Group has embedded throughout the organisation. This framework is a combination of corporate principal risks (top down) as utilised to assess going concern and the longer term Viability Statement and set out on page 55 and bottom up risks determined by each division. The bottom up risks are mapped into the corporate risk. These risks are assessed regularly to determine whether the controls are operating within a tolerance level of the Group's appetite to risk or whether the level of risk is deemed as uncomfortable or critical. Whenever a risk is considered critical, a thorough review is conducted as to why this is and how the mitigating controls can be strengthened. When a risk status moves adversely between meetings this risk is also thoroughly investigated.

On an annual basis, through the business planning process, each business unit is required to prepare a risk assessment process on the key strategic, operational, financial and accounting risks to identify, evaluate and manage the significant risks to the Group's business. They include common definitions of risk and ensure, as far as practicable, that the policies and procedures established by the Board are appropriate to manage the perceived risks to the Group.

During the year, the Committee focused on key risk themes such as cyber risk, health and safety, anti-bribery and corruption, management of client money, property risk, regulatory risk, information security and data management. The risk assessment process and the reporting of risks revealed no significant risks of which the Board was not previously aware and which were not discussed regularly at the Committee or the Board.

AUDIT AND RISK COMMITTEE CONTINUED

The Board and Audit and Risk Committee have also reviewed a programme of work determined by the Group Finance Director to improve certain internal controls. This programme centres on further improving the ability to forecast cash flow in a more granular way, reviews of the profitability of long-term contracts, assessing the carrying value of goodwill and intangible assets, determining what amounts of expenditure on contracts are capitalised, managing accrued income balances and allocating capital expenditure. Improvement has been made in these areas to date but there is further work to do. This work led to, in particular, a more forensic review of historic WIP balances, given the commercial and economic changes in the markets in which we operate this year, and how recoverable these were as well as the ability to generate a return from certain assets. Whilst there has been an adverse financial impact from these reviews during the year, the control environment has certainly been strengthened. That said, there is more work to be done and the focus in 2017 will be to continue to strengthen the internal control environment around these areas.

The Board, with the advice of the Committee, has reviewed the effectiveness of the risk management and internal control systems and is satisfied that the Group has in place effective risk management and internal control systems which have been further enhanced through engagement with our Internal Audit co-sourcing partner PwC LLP.

This enhanced risk framework introduced a defined set of risk categories which form the basis of defining the Group's appetite to risk. In establishing this tolerance and critical limit/concern risk appetite, the Committee is able to maintain governance over the principal risks to the Group and ensure effective mitigation is in place.

Internal audit

There is a Group Internal Audit function headed by a Director, who has an administrative reporting line to the Group Finance Director and an independent reporting line to the Chair of the Audit and Risk Committee. Following a review of this function, it was determined that added expertise and breadth could be delivered through more extensive use of co-sourcing arrangements. A selection process was undertaken and PwC LLP was appointed as the principal co-source partner.

In year a full programme of internal audit visits has been completed. The scope of audit work generally focuses on internal management control and risk procedures that are operating within each of the Group's businesses, but is continually reviewed and challenged to ensure that the work it undertakes is focused on the areas of risk to the Group.

Written reports are prepared on the results of internal audit work during the year and submitted alongside verbal updates of in-progress activity to the Audit and Risk Committee by the Group Internal Audit Director. The representations given would set out strengths and weaknesses identified during the work, together with any recommendations for remedial action or further review.

The reports are reviewed and discussed with Executive Directors to whom they pertain. Throughout the year, the Group Internal Audit Director reports on the work carried out to date and the in-flight work to be completed, and also presents an annual report to the Committee.

The Committee reviews management's response to the matters raised and ensures that any action is commensurate with the level of risk identified, whether real or perceived.

There were no significant weaknesses identified in the year, but a number of recommendations were acted upon within the Group to strengthen in-place controls or risk awareness. The Committee remains satisfied that the Group's systems of internal controls work well and have been enhanced and that there is flexibility in the resources required to complete a full and targeted programme of internal audit work, within a group of Capita's size, and that these are in place.

Anti-bribery and whistleblowing 'Speak Up'

Capita has a Group-wide anti-bribery and corruption policy, which is in compliance with the Bribery Act 2010. It periodically reviews its procedures to ensure continued effective compliance in its businesses around the world.

A Speak Up policy provides the framework to encourage and give employees confidence to 'blow the whistle' and report irregularities. Employees are encouraged to raise concerns with designated individuals and there is a dedicated email hotline to make such complaints easy to make. These are investigated on behalf of the Executive Directors or the Chair of the Audit and Risk Committee. All such reports will be investigated and reported (on an annual basis) to the Committee, together with details of corrective action taken.

I would like to take this opportunity to thank colleagues at Capita for all their help over the last seven years and I wish them and Matthew Lester, the incoming Chair, a successful future.

Paul Bowtell
Chair, Audit and Risk Committee
1 March 2017

AUDIT AND RISK COMMITTEE CONTINUED

Group Financial Services Risk Committee

The Group Financial Services Risk Committee was established at the beginning of 2012 and meets at least quarterly to assess the risks across Capita's financial services businesses. It is chaired by Tim Brooke, an independent member of the Committee. Tim is independent of Capita and brings his expertise in the Financial Services sector to support the Committee. He is not an independent Non-Executive Director of Capita plc but he provides feedback quarterly to the Audit and Risk Committee. Chris Terry, Group Risk and Compliance Director, is also a member of the Committee.

The Committee met four times in 2016. Membership and attendance was as follows:

Name of member	Number of meetings attended
Tim Brooke (Chair)	4
Nick Greatorex	4
Vic Gysin	3
Chris Terry[1]	4

1 Chris Terry (Group Risk and Compliance Director).

Other key divisional staff are invited to attend and report to the Committee. All Non-Executive Directors and the Group Internal Audit Director have open invitations to attend any of these meetings.

The Committee's terms of reference include:

- Reviewing and commenting upon Group control function oversight plans and monitoring their progress.
- Reviewing material findings arising from oversight activities and issues identified by management.
- Tracking key regulatory changes impacting on the Group's regulated firms.
- Tracking key business developments, including bids, acquisitions and offshoring developments.
- Receiving updates on regulatory capital issues (e.g. ICAAP).
- Receiving updates on Conduct risk issues.
- Reviewing and adopting policies applicable to the financial services businesses.
- Identifying items for the attention of the Board or Audit and Risk Committee.

The scope of the Committee includes the Financial Conduct Authority ('FCA') in the UK and the equivalent financial services regulator in other jurisdictions where the Group operates regulated financial services firms.

Non-Financial Services Risk Committee

The Non-Financial Services Risk Committee was established at the end of 2013. It meets quarterly to assess the risks outside of financial services and is chaired by Nick Greatorex, Group Finance Director.

In 2016 the Committee met formally three times. Due to the spacing of meetings during the year, the fourth meeting would have been held shortly after the third meeting so papers and updates were circulated to the Committee instead. Membership and attendance was as follows:

Name of member	Number of meetings attended
Nick Greatorex (Chair)	3
Vic Gysin[1]	–
Dawn Marriott-Sims	1
Chris Terry[2]	3

1 Before being appointed Group Operations and Performance Director, Vic Gysin was Joint COO for the financial services divisions and risk matters relating thereto were considered by the Financial Services Risk Committee.

2 Chris Terry (Group Risk and Compliance Director).

All Non-Executive Directors and the Group Internal Audit Director have an open invitation to attend these meetings.

In overseeing Capita's risk management practices and ensuring risks are limited by management and appropriate use of controls, the Committee holds a key position in the governance of Capita's group risk profile. Its primary functions are to:

- Oversee Capita's risk identification, monitoring and reporting practices and take all steps to ensure that senior divisional management has in place procedures and mechanisms to identify and control all fundamental strategic, operational, financial and reporting and compliance risks.
- Provide the forum to monitor, challenge and ensure effective mitigation is in place for Capita's risk management environment.
- Promote greater awareness of risk management at all levels within the organisation.
- Establish and preserve oversight for risk issues that affect Capita or its customer base.
- Provide strategic risk guidance.

AUDIT AND RISK COMMITTEE CONTINUED

Group Security Risk Committee

Established at the beginning of 2015, the Committee normally meets quarterly to ensure the security control functions remain adequately resourced to deliver effective security for Capita. It was chaired by Alex Cutler, Chief Information Officer, until he left Capita in November 2016. Chris Terry, Group Risk and Compliance Director, is acting as interim Chair of the Committee until a new Chief Information Officer is appointed.

The Committee met three times in 2016. Due to the timing of meetings during the year and certain other factors, a fourth meeting was not necessary. Membership and attendance was as follows:

Name of member	Number of meetings attended
Alex Cutler (Chair)[1]	3
Nick Greatorex	3
Dawn Marriott-Sims	2
Vic Gysin	2
Chris Terry[2]	3

1 Alex Cutler (Chief Information Officer until November 2016).
2 Chris Terry (Group Risk and Compliance Director).

All Non-Executive Directors and the Group Internal Audit Director have an open invitation to attend these meetings.

The primary functions of the Committee are:

- Ensuring alignment of information security activities with business objectives.
- Defining the information security baseline policies to integrate security activities with business objectives.
- Communicating Group security strategy and policy mandate to Divisional and business management.
- Monitoring information security legislative and regulatory compliance.
- Tracking key security metrics.
- Tracking key IT and security changes impacting on the Group's business operations.
- Providing support to Group security resources in implementing Group security policy.
- Ensuring organisational functions, resources and supporting infrastructure are available and properly utilised to fulfil the Group security strategy and governance requirements.
- Ensure roles and responsibilities include risk management in all activities.
- Providing direction on issues escalated from the Information Security Steering Group and IT Directors' Steering Group.
- Implementing comprehensive oversight via audit to ensure ongoing compliance with security baseline requirements.
- Identifying items for the attention of the Board or Audit and Risk Committee.

Review of Risk Committees

The scope and purpose of these three committees will be reviewed during 2017 and further disclosure will be provided in next year's Annual Report.

DIRECTORS' REMUNERATION REPORT

JOHN CRESSWELL
CHAIR,
REMUNERATION COMMITTEE

Dear shareholder

As already discussed in Andy Parker and Sir Ian Powell's reports, the 2016 results were challenging and disappointing for the Group. Our remuneration structure is heavily performance-orientated so, as a consequence, the Executive Directors' total pay for 2016 (as illustrated in the single figure table on page 100) is significantly reduced relative to prior years.

As the previous reports also highlighted, the Board is focused on implementing the necessary strategic and operational changes to ensure that the Group returns to expected levels of growth as soon as possible. The Remuneration Committee's pay decisions for 2017 are intended to support this process whilst remaining sensitive to the difficult shareholder experience of the past 12 months.

A summary of the key Committee decisions and pay outcomes of the past year is set out in the following pages.

Annual Statement from the Remuneration Committee Chair

Members:

- John Cresswell (Chair)
- Gillian Sheldon
- Paul Bowtell
- Andrew Williams

All members of the Committee are Independent Non-Executive Directors.

None of the Committee members has day-to-day involvement with the business nor do they have any personal financial interest, except as shareholders, in the matters to be recommended. The number of formal meetings held and the attendance by each member is shown in the table on page 77. The Committee also held informal discussions as required.

The Group Company Secretary acts as Secretary to the Committee and is available to assist the members of the Committee as required, ensuring that timely and accurate information is distributed accordingly.

Total pay for 2016

As part of our high performance culture, the annual bonus scheme for Executive Directors is wholly based on stretching Group profit targets with no discretionary or personal performance element. As the threshold profit target was not achieved in 2016, the Executive Directors will receive no annual bonus for 2016.

Vesting of LTIP and DAB Matching awards granted in 2014 was determined by a combination of Earnings Per Share (EPS) and Return on Capital Employed (ROCE) performance and absolute share price, both assessed over the three-year period to 31 December 2016. As the share price performance target was not met, nor the EPS target, these awards will lapse in full during 2017.

As a consequence of the above, 2016 total pay for our established Executive Directors is 75% lower than 2015. This illustrates the clear alignment of pay and performance that is a fundamental principle of Capita's culture.

DIRECTORS' REMUNERATION REPORT CONTINUED

Pay decisions for 2017

Base salaries

In light of the disappointing 2016 results, base salaries of the established Executive Directors have been frozen for 2017. The Committee remains committed over the medium-term to paying a lower quartile basic salary relative to our peers with a weighting in our pay arrangements to variable pay.

Annual bonus

We remain committed to a high performance culture and accordingly the design of the annual bonus plan will remain unchanged in 2017 with payouts determined wholly by Group profit performance. The maximum bonus potential will remain unchanged at 200% of salary with half of any bonus deferred into shares, which must be held for three years from the date of the award.

Long Term Incentive Plan (LTIP)

The LTIP is a key element of our Remuneration Policy as it is retentive, promotes long-term Group success and helps to align management and investor interests. The Remuneration Committee has spent a significant amount of time considering how the 2017 LTIP awards should be structured so that they remain consistent with these principles but also to take into account that there has been a significant share price fall since the previous LTIP award in 2016. Having considered the above, the Committee has agreed the following structure for 2017 LTIP awards:

› Awards for the established Executive Directors will be over reduced salary multiples, namely 250% of salary for Andy Parker and 225% of salary for Nick Greatorex and Vic Gysin.

› Awards will continue to be determined by EPS (75%) and ROCE (25%) targets. To provide more flexibility for the Committee, a broader discretionary underpin will be applied instead of the inflexible share price underpin that applies to existing LTIP awards. Under this revised underpin, the Remuneration Committee will be able to assess the underlying financial and operational performance of Capita over the performance period and, if judged appropriate, can exercise its discretion to reduce the level of vesting.

› EPS and ROCE targets have been set that the Remuneration Committee regards as stretching for the 2017-19 performance period in light of business plan forecasts and market consensus. Following the decision to impair certain contracts at the end of 2016, a pro forma 2016 EPS figure (excluding the impact of the impairment charge) will be used as the base point for the calculation:

- EPS – 18.75% of award vests for 3% per annum growth increasing to 75% vesting for 8% per annum growth.
- ROCE – 6.25% of award vests for 11% average ROCE increasing to 25% vesting for 15% average ROCE.

› I should highlight that we currently only intend to apply these targets for LTIP awards to be granted in 2017. Targets for awards granted in 2018 and 2019 will be adjusted as necessary to reflect Capita's performance as it works towards renewed profitable growth.

› Awards will vest three years from grant. The Remuneration Committee considered whether the vesting period should be extended to five years in line with emerging market practice. However, as there is no current expectation that any outstanding LTIP awards will vest, a five-year vesting period would mean that the first realistic opportunity for any LTIP award to vest would be in 2022. The Committee was concerned that this extended time frame would introduce a significant retention risk for LTIP participants. The Committee will keep this issue under regular review ahead of future LTIP awards.

Shareholding guidelines

In order to enhance the long-term alignment of our senior management team with investors, the Remuneration Committee has decided to increase the minimum shareholding guideline for Executive Directors from 100% to 200% of salary. This will be set at 300% for the Chief Executive. Directors will be expected to retain at least half of vested share awards (post-tax) until they are compliant with the guideline.

Executive Director changes

There have been a number of Board changes in the past year with the promotion of Chris Sellers and departures of Maggi Bell and Dawn Marriott-Sims. The Remuneration Committee made decisions in each case that were consistent with our Remuneration Policy and which it considered were equitable having regard to the circumstances. Chris Sellers' 2017 pay arrangements, which are consistent with the 2016 pay arrangements of Maggi Bell, his predecessor as Group Business Development Director, are detailed on page 99. Payment arrangements for Maggi Bell and Dawn Marriott-Sims are detailed on page 104.

DIRECTORS' REMUNERATION REPORT CONTINUED

Remuneration Policy

Our current Remuneration Policy was approved by shareholders at the 2014 AGM and is therefore required by law to be reapproved by shareholders at the 2017 AGM. During 2016, the Remuneration Committee undertook a review of the current Policy relative to our key remuneration principles:

- To attract, motivate and retain the best employees
- To encourage and be supportive of a high performance culture
- To reward the fulfilment of the overall business plan of the Group
- To promote the long-term success of the Group
- To align management with the interests of our shareholders and other external stakeholders
- To be consistent with our risk policies and systems.

The Committee's conclusion from the review was that the current Policy remains consistent with these principles and will allow it to continue to implement a pay structure that is performance orientated and closely aligned to the successful delivery of Group strategy. Accordingly, the Policy to be reapproved by shareholders at the 2017 AGM is broadly unchanged from the current Policy. We have consulted with our top 20 shareholders which represented over 70% of our shareholders and have received positive feedback on our Policy.

Shareholder views

Details of voting on remuneration resolutions at the AGM in May 2016 are set out on page 98. We were pleased to receive strong shareholder support with a positive vote for our remuneration report at the AGM in 2016 of 96%.

I hope you will find this report to be clear and helpful in understanding our remuneration practices and that you will be supportive of the resolutions relating to remuneration at the AGM:

- A binding vote to approve the Remuneration Policy (set out on pages 92–99).
- An advisory vote to approve the Annual Report on Remuneration (set out on pages 89–105).
- Binding votes to approve the Long Term Incentive Plan, Deferred Annual Bonus Plan, Save as you Earn and the Share Incentive Plan. These plans are approaching the end of their 10-year life and so shareholder approval is being sought for replacement schemes. Full details of the plans are set out in the Notice of AGM although they are essentially unchanged from the current plans.

The Committee seeks to respond to shareholders' expectations of remuneration reporting and welcomes any feedback.

John Cresswell
Chair, Remuneration Committee
1 March 2017

DIRECTORS' REMUNERATION REPORT CONTINUED

Remuneration Policy

This part of the remuneration report sets out our revised Remuneration Policy (the 'Policy') and has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The Policy has been developed taking into account the principles of the UK Corporate Governance Code and the views of our major shareholders. The Policy will be put to a binding shareholder vote at the 2017 AGM to be held on 13 June 2017 and, subject to shareholder approval, will take formal effect from the conclusion of the AGM.

The information provided in this section of the remuneration report is not subject to audit.

Changes to the current Policy

This revised Policy is broadly consistent with our existing policy that was approved by shareholders at the 2014 AGM. Key areas of difference between the revised and existing policies are as follows:

- Malus and clawback provisions that were introduced during 2015 have been formally incorporated within the revised Policy.
- The revised Policy, in line with standard market practice, provides flexibility for the annual bonus to be based on financial, strategic or individual performance measures and for an element of the annual bonus to be paid for below target financial performance. The proposed bonus structure for 2017 will continue to be based wholly on financial measures and will make no payment for below target performance.
- The maximum annual LTIP award limit has been simplified in the revised Policy to 300% of salary (the limit in the existing policy is the higher of 300% of salary and 165,000 shares).
- The revised Policy, in line with standard market practice, provides flexibility for vested LTIP awards to receive an additional payment upon vesting based on dividends that would have accrued during the vesting period.
- The revised Policy clarifies payments that can be made in connection with a director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation or by way of a compromise or settlement of any claim arising in connection with the cessation of a Director's office or employment.
- The revised Policy provides the Committee with discretion to make appropriate remuneration decisions outside the standard Policy in the exceptional circumstances when the Chairman or a Non-Executive Director or an interim appointment takes on an Executive Director role on a short-term basis.

Responsibilities and activities of the Remuneration Committee

The Committee is responsible for determining and agreeing with the Board the policy on Executive Directors' remuneration, including setting the over-arching principles, parameters and governance framework and determining the initial remuneration package of each Executive Director. In addition, the Committee monitors the structure and level of remuneration for the senior management team and is aware of pay and conditions in the workforce generally. The Committee also sets the Chairman's fee.

In setting the Remuneration Policy for the Executive Directors, the Committee ensures that the arrangements are in the best interest of both the Group and its shareholders, by taking into account the following general principles:

- To ensure total remuneration packages are simple and fair in design so that they are valued by participants.
- To ensure that total remuneration is highly performance orientated.
- To balance performance-related pay between the achievement of financial performance objectives and delivering sustainable performance; creating a clear connection between performance and reward and providing a focus on sustained improvements in profitability and returns.
- To provide a significant proportion of performance-linked pay in shares allowing senior management to build a significant shareholding in the business and, therefore, aligning management with shareholders' interests and the Group's performance, without encouraging excessive risk-taking.

Consideration of shareholder views

The Company is committed to maintaining good communications with investors. The Committee considers the AGM to be an opportunity to meet and communicate with investors, giving shareholders the opportunity to raise any issues or concerns they may have. In addition, the Committee will seek to engage directly with major shareholders and their representative bodies should any material changes be proposed to the Policy.

In formulating this revised Policy, letters containing our draft proposals were sent to our top shareholders who represented more than 73% of our shares held and also to the industry bodies. Meetings were offered and were held with the majority of those contacted, who were supportive of the changes proposed for 2017.

DIRECTORS' REMUNERATION REPORT CONTINUED

Remuneration Policy table

The following table sets out the key aspects of the Policy.

Element of pay	Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
Base Salaries	To attract and retain talent by ensuring base salaries are sufficiently competitive.	Normally reviewed annually in December with any changes usually effective in January. The Committee may award salary increases at other times of the year if it considers it to be appropriate. The review takes into account: › Salaries in similar companies and comparably-sized companies › Remuneration Policy › Economic climate › Market conditions › Group performance › The role and responsibility of the individual Director › Employee remuneration across the broader workforce.	There is no prescribed maximum monetary annual increase to base salaries. Any annual increase in salaries is at the discretion of the Committee taking into account the factors stated in this table and the following principles: › Salaries would typically be increased at a rate consistent with the average salary increase (in percentage of salary terms) for the broader workforce. › Larger increases may be considered appropriate in certain circumstances (including, but not limited to, a change in an individual's responsibilities or in the scale of their role or in the size and complexity of the Group). › Larger increases may also be considered appropriate if a Director has been initially appointed to the Board at a lower than typical salary.	Individual and business performance are considerations in setting base salaries.
Annual bonus and Deferred Annual Bonus ('DAB') Plan	Performance measures are selected to focus Executives on delivery of the Group business plan for the financial year.	The bonus scheme is reviewed annually to ensure that bonus opportunity and performance measures continue to support the business plan. Stretching targets are set at the start of each financial year. Performance against targets is reviewed following completion of the final accounts for the period under review. 50% of any bonus earned is normally delivered in shares deferred for three years under the DAB plan with the remainder delivered in cash or Deferred Shares at the Executive Director's discretion. An additional payment may be made at the time of vesting in respect of dividends that would have accrued on Deferred Shares during the deferral period. Malus and clawback provisions apply to all annual bonus and DAB awards for a period of up to three years after the determination of the annual bonus.	Maximum opportunity of 200% of salary.	Executive Directors' performance is measured over a one-year period relative to challenging targets for selected measures of Group financial, strategic or individual performance. The majority of the bonus will be determined by measure(s) of Group financial performance. A sliding scale is set for each Group financial measure. 50% of the bonus will be paid at target performance increasing to 100% for maximum performance. Any bonus payout is ultimately at the discretion of the Committee.

DIRECTORS' REMUNERATION REPORT CONTINUED

Remuneration Policy table continued

Element of pay	Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
Long Term Incentive Plan (LTIP)	Designed to reward and retain Executives over the longer term while aligning their interests with those of shareholders. To link reward to key longer-term business targets. To encourage share ownership.	LTIP awards are usually granted in the form of nil cost options. Award levels for each award are set by the Committee at a level appropriate, in the Committee's opinion, with the individual's performance and experience. Performance targets applying to LTIP awards are relevant to business plan priorities and aligned with shareholder interests. Vesting is dependent on the achievement of performance conditions usually measured over a three-year period. An additional payment may be made at the time of vesting in respect of dividends that would have accrued on LTIP awards during the vesting period. Malus and clawback provisions apply to all LTIP awards for a period up to the fifth anniversary of grant.	The maximum annual award permitted under the LTIP is shares with a market value (as determined by the Committee) of 300% of salary.	Performance is measured relative to selected measures of Group financial or share price performance with the precise measures and weighting of the measures determined by the Committee ahead of each award. Performance targets are reviewed annually by the Committee and are set appropriate to the economic and political outlook and risk factors prevailing at the time, ensuring that such targets remain challenging in the circumstances, whilst remaining realistic enough to motivate and incentivise management. 25% of the awards vest at a threshold vesting point rising to 100% vesting at a maximum vesting point.
Benefits	Designed to be consistent with benefits available to employees in the Group.	Benefits include car allowance, private medical insurance, travel and property hire. Executive Directors can also participate in all-employee share plans. The Committee has discretion to add additional benefits which are not currently provided, for example, relocation expenses.	Benefit provision varies between different Executive Directors. Whilst there is no maximum level set by the Committee, benefits provision will be set at a level the Committee considers appropriate and be based on individual circumstances. Participation in the Company's HMRC-approved all-employee share plan will be limited by the maximum level prescribed by HMRC.	Not performance-related.

DIRECTORS' REMUNERATION REPORT CONTINUED

Remuneration Policy table continued

Element of pay	Purpose and link to strategy	Operation	Maximum opportunity	Performance framework
Pensions	Designed to be consistent with benefits available to employees in the Group.	Pension contributions are paid into the Group's defined contribution scheme and/or as a cash allowance.	5% of salary	Not performance-related.
Non-Executive Directors (NED) fees	Market competitive fees are set so as to attract and retain Non-Executive Directors with required skills, experience and knowledge so that the Board can effectively carry out its responsibilities.	Reviewed periodically by the Board. Fee levels set by reference to market rates, taking into account the individual's experience, responsibilities, time commitment and pay decisions for the broader workforce. NED fees comprise payment of an annual basic fee and additional fees for further Board responsibilities such as: › Senior Independent Director. › Audit Committee Chairman. › Remuneration Committee Chairman. The Chairman of the Board receives an all-inclusive fee. No NED participates in the Group's incentive arrangements or pension plan or receives any other benefits other than where travel to the Company's registered office is recognised as a taxable benefit in which case a NED may receive grossed-up costs of travel as a benefit.	As for the Executive Directors there is no prescribed maximum monetary annual increase. An aggregate annual sum of £1m increased only to take account of the effect of inflation as measured by the Retail Price Index or such index as the Directors consider appropriate or such other amount as the Company may by ordinary resolution decide.	Not performance-related.

Malus and clawback provisions apply to all incentive awards granted to Executive Directors. These provisions permit the Committee to recover bonus awards for up to three years after the determination of the annual bonus and up to the fifth anniversary of the grant of LTIP awards. The potential circumstances in which malus or clawback provisions can be applied include a material misstatement of the Group's financial results, if an individual deliberately misleads relevant parties regarding financial performance or if their actions cause reputational damage or amount to serious misconduct or conduct which causes significant financial loss.

The annual bonus performance measures are Group financial, strategic or individual measures which are selected annually so as to be consistent with key priorities for the Group.

The LTIP performance measures are chosen to provide alignment with our longer term strategy of growing the business in a sustainable manner that will be in the best interests of shareholders and other key stakeholders in the Company.

Targets are set on sliding scales that take account of internal strategic planning and external market expectations for the Company. Only modest rewards are available for achieving threshold performance with maximum rewards requiring substantial outperformance of challenging strategic plans approved at the start of each year.

Share incentive plans incorporate the right to receive an amount (in cash or additional shares) equal to the value of dividends which would have been paid on the shares under an award that vests up to the time of vesting/release. This amount may be calculated assuming that the dividends have been re-invested in the Company's shares on a cumulative basis.

The Committee operates incentive arrangements for the Executive Directors in accordance with their respective rules, the Listing Rules and the HMRC rules where relevant. The Committee, consistent with market practice and the scheme rules, retains discretion over a number of areas relating to the operation and administration of the plans. These include (but are not limited to) the following:

- Who participates.
- The form in which the award is granted and settled (e.g. shares, nil cost options, cash).
- The timing of the grant of award and/or payment.
- The size of an award (up to individual and plan limits) and/or a payment.
- Discretion relating to the measurement of performance in the event of a 'good leaver' scenario or a change of control or reconstruction of the Company.
- Determination of a good leaver (in addition to any specified categories) for incentive plan purposes.
- Adjustments required in certain circumstances (e.g. share capital variation, rights issues, demerger, corporate restructuring, special dividends).
- The ability to vary or substitute any performance condition(s) if circumstances occur which cause it to determine that the original condition(s) have ceased to be appropriate, provided that any such variation or waiver is fair, reasonable and not materially less difficult to satisfy than the original condition (in its opinion). In the event that the Committee were to make an adjustment of this sort, a full explanation would be provided in the next Remuneration Report.

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed (i) before the 2014 AGM (when the Company's first shareholder-approved Directors' Remuneration Policy came into effect); (ii) before the Policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved Directors' Remuneration Policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

The Committee may make minor amendments to the policy set out in this Policy Report (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

DIRECTORS' REMUNERATION REPORT CONTINUED

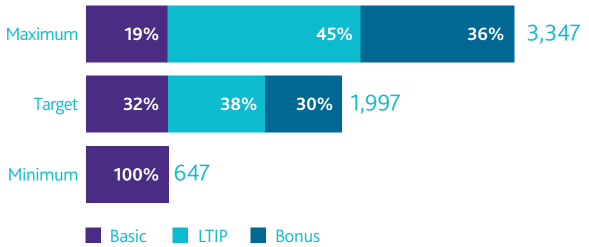
Illustrations of the application of our Remuneration Policy

The value and composition of the Executive Directors' Remuneration packages under the Policy for the year ending 31 December 2017 at a minimum, target and maximum performance level are set out in the charts below.

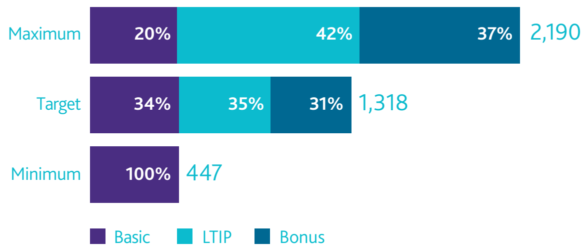
The charts are for illustrative purposes only and actual outcomes may differ from those shown.

Each chart is broken down to show how the total under each scenario is made up of fixed elements of remuneration, the annual bonus and the LTIP.

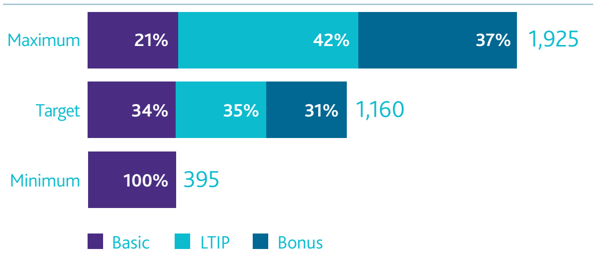
Andy Parker £000



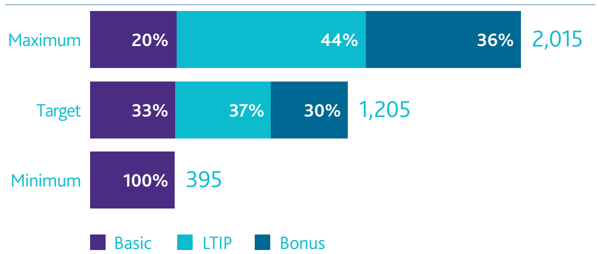
Nick Greatorex £000



Vic Gysin £000



Chris Sellers £000



Basic includes the base salary, benefits and pension.

Notes

The scenarios in the above graphs are defined as follows:

	Minimum	Performance in line with Expectations (Target)	Maximum
Fixed elements of remuneration	› Base salary as at 1 January 2017 › Estimated value of benefits provided under the Remuneration Policy › 5% of salary pension provision		
Annual bonus – payout shown as a maximum opportunity	0%	50% of maximum	100% of maximum
LTIP – payout shown as a maximum opportunity	0%	50% of maximum	100% of maximum

As set out in the Policy Table above, the maximum permitted annual bonus opportunity is 200% of salary and the maximum permitted LTIP award is 300% of salary. The charts above reflect the maximum bonus (200% of salary) and maximum LTIP award (225%-250% of salary) that could be earned in 2017. The maximum that can be earned in 2017 is lower than the maximum permitted under the Policy.

In these charts, LTIP awards have been shown at face value, with no share price growth or discount rate assumptions. All-employee share plans have been excluded.

DIRECTORS' REMUNERATION REPORT CONTINUED

The Committee considers pay and employment conditions of employees in the Group when determining Executive Directors' Remuneration Policy

When considering the Executive Directors' remuneration structure and levels, the Committee reviews base salaries and annual bonus arrangements for the management team to ensure that there is a consistent approach across the Group. The annual bonus plan operates on a similar basis across the senior management team. LTIP awards are granted across the senior management population in order to encourage a high level of employee share ownership. Whilst vesting of regular LTIP awards to Executive Directors is always subject to performance conditions, awards to other senior management may, where appropriate (such as to assist in retention of key talent), be subject only to continued employment. Another key difference in the Policy for Executive Directors is that remuneration is more heavily weighted towards long-term variable pay than other employees. This ensures that there is a clear link between the value created for shareholders and the remuneration received by the Executive Directors.

The Committee did not formally consult with employees in respect of the design of the Policy, although the Committee will keep this under review.

Directors' recruitment and promotions

The Committee takes into account the need to attract, retain and motivate the best person for each position, while at the same time ensuring a close alignment between the interests of shareholders and management.

If a new Executive Director were appointed, the Committee would seek to align their remuneration package with other Executive Directors in line with the Policy table. However, flexibility would be retained to offer additional remuneration on appointment outside the Policy if the Committee believes it may be appropriate to make 'buy-out' awards or payments in respect of remuneration arrangements and contractual terms forfeited on leaving a previous employer. The Committee would look to replicate the arrangements being forfeited as closely as possible and, in doing so, would take account of relevant factors including the nature of the remuneration and contractual terms, performance conditions and the time over which they would have vested or been paid.

The Committee would seek to structure awards on recruitment to be in line with the Company's remuneration framework so far as practical but, if necessary, the Committee may also grant such awards outside of that framework as permitted under Listing Rule 9.4.2. If appropriate, a new appointee's incentives in their year of joining may be subject to different targets to other Executive Directors. The Committee may also agree that the Company will meet certain relocation and incidental expenses as it considers appropriate.

The maximum level of variable remuneration which may be granted (excluding awards to compensate for remuneration arrangements and contractual terms forfeited on leaving the previous employer) to new Executive Directors in the year of recruitment shall be limited to 500% of salary (the maximum limit allowed within the Policy table).

The initial notice period for a service contract may be up to 24 months, which is longer than the policy of a 12-month notice period, provided it reduces to 12 months within a short space of time.

For an internal appointment or an appointment following the Company's acquisition of or merger with another company, any incentive amount awarded in respect of a prior role may be allowed to vest on its original terms, or adjusted as relevant to take into account the appointment. Any other ongoing remuneration obligations or terms and conditions existing prior to appointment may continue.

The Committee retains discretion to make appropriate remuneration decisions outside the standard Policy to meet the individual circumstances of recruitment when:

› An interim appointment is made to fill an Executive Director role on a short-term basis; or
› Exceptional circumstances require that the Chairman or a Non-Executive Director takes on an executive function on a short-term basis.

In the event of the appointment of a new Non-Executive Director, remuneration arrangements will normally be in line with the structure set out in the Policy table for Non-Executive Directors. However, the Committee (or the Board as appropriate) may include any element listed in the Policy table or any other element which the Committee considers is appropriate given the particular circumstances excluding any variable elements, with due regard to the best interests of shareholders.

Directors' service agreements and payments for loss of office

The Committee regularly reviews the contractual terms of the service agreement to ensure these reflect best practice.

The service contracts for Executive Directors are for an indefinite period and provide for a 12-month notice period. They do not include provisions for predetermined compensation on termination that exceed 12-months' salary, pension and benefits. There are no arrangements in place between the Company and its Directors that provide for compensation for loss of office following a takeover bid. All Directors are appointed for an indefinite period but are subject to annual re-election at the Annual General Meeting.

In circumstances of termination on notice the Committee will determine an equitable compensation package, having regard to the particular circumstances of the case. The Committee reserves the right to make payments in connection with a Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a compromise or settlement of any claim arising in connection with the cessation of a Director's office or employment. Any such payments may include but are not limited to paying any fees for outplacement assistance and/or the Director's legal and/or professional advice fees in connection with his cessation of office or employment. The Committee has discretion to require notice to be worked or to make payment in lieu of notice or to place the Director on garden leave for the notice period.

DIRECTORS' REMUNERATION REPORT CONTINUED

The annual bonus may be payable in respect of the period of the bonus plan year worked by the Director; there is no provision for an amount in lieu of bonus to be payable for any part of the notice period not worked. This will be at the discretion of the Remuneration Committee.

DAB Deferred Shares will vest on the date of leaving other than in circumstances of dismissal for gross misconduct.

For entitlement to unvested LTIP shares, the rules contain discretionary provisions setting out the treatment of awards where a participant leaves for designated reasons (i.e. participants who leave early on account of injury, disability or ill health, death, a sale of their employer or business in which they were employed, statutory redundancy or any other reason at the discretion of the Committee). In these circumstances, a participant's awards will not be forfeited on cessation of employment and instead will continue to vest on the normal vesting date or earlier at the discretion of the Committee, subject to the performance conditions attached to the relevant awards. The awards will, other than in exceptional circumstances, be scaled back on a time pro-rated basis.

In the event of a change of control, all unvested LTIP awards would vest, to the extent that any performance conditions attached to the relevant awards have been achieved. LTIP awards will, other than if the Committee determines otherwise, be scaled back pro rata for the proportion of the performance period worked by the Director prior to the change of control. Unvested DAB Deferred Shares would vest in the event of a change of control.

Non-Executive Directors' terms of engagement

Non-Executive Directors are appointed by letter of appointment for an initial period of three years. Each appointment is terminable by three-months' notice on either side. At the end of the initial period, the appointment may be renewed by mutual consent, subject to annual re-election at the AGM.

The service agreements and Non-Executive Directors' letters of appointment are available for inspection during normal business hours at the Company's registered office, and available for inspection at the AGM.

Satisfaction of options

When satisfying awards made under its share plans, the Company uses newly issued, treasury or purchased shares as appropriate.

Dilution

All awards are made under plans that incorporate the overall dilution limit of 10% in 10 years. The estimated dilution from existing awards, including executive and all-employee share awards, is approximately 4.23% of the Company's share capital as at 31 December 2016.

Annual report on remuneration

This part of the remuneration report has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and paragraphs 9.8.6R and 9.8.8 of the Listing Rules. The annual report on remuneration will be put to an advisory shareholder vote at the 2017 AGM. The information on pages 100–104 has been audited as indicated.

External advice received

Deloitte LLP was, following a review, appointed by the Remuneration Committee during 2012 to provide advice on Executive remuneration matters. During the year, the Committee received independent and objective advice from Deloitte primarily on market practice, disclosure within the accounts and stakeholder liaison. Deloitte was paid £64,500 in fees during 2016 for these services (charged on a time plus expenses basis). Deloitte is a founding member of the Remuneration Consultants Group and as such, voluntarily operates under the code of conduct in relation to Executive remuneration consulting in the UK. In addition, other practices of Deloitte, separate from the Executive remuneration practice, has provided services to the Group in respect of tax, property, advice to internal audit and other ad hoc advisory projects during the year.

The fees were considered as appropriate for the work undertaken and all fees were disclosed prior to the work being undertaken. Where appropriate, fees were tendered with other providers to ensure that the fees were in line with market practice and standards.

The Committee also consulted with Andy Parker to provide further information to the Committee on the performance and proposed remuneration for the Executive Directors and other senior management, but not in relation to his own remuneration.

Shareholder voting at AGM

The 2016 Directors' remuneration report will be presented to shareholders at the AGM in June 2017. At the AGM in 2016, the actual voting in respect of the ordinary resolution to approve the remuneration report for the year ended 31 December 2015 was as set out below. Details of the last shareholder vote on our Remuneration Policy are also set out below.

AGM 2016	Votes cast 'For'	Votes cast 'Against'	Abstentions[1]
Remuneration report for the year ended 31 December 2015	541m	22.4m	3.2m
	96%	4%	–
Remuneration Policy – voted on in May 2014	456m	25m	1m
	95%	5%	–

1 A vote abstained is not a vote in law and is not counted in the calculation of the proportion of votes 'for' and 'against' a resolution.

DIRECTORS' REMUNERATION REPORT CONTINUED

Statement of implementation of the Remuneration Policy for 2017

The Remuneration Committee intends to implement the new Remuneration Policy in 2017 on a consistent basis to how the current Policy was implemented in 2016.

Base salary

In light of the disappointing 2016 results, base salaries of the established Executive Directors have been frozen for 2017.

Chris Sellers joined the Board on 1 January 2017 to replace Maggi Bell as Group Business Development Director. His salary upon appointment to the Board is the same as the salary of his predecessor.

Accordingly, base salary for 2017 will be:

	Base salary from 1 January 2017
Andy Parker	£600,000
Nick Greatorex	£410,000
Vic Gysin	£360,000
Chris Sellers	£360,000

Fees for the Chairman and Non-Executive Directors

A summary of the fees for 2017 are as follows:

	Fee from 1 January 2017 or date of appointment
Sir Ian Powell – Chairman	£325,000
Gillian Sheldon – Senior Independent Director	£75,000
Paul Bowtell – Audit and Risk Committee Chair	£64,500
John Cresswell – Remuneration Committee Chair	£64,500
Andrew Williams	£64,500
Matthew Lester	£64,500

Annual bonus for 2017

For 2017, the annual bonus opportunity will be 200% of base salary. The annual bonus will continue to be based against financial performance of underlying profit before tax of the Group.

As in prior years, the Committee has chosen not to disclose in advance the performance targets for the forthcoming year as these include items which the Committee considers to be commercially sensitive.

50% of the bonus payable will be paid in cash and 50% will be deferred into shares.

Performance measure – 2017	Performance condition – 2017
EPS – 75% of the Award is measured on EPS Growth	› EPS growth: 3% – 8% per annum › Vesting percentage: 18.75% – 75% of Award › Straight-line vesting occurs between these points.
ROCE – 25% of the Award is measured on average ROCE	› Average ROCE: 11% – 15% › Vesting percentage: 6.25% – 25% of Award › Straight-line vesting occurs between these points.

Long-term incentive to be granted in 2017

As explained in the Remuneration Committee Chairman's Statement, 2017 LTIP awards for the established Executive Directors will be over reduced salary multiples relative to 2016. Awards will be granted over shares worth 250% of salary to Andy Parker and 225% of salary to Nick Greatorex and Vic Gysin. Chris Sellers' 2017 award will be over shares worth 250% of salary consistent with the offer made to him to join the Board.

The performance conditions applying to 2017 LTIP awards will incorporate EPS as well as ROCE performance targets as in prior years. Proposed EPS and ROCE targets are as set out in the table below. These targets are regarded by the Remuneration Committee as stretching for this particular three-year performance period in light of business plan forecasts and market consensus. Following the decision to impair certain contracts at the end of 2016, a pro forma 2016 EPS figure of 61.44p (excluding the impact of the impairment charge) will be used as the base point for the calculation. This will ensure management are rewarded only for delivering growth in underlying business performance.

At the end of the LTIP performance period, the Remuneration Committee will assess the underlying financial and operational performance of Capita over the performance period and, if judged appropriate, can exercise its discretion to reduce the level of vesting.

DIRECTORS' REMUNERATION REPORT CONTINUED

Directors' remuneration earned in 2016 – single figure table (Audited)

The table below summarises Directors' remuneration received in 2016.

Single figure remuneration

		Base salary and fees	Benefits	Pension or Pension Allowance	Annual Bonus	LTIP	DAB – Match	Total Long-Term Incentives	Total Remuneration
Martin Bolland	**2016**	**200,000**	**–**	**–**	**–**	**–**	**–**	**–**	**200,000**
	2015	200,000	–	–	–	–	–	–	200,000
Sir Ian Powell[1]	**2016**	**21,500**	**–**	**–**	**–**	**–**	**–**	**–**	**21,500**
	2015	–	–	–	–	–	–	–	–
Andy Parker	**2016**	**600,000**	**52,958**	**30,000**	**–**	**–**	**–**	**–**	**682,958**
	2015	550,000	63,353	27,500	550,000	886,519	443,056	1,329,575	2,520,428
Nick Greatorex[2]	**2016**	**410,000**	**30,971**	**20,500**	**–**	**–**			**461,471**
	2015	290,000	41,415	14,500	348,000	80,252	–	80,252	774,167
Maggi Bell	**2016**	**360,000**	**15,456**	**18,000**	**–**	**–**	**–**	**–**	**393,456**
	2015	348,000	15,650	17,400	348,000	891,236	445,413	1,336,649	2,065,699
Vic Gysin	**2016**	**360,000**	**51,646**	**18,000**	**–**	**–**	**–**	**–**	**429,646**
	2015	348,000	52,225	17,400	348,000	829,690	832,704	1,662,394	2,428,019
Gillian Sheldon	**2016**	**75,000**	**–**	**–**	**–**	**–**	**–**	**–**	**75,000**
	2015	74,000	–	–	–	–	–	–	74,000
Paul Bowtell	**2016**	**64,500**	**–**	**–**	**–**	**–**	**–**	**–**	**64,500**
	2015	63,500	–	–	–	–	–	–	63,500
John Cresswell[3]	**2016**	**64,500**	**–**	**–**	**–**	**–**	**–**	**–**	**64,500**
	2015	7,812	–	–	–	–	–	–	7,812
Andrew Williams	**2016**	**64,500**	**–**	**–**	**–**	**–**	**–**	**–**	**64,500**
	2015	63,500	–	–	–	–	–	–	63,500
Dawn Marriott-Sims[4]	**2016**	**309,545**	**24,777**	**33,477**	**–**	**–**	**–**	**–**	**367,799**
	2015	348,000	26,217	17,400	348,000	337,218	169,101	506,319	1,245,936

1 Sir Ian Powell was appointed to the Board on 1 September 2016.

2 Nick Greatorex was appointed to the Board on 1 March 2015. His remuneration figure for 2015 is for the period from 1 March 2015 to 31 December 2015.

3 John Cresswell was appointed to the Board on 17 November 2015. His remuneration figure for 2015 is for the period from 17 November 2015 to 31 December 2015.

4 Dawn Marriott-Sims resigned from the Board on 9 November 2016. She received a final payment in lieu of notice further details of which are set out on page 104.

Base salary includes base salary plus fixed cash allowances which are a normal part of the fixed remuneration package and usual local practice. Benefits include all taxable benefits as defined by paragraph 11(1) of Schedule 8 to the Accounts regulations. This includes private medical insurance, company car allowance, work travel and accommodation. Staff entertainment has also been included under benefits and this cost will be for more than the individual director themselves.

The figures for 2015 have been restated to reflect the share price on exercise of the LTIP and DAB match awards and all taxable benefits as defined by paragraph 11(1) of Schedule 8 to the Accounts regulations.

As performance targets were not achieved, there was no 2016 annual bonus and the 2016 LTIP and DAB match awards did not vest.

Performance targets for the 2014 LTIP awards were, for awards of more than 20,000 shares, EPS growth of 6% (18.75% vest) to 12% (75% vest), average ROCE 14% (6.25% vest) to 16% (25% vest) over the three-year period to 31 December 2016 and average share price at vesting must not be lower than at grant. For awards of 12,001 to 20,000 shares and awards up to 12,000 shares the targets were identical except that 50% and 75%, respectively, of the award would vest at 6% EPS.

Performance targets for the 2014 DAB awards were EPS growth of RPI + 4% (33% vest) to RPI + 12% (100% vest) over the three-year period to 31 December 2016.

No Director waived any fees or salary for 2016.

DIRECTORS' REMUNERATION REPORT CONTINUED

Annual Bonus for 2016

The maximum annual bonus for the Executive Directors that could be earned in relation to 2016 performance was 200% of salary (unchanged from 2015).

The annual bonus that could be paid to Executive Directors in respect of 2016 performance was determined by a range of underlying profit before tax targets, subject to a Remuneration Committee review of non-underlying items within the accounts. 50% of the bonus was payable for achieving target performance with 100% payable for achieving the maximum target. No bonus would be paid for below target performance.

As performance was below target, no bonus was awarded for 2016.

	Below target performance	On-target performance	Maximum performance	Actual performance and bonus payout
Underlying profit before tax	<£630m	£630m	£640m	£475m
Bonus payout	0%	50% of maximum	100% of maximum	0%

Share Plan Awards

Long Term Incentive Awards awarded in 2016 (Audited)

Name of Director	LTIP award	(£) Face value of LTIP award[1]
Andy Parker	176,991	1,800,000
Nick Greatorex	100,786	1,025,000
Maggi Bell	88,495	900,000
Vic Gysin	88,495	900,000
Chris Sellers	54,080	550,000
Dawn Marriott-Sims	88,495	900,000

1 The date of the grant was 26 February 2016. The closing price on the preceding day of £10.17 was used to determine the number of shares.

LTIP awards are granted as nil cost options and awarded as a percentage of salary. Vesting of awards is subject to EPS and ROCE performance over the three-year period to 31 December 2018 and a share price underpin. 25% of LTIP awards vest for achieving threshold performance. Full details of the performance conditions relating to these awards are outlined on page 103.

DIRECTORS' REMUNERATION REPORT CONTINUED

Directors' interests and Shareholding Guidelines (Audited)

Executive Directors are asked to hold 100% of salary in shares in the Company. This is built up over a period of five years from appointment. The guidelines include shares held beneficially and also shares within the DAB that have been deferred over the three-year period. Any shares in the DAB used for this are calculated net of tax. Share awards that are subject to performance conditions are not included. Following approval of our new Remuneration Policy the required holding will be increased to 200% for Executive Directors and 300% for the Chief Executive Officer.

Director	Beneficially held interests at 31 December 2016[1]	Beneficially held interests at 31 December 2015	Interests in share incentive schemes, awarded without performance conditions at 31 December 2016	Interests in share incentive schemes, awarded without performance conditions at 31 December 2015	Interests in share incentive schemes, awarded subject to performance conditions at 31 December 2016[6]	Interests in share incentive schemes, awarded subject to performance conditions at 31 December 2015[2]	Interests in share option schemes where performance conditions have been met but not exercised at 31 December 2016	Interests in share option schemes where performance conditions have been met but not exercised at 31 December 2015	Percentage of shareholding target requirement at 31 December 2016 or date of retirement	Percentage of shareholding target requirement at 31 December 2016 – based on cost of investment
Martin Bolland	71,500	71,500	–	–	–	–	–	–	–	–
Sir Ian Powell[3]	2,000	–	–	–	–	–	–	–	–	–
Andy Parker	55,686	13,705	97,442	98,331	504,412	503,279	–	–	92%	164%
Nick Greatorex	15,129	5,827	17,109	–	222,698	129,412	–	–	31%	53%
Maggi Bell	73,452	73,452	66,623	77,443	278,172	365,535	–	–	100%	255%
Vic Gysin	–	–	66,045	104,795	304,078	447,301	–	–	60%	128%
Chris Sellers[4]	15,514	–	8,635	8,635	166,167	152,087	–	–	29%	52%
Gillian Sheldon	1,000	1,000	–	–	–	–	–	–	–	–
Paul Bowtell	1,073	1,031	–	–	–	–	–	–	–	–
John Cresswell	3,000		–	–	–	–	–	–	–	–
Andrew Williams	–	–	–	–	–	–	–	–	–	–
Dawn Marriott-Sims[5]	–	594	8,635	33,026	197,291	218,581	–	–	–	–

1 Beneficially held interests includes those held by connected persons.
2 Interests as at 31 December 2015 have been restated for Andy Parker, Maggi Bell, Vic Gysin and Dawn Marriott-Sims as the totals shown in the 2015 Annual Report and Accounts included the 2012 LTIP awards which vested in 2015.
3 Appointed 1 September 2016.
4 Appointed with effect from 1 January 2017.
5 Resigned 9 November 2016 – beneficially held interests at 31 December 2016 not recorded – interests subject to performance conditions are shown as at date of retirement from the Board.
6 For Dawn Marriott-Sims these are shown as at date of resignation.

Between the end of the financial year and 20 February 2017, Nick Greatorex acquired 69 shares under the Capita Share Ownership Plan, increasing his beneficial interest in ordinary shares of the Company to 15,198.

DIRECTORS' REMUNERATION REPORT CONTINUED

Share plans (Audited)

Plan name: Deferred Annual Bonus (DAB) plan

The DAB is split into two elements:

Deferred award – this is the deferred element of an individual's bonus. Any deferral is made on a gross basis into Deferred Shares or as a net restricted share award. The Deferred Shares are held for a period of three years from the date of award. This part is not subject to performance conditions. For the award made in 2016 it was agreed that the Directors could elect to take the award as restricted stock (i.e. choosing to pay the tax and national insurance due at the time of the award). No Director chose to take the award as restricted stock.

Matching award – this is awarded at a ratio of two shares for each gross share awarded under the deferred award. Matching awards vest after a three-year holding period to the extent to which performance criteria have been met. No matching awards have been made since 2014 and it is not planned to award any further matching awards under this plan.

Unvested DAB matching awards at 31 December 2016 or date of retirement

	2014 award	Total
Andy Parker	56,130	56,130
Nick Greatorex	n/a	–
Maggi Bell	41,450	41,450
Vic Gysin	67,356	67,356
Chris Sellers	17,270	17,270
Dawn Marriott-Sims	17,270	17,270

There was no DAB matching award in 2015 or 2016. The DAB Matching award for 2014 will not vest as the performance conditions have not been met.

Unvested DAB deferred/restricted awards at 31 December 2016 or date of retirement

	2014 award	2015 award	2016 award[1]	Total
Andy Parker	28,065	42,337	27,040	97,442
Nick Greatorex	n/a	n/a	17,109	17,109
Maggi Bell	20,725	28,789	17,109	66,623
Vic Gysin	33,678	15,258[2]	17,109	66,045
Chris Sellers	8,635	n/a	n/a	8,635
Dawn Marriott-Sims	8,635	13,463[2]	17,109	39,207

1 The value of the 2016 deferred award awarded on 26 February 2016 was included in the annual bonus value in the 2015 single figure table.

2 The 2015 DAB was awarded as restricted stock.

Performance criteria for matching awards

Performance measure	Performance condition
EPS Growth	EPS Growth: RPI +4% – RPI +12% Vesting Percentage: 33% – 100% Straight-line vesting occurs between these points.

Plan name: Long Term Incentive Plan (2008 LTIP)

At the Annual General Meeting in 2008, the Long Term Incentive Plan (LTIP) was approved by shareholders. Under the plan rules the Committee can award up to the higher of three times salary or 165,000 shares.

The vesting of awards will depend on performance measured over a three-year period.

Unvested LTIP awards at 31 December 2016 or date of retirement

Name of Director	2014 award	2015 award	2016 award	Total
Andy Parker	131,579	139,712	176,991	448,282
Nick Greatorex	48,246	73,666	100,786	222,698
Maggi Bell	74,561	73,666	88,495	236,722
Vic Gysin	74,561	73,666	88,495	236,722
Chris Sellers	48,246	46,571	54,080	148,897
Dawn Marriott-Sims	65,789	67,527	46,705	180,021

The 2014 LTIP award will not vest as the performance conditions were not met.

Performance criteria

2014 to 2016

Performance measure	Performance condition
EPS – 75% of the Award is measured on EPS Growth	EPS growth: 6% – 12% per annum Vesting percentage: 18.75% – 75% of Award Straight-line vesting occurs between these points.
ROCE – 25% of the Award is measured on average ROCE	Average ROCE: 14% – 16% Vesting percentage: 6.25% – 25% of Award Straight-line vesting occurs between these points.
Share price underpin	Capita's average share price at the vesting date must not be below the share price at the date of grant.

DIRECTORS' REMUNERATION REPORT CONTINUED

Executive Directors' service agreements
Details of the service agreements are set out below:

Executive Directors	Date of contract	Notice period
Andy Parker	10 January 2011	12 months
Nick Greatorex	1 January 2015	12 months
Vic Gysin	10 January 2011	12 months
Chris Sellers	1 January 2017	12 months

Non-Executive Directors' terms of engagement
In 2016, all Non-Executive Directors were considered to be independent of the Company.

Non-Executive Directors	Date of joining the Board	Expiry date of current three-year appointment
Sir Ian Powell	1 September 2016	Not applicable
Gillian Sheldon	1 September 2012	31 August 2018
Paul Bowtell	28 June 2010	31 May 2017
Andrew Williams	1 January 2015	31 December 2017
John Cresswell	17 November 2015	16 November 2018
Matthew Lester	1 March 2017	28 February 2020

Payments to former Directors (Audited)
No payments (other than regular pension benefits and legacy share plan maturities which were commenced in previous years) were made during the year ended 31 December 2016 to any past Director of the Company.

Payments for loss of office (Audited)
Dawn Marriott-Sims stepped down from the Board and left Capita with immediate effect following a market announcement in November 2016. The agreed termination settlement comprises a payment in lieu of notice of £414,635 in respect of salary, car allowance, pension and annual leave for her 12-month notice period and a compensation payment of £30,000, such amount being considered by the Remuneration Committee, in line with Capita's Remuneration Policy, to be equitable having regard to the circumstances. Her DAB deferred awards vested on termination and her outstanding DAB matching and LTIP awards will be pro-rated in line with service and will be exercisable at the end of the vesting periods subject to the performance conditions being met.

Maggi Bell retired as a Director on 31 December 2016 and, in order to assist with the transition, remains employed by the Group until 30 June 2017. She will receive no payments following her retirement in June 2017. Her DAB deferred awards will vest upon retirement in June 2017 and her outstanding DAB matching and LTIP awards will be pro-rated in line with service and will be exercisable at the end of the vesting periods subject to the performance conditions being met.

Percentage change in remuneration levels
The table below shows change in base compensation, benefits and annual bonus for the Chief Executive in the 2016 financial year, compared to the average for all employees:

	Chief Executive Office		All employees
	To 31 December 2016 £	% change 2016 v 2015	% change 2016 v 2015
Base compensation	600,000	9.1%	3.50%
Benefits	52,958	(16.4)%	5.17%
Bonus	–	(100.0)%	(51.7)%

This all-employee information is based on UK employees only as it was felt that using overseas payroll data would distort the information.

Relative importance of the spend on pay
The table below shows the spend on staff costs in the 2016 financial year, compared to dividends:

	2016 £m	2015 £m	% change
Staff costs	2,217	2,211	0.3%
Dividends	214.8	199.3	7.8%

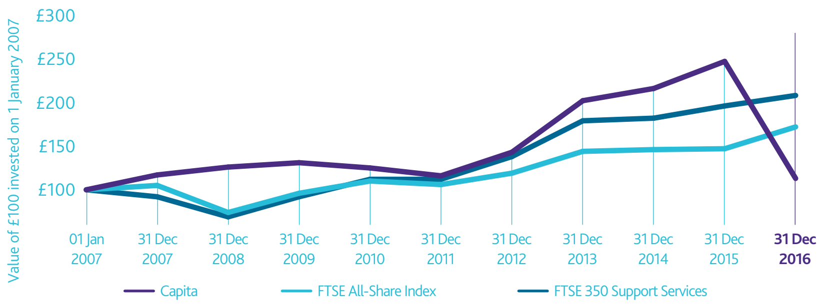
DIRECTORS' REMUNERATION REPORT CONTINUED

Performance graph and Chief Executive pay

The following charts compare the value of an investment of £100 in the Company's shares with an investment of the same amount in the FTSE All-Share Index and the FTSE 350 Support Services Index assuming that all dividend income is re-invested.

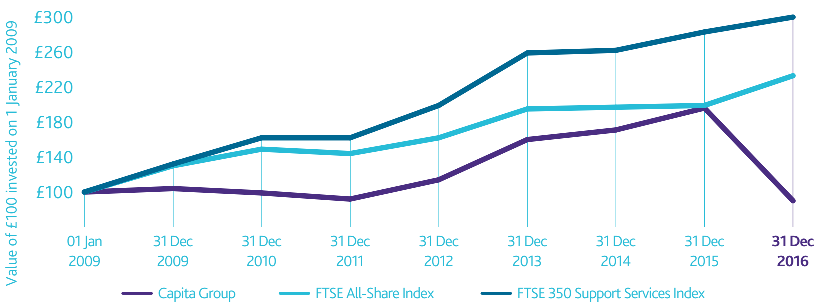
The Committee is of the opinion that this comparison provides a clear picture of the performance of the Group relative to both a wide range of companies in the UK and also a specific group of companies within the same sector. Over the 10-year period to 31 December 2016, £100 invested in Capita on 1 January 2007 would be worth £113 at 31 December 2016 compared to £172 for an investment in the FTSE All-Share Index and £208 for an investment in the FTSE 350 Support Services Index.

CAPITA VS. FTSE ALL-SHARE INDEX AND FTSE 350 SUPPORT SERVICES INDEX
VALUE OF INVESTMENT OF £100 ON 1 JANUARY 2007



The following chart is the same comparison over a eight-year period starting 1 January 2009.

CAPITA VS. FTSE ALL-SHARE INDEX AND FTSE 350 SUPPORT SERVICES INDEX
VALUE OF INVESTMENT OF £100 ON 1 JANUARY 2009



The total remuneration figures for the Chief Executive during the 2016 financial year are shown in the table below. Consistent with the calculation methodology for the single figure for total remuneration, the total remuneration figure includes the total annual bonus award based on that year's performance and the LTIP award based on the three-year performance period ending in the relevant year. The annual bonus payout and LTIP award vesting level as a percentage of the maximum opportunity are also shown for this year.

Year	Chief Executive – Single Figure of total remuneration	Annual bonus payout against maximum opportunity	Long-term incentive vesting rates against maximum opportunity
2016	£682,958	–%	–%
2015	£2,520,428	50%	71.365%
2014	£2,558,998	100%	67.2%
2013	£2,326,250	75%	54.5%
2012	£2,038,233	100%	47.75%
2011	£1,833,308	–%	56.02%
2010	£1,399,675	100%	88.567%
2009	£1,621,793	75%	100%

Note – the vesting rates for the long-term incentives are averaged between the LTIP and the DAB vesting rates for 2010–2013 and 2015. For 2014, this is the actual vesting for the LTIP as there is no DAB maturity in 2014.

Note for 2009–2013 were based on Paul Pindar as Chief Executive. The total period for 2014-2016 is based on Andy Parker's total remuneration.

Approval of the Directors' remuneration report

The Directors' remuneration report, including both the Remuneration Policy and the annual report on remuneration, was approved by the Board on 1 March 2017.

John Cresswell
Chair, Remuneration Committee
1 March 2017

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

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

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2016

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

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

A Parker
Chief Executive

N Greatorex
Group Finance Director

Company registered number: 2081330

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

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

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

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

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

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

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

Cash flow hedging reserve – This reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge. Also recorded here are fair value changes on available-for-sale investments.

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

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

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Corporate information

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

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

2 Summary of significant accounting policies

Underlying profit

IAS 1 requires an entity to present additional information for specific items to enable users to assess the underlying financial performance. In practice these items are commonly referred to as 'specific' or 'non-underlying' items although such terminology is not defined in IFRS and accordingly there is a level of judgement required in determining what items to separately identify. The Board has adopted a policy to separately disclose those items that it considers are outside the underlying operating results for the particular year under review and against which the Group's performance is assessed. Those items which relate to the ordinary course of the Group's operating activities remain within underlying, for example property commercialisation transactions, service credit penalties, and accrued income impairments that reflect the adjustments to long-term contract reappraisals which follow the original recognition as underlying income (see note 7).

Items within non-underlying include intangible amortisation, asset impairments, acquisition contingent consideration movements, the financial impact of business exits or businesses in the process of being exited, acquisition expenses, movements in the mark-to-market valuation of certain financial instruments, and specific non-recurring items in the income statement which, in the Directors' judgement, need to be disclosed separately (see notes 4, 5 and 9) by virtue of their nature, size and incidence in order for users of the financial statements to obtain a proper understanding of the financial information and the underlying performance of the business.

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

None of our 2016 business exits or businesses in the process of being exited meet the definition of 'discontinued operations' as stipulated by IFRS 5, which requires disclosure and the restatement of comparative information where the relative size of a disposal or business closure is significant, which is normally understood to mean a reported segment. Accordingly, the separate presentation described above does not fall within the requirements of IFRS 5 concerning discontinued operations and comparatives have not been restated.

Assets held for sale

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

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

Significant accounting judgements, estimates and assumptions

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 Summary of significant accounting policies continued

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

› The measurement of provisions and contingent liabilities – measuring and recognising provisions and the exposures to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation and arbitration, as well as other contingent liabilities (see note 25 and 31). Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the financial settlement. Because of the inherent uncertainty in this evaluation process, actual losses may be different from the originally estimated provision.

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

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

(a) Statement of compliance

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

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

(b) Basis of preparation

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

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

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

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

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

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

(c) Basis of consolidation

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 Summary of significant accounting policies continued

(d) Changes in accounting policies

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

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

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

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

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

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

(e) Revenue

The Group generates revenue largely in the UK and Europe.

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

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

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

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

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

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

(f) Revenue recognition

The principal revenue recognition policies are as follows:

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 Summary of significant accounting policies continued

Greenfield contracts

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

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

Percentage complete/long-term contracts

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

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

Contracts with multiple components

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

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

IAS 11 Construction contracts

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

IFRIC 12 Service concession arrangements

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

Contract renewals

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

Property commercialisation

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

Judgements and estimates in revenue recognition and related assets and liabilities

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 Summary of significant accounting policies continued

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

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

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

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

(g) Foreign currency translation

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

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

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

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

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

(h) Property, plant and equipment

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 Summary of significant accounting policies continued

(i) Borrowing costs

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

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

(j) Business combinations and goodwill

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

Acquisitions on or after 1 January 2010

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

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

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

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

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

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

Acquisitions between 1 January 2004 (IFRS transition date) and 1 January 2010

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

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

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

Acquisitions prior to 1 January 2004 (IFRS transition date)

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

Goodwill

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

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

Acquisitions and disposals of non-controlling interests

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

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

(k) Intangible assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 Summary of significant accounting policies continued

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

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

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

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

Intangible assets acquired in business combinations:

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

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

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

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

Intangible assets purchased or internally capitalised:

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

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

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

(l) Recoverable amount of non-current assets

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

(m) Investments and other financial assets

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

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

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

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

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

(n) Trade and other receivables

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

(o) Cash and cash equivalents

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

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

(p) Interest-bearing loans and borrowings

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

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

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

(q) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost. The Group provides, on a discounted basis, for the future rent expense and related cost of leasehold property (net of estimated sub-lease income) where the space is vacant or currently not planned to be used for ongoing operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 Summary of significant accounting policies continued

(r) Onerous contracts

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

(s) Pension schemes

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

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

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

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

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

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

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

(t) Financial instruments

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 Summary of significant accounting policies continued

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

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

(u) Leasing

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

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

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

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

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

› If the selling price is at or below fair value, then the gain or loss is recognised immediately. However, if a loss is compensated for by future rentals at below-market price, then the loss is deferred and amortised over the period in which the asset is expected to be used.

› If the selling price exceeds fair value, then that excess is deferred and amortised over the period for which the asset is expected to be used.

› If the fair value of the asset is less than the carrying amount of the asset at the date of the transaction, then that difference is recognised immediately as a loss on the sale.

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

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

(v) Income tax

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 Summary of significant accounting policies continued

(w) Share based payments

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

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

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

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

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

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

(x) New standards and interpretations not applied

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

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

IFRS 15 Revenue from Contracts with Customers

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

Current status

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2 Summary of significant accounting policies continued

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

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

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

Application

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

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

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

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

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

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

IFRS 16 Leases

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

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

3 Revenue

Revenue disclosed in the income statement is analysed as follows:

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

4 Business exit

2016 business exit

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

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

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

None of our 2016 business exits meet the definition of 'discontinued operations' as stipulated by IFRS 5, which requires disclosure and restatement of comparatives where the relative size of a disposal or business closure is significant, which is normally understood to mean a reported segment. Accordingly, the separate presentation described below does not fall within the requirements of IFRS 5 concerning discontinued operations and comparatives have not been restated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

4 Business exit continued

Income statement impact

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

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

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

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

The table below summarises the gain on disposal:

Gain on business disposal

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

Non-underlying cash movements in payables and receivables

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

2015 Business disposal/closure

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

Income statement impact

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

4 Business exit continued

Non-trading administrative expenses

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

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

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

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

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

Loss on business disposal

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

Assets and liabilities of disposal group held for sale

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

5 Other non-underlying

Included within the other non-underlying column are:

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

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

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

Contingent consideration movements: in accordance with IFRS 3, movements in the fair value of contingent consideration on acquisitions go through the Group income statement. These are reported separately because performance of the acquired businesses is assessed through the underlying operational results and such a charge/credit movement would distort underlying results.

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

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

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

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

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

Impairment of goodwill: the Group carries on its balance sheet significant balances related to acquired goodwill. Goodwill is subject to annual impairment testing, and any impairment charges are reported separately as they distort the in-year trading results and because performance of the acquired businesses is assessed through the underlying operational results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

5 Other non-underlying continued

Acquisition related costs and stamp duty: these costs incurred with acquisitions are not included in the assessment of business performance which is based on the underlying results. IFRS requires certain costs incurred in connection with acquired businesses to be recorded within the Group income statement. These charges are not included in the internal assessment of business performance which as above is based on the underlying operational results. These charges are therefore separately disclosed as non-underlying.

6 Segmental information

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

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

The tables below present revenue, trading result and certain asset and liability information for the Group's business segments for the years 2016 and 2015. All operations are continuing. The 2015 consolidated income statement has not been restated for the impact of business exits and other non-underlying items. If the 2015 underlying consolidated income statement was restated for both businesses exited during 2016 and businesses that were held for sale in 2015 but were not exited in 2016, revenue would be increased by £61.6m and profit before tax would reduce by £4.7m.

Year ended 31 December 2016

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

1 See note 4.

2 See note 5.

3 See note 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

6 Segmental information continued

Year ended 31 December 2015

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

1 See note 4.

2 See note 5.

3 See note 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

6 Segmental information continued

Other segment information

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

6 Segmental information continued

Reconciliation of segment assets and liabilities

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

7 Operating profit

This is stated after charging/(crediting):

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

1 Included within underlying operating activities before amortisation.

Underlying operating profit in 2016 includes the following items:

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

8 Employee benefits expense

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

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

› As shown on page 163 note 33 'Related party transactions', the aggregate amount of gains made by Directors on exercise of share options was £6.2m (2015: £4.3m)

› The remuneration of the highest paid Director was £914,894 (2015: £1,094,449).

› Payments have been made to a defined contribution pension scheme on behalf of 5 Directors (2015: 2 Directors). For the highest paid Director, pension contributions of £30,000 (2015: £nil) were made.

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

9 Net finance costs

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

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

10 Income tax

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

10 Income tax continued

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

10 Income tax continued

Deferred income tax

Deferred income tax at 31 December relates to the following:

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

11 Earnings per share

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

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

The following reflects the earnings and share data used in the basic and diluted earnings per share computations:

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

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

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

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

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

12 Dividends paid and proposed

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

13 Property, plant and equipment

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

14 Intangible assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

14 Intangible assets continued

Goodwill impairments: refer to note 15.

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

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

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

15 Goodwill

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

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

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

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

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

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

The impairment test

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

› The net assets of each CGU are identified, and allocated, including the goodwill above

› The key assumptions are identified, which are used to determine the recoverable amount per CGU to be measured against the net assets

› The final stage is to identify any shortfall, where the carrying value of net assets exceeds the recoverable amount determined through the value in use calculation – this would then be disclosed as an impairment of that CGU in the income statement.

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

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

The major factors considered per CGU are:

› Continuation of past performance

› Is the market in which the CGU operates experiencing change or further competitive pressures

› The route to new sales and renewals is clearly understood

› Whether management resource is suitable to achieve and deliver the budget

› The efficiency of the cost base and whether it is at the correct level for the business currently and supportive of future growth.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

15 Goodwill continued

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

The major assumptions in this extrapolation are:

› Growth rates applied to the year 1 cash flows

› The pre-tax discount rates to be used

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

Growth rates

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

Pre-tax discount rates

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

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

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

Long-term growth rates

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

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

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

Sensitivity analysis

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

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

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

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

Management continue to monitor closely the performance of all CGUs.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

16 Financial assets

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

17 Business combinations

2016 acquisitions

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

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

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

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

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

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

Contingent consideration

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

Acquisition related costs

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

17 Business combinations continued

2015 acquisitions

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

17 Business combinations continued

Contingent consideration

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

Acquisition related costs

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

18 Trade and other receivables

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

19 Cash, cash equivalents and overdrafts

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

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

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

20 Trade and other payables

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

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

21 Construction contracts

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

22 Financial liabilities

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

22 Financial liabilities continued

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

23 Funds assets and liabilities

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

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

24 Obligations under leases and hire purchase contracts

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

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

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

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

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

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

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

25 Provisions

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

25 Provisions continued

Restructuring provision: The provision is in respect of the cost of the major restructuring activities undertaken by the Group commencing in the last quarter of 2016. It represents the cost of reducing role count where there is a constructive obligation created through communication to affected employees which has crystallised a valid expectation that roles are at risk. Additionally it reflects the onerous nature of property lease provisions (net of any sub-letting opportunity) on a discounted basis, where due to the reduced requirement for space due to the redundancy programme there is additional surplus capacity. The provision, due to the tail of the property lease run-offs, is expected to unwind over 2 years.

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

Asset Services settlements provision:

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

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

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

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

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

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

26 Financial instruments

Financial risk management objectives and policies

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26 Financial instruments continued

Carrying values and fair values of financial instruments

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26 Financial instruments continued

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

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

Fair value hierarchy

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26 Financial instruments continued

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26 Financial instruments continued

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

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

Interest rate risk

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26 Financial instruments continued

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

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

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

Foreign currency risk

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26 Financial instruments continued

Hedges

Fair value hedges

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

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

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

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

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

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

Cash flow hedges

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

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

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

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

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

Hedges of net investments in foreign operations

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

Credit risk

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

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

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

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

Liquidity risk

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26 Financial instruments continued

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

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

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

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

Master netting or similar agreements

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26 Financial instruments continued

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

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

Capital management

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26 Financial instruments continued

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

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

27 Issued share capital

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

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

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

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

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

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

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

28 Share based payment plans

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

Deferred Annual Bonus Plan

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

28 Share based payment plans continued

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

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

Long-Term Incentive Plan (2008 LTIP)

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

1997 Executive Share Option Scheme

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

Capita Sharesave Scheme

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

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

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

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

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

2008 LTIP

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

28 Share based payment plans continued

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

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

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

29 Additional cash flow information

Operating cash flow for the year ended 31 December 2016

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

29 Additional cash flow information continued

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

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

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

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

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

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

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

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

30 Capital commitments

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

31 Contingent liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

32 Employee benefits

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

32 Employee benefits continued

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

32 Employee benefits continued

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

32 Employee benefits continued

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

32 Employee benefits continued

Information about the defined benefit obligation for the Capita scheme:

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

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

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

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

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

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

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

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

Sensitivity Analysis

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

33 Related party transactions

Compensation of key management personnel

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

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

During the year, the Group rendered administrative services to Smart DCC Ltd, a wholly owned subsidiary which is not consolidated. The Group received £40.3m (2015: £29.5m) of revenue for these services. As at the year-end the amounts receivable in relation to these services were £7.6m (2015: £6.0m). The services are procured by Smart DCC on an arm's length basis under the DCC licence. The services are subject to review by Ofgem to ensure that all costs are economically and efficiently incurred by Smart DCC.

Capita Pension and Life Assurance Scheme is a related party of the Group. Transactions with the Scheme are disclosed in note 32 – Employee benefits on page 158.

The following companies are substantial shareholders in the Company and therefore a related party of the Company (in each case, for the purposes of the Listing Rules of the UK Listing Authority). The number of shares held on 17 February 2017 was as below:

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

1 This includes the holding of Veritas Funds PLC.

34 Group composition and non-controlling interests

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

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

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

35 Post balance sheet event

No post balance sheet events are noted.

STATEMENT OF DIRECTORS' RESPONSIBILITY

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

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

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

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

By order of the Board.

A Parker
Chief Executive

N Greatorex
Group Finance Director

1 March 2017

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

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

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

› The financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;

› The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;

› The parent company financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS 101 Reduced Disclosure Framework; and

› The financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2 Our assessment of risks of material misstatement

Our audit approach

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

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

The Risk	Our Response
Going Concern Refer to page 81 (Audit and Risk Committee Report), and page 111 (accounting policy note 2(b)). We have assessed that this risk has increased in the current year as a result of the reduced level of reported profits combined with the net debt of the Group at the year-end. This places increased pressure on financial covenant compliance at the year-end and in the going concern forecast period. The Group has £1.8 billion of net debt as at 31 December 2016 including committed bank facilities and private placements which are subject to financial covenants. These covenants include a restriction on the ratio of adjusted net debt to adjusted EBITDA. See page 111 for further details of the requirements. Any breach of these financial covenants will require a waiver from the lenders, which brings into question the future availability of existing and future funding, and related charges, and could impact the going concern basis upon which these financial statements have been prepared. Forecast covenant compliance is a judgemental area as it is based upon forecast cash collection rates and performance against the 2017 Business Plan. In addition there is judgement over what adjustments should be made to calculate the adjusted EBITDA figure used in the covenant calculation. As set out in note 26 to the financial statements the Group also manages its cash flow and working capital through the use of certain non-recourse finance arrangements that improve the net debt position on a short-term basis.	Our audit procedures included the following: › We re-performed calculations, for 31 December 2016, 30 June 2017 and 31 December 2017, made for the Group's covenant statements to confirm mathematical accuracy; › We challenged any adjustments made to EBITDA in the covenant calculations, considering the appropriateness compared to the loan agreements and accepted and historical practice with the current lenders; › We tested the integrity of the cash flow projections and challenged the appropriateness of key assumptions used in preparing those projections (including the forecast cash collection rates and the 2017 Business Plan). We evaluated these projections and assumptions by reference to our knowledge of the business and general market conditions and assessed the potential risk of management bias; › We assessed the historical accuracy of forecasts prepared by management and the review and challenge by management of the current forecasts; › The Group applied sensitivities to its cash flow forecasts, and considered the impact of these sensitivities on covenant compliance and available headroom. We challenged the level of sensitivities applied for reasonableness and we evaluated whether the Directors' plans to alleviate the downside risk evident from these scenarios were feasible in the circumstances; › We evaluated the Group's analysis of non-recourse finance arrangements at the year-end, considering the impact of these arrangements on the available cash position at the year-end; and › We considered whether the Group's disclosures in relation to its liquidity and capital resources were complete, represented the position of the Group at the date of approval of the financial statements, and included the Directors' key considerations in deciding to prepare the financial statements on a going concern basis. We also considered the adequacy of the extent of disclosure around the uncertainty affecting the going concern assumption.

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

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

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

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

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

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

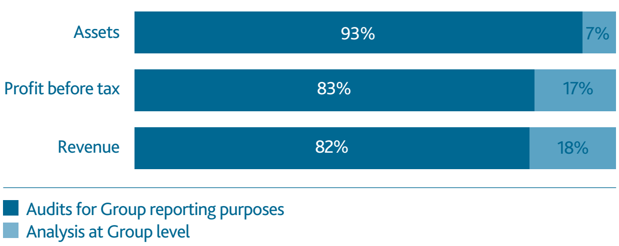
3 Our application of materiality and an overview of the scope of our audit

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

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

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

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



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

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

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

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

In our opinion:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Under the Listing Rules we are required to review:

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

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

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

Scope and responsibilities

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

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

1 March 2017

FIVE-YEAR SUMMARY
FOR THE YEAR ENDED 31 DECEMBER 2016

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

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2016

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

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

A Parker
Chief Executive

N Greatorex
Group Finance Director

Company registered number: 2081330

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

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 Accounting policies

(a) Basis of preparation

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

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

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

(b) Compliance with accounting standards

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

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

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

› A Cash Flow Statement and related notes

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

› Disclosures in respect of transactions with wholly owned subsidiaries

› The effects of new but not yet effective IFRSs

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

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

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

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

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

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

› Disclosures required by IFRS 7 Financial Instrument Disclosures.

(c) Tangible fixed assets

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

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

(d) Intangible assets

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

(e) Investments

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

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

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

(f) Pension schemes

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

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

1 Accounting policies continued

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

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

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

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

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

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

(g) Leasing commitments

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

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

(h) Deferred taxation

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

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

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

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

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

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

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

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

(i) Foreign currencies

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

(j) National Insurance on share option gains

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

(k) Financial instruments: disclosure and presentation

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

(l) Derivative financial instruments

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

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

1 Accounting policies continued

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

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

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

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

(m) Share based payments

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

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

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

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

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

2 Deferred taxation

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

3 Profit attributable to members of the parent undertaking

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

4 Dividends

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

5 Intangible assets

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

Other intangibles relates to software purchased from third parties.

6 Tangible fixed assets

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

7 Financial assets

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

8 Investments

(a) Fixed asset investments

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

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

1 Investing holding company.

2 Outsourcing services company.

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

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

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

9 Debtors

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

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

10 Creditors

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

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

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

11 Deferred taxation

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

12 Share capital

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

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

Treasury shares

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

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

Employee benefit trust shares

	2016 m	2015 m	**2016 £m**	2015 £m
Ordinary shares of 2 1/15p each				
At 1 January	**2.2**	2.2	**0.1**	0.1
Shares allotted in the year	**(0.5)**	–	**–**	–
At 31 December	**1.7**	2.2	**0.1**	0.1

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

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

13 Commitments and contingent liabilities

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

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

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

14 Borrowings

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

The Company has issued guaranteed unsecured bonds as follows:

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

All series are unsecured.

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

15 Related party transactions

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

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

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

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

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

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

16 Pension costs

The Company operates a defined contribution scheme.

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

17 Share based payment

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

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

18 Indirect investments

Trading companies

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

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

18 Indirect investments continued

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

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

18 Indirect investments continued

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

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

18 Indirect investments continued

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

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

18 Indirect investments continued

Company name	% ownership	Directly held by Capita plc	Share class
Capita IRG (BC) Limited (D)			
Dupree Holdings Limited			
Marrakech (Ireland) Limited (D)			
21/9, Warszawska Street, 40-009 Katowice, Poland			
ESA spółka z ograniczoną odpowiedzialnością			
4 Shenton Way, #28-03 SGX Centre 2, Singapore 068807			
Capita International Financial Services (Singapore) Pte. Ltd.			
50, Raffles Place, #32-01 Singapore Land Tower, Singapore, 048623			
Capita Insurance Services Asia Pte. Ltd.			
615 South DuPont Highway, Dover, Kent DE 19901, USA			
G2G3 (USA) LLC			
6th Floor, Adderley Block B, 11 Adderley Street, Cape Town, 8001, South Africa			
Full Circle Contact Centre Services (Proprietary) Limited			
803, Manning House , 38 Queen's Road Central, Hong Kong			
ThirtyThree APAC Limited (previously Work Group Limited)			
850 New Burton Road, Suite 201, Dover DE 19904, USA			
Capita (USA) Holdings Inc.			
Capita Business Services (USA) LLC			
Capita CTI (USA) LLC			
ThirtyThree USA Inc. (previously Work Group Inc.)			
8th Floor, Union Castle Building, 55 St Georges Mall, Cape Town, 8001, South Africa			
Capita (South Africa) (Pty) Limited (D)			
9 Allée Scheffer, Luxembourg, L-2520			
P.A.L. Management Services Sarl			
CAPITA (Luxembourg) s.a r.l			
Capita Fiduciary Group S.A.			(EUR 1,000.00 Ordinary, EUR 1,000.00 Preferred)
Capita Fiduciary S.A.			
Alameda dos Guaramomis, no 930, 1st Floor, Suite 01, Bairro, Moema, CEP 04076-011, Brazil			
Eureka Asessoria Empresarial Ltda (D)	49.90%		
Annenstraße 24a. 8020 Graz, Austria			
Capita Customer Services (Austria) GmbH			
Block C, Second Floor, Maynooth Business Campus, Maynooth, Co. Kildare, Republic of Ireland			
Capita Asset Services (Ireland) Limited			
Centrum Biurowe Lubicz I, ul. Lubicz 23, 31-503 Krakow, Poland			
Capita (Polska) spółka z ograniczoną odpowiedzialnością			
Clinch's House, Lord Street, Douglas, IM99 1RZ			
Capita Life and Pensions Services (Isle of Man) Limited			
Capita Registrars (Isle of Man) Limited			
Capita Retail Financial Services (Isle of Man) Limited			
Corporation Service Company 2711, Centerville Road, Suite 400, Wilmington, County of Newcastle DE 19808, USA			
CAS Services US Inc			
Clinical Solutions Group (International) LLC (D)			
Corporation Trust Centre, 1209 Orange Street, Wilmington, New Castle DE 19801, USA			
Capita Translation and Interpreting LLC			
Dohany u. 12, 1074, Budapest, Hungary			
Capita Hungary International Financial Administrative Services Limited Liability Company			
Große Bockenheimer Str.50, 60313, Frankfurt am Main, Germany			
Capita Asset Services GmbH			
Hardturmstrasse 101, 8005, Zürich, Switzerland			
Telag AG			
Capita International Financial Services (Schweiz) GmbH			
Immermannstrasse 45, 40210, Düsseldorf, Germany			
Capita West GmbH			
Jachthavenweg 109H, 1081 KM, Amsterdam, Netherlands			
Capita Administrative Services (Netherlands) B.V.			
Capita Asset Services B.V.			
Capita Asset Services Group (Netherlands) B.V.			
Capita Debt Solutions (Netherlands) BV (D)			
NHS Corporate and Fiduciary Services B.V. (D)			
NHS Outsourcing B.V. (D)			
Käfertaler Str. 190, 68167, Mannheim, Germany			
adato GmbH			
Kelzstraße 21,07318, Saalfeld, Germany			
3C DIALOG Saalfeld GmbH			
Kommandantenstraße 22, 10959, Berlin, Germany			
Capita Customer Services (Germany) GmbH			
Capita rentable GmbH			
Capita Süd GmbH			
Konstanzerstrasse 17, 8274, Tägerwilen, Switzerland			
Capita Customer Services AG			
Pro Fiducia Treuhand AG			
Landmark Virtual Offices, Africa Re Building – Plot 1679, Karimu Kotun Street, Victoria Island, Lagos, Nigeria			
Capita Norman + Dawbarn Limited (D)	97.30%		

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

18 Indirect investments continued

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

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

18 Indirect investments continued

Audit exempt

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

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

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

18 Indirect investments continued

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

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

ADDITIONAL INFORMATION FOR SHAREHOLDERS

e-communications for shareholders

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

› Obtain secure online access to personal shareholding details

› Submit queries to our registrars, download forms and obtain general shareholder information

› Update shareholding accounts online.

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

Key dates for your diary

Annual General Meeting (AGM): 13 June 2017

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

Final dividend payment: 3 July 2017

Get in touch

Shareholder enquiries

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

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

Capita Asset Services

The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

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

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

Other helpful shareholder services

Share dealing

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

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

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

Dividend reinvestment plan (DRIP)

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

International dividend payment service

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

Registered office

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

Registered number: 2081330

Company Secretary

Francesca Todd

Stockbrokers

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

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

Auditor

KPMG LLP
15 Canada Square
London E14 5GL

Bankers

Barclays Bank plc
1 Churchill Place
London E14 5HP

HSBC Bank plc
8 Canada Square
London E14 5HQ

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

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

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

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Capita plc
71 Victoria Street
Westminster
London SW1H 0XA

T 020 7799 1525
F 020 7799 1526
E corporate@capita.co.uk
www.capita.com