FINANCIAL STATEMENTS

Consolidated income statement

For the year ended 31 December 2018

	Notes	2018 Total reported £m	2017 Total reported £m
Continuing operations:			
Revenue		**3,918.4**	4,234.6
Cost of sales		**(2,951.4)**	(3,182.0)
Gross profit		**967.0**	1,052.6
Administrative expenses	3,4,7	**(932.1)**	(1,472.7)
Operating profit/(loss)	3,4,7	**34.9**	(420.1)
Net finance costs	9	**(72.0)**	(62.4)
Gain/(loss) on business disposal	4	**309.7**	(30.6)
Profit/(loss) before tax	3	**272.6**	(513.1)
Income tax credit/(expense)	10	**0.9**	(14.0)
Profit/(loss) for the year from continuing operations		**273.5**	(527.1)
Discontinued operations:			
Profit for the year	5	**5.6**	416.4
Total profit/(loss) for the year		**279.1**	(110.7)
Attributable to:			
Owners of the Company		**269.0**	(117.1)
Non-controlling interests	34	**10.1**	6.4
		279.1	(110.7)
Earnings/(loss) per share	11		
Continuing:			
– basic		**17.99p**	(48.82)p
– diluted		**17.77p**	(48.82)p
Total operations:			
– basic		**18.37p**	(10.72)p
– diluted		**18.15p**	(10.72)p

Adjusted operating profit	3	**335.3**	447.5
Adjusted profit before tax	3	**282.1**	383.1
Adjusted earnings per share	11	**16.37p**	27.99p
Adjusted and diluted earnings per share	11	**16.17p**	27.99p

The above and accompanying notes are an integral part of the financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2018

	Notes	2018 £m	2018 £m	2017 £m	2017 £m
Profit/(loss) for the year			**279.1**		(110.7)
Other comprehensive income/(expense):					
Items that will not be reclassified subsequently to profit or loss					
Actuarial gain/(loss) on defined benefit pension schemes	32	**134.9**		(51.4)	
Income tax effect	10	**(22.9)**		8.8	
			112.0		(42.6)
			112.0		(42.6)
Items that will or may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations			**2.0**		(4.6)
Net investment hedge of foreign operations		**—**		10.4	
			—		10.4
Gain on cash flow hedges	26	**2.0**		2.0	
Reclassification adjustments for (income)/expenses included in the income statement	26	**(2.5)**		0.3	
Income tax effect	10	**0.1**		(0.4)	
			(0.4)		1.9
			1.6		7.7
Other comprehensive income/(expense) for the year net of tax			**113.6**		(34.9)
Total comprehensive income/(expense) for the year net of tax			**392.7**		(145.6)
Attributable to:					
Owners of the Company			**382.6**		(152.0)
Non-controlling interests	34		**10.1**		6.4
			392.7		(145.6)

The accompanying notes are an integral part of the financial statements.

Consolidated balance sheet

As at 31 December 2018

	Notes	2018 £m	2017 £m
Non-current assets			
Property, plant and equipment	13	**213.6**	219.3
Intangible assets	14,15	**1,587.7**	1,812.1
Contract fulfilment assets	17	**264.2**	252.5
Financial assets	18	**109.1**	132.3
Deferred taxation	10	**144.6**	159.3
Trade and other receivables	19	**26.2**	28.0
		2,345.4	2,603.5
Current assets			
Financial assets	18	**18.2**	88.7
Disposal group assets held for sale	4	**—**	5.9
Trade and other receivables	19	**771.7**	775.8
Cash	20	**957.5**	921.7
Income tax receivable	10	**0.9**	25.6
		1,748.3	1,817.7
Total assets		**4,093.7**	4,421.2
Current liabilities			
Trade and other payables	21	**668.7**	755.2
Deferred income	22	**980.3**	1,201.2
Overdrafts	20	**314.8**	443.3
Financial liabilities	23	**303.1**	265.6
Disposal group liabilities held for sale	4	**—**	1.4
Provisions	25	**96.8**	164.1
		2,363.7	2,830.8
Non-current liabilities			
Trade and other payables	21	**11.6**	17.0
Deferred income	22	**277.3**	314.0
Financial liabilities	23	**1,084.2**	1,721.7
Deferred taxation	10	**15.2**	12.2
Provisions	25	**19.4**	48.5
Employee benefits	32	**219.0**	406.8
		1,626.7	2,520.2
Total liabilities		**3,990.4**	5,351.0
Net assets/(liabilities)		**103.3**	(929.8)
Capital and reserves			
Issued share capital	27	**34.5**	13.8
Share premium	27	**1,143.3**	501.3
Employee benefit trust and treasury shares	27	**(11.2)**	(0.2)
Capital redemption reserve		**1.8**	1.8
Foreign currency translation reserve		**1.6**	(0.4)
Cash flow hedging reserve		**1.5**	1.9
Retained deficit		**(1,135.3)**	(1,517.2)
Surplus/(deficit) attributable to owners of the Company		**36.2**	(999.0)
Non-controlling interests	34	**67.1**	69.2
Total equity		**103.3**	(929.8)

The accompanying notes are an integral part of the financial statements.

The accounts were approved by the Board of Directors on 13 March 2019 and signed on its behalf by:

Jon Lewis
Chief Executive Officer

Patrick Butcher
Chief Financial Officer

Company registered number: 02081330

Consolidated statement of changes in equity

For the year ended 31 December 2018

	Share capital £m	Share premium £m	Employee benefit trust and treasury shares £m	Capital redemption reserve £m	Retained earnings/ (deficit) £m	Foreign currency translation reserve £m	Cash flow hedging reserve £m	Total £m	Non-controlling interests £m	Total equity/ (deficit) £m
At 1 January 2017	13.8	501.3	(0.2)	1.8	(1,131.8)	(6.2)	—	(621.3)	68.4	(552.9)
Profit/(loss) for the year	—	—	—	—	(117.1)	—	—	(117.1)	6.4	(110.7)
Other comprehensive (expense)/income	—	—	—	—	(42.6)	5.8	1.9	(34.9)	—	(34.9)
Total comprehensive (expense)/ income for the year	—	—	—	—	(159.7)	5.8	1.9	(152.0)	6.4	(145.6)
Share based payment	—	—	—	—	2.9	—	—	2.9	—	2.9
Equity dividends paid	—	—	—	—	(211.0)	—	—	(211.0)	(5.6)	(216.6)
Investment in non-controlling interest	—	—	—	—	(11.1)	—	—	(11.1)	—	(11.1)
Movement in put options held by non-controlling interests	—	—	—	—	(6.5)	—	—	(6.5)	—	(6.5)
At 1 January 2018	13.8	501.3	(0.2)	1.8	(1,517.2)	(0.4)	1.9	(999.0)	69.2	(929.8)
Profit for the year	**—**	**—**	**—**	**—**	**269.0**	**—**	**—**	**269.0**	**10.1**	**279.1**
Other comprehensive income/(expense)	**—**	**—**	**—**	**—**	**112.0**	**2.0**	**(0.4)**	**113.6**	**—**	**113.6**
Total comprehensive income/ (expense) for the year	**—**	**—**	**—**	**—**	**381.0**	**2.0**	**(0.4)**	**382.6**	**10.1**	**392.7**
Share based payment	**—**	**—**	**—**	**—**	**3.4**	**—**	**—**	**3.4**	**—**	**3.4**
Deferred income tax relating to share based payments	**—**	**—**	**—**	**—**	**0.4**	**—**	**—**	**0.4**	**—**	**0.4**
Shares issued/(purchased) (note 27)	**20.7**	**642.0**	**(11.0)**	**—**	**—**	**—**	**—**	**651.7**	**—**	**651.7**
Equity dividends paid	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(12.2)**	**(12.2)**
Movement in put options held by non-controlling interests	**—**	**—**	**—**	**—**	**(2.9)**	**—**	**—**	**(2.9)**	**—**	**(2.9)**
As at 31 December 2018	**34.5**	**1,143.3**	**(11.2)**	**1.8**	**(1,135.3)**	**1.6**	**1.5**	**36.2**	**67.1**	**103.3**

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

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

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

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

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

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

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

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

The accompanying notes are an integral part of the financial statements.

Consolidated cash flow statement

For the year ended 31 December 2018

	Notes	2018 £m	Restated[1] 2017 £m
Cash generated from operations	29	**(75.7)**	225.4
Cash generated from/(used by) discontinued operations	5	**(99.2)**	6.7
Income tax received	10	**25.3**	9.5
Net interest paid		**(52.5)**	(54.2)
Net cash inflow/(outflow) from operating activities		**(202.1)**	187.4
Cash flows from investing activities			
Purchase of property, plant and equipment	13	**(89.4)**	(66.2)
Purchase of intangible assets	14	**(70.1)**	(71.0)
Proceeds from sale of property, plant and equipment/intangible assets	7, 13, 14	**1.9**	23.1
Acquisition of subsidiary undertakings and businesses	16	**—**	(24.5)
Cash acquired with subsidiary undertakings	16	**—**	4.5
Deferred consideration received		**5.2**	11.8
Cancellation of put options		**(6.8)**	—
Deferred consideration paid	23	**(11.1)**	(5.8)
Contingent consideration paid		**(19.8)**	(11.7)
Purchase of financial assets		**(0.9)**	(0.7)
Net proceeds on disposal of subsidiary undertakings	4	**407.8**	17.0
Cash disposed of with subsidiary undertakings	4	**(11.2)**	(0.1)
Cash flows from investing activities used by discontinued operations	5	**—**	825.2
Net cash inflow/(outflow) from investing activities		**205.6**	701.6
Cash flows from financing activities			
External dividends paid	12	**—**	(211.0)
Dividends paid to non-controlling interest	12	**(12.2)**	(5.6)
Purchase of shares	27	**(11.0)**	—
Capital element of finance lease rental payments		**(0.2)**	(2.1)
Issue of share capital net of issue costs	27	**662.7**	—
Repayment of loan notes	26	**(577.2)**	(124.1)
Proceeds/(Repayment) of fixed rate swaps	26	**103.6**	(84.6)
Repayment of term debt	26	**—**	(550.0)
Financing arrangement costs		**(3.7)**	(2.1)
Net cash inflow/(outflow) from financing activities		**162.0**	(979.5)
Increase in cash and cash equivalents		**165.5**	(90.5)
Cash and cash equivalents at the beginning of the period		**478.4**	565.8
Movement in exchange rates		**(1.2)**	3.1
Cash and cash equivalents as at 31 December		**642.7**	478.4
Cash and cash equivalents comprise:			
Cash at bank and in hand	20	**957.5**	921.7
Overdrafts	20	**(314.8)**	(443.3)
Total		**642.7**	478.4

Adjusted cash generated from operations	29	**69.8**	**230.3**
Adjusted free cash flows	29	**(82.5)**	**75.4**

1 The Group has represented and restated its cash flow statement. Refer to note 29 for details.

Notes to the consolidated financial statements

1 Corporate information

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

The principal activities of the Group are given in the strategic report on pages 1–52.

2 Summary of significant accounting policies

Changes to non-statutory reporting

The Group has simplified its non-statutory reporting measures to improve transparency and make it easier for the readers of its annual report and accounts to understand its financial performance. Historically, the Group presented underlying and non-underlying results (comprising business exits and specific items) on the face of the income statement. In the notes, underlying results before significant new contracts and restructuring was disclosed. The revised presentation has only the reported results on the face of the income statement, with a footnote detailing adjusted profit and earnings per share, and a reference to a note to the consolidated financial statements (see note 3) providing a reconciliation between reported and adjusted profit. The presentation of the cash flow statement and additional cash flow information in note 29 have also been revised to show the same split.

Adjusted profit

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

Those items which relate to the ordinary course of the Group's operating activities remain within adjusted profit. The following items are excluded from adjusted profit: acquired intangible amortisation, impairment of goodwill and acquired intangibles, acquisition contingent consideration movements, the financial impact of business exits or businesses in the process of being exited, acquisition expenses, movements in the mark-to-market valuation of certain financial instruments, the impact of significant new contracts and restructuring (see below), and other specific non-recurring items in the income statement. In the Directors' judgement, these need to be disclosed separately (see notes 3, 4, 5, 9 and 10) by virtue of their nature, size and/or incidence, in order for users of the financial statements to obtain a proper understanding of the financial information and the underlying in-year performance of the business. The Board does not consider these items when assessing the performance of the in-year performance and accordingly these items are also excluded in the discussion of divisional performances in the strategic report.

Under IFRS 15, contracts potentially recognise lower profits or losses in their early years where there are significant upfront restructuring costs or higher operating costs prior to transformation. As such, following the adoption of IFRS 15, the Board adopted a policy to separately disclose the operating profit/loss from significant new contract wins in-period and significant restructuring, in order for users of the financial statements to obtain a proper understanding of the financial information and the performance of the underlying business. The impact of these significant new contracts and restructuring are excluded in arriving at adjusted profit. A significant new contract is assessed as that which is significant and either entirely new to the Group, or a significant amendment to the scope and scale of an existing contract. The Group continually assesses the resourcing levels, both at a divisional level and also in relation to the management and delivery of individual contracts. This results in restructuring in the normal course of business and any such charges are recorded in adjusted profit. A significant restructuring is assessed as that above this normal level of restructuring. As discussed in the strategic report, a major transformation plan has been launched and costs incurred in support of this, including external adviser costs, are presented as restructuring charges. Contract terminations arising in the normal course of business and which result in the disposal of a contract fulfilment asset and/or a true-up of revenue recognised, will be included within adjusted profit, and separately disclosed if considered material (see note 3).

This policy is kept under review by the Board and the Audit and Risk Committee, and is discussed in the Committee's report on pages 71–79. The Audit and Risk Committee will keep under review the policy for presentation significant restructuring costs separately, as the programme covers multiple years. Accordingly, the Committee is cognisant of the need to ensure that costs are defined and that appropriate borders are set for such an extended and critical programme.

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

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.

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies continued

Significant accounting judgements, estimates and assumptions

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

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 significant judgements to be applied, including the measurement and timing of revenue recognition and the recognition of related balance sheet items (such as contract fulfilment assets, capitalisation of costs to obtain a contract, trade receivables, accrued income and deferred income) that result from the performance of the contract (see (e) and (s) below, and the 'divisional strategy and performance' section of the strategic report). This is particularly in respect of contracts that are in the transformation stage and pre-inflection point, such as PCSE and mobilcom-debitel.

  The Group is required to estimate the contract profitability, including the costs to complete the contract. The ability to accurately forecast such costs involves estimates around cost savings to be achieved over time, anticipated profitability of the contract, as well as future performance against any contract-specific KPIs that could trigger variable consideration or service credits. The Group first assesses whether the contract assets are impaired and then further considers whether any onerous contract exists. To mitigate the level of uncertainty in making these estimates the Group regularly compares actual performance of the contracts against previous forecasts and considers whether there have been any changes to significant judgements. Following this review, as outlined in note 17, contract fulfilment asset provisions for impairment of £22.2m (£2017: £14.1m) were identified relating to assets capitalised in the year and recognised within adjusted cost of sales.

  Due to the level of uncertainty and combination of variables associated with those estimates there is a significant risk that there could be material adjustment to the carrying amounts of onerous contract provisions within the next financial year. The future range of possible outcomes in respect of the assumptions and significant judgements made to determine the carrying value of onerous contracts could result in either a material increase or decrease in the value of contract fulfilment assets or onerous contract provisions in the next financial year. The extent to which actual results differ from estimates made at the reporting date depends on the combined outcome and timing of a large number of variables associated with performance across multiple contracts. Given this wide spread of contracts, it is not practical to provide a quantitative analysis of the aggregated judgements that are applied, and we do not believe that disclosing a potential range of outcomes on a consolidated basis would provide meaningful information to a reader of the accounts. Due to commercial sensitivities, we do not specifically disclose the amounts involved on any individual contract. The Board has discussed in the strategic report the outlook on the key contracts that are pre-inflection to provide context for a reader to assess the results and performance of the underlying division.

- 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 as in most cases no active market for the assets exists and therefore no observable value. 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 14.

- 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 or more frequently if required and this requires an estimation of the fair value less cost of disposal 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).

- 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 notes 25 and 31). Judgement is necessary in assessing the likelihood of success of any claim and whether 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 items in arriving at adjusted profit. As discussed above, the Group separately presents specific items in the income statement, which in the Directors' judgement, need to be disclosed separately by virtue of their nature, size and/or incidence in order for users of the financial statements to obtain a proper understanding of the financial information and the underlying performance of the business (see note 3). This judgement has an impact on the calculation of covenants (refer to (b)).

(a) Statement of compliance

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

The parent company has applied FRS 101 – Reduced Disclosure Framework in the preparation of its individual financial statements and these are contained on pages 178–195. FRS 101 applies IFRS as adopted by the European Union with certain disclosure exemptions.

2 Summary of significant accounting policies continued

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

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

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

The Group had net debt of £466.1m as at 31 December 2018 (2017: £1,117.0m) and adjusted net debt of £494.7m as at 31 December 2018 (2017: £1,153.0m). Net debt is reported in note 29 – additional cash flow information. Adjusted net debt is used to calculate the gearing ratio adjusted net debt to adjusted EBITDA (refer to the alternative performance measures on pages 197–198).

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

(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 intra-group 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.

(d) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of IFRS 9 Financial Instruments. In addition, the Group has adopted the new amendments to standards and new IFRIC as detailed below.

Initial adoption of IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. With the exception of hedge accounting, which the Group applied prospectively, the Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018. There has been no restatement to the comparative balances for the period beginning 1 January 2017 as there are no requirements under the standard to restate comparatives.

The Group has performed an assessment to understand the requirements of IFRS 9 and how these differ from IAS 39 and has concluded there is no significant impact on the consolidated financial statements from the date of adoption. There were no differences between previous carrying amounts and consequently no adjustment has been made to opening retained earnings. The updated account policy is set out in (r).

Annual improvements to IFRS Standards 2014–2016 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 IFRS 2: Classification and Measurement of Share-based Payment Transactions

The amendments are intended to eliminate diversity in practice, are narrow in scope and address three specific areas of classification and measurement.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments provide two options for entities that issue insurance contracts within the scope of IFRS 4: the 'overlay approach' or the 'deferral approach'. The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

Amendments to IAS 40: Transfers of Investment Property

The amendment provides clarity that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

IFRIC 22: Foreign Currency Transactions and Advance Consideration

These amendments are intended to eliminate diversity in practice when recognising the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration received or paid in a foreign currency.

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies continued

(e) Revenue

The Group generates revenue largely in the UK and Europe.

The Group operates a number of diverse businesses and accordingly applies a variety of methods for revenue recognition, based on the principles set out in IFRS 15. Many of the contracts entered into are long-term and complex in nature, given the breadth of solutions the Group offers.

The revenue and profits recognised in any period are based on the delivery of performance obligations and an assessment of when control is transferred to the customer.

In determining the amount of revenue and profits to record, and related balance sheet items (such as contract fulfilment assets, capitalisation of costs to obtain a contract, trade receivables, accrued income and deferred income) to recognise in the period, management is required to form a number of key judgements and assumptions. This includes an assessment of the costs the Group incurs to deliver the contractual commitments and whether such costs should be expensed as incurred or capitalised. These judgements are inherently subjective and may cover future events such as the achievement of contractual milestones, 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.

Revenue is recognised either when the performance obligation in the contract has been performed (so 'point in time' recognition) or 'over time' as control of the performance obligation is transferred to the customer.

For all contracts, the Group determines if the arrangement with a customer creates enforceable rights and obligations. This assessment results in certain Master Service Agreements (MSAs) not meeting the definition of a contract under IFRS 15 and as such the individual call-off agreements, linked to the MSA, are treated as individual contracts.

The Group enters into contracts which contain extension periods, where either the customer or both parties can choose to extend the contract or there is an automatic annual renewal, and/or termination clauses that could impact the actual duration of the contract. Judgement is applied to assess the impact that these clauses have when determining the appropriate contract term. The term of the contract impacts both the period over which revenue from performance obligations may be recognised and the period over which contract fulfilment assets and capitalised costs to obtain a contract are expensed.

For contracts with multiple components to be delivered such as transformation, transitions and the delivery of outsourced services, management applies judgement to consider whether those promised goods and services are: (i) distinct – to be accounted for as separate performance obligations; (ii) not distinct – to be combined with other promised goods or services until a bundle is identified that is distinct; or (iii) part of a series of distinct goods and services that are substantially the same and have the same pattern of transfer to the customer.

At contract inception the total transaction price is estimated, being the amount to which the Group expects to be entitled and has rights to under the present contract. This includes an assessment of any variable consideration where the Group's performance may result in additional revenues based on the achievement of agreed KPIs. Such amounts are only included based on the expected value or the most likely outcome method, and only to the extent that it is highly probable that no revenue reversal will occur.

The transaction price does not include estimates of consideration resulting from change orders for additional goods and services unless these are agreed.

Once the total transaction price is determined, the Group allocates this to the identified performance obligations in proportion to their relative stand-alone selling prices and recognises revenue when (or as) those performance obligations are satisfied.

The Group infrequently sells standard products with observable stand-alone prices due to the specialised services required by clients and therefore the Group applies judgement to determine an appropriate stand alone selling price. More frequently, the Group sells a customer bespoke solution, and in these cases the Group typically uses the expected cost plus margin or a contractually stated price approach to estimate the stand-alone selling price of each performance obligation.

The Group may offer price step downs during the life of a contract, but with no change to the underlying scope of services to be delivered. In general, any such variable consideration, price step down or discount is included in the total transaction price to be allocated across all performance obligations unless it relates to only one performance obligation in the contract.

For each performance obligation, the Group determines if revenue will be recognised over time or at a point in time. Where the Group recognises revenue over time for long-term contracts, this is in general due to the Group performing and the customer simultaneously receiving and consuming the benefits provided over the life of the contract.

For each performance obligation to be recognised over time, the Group applies a revenue recognition method that faithfully depicts the Group's performance in transferring control of the goods or services to the customer. This decision requires assessment of the real nature of the goods or services that the Group has promised to transfer to the customer. The Group applies the relevant output or input method consistently to similar performance obligations in other contracts.

When using the output method the Group recognises revenue on the basis of direct measurements of the value to the customer of the goods and services transferred to date relative to the remaining goods and services under the contract. Where the output method is used, in particular for long-term service contracts where the series guidance is applied (see below for further details), the Group often uses a method of time elapsed which requires minimal estimation. Certain long-term contracts use output methods based upon estimation of number of users, level of service activity or fees collected.

If performance obligations in a contract do not meet the over time criteria, the Group recognises revenue at a point in time (see below for further details).

The Group disaggregates revenue from contracts with customers by contract type, as management believe this best depicts how the nature, amount, timing and uncertainty of the Group's revenue and cash flows are affected by economic factors. Categories are: 'long-term contractual – greater than two years'; and 'short-term contractual – less than two years'. Years based from service commencement date.

2 Summary of significant accounting policies continued

Long-term contractual – greater than two years

The Group provides a range of services in the majority of its reportable segments under customer contracts with a duration of more than two years.

The nature of contracts or performance obligations categorised within this revenue type is diverse and includes: (i) long-term outsourced service arrangements in the public and private sectors; and (ii) active software licence arrangements (see definition below).

The Group considers that the services provided meet the definition of a series of distinct goods and services as they are: (i) substantially the same; and (ii) have the same pattern of transfer (as the series constitutes services provided in distinct time increments (e.g. daily, monthly, quarterly or annual services)) and therefore treats the series as one performance obligation. Even if the underlying activities performed by the Group to satisfy a promise vary significantly throughout the day and from day to day, that fact, by itself, does not mean the distinct goods or services are not substantially the same. For the majority of long-service contracts with customers in this category, the Group recognises revenue using the output method as it best reflects the nature in which the Group is transferring control of the goods or services to the customer.

Active software licences are those where the Group has a continuing involvement after the sale or transfer of control to the customer, which significantly affects the intellectual property to which the customer has rights. The Group is in a majority of cases responsible for any maintenance, continuing support, updates and upgrades and accordingly the sale of the initial software is not distinct. The Group's accounting policy for licences is discussed in more detail below.

Short-term contractual – less than two years

The nature of contracts or performance obligations categorised within this revenue type is diverse and includes: (i) short-term outsourced service arrangements in the public and private sectors; and (ii) software maintenance contracts.

The Group has assessed that maintenance and support (i.e. on-call support, remote support) for software licences is a performance obligation that can be considered capable of being distinct and separately identifiable in a contract if the customer has a passive licence. These recurring services are substantially the same as the nature of the promise is for the Group to 'stand ready' to perform maintenance and support when required by the customer. Each day of standing ready is then distinct from each following day and is transferred in the same pattern to the customer.

Transactional (Point in time) contracts

The Group delivers a range of goods or services in all reportable segments that are transactional services for which revenue is recognised at the point in time when control of the goods or services has transferred to the customer. This may be at the point of physical delivery of goods and acceptance by a customer or when the customer obtains control of an asset or service in a contract with customer-specified acceptance criteria.

The nature of contracts or performance obligations categorised within this revenue type is diverse and includes: (i) provision of IT hardware goods; (ii) passive software licence agreements; (iii) commission received as agent from the sale of third-party software; and (iv) fees received in relation to delivery of professional services.

Passive software licences are licences which have significant stand-alone functionality and the contract does not require, and the customer does not reasonably expect, the Group to undertake activities that significantly affect the licence. Any ongoing maintenance or support services for passive licences are likely to be separate performance obligations. The Group's accounting policy for licences is discussed in more detail below.

Contract modifications

The Group's contracts are often amended for changes in contract specifications and requirements. Contract modifications exist when the amendment either creates new or changes the existing enforceable rights and obligations. The effect of a contract modification on the transaction price and the Group's measure of progress for the performance obligation to which it relates, is recognised as an adjustment to revenue in one of the following ways:

a. prospectively as an additional separate contract;

b. prospectively as a termination of the existing contract and creation of a new contract;

c. as part of the original contract using a cumulative catch up; or

d. as a combination of (b) and (c).

For contracts for which the Group has decided there is a series of distinct goods and services that are substantially the same and have the same pattern of transfer where revenue is recognised over time, the modification will always be treated under either (a) or (b); (d) may arise when a contract has a part-termination and a modification of the remaining performance obligations.

The facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract by contract and may result in different accounting outcomes.

Judgement is applied in relation to the accounting for such modifications where the final terms or legal contracts have not been agreed prior to the period end as management need to determine if a modification has been approved and if it either creates new or changes existing enforceable rights and obligations of the parties. Depending upon the outcome of such negotiations, the timing and amount of revenue recognised may be different in the relevant accounting periods. Modification and amendments to contracts are undertaken via an agreed formal process. For example, if a change in scope has been approved but the corresponding change in price is still being negotiated, management use their judgement to estimate the change to the total transaction price. Importantly, any variable consideration is only recognised to the extent that it is highly probable that no revenue reversal will occur.

Principal versus agent

The Group has arrangements with some of its clients whereby it needs to determine if it acts as a principal or an agent as more than one party is involved in providing the goods and services to the customer. The Group acts as a principal if it controls a promised good or service before transferring that good or service to the customer. The Group is an agent if its role is to arrange for another entity to provide the goods or services. Factors considered in making this assessment are most notably the discretion the Group has in establishing the price for the specified good or service, whether the Group has inventory risk and whether the Group is primarily responsible for fulfilling the promise to deliver the service or good.

This assessment of control requires judgement in particular in relation to certain service contracts. An example is the provision of certain recruitment and learning services where the Group may be assessed to be agent or principal dependent upon the facts and circumstances of the arrangement and the nature of the services being delivered.

Where the Group is acting as a principal, revenue is recorded on a gross basis. Where the Group is acting as an agent, revenue is recorded at a net amount reflecting the margin earned.

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies continued

Licences

Software licences delivered by the Group can either be right to access ('active') or right to use ('passive') licences. Active licences are licences which require continuous upgrade and updates for the software to remain useful, all other licences are treated as passive licences. The assessment of whether a licence is active or passive involves judgement. The key determinant of whether a licence is active is whether the Group is required to undertake activities that significantly affect the licensed intellectual property (or the customer has a reasonable expectation that it will do so) and the customer is, therefore, exposed to positive or negative impacts resulting from those changes.

When software upgrades are sold as part of the software licence agreement (i.e. software upgrades are promised to the customer), the Group applies judgement to assess whether the software upgrade is distinct from the licence (i.e. a separate performance obligation). If the upgrade is considered fundamental to the ongoing use of the software by the customer, the upgrades are not considered distinct and not accounted for as a separate performance obligation.

The Group considers for each contract that includes a separate licence performance obligation all the facts and circumstances in determining whether the licence revenue is recognised over time or at a point in time from the go live date of the licence.

Contract fulfilment assets

Contract fulfilment costs are divided into: (i) costs that give rise to an asset; and (ii) costs that are expensed as incurred.

When determining the appropriate accounting treatment for such costs, the Group firstly considers any other applicable standards. If those other standards preclude capitalisation of a particular cost, then an asset is not recognised under IFRS 15.

If other standards are not applicable to contract fulfilment costs, the Group applies the following criteria which, if met, result in capitalisation: (i) the costs directly relate to a contract or to a specifically identifiable anticipated contract; (ii) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and (iii) the costs are expected to be recovered. The assessment of this criteria requires the application of judgement, in particular when considering if costs generate or enhance resources to be used to satisfy future performance obligations and whether costs are expected to be recoverable.

The Group regularly incurs costs to deliver its outsourcing services in a more efficient way (often referred to as 'transformation' costs). These costs may include process mapping and design, system development, project management, hardware (generally in scope of the Group's accounting policy for property, plant and equipment), software licence costs (generally in scope of the Group's accounting policy for intangible assets), recruitment costs and training.

The Group has determined that, where the relevant specific criteria are met, the costs for (i) process mapping and design; (ii) system development; and (iii) project management are likely to qualify to be capitalised as contract fulfilment assets.

The incremental costs of obtaining a contract with a customer are recognised as a contract fulfilment asset if the Group expects to recover them. The Group incurs costs such as bid costs, legal fees to draft a contract and sales commissions when it enters into a new contract.

Judgement is applied by the Group when determining what costs qualify to be capitalised in particular when considering whether these costs are incremental and whether these are expected to be recoverable. For example, the Group considers which type of sales commissions are incremental to the cost of obtaining specific contracts and the point in time when the costs will be capitalised.

The Group has determined that the following costs may be capitalised as contract fulfilment assets: (i) legal fees to draft a contract (once the Group has been selected as a preferred supplier for a bid); and (ii) sales commissions that are directly related to winning a specific contract.

Costs incurred prior to selection as preferred supplier are not capitalised but are expensed as incurred.

Utilisation, derecognition and impairment of contract fulfilment assets and capitalised costs to obtain a contract

The Group utilises contract fulfilment assets to cost of sales over the expected contract period using a systematic basis that mirrors the pattern in which the Group transfers control of the service to the customer. The utilisation charge is included within cost of sales. Judgement is applied to determine this period, for example whether this expected period would be the contract term or a longer period such as the estimated life of the customer relationship for a particular contract if, say, renewals are expected.

A contract fulfilment asset is derecognised either when it is disposed of or when no further economic benefits are expected to flow from its use or disposal.

Management is required to determine the recoverability of contract related assets within property, plant and equipment, intangible assets as well as contract fulfilment assets, accrued income and trade receivables. At each reporting date, the Group determines whether or not the contract fulfilment assets are impaired by comparing the carrying amount of the asset to the remaining amount of consideration that the Group expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, the Group uses the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price will be removed for the impairment test.

Where the relevant contracts are demonstrating marginal profitability or other indicators of impairment, judgement is required in ascertaining whether or not the future economic benefits from these contracts are sufficient to recover these assets. In performing this impairment assessment, management is required to make an assessment of the costs to complete the contract. The ability to accurately forecast such costs involves estimates around cost savings to be achieved over time, anticipated profitability of the contract, as well as future performance against any contract-specific KPIs that could trigger variable consideration, or service credits. 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.

Deferred and accrued income

The Group's customer contracts include a diverse range of payment schedules dependent upon the nature and type of goods and services being provided. The Group often agrees payment schedules at the inception of long-term contracts under which it receives payments throughout the term of the contracts. These payment schedules may include performance-based payments or progress payments as well as regular monthly or quarterly payments for ongoing service delivery. Payments for transactional goods and services may be at delivery date, in arrears or part payment in advance.

Where payments made are greater than the revenue recognised at the period end date, the Group recognises a deferred income contract liability for this difference. Where payments made are less than the revenue recognised at the period end date, the Group recognises an accrued income contract asset for this difference.

At each reporting date, the Group assesses whether there is any indication that accrued income assets may be impaired by considering whether the revenue remains highly probable that no revenue reversal will occur. 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.

2 Summary of significant accounting policies continued

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.

(f) 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.

(g) 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.

(h) 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.

(i) 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.

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 company.

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.

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies continued

(j) 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.

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 2018 or 2017. 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.

(k) 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.

(l) Investments and other financial assets

Classification

Applicable from 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Regular way purchases and sales of financial assets are recognised on trade date (that is, the date on which the Group commits to purchase or sell the asset). Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortised cost: assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.

2 Summary of significant accounting policies continued

FVOCI: assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses), and impairment expenses are presented as a separate line item in the statement of profit or loss.

FVPL: assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

From 1 January 2018, the Group assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Accounting policies applied until 31 December 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy, as shown below:

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.

(m) Trade and other receivables

The Group assesses on a forward-looking basis the expected credit losses associated with its receivables carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by IFRS 9, resulting in trade receivables recognised and carried at original invoice amount less an allowance for any uncollectible amounts based on expected credit losses.

(n) 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. Management has reviewed the classification of certain line items in the 2017 cash flow and identified adjustments required. Accordingly, the cash flow is re-presented and restated but with no change to the net movement in cash and cash equivalents.

(o) 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.

(p) 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

(q) 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 while 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.

(r) Financial instruments

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. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

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

Derivative financial instruments

Derivative financial instruments are used to manage exposure to the financial risks of changes in foreign exchange rates and interest rates. The principal derivative instruments used by the Group are foreign currency swaps, interest rate swaps and foreign exchange forward contracts. The Group does not hold or issue derivative financial instruments for trading or speculative purposes.

Derivatives are initially recognised at fair value on the date that a derivative contract is entered into, and they are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges);
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges); or
- hedges of a net investment in a foreign operation (net investment hedges).

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

The fair values of derivative financial instruments designated in hedge relationships are disclosed in note 26. Movements in the hedging reserve in shareholders' equity are shown in note 26. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

In relation to fair value hedges (for example, receive fixed and pay 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 re-measuring 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 changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement, within other gains/(losses).

When forward contracts are used to hedge forecast transactions, the Group generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item ('aligned forward element') is recognised the income statement at the same time as the hedged transaction. For some hedge relationships, the Group may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in the cash flow hedge reserve within equity.

2 Summary of significant accounting policies continued

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss, as follows:

- Where the hedged item subsequently results in the recognition of a non-financial asset, both the deferred hedging gains and losses and the deferred forward points, if any, are included within the initial cost of the asset. The deferred amounts are ultimately recognised in the income statement, since the hedged item affects the income statement.

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 other comprehensive income and foreign currency translation reserves 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 are reclassified 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 finance cost excluded from adjusted profits.

Put option arrangements

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 fair value. Changes in the carrying amount 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 (i) Business Combinations and Goodwill – Acquisitions and disposals of non-controlling interests.

(s) 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.

(t) 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; and
- 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.

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies continued

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.

(u) 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 as a result of not meeting performance or service conditions. Where all service and performance vesting conditions have been met, the awards are treated as vesting, irrespective of whether or not the market condition is satisfied, as market conditions have been reflected in the fair value of the equity instruments.

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.

(v) New standards and interpretations not applied

The IASB have issued the following standards, amendments and interpretations 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) and Interpretations (IFRICs)	
Endorsed by the EU:	
IFRS 9 Amendments: Prepayment Features with Negative Compensation	1 January 2019
IFRS 16 Leases	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
Not yet endorsed by the EU:	
IFRS 17 Insurance Contracts	1 January 2021
IAS 28 Amendments: Long-term Interests in Associates and Joint Ventures	1 January 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	1 January 2019
IAS 19 Amendments: Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
IFRS 3 Business Combinations	1 January 2020
Amendments to IAS 1 and IAS 8: Definition of Material	1 January 2020

IFRS 16 Leases

IFRS 16 Leases (IFRS 16) was issued in January 2016, replacing IAS 17 Leases (IAS 17), and other relevant current guidance. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 will be effective for annual periods beginning on or after 1 January 2019 with early adoption permitted for entities that apply IFRS 15.

Under the transition rules, the Group will apply IFRS 16 using the modified retrospective approach, with the cumulative effect of applying the standard recognised in retained earnings on 1 January 2019. The Group has elected to apply the short-term lease exemption and low-value items exemption for all lease classes.

The Group has also elected to apply the practical expedient to grandfather the assessment of which arrangements are leases. It will apply IFRS 16 only to contracts that have been classified as leases as at 31 December 2018. Contracts that have not been identified as leases under IAS 17 and IFRS 4 were not reassessed for whether there is a lease.

As at 31 December 2018, the Group held a significant number of operating leases for which the future minimum lease payments amount to £736.0m as disclosed in note 24. As demonstrated below, the standard will have a material impact for the Group as it introduces a single lessee accounting model and requires the recognition of assets and liabilities for all leases.

2 Summary of significant accounting policies continued

The estimated impact for the Group of adopting IFRS 16 is as follows:

Consolidated balance sheet	Footnote	Year ended 31 December 2018 £m	Range of impact on IFRS 16 £m	Expected adoption impact at 1 January 2019 £m
Right-of-use asset	a	—	565–575	565–575
Finance lease receivable	b	—	14–16	14–16
Total assets		4,094	579–591	4,673–4,685
Finance lease liability	c	—	640–650	640–650
Total financial liabilities		3,990	640–650	4,630–4,640
Retained deficit	d	(1,135)	(23)–(25)	(1,158)–(1,160)
Total equity		103	(23)–(25)	78–80

Consolidated income statement	Footnote	Expected adoption impact 2019 £m
EBITDA	e	130–135
Operating profit	e	19–21
Finance costs	e	(28–30)
Profit before tax	e	(8–10)

a. **Right-of-use asset:** total assets will be impacted due to recognition of right-of-use assets on 1 January 2019. The right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the adoption date less any lease incentives received at or before the adoption date (reclassified on the opening balance sheet). For a selection of material long-term leases, the Group will apply the modified retrospective method one approach, as if IFRS 16 had always been applied using the incremental borrowing rate at the date of initial application. The right-of-use assets will be subsequently depreciated using the straight-line method to the earlier of the end of the useful life or the end of the lease term.

b. **Finance lease receivable:** total assets will be impacted by recognition of finance lease receivables where the Group acts as an intermediate lessor and has classified the sub lease as a finance lease because the sub-lease is for a substantial amount of the remaining term of the head lease.

c. **Finance lease liability:** total financial liabilities will be impacted due to the recognition of finance lease liabilities. The lease liability will be initially measured at the present value of the lease payments that are not paid at the adoption date, discounted using the Group's incremental borrowing rate. The lease payments comprise fixed payments, including in-substance fixed payments such as service charges and variable lease payments that depend on an index or a rate, initially measured using the minimum index or rate at commencement date. The lease liability will be measured at amortised cost using the effective interest rate method. For leases with termination and extension options, the Group has made an assessment whether the option is reasonably certain to be exercised.

d. **Retained deficit:** Retained deficit change represents the expected cumulative effect of applying the standard. This is due to applying the modified retrospective method one approach for a selection of properties, as explained in note a. above.

e. **Income statement:** Upon adopting IFRS 16, the rental costs currently recognised in operating profit will be replaced by depreciation on the right-of-use asset and net finance costs on the finance lease liability. As the asset is depreciated straight line over the lease term and the interest is accrued using the effective interest rate method, while EBITDA will improve, the profit will be reduced in the earlier years as a result of applying IFRS 16.

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

Due to the changes in assets, liabilities, income and expenses that will be recognised as a result of the application of IFRS 16, there are consequent IAS 12 income tax differences that arise on transitional adjustment. The tax impact is expected to be £4m–5m, resulting in an increase in deferred tax assets.

The total cash outflow for lease payments will not change, however the payments related to the principal liability will be presented as cash outflows from financing activities, as opposed to the current treatment as cash outflow from operating activities.

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

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

Notes to the consolidated financial statements continued

3 Adjusted operating profit and adjusted profit before tax

The items below are excluded from the adjusted results as the Board has concluded that it is appropriate to do so. These amounts are (or have been) material, and require separate disclosure in order for the users of the financial statements to obtain a proper understanding of the financial information and the underlying performance of the business. The tax impact of the operating profit adjusting items is a £41.5m credit (31 December 2017: £52.2m credit). The tax impact of the profit before tax adjusting items is a £20.4m credit (31 December 2017: £51.8m credit). These items are discussed further below:

		Operating profit		Profit before tax	
	Notes	2018 £m	2017 £m	2018 £m	2017 £m
Reported		**34.9**	(420.1)	**272.6**	(513.1)
Amortisation and impairment of acquired intangibles	14	**143.5**	138.3	**143.5**	138.3
Impairment of goodwill	15	**33.8**	551.6	**33.8**	551.6
Impairment of other non-current assets	13	**—**	63.5	**—**	63.5
Impairment of Life & Pensions assets	13	**—**	61.2	**—**	61.2
Impairment of loans and investments		**1.6**	9.0	**1.6**	9.0
Litigation and claims		**(1.8)**	30.0	**(1.8)**	30.0
GMP and retirement age equalisation	32	**5.4**	—	**5.4**	—
Net finance costs	9	**—**	—	**18.8**	(2.1)
Contingent consideration movements (and acquisition costs in 2017)		**(5.0)**	(0.8)	**(5.0)**	(0.8)
Business exit – trading	4	**(16.8)**	(16.8)	**(16.8)**	(16.7)
Business exit – non-trading expenses	4	**29.7**	13.7	**29.7**	13.7
Business exit – (gain)/loss on disposals	4	**—**	—	**(309.7)**	30.6
Significant restructuring		**110.0**	17.9	**110.0**	17.9
Adjusted		**335.3**	447.5	**282.1**	383.1

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

Impairment of goodwill: the Group carries on its balance sheet significant balances related to acquired goodwill. Goodwill is subject to annual impairment testing, and any impairment charges are reported separately as they distort the in-year trading results and IFRS does not permit the recognition of any increases in value of acquisitions, potentially leading to an unbalanced picture being shown over time. Refer to note 15 for further detail on these impairments.

Impairment of other non-current assets: as part of its year-end close process in 2017, Capita undertook a comprehensive review of its tangible and intangible assets. Following the review, management took a decision to impair, as at 31 December 2017, a number of assets relating to specific programmes resulting from changes in client and Capita strategy in the second half of 2017. These impairments have no adverse impact on future cash or trading. Non-current assets amounting to £63.5m (£35.2m property, plant and equipment – see note 13; £28.3m capitalised software intangible assets – see note 14) were written off and excluded from adjusted profit as the assets have no further value to the Group.

Impairment of life and pensions assets: the Group's life and pension business developed a platform to support an existing life and pensions contract, but which could provide services to multiple clients in the future. In 2017, the Group identified there was no longer a market for this platform and accordingly the carrying value of this and associated assets were written off as at 31 December 2017. The impact on the financial statements is a non-underlying charge of £61.2m (£54.7m property, plant and equipment – see note 13; £1.0m capitalised software intangible assets – see note 14; £5.5m contract fulfilment asset – see note 17) representing the write-off of the non-current assets. The charge was excluded from adjusted profit as the assets had no further value to the Group.

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

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

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

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

The gain of £1.8m in 2018 arises from a loss of derecognition of an insurance asset of £3.7m (see note 18), off-set by a release of £5.5m in respect of the above provisions recognised in 2017. The original claim to which the asset related was excluded from adjusted profit due to its nature and size.

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

3 Adjusted operating profit and adjusted profit before tax continued

Net finance costs: non-underlying net finance costs includes the movements in the mark to market valuation of certain financial instruments, and in 2018, the make-whole costs paid to noteholders on early repayment of principal on the Private Placement loan notes from the proceeds of the rights issue and disposals. Refer to note 9 for further details.

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

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

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

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

4 Business exit

2018 business exits

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

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

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

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

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

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

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

Notes to the consolidated financial statements continued

4 Business exit continued

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

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

Business exit cash flows

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

2017 business exits

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

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

In the Annual Report 2017, the disposal of the specialist recruitment business had completed along with the closure of a number of small businesses, and their results are all included within business exits for the period. At 31 December 2017, the Group was in an active process to sell a non-core property business (Projen) and treated this as a disposal group held for sale at that date.

During 2018, the Company disposed of five businesses and exited one business – Capita Specialist Insurance Solutions, Projen (which was held for sale as at 31 December 2017), Medicals Direct Group, Supplier Assessment Services (including Constructionline), ParkingEye and REI Health. The 2017 income statement below has been restated to include the results of these disposed businesses. The total loss before tax in 2017 before restatement was £45.4m and the operating loss in 2017 before restatement was £14.7m.

		Non-trading disposal			
Income statement impact	Trading £m	Cash £m	Non-cash £m	Total £m	Total £m
Revenue	142.8	—	—	—	142.8
Cost of sales	(88.1)	—	—	—	(88.1)
Gross profit	54.7	—	—	—	54.7
Administrative expenses	(37.9)	(4.7)	(9.0)	(13.7)	(51.6)
Operating profit	16.8	(4.7)	(9.0)	(13.7)	3.1
Net finance costs	(0.1)	—	—	—	(0.1)
Loss on business disposal	—	16.3	(46.9)	(30.6)	(30.6)
Profit/(loss) before tax	16.7	11.6	(55.9)	(44.3)	(27.6)
Taxation	(2.2)	—	—	—	(2.2)
Profit/(loss) after tax	14.5	11.6	(55.9)	(44.3)	(29.8)

Trading revenue and costs represent the current year trading performance of those businesses being exited or disposed in 2017 and 2018 (as noted above).

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

The loss on disposal of £30.6m arises from the disposal, in 2017, of net assets of £47.0m for £17.0m cash consideration and costs of disposal of £0.6m.

4 Business exit continued

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

Balance Sheet – disposal group

At 31 December 2017, the Group was in an active process to sell a non-core property business and has treated this as a disposal group held for sale at this date.

	2017 £m
Intangibles	1.5
Trade and other receivables	4.4
Assets held for sale	5.9
Trade and other payables	(1.4)
Liabilities held for sale	(1.4)

Business exit cash flows

Businesses disposed of and held for sale during 2017 generated operating cash inflows, prior to disposal, of £2.5m.

5 Discontinued operations

The Group disposed of the majority of the Capita Asset Services Division in November 2017.

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

			2018			2017
Discontinued operations:	**Trading £m**	**Non-trading £m**	**Total £m**	Trading £m	Non-trading £m	Total £m
Revenue	—	—	—	261.9	—	261.9
Cost of sales	—	—	—	(94.0)	—	(94.0)
Gross profit	—	—	—	167.9	—	167.9
Administrative expenses	—	**5.6**	**5.6**	(120.3)	(66.2)	(186.5)
Operating profit/(loss)	—	**5.6**	**5.6**	47.6	(66.2)	(18.6)
Net finance costs	—	—	—	0.1	0.8	0.9
Profit on disposal	—	—	—	—	445.4	445.4
Profit before tax	—	**5.6**	**5.6**	47.7	380.0	427.7
Income tax expense	—	—	—	(10.6)	(0.7)	(11.3)
Profit for the period	—	**5.6**	**5.6**	37.1	379.3	416.4

The 2018 non-trading credit to administrative expenses consisted of £5.6m provision releases. The 2017 non-trading administrative expense consisted of amortisation of acquired intangibles of £0.6m and Capita Asset Services indemnity and settlement provision of £65.6m. Non-trading net finance costs included fair value movements on held for sale assets.

As part of the sale it was agreed with the Trustees of the Capita Pension and Life Assurance Scheme that a cash contribution of £17.0m would be made to the Scheme. This was paid in January 2018 (refer to note 32). In addition the Group paid £82.2m in 2018 for costs relating to the disposal, all of which were fully provided for.

The earnings per share impact from discontinued operations is 0.38p (2017: 38.10p) on basic earnings per share and 0.38p (2017: 38.10p) on diluted earnings per share.

Notes to the consolidated financial statements continued

6 Segmental information

The Group's operations are managed separately according to the nature of the services provided, with each segment representing a strategic business division offering a different package of client outcomes across the markets the Group serves. A description of the service provision for each segment can be found in the strategic report on pages 21–33.

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

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

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

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

Year ended 31 December 2018	Notes	Software £m	People Solutions £m	Customer Management £m	Government Services £m	IT & Networks £m	Specialist Services £m	Group trading and central services £m	Total adjusted £m	Adjusting items £m	Total reported £m
Continuing operations											
Long-term contractual		353.9	295.2	563.6	647.4	296.5	601.0	13.8	2,771.4	3.2	2,774.6
Short-term contractual		34.7	38.0	228.7	4.7	55.3	201.3	24.5	587.2	47.6	634.8
Transactional (point in time)		7.8	165.1	1.9	93.4	52.2	189.9	(1.3)	509.0	—	509.0
Total segment revenue		396.4	498.3	794.2	745.5	404.0	992.2	37.0	3,867.6	50.8	3,918.4
Trading revenue		447.4	649.4	904.3	758.5	636.8	1,087.0	81.2	4,564.6	—	4,564.6
Inter-segment revenue		(51.0)	(151.1)	(110.1)	(13.0)	(232.8)	(94.8)	(44.2)	(697.0)	—	(697.0)
Total adjusted segment revenue		396.4	498.3	794.2	745.5	404.0	992.2	37.0	3,867.6	—	3,867.6
Business exits – trading	4	—	—	—	—	—	50.8	—	—	50.8	50.8
Total segment revenue		396.4	498.3	794.2	745.5	404.0	1,043.0	37.0	—	—	3,918.4
Adjusted operating profit	3	112.4	40.7	39.6	35.2	45.3	139.5	(77.4)	335.3	—	335.3
Restructuring	3	(9.3)	(12.5)	(10.9)	(6.3)	(4.5)	(15.9)	(50.6)	—	(110.0)	(110.0)
Business exits – trading	4	—	(0.3)	0.3	—	—	16.8	—	—	16.8	16.8
Total trading result		103.1	27.9	29.0	28.9	40.8	140.4	(128.0)	335.3	(93.2)	242.1
Non-trading items:											
Business exits – non-trading	4								—	(29.7)	(29.7)
Other adjusting items	3								—	(177.5)	(177.5)
Operating profit									335.3	(300.4)	34.9
Net finance costs	9								(53.2)	(18.8)	(72.0)
Gain on business disposal	4								—	309.7	309.7
Profit before tax									282.1	(9.5)	272.6
Income tax credit/(expense)	10								(27.4)	28.3	0.9
Profit for the year – continuing operations									254.7	18.8	273.5
Profit for the year – discontinued operations	5								—	5.6	5.6
Profit for the year – total									254.7	24.4	279.1

6 Segmental information continued

Year ended 31 December 2017	Notes	Software £m	People Solutions £m	Customer Management £m	Government Services £m	IT & Networks £m	Specialist Services £m	Group trading and central services £m	Total adjusted £m	Adjusting items £m	Total reported £m
Continuing operations											
Long-term contractual		361.6	295.2	582.2	752.3	278.7	632.2	22.6	2,924.8	5.2	2,930.0
Short-term contractual		32.6	42.7	245.9	4.1	63.6	198.9	9.1	596.9	81.6	678.5
Transactional (point in time)		7.5	182.6	0.8	105.3	73.1	191.6	9.2	570.1	56.0	626.1
Total segment revenue		401.7	520.5	828.9	861.7	415.4	1,022.7	40.9	4,091.8	142.8	4,234.6
Trading revenue		441.7	662.4	944.1	884.9	652.4	1,119.4	97.4	4,802.3	—	4,802.3
Inter-segment revenue		(40.0)	(141.9)	(115.2)	(23.2)	(237.0)	(96.7)	(56.5)	(710.5)	—	(710.5)
Total adjusted segment revenue		401.7	520.5	828.9	861.7	415.4	1,022.7	40.9	4,091.8	—	4,091.8
Business exits – trading	4	—	55.1	0.8	—	—	86.9	—	—	142.8	142.8
Total segment revenue		401.7	575.6	829.7	861.7	415.4	1,109.6	40.9	—	—	4,234.6
Adjusted operating profit	3	111.7	62.7	57.8	78.7	62.0	140.6	(66.0)	447.5	—	447.5
Restructuring	3	(2.2)	(4.3)	1.3	(3.9)	(1.1)	5.9	(13.6)	—	(17.9)	(17.9)
Business exits – trading	4	—	(1.7)	0.7	—	—	17.8	—	—	16.8	16.8
Total trading result		109.5	56.7	59.8	74.8	60.9	164.3	(79.6)	447.5	(1.1)	446.4
Non-trading items:											
Business exits – non-trading	4								—	(13.7)	(13.7)
Other adjusting items	3								—	(852.8)	(852.8)
Operating profit/(loss)									447.5	(867.6)	(420.1)
Net finance costs	9								(64.4)	2.0	(62.4)
Loss on business disposal	4								—	(30.6)	(30.6)
Profit/(loss) before tax									383.1	(896.2)	(513.1)
Income tax (expense)/credit	10								(65.8)	51.8	(14.0)
Profit/(loss) for the year – continuing operations									317.3	(844.4)	(527.1)
Profit for the year – discontinued operations	5								—	416.4	416.4
Profit/(loss) for the year – total									317.3	(428.0)	(110.7)

Notes to the consolidated financial statements continued

6 Segmental information continued

Order book

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

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

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

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

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

The order book represents the consideration to which the Group will be entitled to receive from the customers when the Group satisfies the remaining performance obligations in the contracts. However, the total revenue that will be earned by the Group will also include non-contracted volumetric revenue, new wins, scope changes and anticipated contract extensions. These elements have been excluded from the figures in the tables above as they are not contracted. In addition, revenue from contract extensions is also excluded in the order book unless they are pre-priced extensions whereby the Group has a legal binding obligation to deliver the performance obligations during the extension period. The total revenue related to pre-priced extensions that has been included in the tables above amounted to £508.0m (2017: £502.0m). The amounts presented do not include orders for which neither party has performed and each party has the unilateral right to terminate a wholly unperformed contract without compensating the other party.

Of the £7.1bn (2017: £8.2bn) revenue to be earned on long-term contractual, £4.2bn (2017: £4.9bn) relates to material contracts to the Group. This amount excludes revenue that will be derived from frameworks (transactional (point in time) contracts), non-contracted volumetric revenue, non-contracted scope changes and future unforeseen volume changes from these material contracts, which together are expected to contribute an additional £2.2bn (2017: £1.8bn) of revenue to the Group over the life of these contracts.

6 Segmental information continued

Other segment information

31 December 2018	Software £m	People Solutions £m	Customer Management £m	Government Services £m	IT & Networks £m	Specialist Services £m	Group trading and central functions £m	Total £m
Property, plant and equipment	**9.6**	**44.7**	**39.9**	**14.0**	**33.0**	**39.9**	**32.5**	**213.6**
Intangible assets acquired in business combinations	**296.7**	**206.1**	**155.4**	**21.5**	**237.5**	**468.5**	**—**	**1,385.7**
Intangible assets capitalised/purchased	**71.4**	**31.9**	**4.1**	**10.1**	**3.4**	**17.2**	**63.9**	**202.0**
Contract fulfilment assets	**69.8**	**22.5**	**38.1**	**63.4**	**31.9**	**38.5**	**—**	**264.2**
Trade and other receivables	**46.6**	**116.8**	**150.7**	**101.7**	**113.3**	**224.4**	**44.4**	**797.9**
Financial assets							**127.3**	**127.3**
Deferred taxation							**144.6**	**144.6**
Cash							**957.5**	**957.5**
Income tax receivable							**0.9**	**0.9**
Total assets	**494.1**	**422.0**	**388.2**	**210.7**	**419.1**	**788.5**	**1,371.1**	**4,093.7**
Deferred income	**205.8**	**98.6**	**267.1**	**333.0**	**74.3**	**278.8**	**—**	**1,257.6**
Trade and other payables	**23.9**	**51.1**	**95.2**	**66.4**	**60.3**	**187.0**	**196.4**	**680.3**
Overdrafts							**314.8**	**314.8**
Financial liabilities							**1,387.3**	**1,387.3**
Deferred taxation							**15.2**	**15.2**
Provisions							**116.2**	**116.2**
Employee benefits							**219.0**	**219.0**
Total liabilities	**229.7**	**149.7**	**362.3**	**399.4**	**134.6**	**465.8**	**2,248.9**	**3,990.4**
Total net assets/(liabilities)	**264.4**	**272.3**	**25.9**	**(188.7)**	**284.5**	**322.7**	**(877.8)**	**103.3**

31 December 2017	Software £m	People Solutions £m	Customer Management £m	Government Services £m	IT & Networks £m	Specialist Services £m	Group trading and central functions £m	Total £m
Property, plant and equipment	6.6	28.1	31.2	10.9	21.2	70.2	51.1	219.3
Intangible assets acquired in business combinations	321.5	209.5	225.8	58.3	250.5	579.6	—	1,645.2
Intangible assets capitalised/purchased	53.6	34.1	4.8	12.3	4.7	8.6	48.8	166.9
Contract fulfilment assets	73.1	16.3	43.4	39.7	19.3	60.7	—	252.5
Trade and other receivables	65.7	166.9	129.9	99.9	129.5	184.7	27.2	803.8
Financial assets							221.0	221.0
Deferred taxation							159.3	159.3
Disposal group assets held for sale							5.9	5.9
Cash							921.7	921.7
Income tax receivable							25.6	25.6
Total assets	520.5	454.9	435.1	221.1	425.2	903.8	1,460.6	4,421.2
Deferred income	248.0	109.3	287.3	358.4	125.0	381.3	5.9	1,515.2
Trade and other payables	17.8	28.4	50.0	57.2	25.3	67.4	526.1	772.2
Overdrafts							443.3	443.3
Financial liabilities							1,987.3	1,987.3
Provisions							12.2	12.2
Deferred taxation							1.4	1.4
Income tax payable							212.6	212.6
Employee benefits							406.8	406.8
Total liabilities	265.8	137.7	337.3	415.6	150.3	448.7	3,595.6	5,351.0
Total net assets/(liabilities)	254.7	317.2	97.8	(194.5)	274.9	455.1	(2,135.0)	(929.8)

The table below presents revenue by geographical location, and carrying amount of non-current assets by location of those assets.

	2018			2017		
	United Kingdom £m	**Non-United Kingdom £m**	**Total £m**	United Kingdom £m	Non-United Kingdom £m	Total £m
Revenue	**3,609.7**	**308.7**	**3,918.4**	3,902.2	332.4	4,234.6
Non-current assets	**2,040.3**	**51.4**	**2,091.7**	2,168.0	143.8	2,311.8

Notes to the consolidated financial statements continued

7 Operating profit

This is stated after charging/(crediting):

	Notes	2018 £m	2017 £m
Depreciation		**59.1**	63.5
Impairment of property, plant and equipment	13	**6.1**	—
Amortisation of capitalised/purchased intangible assets		**27.8**	19.9
Loss/(profit) on sale of property, plant and equipment and intangibles[1]		**11.4**	(4.5)
Minimum lease payments recognised as an operating lease expense		**114.7**	121.1
Foreign exchange differences		**(9.6)**	(5.6)
Contract fulfilment asset utilisation, impairment and derecognition	17	**127.5**	89.3
Property commercialisation		**—**	(2.7)
Contract termination (gains)/losses		**(6.7)**	(6.4)
Gain on early termination of the Prudential and Marsh contracts		**(15.2)**	—
Defence Infrastructure Organisation contract		**—**	(22.0)
Supplier settlement		**—**	(9.2)

The table above includes items only within adjusted operating profit. Specific items excluded from adjusted operating profit are detailed in note 3.

1 The 2017 disclosure of a loss on disposal of £0.5m has been restated to a gain on disposal of £4.5m. This does not have an impact on the reported profit for 2017.

Adjusted operating profit includes the following items:

- **Contract fulfilment asset utilisation, impairment and derecognition:** the Group undertook a comprehensive review of its major contracts to identify indicators of impairment of contract fulfilment assets. Following this review, management provided against costs capitalised as contract fulfilment assets of £22.2m (31 December 2017: £14.1m) within cost of sales. Refer to note 17 for further details of the review.
- **Contract termination gains:** 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 £6.7m (2017: £6.4m) being recorded as income in-year. These are included within adjusted operating profit because these amounts are payable to the Group under the terms of the respective contracts being terminated.
- **Prudential, Marsh, and Defence Infrastructure Organisation contracts:** contract terminations arising in the normal course of business and which result in the disposal of a contract fulfilment asset and/or a true-up of revenue recognised, will also be included within the adjusted results and separately disclosed if considered material:
  - In 2018, two contracts in the Specialist Services division ended: (i) the administration of Prudential's life and pensions business transferred to a new supplier resulting in a net £6.0m benefit from the true-up of revenue recognised and the disposal of related assets (including £9.3m included in the loss on disposal of £11.4m of property, plant and equipment and intangibles); and (ii) our general insurance contract with Marsh ended resulting in a £9.2m benefit from the true-up of revenue recognised and disposal of related assets.
  - In 2017, we concluded discussions with the Ministry of Defence in relation to the the Defence Infrastructure Organisation (DIO) contract, which is expected to end in 2019. The 2017 results for the Government Services division included a £22.0m benefit from the re-shaping of the DIO contract.
- **Supplier settlement:** the IT & Networks division benefited from a one-off supplier settlement of £nil (2017: £9.2m).
- **Minimum lease payments:** see note 24 for further details.

Fees payable to the Company's auditor and its associates in respect of:	2018 £m	2017 £m
Audit and audit-related services		
The audit of the Company and Group financial statements	**3.2**	3.8
The audit of the financial statements of subsidiaries of the Company	**1.8**	1.2
Total audit and audit-related services	**5.0**	5.0
Non-audit services		
Taxation compliance services	**—**	0.1
Services related to corporate finance transactions	**—**	0.1
Other assurance services	**1.6**	0.8
Total non-audit services	**1.6**	1.0
Total audit and non-audit services	**6.6**	6.0

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

8 Employee benefits expense

	Notes	2018 £m	2017 £m
Wages and salaries		**1,702.1**	1,899.5
Social security costs		**175.0**	194.2
Pension costs	32	**112.6**	122.3
Share-based payments	28	**3.4**	2.9
		1,993.1	2,218.9

The expenses above reflect total operations. Employee benefits expense for continuing operations is £1,993.1m (2017: £2,098.6m).

The aggregate amount of Directors' remuneration (salary, bonus and benefits) is shown on page 92 of the remuneration report:

- As shown in note 33 'related-party transactions', the aggregate amount of gains made by Directors on exercise of share options was £0.0m (2017: £0.7m).
- The remuneration of the highest paid Director was £2,014,209 (2017: £1,125,510).
- Payments have been made to a defined contribution pension scheme on behalf of three Directors (2017: five Directors). For the highest paid Director, pension contributions of £36,250 (2017: £21,310) were made.

The average number of employees during the year was made up as follows:	2018 Number	2017 Number
Sales	**1,733**	1,825
Administration	**7,930**	8,148
Operations	**56,239**	59,486
	65,902	69,459

The average number of employees above reflects continuing operations and excludes employees relating to discontinued operations.

9 Net finance costs

	Notes	2018 £m	2017 £m
Interest receivable		**(2.6)**	(0.7)
Private placement loan notes[1]		**40.4**	37.7
Fixed rate interest rate swaps		**—**	2.6
Cash flow hedges recycled to the income statement	26	**(2.5)**	—
Bank loans and overdrafts		**8.5**	15.6
Net interest cost on defined benefit pension schemes	32	**9.4**	9.2
Interest payable		**55.8**	65.1
Net finance costs included in adjusted profit		**53.2**	64.4
Fixed rate interest rate swaps – mark-to-market		**—**	(0.5)
Discount unwind on public sector subsidiary partnership payment	26	**1.7**	1.8
Fair value movement in trade investments		**—**	0.6
Non-designated foreign exchange forward contracts – mark-to-market		**5.1**	(3.4)
Interest payable – business exit[2]	4	**—**	0.1
Fair value hedge ineffectiveness[3]	26	**(3.9)**	(0.6)
Private placement loan notes prepayments costs[4]		**15.9**	—
Net finance costs excluded from adjusted profit		**18.8**	(2.0)
Total net finance costs		**72.0**	62.4

1 Private placement loan notes include US private placement loan notes, euro fixed rate bearer notes and a Schuldschein loan. Included in private placement loan notes interest is £7.0m of additional coupon interest at a rate of 0.75% per annum. Refer to note 23 for further details.
2 Interest payable included within business exit trading. Refer to note 4 for further details.
3 Fair value hedge ineffectiveness includes the costs of the early termination of fair value hedges related to the early repayment of private placement loan notes, ineffectiveness from changes in currency basis, and the movement in mark-to-market valuations on hedge derivatives from the perceived change in the credit worthiness of the counterparties to those instruments.
4 Private placement loan notes prepayment costs includes make-whole costs paid to noteholders on early repayment of principal. The early repayment was made from the proceeds of the rights issue and disposals and further detail is provided in note 23.

Notes to the consolidated financial statements continued

10 Income tax

The major components of income tax expense for the years ended 31 December 2018 and 2017 are set out below.

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

The income tax charge of £27.4m on adjusted profit resulted in an adjusted tax rate of 9.7% (2017: income tax charge of £65.8m and adjusted tax rate 17.2%). This is a reduction year on year as a result of deferred tax credits arising from certain subsidiaries adopting IFRS 15 later and true-ups to filed tax returns, together with an unremitted earnings charge, as detailed further below. It is expected that the adjusted tax rate will return to a level closer to the UK corporation tax rate of 19% in 2019.

Consolidated income statement	2018 £m	2017 £m
Current income tax		
Current income tax charge/(credit)	**11.1**	(35.3)
Adjustment in respect of prior years	**(7.0)**	(10.7)
Deferred income tax		
Origination and reversal of temporary differences	**5.6**	58.1
Adjustment in respect of prior years	**(10.6)**	1.9
	(0.9)	14.0

Consolidated statement of comprehensive income	2018 £m	2017 £m
Income tax on cash flow hedges	**(0.1)**	0.4
Deferred income tax movement in relation to actuarial losses on defined benefit plans	**22.9**	(8.8)
	22.8	(8.4)

Consolidated statement of changes in equity	2018 £m	2017 £m
Deferred income tax movement in relation to share based payment	**(0.4)**	—
	(0.4)	—

The reconciliation between tax expense/(credit) and the product of accounting profit multiplied by the UK corporation tax rate for the years ended 31 December 2018 and 2017 is as follows:

	Footnote	2018 £m	2017 £m
Profit/(loss) before tax		**272.6**	(513.1)
Notional debit/(credit) at UK corporation tax rate of 19.00% (2017: 19.25%)		**51.8**	(98.8)
Adjustments in respect of current income tax of prior years	a	**(7.0)**	(10.7)
Adjustments in respect of deferred tax of prior years	b	**(10.6)**	1.9
Non-deductible expenses – adjusted	c	**5.3**	4.2
Non-deductible expenses – business exit	c	**4.2**	2.9
Non-deductible expenses – specific items	c	**(1.0)**	5.6
(Profit)/loss on disposal	d	**(35.4)**	6.0
Difference in rate recognition of temporary differences		**(4.6)**	(9.9)
Non-deductible intangible impairment	e	**11.0**	102.0
Tax provided on unremitted earnings		**12.8**	—
Attributable to different rates in overseas jurisdictions		**(0.1)**	(3.9)
Movement in unrecognised deferred tax	f	**(27.3)**	14.7
At the effective tax rate of (0.3)% (2017: (2.7%))		**(0.9)**	14.0
Total tax (credit)/expense reported in the income statement		**(0.9)**	14.0

a. The £7.0m prior year credit adjustment includes; (i) a £10.5m credit relating to a reduction in the Group's uncertain tax positions (see below), (ii) a £10.6m debit relating to adjustments which have a corresponding prior-year deferred income tax impact, and (iii) a £7.1m credit relating to true-ups to filed tax returns (2017: the £10.7m prior year adjustment credit includes; (i) a £5.5m credit relating to increased losses available for group relief surrenders arising from acquisitions and disposals in previous years but identified during the period, and (ii) a £5.2m credit relating to adjustments which have a corresponding prior year deferred income tax impact and true ups of positions to filed tax returns).
b. Credits (2017: debits) which have a corresponding prior year current income tax impact and true ups of temporary differences.
c. Adjusted: higher in 2018 mainly due to non-qualifying depreciation. Business exit: relates to costs associated with disposal of businesses detailed in note 4. Specific items: relates to contingent consideration movements (2017: litigation and claims) detailed in note 3.
d. Relates to the application of the UK tax exemption on substantial shareholdings to relevant disposals.
e. Relates to the intangible asset impairments as detailed further in notes 3, 4 and 14.
f. Relates to the decrease (2017: increase) in unrecognised deferred tax on losses. The 2017 consolidated financial statements were prepared under IFRS 15, however the deferred tax positions were calculated on the basis of when subsidiaries would adopt IFRS 15 for statutory financial statements purposes. Subsequent to the finalisation of the 2017 consolidated financial statements, certain subsidiaries adopted IFRS 15 later resulting in a different loss utilisation profile and associated deferred tax asset recognition position.

10 Income tax continued

Deferred income tax

Deferred income tax as at 31 December relates to the following:

	Consolidated balance sheet		Consolidated income statement	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Deferred tax liabilities				
Contract fulfilment assets	**(21.0)**	(41.1)	**(20.1)**	(3.2)
Unremitted earnings	**(12.8)**	—	**12.8**	—
Fair value adjustments on acquisition	**(14.8)**	(39.7)	**(25.0)**	(26.2)
	(48.6)	(80.8)	**(32.3)**	(29.4)
Deferred tax assets				
Accelerated capital allowances	**34.9**	34.9	**—**	(15.6)
Deferred income	**4.7**	63.1	**58.6**	165.4
Share based payments	**1.1**	0.4	**(0.3)**	(0.1)
Pension schemes' liability	**28.1**	55.8	**7.7**	(0.5)
Provisions	**8.6**	13.2	**1.3**	(2.2)
Losses available for offset against future taxable income	**100.6**	60.5	**(40.0)**	(57.6)
	178.0	227.9	**27.3**	89.4
Net deferred tax asset	**129.4**	147.1		
Deferred income tax (credit)/expense			**(5.0)**	60.0

The UK corporation tax rate remained at 19% in 2018 and will decrease further to 17% from 1 April 2020. The deferred tax balances have been adjusted to reflect this change.

Deferred tax has been recognised based on the timing of entity adoption of IFRS 15, interaction of the new loss relief rules, and to the extent that the Group has sufficient future taxable profits against which to offset the temporary differences when they unwind. The recognition for 2018 has been based on the base-case financial forecasts mentioned in the viability statement section of the strategic report. These forecasts provide evidence of sufficient future taxable profits to enable the utilisation of the recognised deferred tax assets.

The Group has unrecognised tax losses of £206.0m (2017: £348.1m) and other temporary differences of £31.0m (2017: £34.5m) that are available for offset against future taxable profits of the companies in which the losses or other temporary differences arose, but have not been recognised as their recoverability is uncertain. These unrecognised tax losses and other temporary differences totalling £237.0m (2017: £382.6m) are made up as follows:

- £161.0m (2017: £344.1m) relates to the UK and has no time expiry. These losses will be subject to recently enacted UK tax loss relief legislation which could result in restricted utilisation in the future.
- £76.0m (2017: £38.5m) relates to various overseas jurisdictions, some of which are being subject to specific loss restriction rules but have no time expiry.
- £85.9m (2017: £101.0m) of the unrecognised tax losses were incurred by companies acquired by the Group and therefore not as a result of the Group's trading performance.

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 £64.2m (2017: £47.0m). A deferred income tax liability of £12.8m (2017: £nil) has been recognised on the unremitted earnings of those subsidiaries affected by such potential taxes as the Group is able to control the timing of reversal and it is anticipating dividends to be distributed.

Uncertain tax positions

The Group files income tax returns in many jurisdictions. 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.

In the current period the Group has released £10.5m of provisions in respect of uncertain tax positions relating to overseas tax risks which are no longer considered likely to arise. The release is reflected within the current income tax prior year adjustment.

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.

Capita's approach to taxation

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

Notes to the consolidated financial statements continued

11 Earnings/(loss) per share

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

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

The weighted average number of ordinary shares for the year ended 31 December 2017 has been restated to reflect the rights issue completed in the period (see note 27). The adjustment to the weighted average number of ordinary shares reflects the bonus element of the rights issue.

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

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

1 The adjusted profit attributable to shareholders from continuing operations for the year ended 31 December 2017, previously reported has been restated to reflect change in presentation during the year as well as the businesses that have been disposed of during the year ended 31 December 2018 (see notes 3 and 4).

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

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

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

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

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

12 Dividends paid and proposed

	2018 £m	2017 £m
Declared and paid during the year		
Ordinary shares (equity):		
Final for 2017 paid: nil per share (2016: 21.2p per share)	**—**	137.1
Interim for 2018 paid: nil per share (2017: 11.1p per share)	**—**	73.9
Dividends paid to shareholders	**—**	211.0
Dividends paid to non-controlling interest	**12.2**	5.6
Total dividends paid	**12.2**	216.6
Proposed for approval at AGM (not recognised as a liability at 31 December)		
Ordinary shares (equity):		
Final for 2018: nil per share (2017: nil per share)	**—**	—

13 Property, plant and equipment

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

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

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

In 2017 a comprehensive review was undertaken as part of the year-end close process and a number of assets relating to specific programmes resulting from changes in client and Capita strategy in the second half of 2017 were fully written down. Property, plant and equipment amounting to £89.9m was fully written down and excluded from the adjusted profit for the year. The charge is shown above within impairment – excluded from adjusted profit (£10.0m) and disposals – excluded from adjusted profit (£79.9m, being cost £99.2m less accumulated depreciation £19.3m). The write-downs relate to life and pensions assets (£54.7m) and other non-current assets (£35.2m) as detailed in note 3.

Notes to the consolidated financial statements continued

13 Property, plant and equipment continued

The table below reconciles the 2017 disposals and impairments of non-current assets between notes 3, 14 and 17.

	Property, plant and equipment £m	Intangible assets £m	Notes	Contract fulfilment assets £m	Notes	Total £m	Notes
Life and pension assets							
Impairment	—	—		5.5		5.5	
Disposals – cost	56.2	1.0		—		57.2	
Disposals – accumulated depreciation/amortisation	(1.5)	—		—		(1.5)	
	54.7	1.0		5.5		61.2	3
Other non-current assets							
Impairment	10.0	4.0		—		14.0	
Disposals – cost	43.0	39.3		—		82.3	
Disposals – accumulated depreciation/amortisation	(17.8)	(15.0)		—		(32.8)	
	35.2	28.3		—		63.5	3
Total							
Total impairment	10.0	4.0	14	5.5	17	19.5	
Total disposals – cost	99.2	40.3	14	—		139.5	
Total disposals – accumulated depreciation/amortisation	(19.3)	(15.0)	14	—		(34.3)	
	89.9	29.3		5.5		124.7	

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

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

Goodwill impairments: The Group recognised an impairment charge relating to goodwill of £33.8m (2017: £551.6m). Refer to note 15.

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

Notes to the consolidated financial statements continued

14 Intangible assets continued

Intangible assets capitalised impairment and disposals: As part of its year-end close process, Capita undertook a review of its tangible and intangible assets, resulting in £nil (2017: £29.3m resulting from changes in client and Capita strategy) impairments. The 2017 charge is shown in the table within 'impairment – excluded from adjusted profit' (£4.0m) and 'disposals – excluded from adjusted profit' (£25.3m, being cost £40.3m less accumulated depreciation £15.0m). This impairment charge relates to life and pension assets (£1.0m) and other non-current assets (£28.3m). The table in note 13 reconciles the disposals and impairments of non-current assets between notes 3, 13, 14 and 17.

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 acquisitions and integration with the Group as a whole. These represent the lowest level within the Group at which goodwill can be allocated on a reasonable and consistent basis.

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

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

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

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

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

The impairment test

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

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

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

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

15 Goodwill continued

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

Forecast cash flows

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

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

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

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

Discount rates

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

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

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

Sensitivity analysis

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

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

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

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

Notes to the consolidated financial statements continued

16 Business combinations

2018 acquisitions

In October 2018, the Group acquired three operational contact centres as part of extending and expanding an existing customer management contract with Europe's largest integrated telecommunications provider. The consideration was £3 and the acquisition accounting resulted in an intangible asset of £2.7m being recognised.

During the year, the Group settled £11.1m of deferred consideration and £10.4m of contingent consideration payments with regard to previous acquisitions, all of which had been accrued.

The fair value exercise has been completed on a provisional basis for acquisitions made in 2018. The Group will complete this review in 2019, though an adjustment to the carrying value is likely to be insignificant to the acquisition. In the current year, there were no revisions made to fair value adjustments that had been determined provisionally at the immediately preceding balance sheet date.

Contingent consideration

In respect of 2018 acquisitions, there is no contingent consideration. For all historic acquisitions, the range of the additional consideration payment is estimated to be between £nil and £24.7m. 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.

2017 acquisitions

The Group made a number of acquisitions in 2017 which are shown in aggregate. The fair values of the identifiable assets and liabilities acquired are disclosed in the table below:

	Fair value to Group recognised on acquisition £m
Property, plant and equipment	0.2
Intangible assets	12.4
Trade and other receivables due in less than one year	7.5
Corporation tax	(0.3)
Cash and cash equivalents	4.5
Trade and other payables (excluding accruals) due in less than one year	(2.9)
Accruals due in less than one year	(2.6)
Deferred tax	(2.2)
Net assets	16.6
Goodwill arising on acquisition	15.1
	31.7
Discharged by:	
Cash	23.3
Deferred consideration	2.0
Contingent consideration accrued	6.4
	31.7

In all cases, 100% of the ordinary share capital was acquired. The companies acquired have been mainly in the areas of IT & Networks, Travel and Events, Customer Management and Software which complement or extend the Group's existing skill sets and provide opportunities for growth into these markets. In addition, during the year the Group settled £10.8m of deferred consideration and £11.7m of contingent consideration payments with regard to previous acquisitions, all of which had been accrued.

Where this can be determined, the acquired subsidiaries contributed £1.8m to the profit before tax of the Group. If these acquisitions had occurred on 1 January 2017, Group's revenue would have been an estimated £4,237.7m and Group loss before tax would have been an estimated £512.8m. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2017. During the year, some of the acquired businesses have been completely integrated into the existing business of the Group and therefore their post-acquisition performance cannot be determined.

Goodwill has arisen on the acquisitions because the fair value of the acquired assets was lower than the consideration paid; the goodwill represents the value to the Group that can be driven from these underlying assets over the life of the acquired businesses, particularly from synergies, and the capabilities of the acquired workforce. The total amount of goodwill recognised in the period that is expected to be deductible for tax purposes is £nil (2016: £nil).

The fair value exercise was completed on a provisional basis for acquisitions made in 2017. In total, the effect of revisions made to fair value adjustments in 2017 that had been determined provisionally at the immediately preceding balance sheet date increased goodwill by £1.2m.

Contingent consideration

In respect of the acquisitions made in 2017, the Group has agreed to pay the vendors additional consideration dependent on the achievement of performance targets in the periods post acquisition. These performance periods are of up to 3 years in duration and will be settled in cash on their payment date on achieving the relevant targets. The Group has included £6.4m as contingent consideration related to the additional consideration, which represents its fair value at the acquisition date. For all historic acquisitions, the range of the additional consideration payment is estimated to be between £nil and £24.7m. 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.

17 Contract fulfilment assets

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

Impairment

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

In line with the Group's accounting policy, as set out in note 2, if a contract exhibited marginal profitability or other indicators of impairment, judgement was applied to ascertain whether or not the future economic benefits from these contracts were sufficient to recover these assets. In performing this impairment assessment, management is required to make an assessment of the costs to complete the contract. The ability to accurately forecast such costs involves estimates around cost savings to be achieved over time, anticipated profitability of the contract, as well as future performance against any contract-specific KPIs that could trigger variable consideration or service credits.

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

Derecognition

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

Notes to the consolidated financial statements continued

18 Financial assets

Current financial assets	2018 £m	2017 £m
Deferred consideration[1]	—	3.0
Insurance asset recoverable[2]	1.3	5.0
Held for trading assets[3]	—	0.4
Cash flow hedges	5.0	4.0
Currency swaps in relation to USD denominated loan notes[4]	9.3	72.2
Non-designated foreign exchange forwards and swaps	2.1	4.1
Interest rate swaps in relation to GBP denominated loan notes[5]	0.5	—
	18.2	88.7

Non-current financial assets	2018 £m	2017 £m
Deferred consideration[1]	—	2.2
Investments	6.1	—
Held for trading assets[3]	2.7	4.2
Cash flow hedges	3.3	3.8
Currency swaps in relation to USD denominated loan notes[4]	93.8	113.1
Non-designated foreign exchange forwards and swaps	1.8	3.6
Interest rate swaps in relation to GBP denominated loan notes[5]	1.4	5.4
	109.1	132.3

1 The deferred consideration relates to the sale of the Health business which was classified as held for sale in 2015, and sold in 2016. The amount has been fully recovered.
2 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.
3 Held for trading assets comprise investments in unlisted ordinary shares and fund assets. The unlisted ordinary shares, for which there is no immediately identifiable market and have no fixed maturity date or coupon rate, are carried at cost less impairment. The fund assets, for which there are market values, are recorded at fair value as at 31 December 2018.
4 The cross-currency swaps hedge the Group's exposure to foreign exchange movements and interest rate movements on the Group's USD denominated private placement loan notes. The changes in the fair value of the underlying private placement loan notes arising from movements in interest and foreign exchange rates are offset by the changes in the fair value of the cross-currency swaps recognised above.
5 The interest rate swaps hedge changes in the fair value of the Group's GBP denominated fixed rate private placement loan notes. The change in the fair value of the underlying loan notes arising from changes in interest rates is equivalent to the fair value of the interest rate swaps recognised above. Details of the interest rate swaps, cross-currency swaps and cash flow hedges are provided in note 26.

19 Trade and other receivables

Current	2018 £m	2017 £m
Trade receivables	435.6	379.5
Other receivables	29.4	26.9
Contract fulfilment assets	11.1	39.4
Accrued income	182.9	207.7
Prepayments	112.7	122.3
	771.7	775.8

Non-current	2018 £m	2017 £m
Other receivables	2.3	0.6
Prepayments	23.9	27.4
	26.2	28.0

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

Consistent with prior years, the Group made use of non-recourse trade receivable financing arrangements provided to it by a number of its relationship banks. There was a net balance of £nil sold on these arrangements as at 31 December 2018 (2017: £110.0m) as the Group phased-out the use of non-recourse trade receivables financing. As these trade receivables have been sold without recourse, the Group has derecognised them in the above table.

At 31 December 2018, we raised a provision of £11.2m (2017: £8.3m) in relation to a loss allowance made against receivables.

19 Trade and other receivables continued

Movements in the loss allowance made against receivables were as follows:

	2018 £m	2017 £m
At 1 January	**8.3**	11.5
Utilised	**(1.4)**	(1.5)
Provided in the year	**9.5**	6.9
Released in the year	**(2.5)**	(8.3)
Business disposal/closure	**(2.7)**	(1.4)
Provisions acquired	**—**	1.1
At 31 December	**11.2**	8.3

At 31 December, the analysis of trade receivables that were past due but not impaired was 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
2018	**435.6**	**326.1**	**103.6**	**5.9**	**—**	**—**
2017	379.5	252.1	121.5	5.9	—	—

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

Current contract fulfilment assets are costs directly related to a contract or to a specifically identifiable anticipated contract which will be used in satisfying performance obligations in the next 12 months from the balance sheet date.

The Group's accrued income balances solely relate to revenue from contracts with customers. Movements in the accrued income balances were driven by transactions entered into by the Group within the normal course of business in the year, other than £5.1m impairment arising on a contract in Government Services (2017: £nil).

20 Cash, cash equivalents and overdrafts

	2018 £m	2017 £m
Cash at bank and in hand	**957.5**	921.7
Overdrafts	**(314.8)**	(443.3)
	642.7	478.4

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 cash at bank and in hand is £nil (2017: £14.0m) held in a 45-day notice of withdrawal money market fund.

Included in Overdrafts are balances totalling £280.3m (2017: £387.7m) held in the Group's notional cash pools under which the bank has the right of offset against Cash at bank – see note 26.

21 Trade and other payables

Current	2018 £m	2017 £m
Trade payables	**214.3**	274.9
Other payables	**10.7**	36.5
Other taxes and social security	**131.2**	150.8
Accruals	**312.5**	293.0
	668.7	755.2

Non-current	2018 £m	2017 £m
Other payables	**1.6**	0.1
Accruals	**10.0**	16.9
	11.6	17.0

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

Notes to the consolidated financial statements continued

22 Deferred income

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

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

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

23 Financial liabilities

Current	Notes	2018 £m	2017 £m
Contingent consideration		**—**	12.1
Deferred consideration		**1.3**	11.1
Public sector subsidiary partnership payment		**9.4**	9.4
Put option of non-controlling interests		**107.3**	6.8
Obligations under finance leases	24	**—**	0.2
Other loan notes		**0.3**	—
Term loan		**100.0**	—
Cash flow hedges		**1.2**	1.6
Non-designated foreign exchange forward contracts		**1.4**	0.3
Private placement loan notes[1]		**82.2**	224.1
		303.1	265.6
Non-current			
Contingent consideration		**8.9**	12.5
Deferred consideration		**0.7**	2.0
Public sector subsidiary partnership payment		**34.1**	41.8
Put options of non-controlling interests		**11.2**	115.6
Private placement loan notes[1]		**1,025.8**	1,439.9
Other loan notes		**—**	0.3
Term loan		**—**	100.0
Cash flow hedges		**—**	1.1
Currency swaps in relation to USD denominated loan notes		**3.5**	8.5
		1,084.2	1,721.7

1 Private placement loan notes include US private placement loan notes, euro fixed rate bearer notes and a Schuldschein loan.

Included in financial liabilities is an amount of £1,108.0m (2017: £1,664.0m) which represents the carrying value of the Group's private placement loan notes which should be considered in conjunction with the carrying value of currency and interest rate swaps of:

- £105.0m (2017: £190.7m) included in financial assets; and
- £3.5m (2017: £8.5m) included in financial liabilities.

This gives an effective liability of £1,006.5m (2017: £1,481.8m).

In connection with the Group's transformation strategy and rights issue which were announced on 23 April 2018, Capita agreed amendments to its US private placement loan notes including:

- the introduction of an allowable minimum basket of £50m of both subsidiary indebtedness and permitted liens, in line with the corresponding baskets under Capita's other financing arrangements;
- the carve-out of up to £100m worth of bonds and guarantees from the financial covenant definition of indebtedness;
- certain restructuring costs to be excluded from the calculation of the covenant test, and certain assets to be excluded from the restrictions on disposals;
- the flexibility to increase the leverage covenant under the terms of the private placement notes from 3.0x to 3.5x if Capita would otherwise breach the covenant as a result of first-year losses from significant new contract wins as a result of the adoption of IFRS 15;

23 Financial liabilities continued

- a requirement to offer to prepay as follows until a total of £520m (the 'Prepayment Target') has been repaid (when combined with any repayments of US private placement loan notes, with original maturity dates of July and September 2018 on the scheduled maturity date):
  - the US private placement loan notes with scheduled maturity dates in July and September 2018, plus a make-whole payment;
  - from the proceeds of the rights issue, £150m of principal of the other US private placement loan notes, plus a make-whole payment;
  - from 50% of the net proceeds arising from non-core asset disposals, a pro-rata prepayment of principal across remaining US private placement notes, plus a make-whole payment; and.
- a temporary restriction on the prepayment of certain financial indebtedness and reductions in facility amounts, and a coupon premium of 0.75% until the Fall Away Criteria[1] have been met.

In connection with a waiver allowing consent for the disposal of Parking Eye, in November 2018, Capita agreed amendments to its euro fixed rate bearer notes and Schuldschein loan agreement including:

- a waiver of the limitation on disposals to allow the disposal of Parking Eye;
- a temporary restriction of the prepayment of certain financial indebtedness and reductions in facility amounts;
- a coupon premium of 0.75% until the Fall Away Criteria have been met; and
- an offer to prepay principal from the net proceeds of the Parking Eye disposal, equivalent pro-rata to the prepayment element of the Prepayment Target offered to the noteholders to the US private placement loan notes.

1 The 'Fall Away Criteria' include a one-time test of leverage being less than 1.5x at the 31 December 2018, 30 June 2019 and 31 December 2019 testing periods on a look-forward basis, and the achievement of the Prepayment Target.

The repayments and prepayments made pursuant to the above mentioned agreements with its lenders are set out in the below table.

Event	Date of payment/prepayment	US private placement loan notes	Euro fixed rate bearer notes & Schuldschein loan
		£m equivalent at date of offer to prepay	£m equivalent at date of offer to prepay
Rights issue	June 2018	150.0	—
Loan notes that matured in 2018	June, July and September 2018	222.0	—
Disposal of Supplier Assessment Services	August 2018	70.2	—
Disposal of Parking Eye	November 2018	77.8	48.2
Total payment/prepayment		**520.0**	**48.2**

On 19 November 2018 the Prepayment Target was formally agreed as having been achieved with the noteholders to the US private placement notes. The leverage ratio at 31 December 2018 is 1.2x. The Company reasonably expects the leverage ratio to be less than 1.5x at 30 June 2019 and 31 December 2019. As a consequence, the Company expects to make formal statements to the noteholders of the US private placements loan notes on 14 March 2019 stating the same, at which point the Fall Away Criteria will be met. At this point the temporary conditions referred to above including the 0.75% coupon premium will cease to apply.

The Group incurred financing arrangement fees on the amendments to the US private placement loans during the year amounting to £3.7m which has been included in the carrying value of the private placement loan notes (new issue and amendment fees: 2017: £2.1m). In addition the Group incurred £13.3m of associated prepayment costs and £2.5m of other financing costs which have been included in adjusting finance costs (2017: £nil). Issue and amendment costs are spread over the term of the loan notes. The unamortised balance of issue and amendment costs at the year-end totalled £3.7m (2017: £3.4m).

The Group's bank term loan is a £100m five-year term loan maturing in May 2019 which bears interest at floating rates linked to Libor.

The obligations under finance leases are secured on the assets being financed. The term loan, US private placement loan notes, euro fixed rate bearer notes, and Schuldschein loan are all 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 2019 to 2023. The payments are funded by AXELOS Limited and are individually contingent on the profits of that business. After the contractual obligations to make these payments have been met or have expired, the shareholders will be entitled to share in the retained profits pro rata to their equity interest in AXELOS Limited.

The third-party non-controlling shareholders of AXELOS Limited and Fera Science Limited hold options to sell their shareholdings to a member of the Group. Accordingly, a liability of £118.5m (2017: £122.4m) has been recognised and a corresponding entry has been recorded against retained earnings. The option held by the non-controlling shareholder in AXELOS became exercisable on 1 January 2019 and as a result is included as a current liability notwithstanding the fact that the Company is not in receipt of any notice of intention to exercise the option.

The option held by the non-controlling shareholder in Fera Science Limited is not expected to become exercisable within a year. As a result the associated liability is recorded as non-current.

During the year, Capita Business Services Limited paid £6.8m in return for an amendment to the terms of the joint venture shareholders' agreement previously entered into with the non-controlling shareholder in Entrust Support Services Limited. The variation agreement cancelled the option previously held by the non-controlling shareholder to sell its shares in Entrust Support Services Limited to Capita Business Services Limited under certain circumstances. As at 31 December 2017 a current liability of £6.8m was recorded in respect of this option.

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. The facility is available for the Group's immediate use and £nil was drawn down at 31 December 2018 (2017: £nil).

The covenant terms in respect of the above liabilities are discussed in note 2. Borrowing costs of £nil were capitalised in the year (2017: £nil).

Notes to the consolidated financial statements continued

23 Financial liabilities continued

At 31 December 2018, the Group's US private placement loan notes, euro fixed rate bearer notes, and the Schuldschein loan were as follows:

Private placement loan notes	Interest rate %	Denomination	Face Value (m)	Maturity
Issued 2010				
Series C	4.78	GBP	37.1	30 June 2020
Issued 2011[1]				
Series A	4.85	GBP	37.1	22 July 2019
Series C	4.76	GBP	26.0	19 July 2021
Issued 2013				
Series A	3.73	GBP	55.7	30 September 2020
Issued 2015				
Series C	3.26	GBP	18.6	22 January 2022
Series F	3.54	GBP	7.4	22 January 2025
Series G	3.67	GBP	22.3	22 April 2025
Series I	3.58	GBP	23.8	22 January 2027
Issued 2016				
Series B	2.18	GBP	36.0	27 October 2021
Series D	2.52	GBP	27.5	27 October 2023
Series F	2.77	GBP	18.6	27 October 2026
Total GBP denominated loan notes		GBP	310.1	
Issued 2010[2]				
Series B	4.80	USD	185.7	30 June 2020
Issued 2011[2]				
Series B	4.65	USD	59.4	22 July 2019
Series B	4.50	USD	175.3	19 July 2021
Series A	4.75	USD	37.1	26 July 2021
Issued 2015[2]				
Series A	3.33	USD	29.7	22 January 2022
Series B	3.43	USD	48.3	22 April 2022
Series D	3.45	USD	39.4	22 January 2023
Series E	3.65	USD	74.3	22 January 2025
Series H	3.80	USD	27.5	22 January 2027
Issued 2016[2]				
Series A	3.03	USD	18.6	27 October 2021
Series C	3.37	USD	17.8	27 October 2023
Series E	3.59	USD	19.3	27 October 2026
Total USD denominated loan notes		USD	732.4	
Issued 2015				
Fixed rate bearer notes	2.125	EUR	179.0	10 November 2022
Fixed rate bearer notes	2.875	EUR	60.0	10 November 2027
Schuldschein loan	2.125	EUR	16.0	10 November 2022
Total euro denominated fixed rate bearer notes and Schuldschein loan		EUR	255.0	

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 USD 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.

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 is analysed as follows:

	2018 £m	2017 £m
Not later than 1 year	**0.0**	0.2

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:

	2018 £m	2017 £m
Not later than 1 year	**99.2**	119.2
Later than 1 year but not later than 5 years	**245.3**	285.8
Later than 5 years	**391.5**	428.0
	736.0	833.0

25 Provisions

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements continued

25 Provisions continued

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

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

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

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

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

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

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

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

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

26 Financial instruments

Financial risk management objectives and policies

The Group's principal financial instruments comprise cash, bank loans, private placement loan notes, finance leases and derivatives, the purpose of which is to provide liquidity for the Group's operations and to manage its financial risks. The Group has various other financial instruments including trade receivables and trade payables arising from its operations.

The derivatives comprise interest rate swaps, cross-currency swaps, and forward currency contracts held with its relationship banks, all of which have investment grade credit ratings. The derivatives' purpose is to manage interest rate and currency risks arising from the Group's operations and its sources of finance. It is 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 periodically reviews and agrees policies for managing each of these risks and they are summarised below.

Carrying values and fair values of financial instruments

The following table analyses by classification and category the carrying value of the Group's financial instruments (excluding short-term debtors, creditors, payables/receivables and cash in hand).

The carrying values are a reasonable approximation to the fair value of financial instruments with the exception of the 12 private placement loan notes that remain subject to fixed rate interest. The fair value has been calculated by discounting the expected future cash flows at prevailing foreign exchange spot and forward rate, and interest rate curves. The valuation models use foreign exchange spot and forward rates and interest rate curves. These have a carrying value of £473.3m and a fair value of £459.6m.

The fair value of cash and cash equivalents including receivables and payables approximates to the carrying amount because of the short maturity of these instruments.

The fair value of floating rate borrowings approximates to the carrying value because interest rates are at floating rates where payments are reset to market values at intervals of less than one year. The private placement loan notes that have been hedged to floating rates of interest have a carrying value of £634.7m and a fair value of £634.7m.

26 Financial instruments continued

The fair value of cross-currency and interest swaps is determined using discounted cash flow techniques based on readily available market data. The fair value of the cross-currency and interest rate swaps are provided in note 18 – Financial assets, and note 23 – Financial liabilities.

As at 31 December 2018	At fair value through the P&L £m	Amortised cost £m	Derivatives used for hedging £m	At fair value through OCI £m	Total £m
Financial assets					
Cash	—	957.5	—	—	957.5
Insurance asset recoverable	—	1.3	—	—	1.3
Cash flow hedges	—	—	8.3	—	8.3
Non-designated foreign exchange forwards and swaps	3.9	—	—	—	3.9
Interest rate swaps in relation to GBP denominated loan notes	—	—	1.9	—	1.9
Currency swaps in relation to USD denominated loan notes	—	—	103.1	—	103.1
Investments	—	—	—	6.1	6.1
Held for trading assets	—	—	—	2.7	2.7
	3.9	958.8	113.3	8.8	1,084.8

	At fair value through equity £m	At fair value through the P&L £m	Derivatives used for hedging £m	Other financial liabilities £m	Total £m
Financial liabilities					
Overdrafts	—	—	—	314.8	314.8
Private placement loan notes	—	—	—	1,108.0	1,108.0
Other loan notes	—	—	—	0.3	0.3
Term loan	—	—	—	100.0	100.0
Cash flow hedges	—	—	1.2	—	1.2
Non-designated foreign exchange forwards and swaps	—	1.4	—	—	1.4
Currency swaps in relation to USD denominated loan notes	—	—	3.5	—	3.5
Contingent consideration	—	8.9	—	—	8.9
Deferred consideration	—	—	—	2.0	2.0
Public sector subsidiary partnership payment	—	—	—	43.5	43.5
Put options of non-controlling interests	118.5	—	—	—	118.5
	118.5	10.3	4.7	1,568.6	1,702.1

The aggregate loan note value above of £1,108.0m includes the GBP carrying value of the USD denominated loan notes at 31 December 2018. To mitigate exposure to currency fluctuations the Group has entered into currency swaps which effectively hedge movements in the loan notes' fair value arising from changes in foreign exchange and interest rates. Interest rate swaps hedge exposure to changes in the fair value of GBP denominated loan notes. The fair values of the currency and interest swaps are provided in note 18 – Financial assets and note 23 – Financial liabilities.

Notes to the consolidated financial statements continued

26 Financial instruments continued

At 31 December 2017	At fair value through the P&L £m	Loans and receivables £m	Derivatives used for hedging £m	Available for sale £m	Total £m
Financial assets					
Cash	—	921.7	—	—	921.7
Available-for-sale assets[1]	—	—	—	4.6	4.6
Deferred consideration[1]	—	5.2	—	—	5.2
Insurance asset recoverable[1]	—	5.0	—	—	5.0
Cash flow hedges	—	—	7.8	—	7.8
Non-designated foreign exchange forwards and swaps	7.7	—	—	—	7.7
Interest rate swaps in relation to GBP denominated loan notes	—	—	5.4	—	5.4
Currency swaps in relation to USD denominated loan notes	—	—	185.3	—	185.3
	7.7	931.9	198.5	4.6	1,142.7

	At fair value through the P&L £m	Derivatives used for hedging £m	Other financial liabilities £m	Total £m
Financial liabilities				
Overdraft	—	—	443.3	443.3
Private placement loan notes	—	—	1,664.0	1,664.0
Other loan notes	—	—	0.3	0.3
Term loan	—	—	100.0	100.0
Cash flow hedges	—	2.7	—	2.7
Non-designated foreign exchange forwards and swaps	0.3	—	—	0.3
Currency swaps in relation to USD denominated loan notes	—	8.5	—	8.5
Contingent consideration	—	—	24.6	24.6
Deferred consideration	—	—	13.1	13.1
Obligations under finance leases	—	—	0.2	0.2
Public sector subsidiary partnership payment	—	—	51.2	51.2
Put options of non-controlling interests	—	—	122.4	122.4
	0.3	11.2	2,419.1	2,430.6

1 Classification has changed in 2018 following the adoption of IFRS 9.

The fair value of financial instruments has been calculated by discounting the expected future cash flows at prevailing interest rates, except for held for trading 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 following tables show the fair value measurement of financial instruments by level of the fair value hierarchy:

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.

26 Financial instruments continued

At 31 December 2018

	Level 2 fair value £m	Level 3 fair value £m
Financial assets		
Cash flow hedges	8.3	—
Non-designated foreign exchange forwards and swaps	3.9	—
Held for trading assets	—	2.7
Investments	—	6.1
Interest rate swaps in relation to GBP denominated loan notes	1.9	—
Currency swaps in relation to USD denominated loan notes	103.1	—
Total financial assets	117.2	8.8
Financial liabilities		
Private placement loan notes	634.7	—
Cash flow hedges	1.2	—
Currency swaps in relation to USD denominated loan notes	3.5	—
Contingent consideration	—	8.9
Non-designated foreign exchange forwards and swaps	1.4	—
Put options of non-controlling interests	—	118.5
Public sector subsidiary partnership payment	—	43.5
Total financial liabilities	640.8	170.9

At 31 December 2017

	Level 2 fair value £m	Level 3 fair value £m
Financial assets		
Cash flow hedges	7.8	—
Available-for-sale assets	—	4.6
Non-designated foreign exchange forwards and swaps	7.7	—
Interest rate swaps in relation to GBP denominated loan notes	5.4	—
Currency swaps in relation to USD denominated loan notes	185.3	—
Total financial assets	206.2	4.6
Financial liabilities		
Private placement loan notes	1,059.6	—
Cash flow hedges	2.7	—
Currency swaps in relation to USD denominated loan notes	8.5	—
Contingent consideration	—	24.6
Non-designated foreign exchange forwards and swaps	0.3	—
Public sector subsidiary partnership payment	—	51.2
Put options of non-controlling interests	—	122.4
Total financial liabilities	1,071.1	198.2

During the year ended 31 December 2018, 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.

The floating rate private placement loan notes which have a carrying value of £634.7m and a fair value of £634.7m include the GBP equivalent of the US Dollar denominated loan notes at 31 December 2018.

The fair value of cross-currency and interest swaps is determined using discounted cash flow techniques based on readily available market data.

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 post-acquisition periods. These performance periods are up to 3 years in duration and will be settled in cash and loan notes if the relevant targets are achieved. The Group provides for such contingent consideration for each acquisition based on an assessment of fair value at the acquisition date. The contingent consideration has been calculated using a probability-weighted range of outturns.

A sensitivity analysis has been performed on the expected contingent consideration of £8.9m. The analysis adjusts 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 £1.2m. A 10% decrease in the probability of the contingent consideration being paid results in a decrease in potential contingent consideration of £0.7m.

Notes to the consolidated financial statements continued

26 Financial instruments continued

The public sector subsidiary partnership payment liability is an estimate of the aggregate of annual payments to the Cabinet Office in the years 2019 to 2023 to be made by AXELOS Limited (the partnership formed with the Cabinet Office). This payment is funded by AXELOS Limited and the carrying value of £43.5m has been derived by discounting the expected payment at an annualised rate of 2.8% to present value.

The carrying value of the liability is sensitive to movements in the profitability of AXELOS and is subject to a cap. Under all reasonably plausible scenarios the cap has been reached and therefore the sensitivity to changes in both the discount rate and the cash flows that have been used to calculate it is £nil.

The put options of non-controlling interest are in respect of AXELOS and Fera (see note 23). These are measured at fair value which has been calculated based on the expected amounts that will be paid in cash by the Group to purchase the shares of the non-controlling interests at the expected date of exercise of the options, which has then been discounted at a annualised rate of 2.8% to arrive at its present value.

The sensitivity of the valuation of the put option of the non-controlling interest to movements in both the discount rate and the cash flows that have been used to calculate it are as follows: a 10% increase in the earnings potential of the business results in a £11.3m increase in the valuation; a 10% decrease in the earnings potential of the business results in a £11.8m decrease in the valuation; a 1% increase in the discount rate applied to the valuation results in a £0.7m decrease in the valuation; and a 1% decrease in the discount rate applied to the valuation results in a £0.2m increase in the valuation.

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	Investments £m	Held for trading assets £m
At 1 January 2018	24.6	51.2	122.4	—	4.6
Profit and loss movement	(5.3)	—	—	—	(1.9)
Utilised	(10.4)	(9.4)	—	—	—
Movement of put options recognised in equity	—	—	2.9	—	—
Fair value of assets and liabilities acquired	—	—	—	6.1	—
Cancellation of put option	—	—	(6.8)	—	—
Discount unwind	—	1.7	—	—	—
As at 31 December 2018	**8.9**	**43.5**	**118.5**	**6.1**	**2.7**

Risk management framework

The Group's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework, which is outlined on pages 44–51 of the strategic report.

Interest rate risk

The Group manages its interest rate exposure, which arises from the private placement loan notes, using a mix of fixed and variable rate financial instruments.

The Group's USD denominated private placement loan notes are at fixed rates that have been swapped to floating rate GBP liabilities with cross-currency swaps. These are designated as fair value hedges against the changes in the fair value of the private placement loan notes that arise from changes in foreign currency exchange and interest rates.

The Group's GBP denominated private placement loan notes are at fixed rates. Certain of these notes have been converted to floating rate GBP interest through interest rate swaps. The swaps are designated as fair value hedges against the changes in the fair value of the private placement loan notes that arise from changes in interest rates.

The GBP equivalent of the underlying nominal value of private placement loan notes that remain at fixed rates of interest at 31 December 2018 was £473.3m. The GBP equivalent of the underlying nominal value of private placement loan notes that are exposed to floating rates of interest was £540.5m. Together with the £100m term loan, the total drawn exposure to floating rates of interest at 31 December 2018 was £640.5m.

This level of floating rate interest exposure, when considered with the floating rate interest received on cash and deposits gives the Group an acceptable overall interest rate risk profile.

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

As at 31 December 2018	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							
Private placement loan notes	—	92.8	36.0	191.5	27.5	125.4	473.3
Floating rate							
Cash in hand	(957.5)	—	—	—	—	—	(957.5)
Overdraft	314.8	—	—	—	—	—	314.8
Private placement loan notes	82.2	145.9	209.5	60.1	44.2	92.9	634.8
Term loan	100.0	—	—	—	—	—	100.0
Interest rate swap in relation to GBP denominated loan notes	(0.5)	—	(1.4)	—	—	—	(1.9)
Currency swaps in relation to USD denominated loan notes	(9.3)	(21.8)	(35.5)	(12.2)	(5.3)	(15.5)	(99.6)

26 Financial instruments continued

As at 31 December 2017	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							
Private placement loan notes	—	—	124.5	48.2	243.9	186.2	602.8
Obligations under finance leases	0.2	—	—	—	—	—	0.2
Floating rate							
Cash in hand	(921.7)	—	—	—	—	—	(921.7)
Overdraft	443.3	—	—	—	—	—	443.3
Private placement loan notes	224.1	112.7	194.7	275.7	78.1	175.9	1,061.2
Term loan	—	100.0	—	—	—	—	100.0
Interest rate swap in relation to GBP denominated loan notes	—	(2.4)	—	(3.0)	—	—	(5.4)
Currency swaps in relation to USD denominated loan notes	(72.2)	(10.1)	(26.3)	(37.8)	(12.5)	(17.9)	(176.8)

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 interest rates		£m	Effect on profit before tax £m
2018	**0.5%**	**(0.5)%**	**(3.2)**	**3.2**
2017	0.5%	(0.5)%	(4.9)	4.9

Foreign currency risk

The Group's exposure to foreign exchange risk arises primarily from cash flows that are not in the native currency of the relevant operation. The Group is not generally exposed to significant foreign currency transaction risk except where it purchases services in non-native currencies in INR and USD. 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.

To maximise hedge effectiveness the Group executes the forward currency contracts with terms matching the underlying cash flows.

At 31 December 2018, the Group held foreign exchange forwards against forecast monthly INR costs expected in the years up to and including 2020. These forecast costs have been determined on the basis of the underlying cash flows associated with the delivery of services under executed customer contracts.

In addition the Group holds foreign exchange forwards against committed costs relating to the purchase of cloud software services in USD in years up to and including 2023.

The following table demonstrates the sensitivity to a reasonably possible change in INR and USD 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.

	US Dollars			Indian rupee		
	Increase/ (decrease) in USD 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
2018	**5.0%**	**(2.2)**	**(1.3)**	**5.0%**	**—**	**0.6**
2017	—	—	—	5.0%	—	0.7

Hedges

Fair value hedges

The Group has in issue fixed rate USD and GBP private placement loan notes which it has hedged through a combination of interest rate and cross-currency swaps.

At 31 December 2018 the Group had interest rate swaps in place with a notional amount of £63.1m (2017: £85.0m) whereby it receives a weighted average fixed rate of interest of 4.81% (2017: fixed rate of interest 4.81%) and pays variable rates based on 6-month GBP Libor. The swaps hedge the exposure to changes in the fair value of £63.1m (2017: £85.0m) of the Group's private placement loan notes.

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 £477.4m (2017: £794.8m) of the Group's loan notes, which have coupon rates ranging from 3.03% to 4.85%.

The currency swaps are being used to hedge the exposure to changes in the fair value of its US dollar denominated loan notes. The loan notes, currency and interest rate swaps have the same critical terms including the amount and the date of maturity (see note 23).

The total loss in the year on the fair value hedges of £27.5m (2017: total loss £184.0m), excluding credit risk, was equal to the gain/loss on the hedged items resulting in no net gain or loss in the income statement apart from hedge ineffectiveness from credit risk and currency basis risk totalling £4.7m credit (2017: £0.6m credit) to the income statement – shown in net finance costs – note 9.

The Group may, at its option, upon notice of not less than 30 days and not more than 60 days, make repayments to its USD and GBP private placement loan notes at a contractual rate.

Notes to the consolidated financial statements continued

26 Financial instruments continued

The impact of the hedged item on the statement of financial position as at 31 December 2018 is, as follows:

	Notional Amount £m	Carrying Amount £m	Line item in the statement of financial position	Change in FV used for measuring ineffectiveness £m
Interest rate swap	**63.1**	**1.9**	**Financial assets**	**(3.5)**

	Notional Amount £m	Carrying Amount £m	Line item in the statement of financial position	Change in FV used for measuring ineffectiveness £m
Currency swap – asset	**432.7**	**103.1**	**Financial assets**	**27.3**
Currency swap – liability	**44.7**	**(3.5)**	**Financial liabilities**	**(0.9)**

The impact of the hedged item on the statement of financial position as at 31 December 2018 is, as follows:

	Carrying Amount £m	Accumulated FV adjustment £m	Line item in the statement of financial position	Change in FV used for measuring ineffectiveness £m
Private placement loan notes	**1,108.0**	**101.5**	**Financial Liabilities**	**(27.5)**

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 and committed USD costs.

Forward exchange contracts	2018 Assets £m	2018 Liabilities £m	2017 Assets £m	2017 Liabilities £m
Fair value	**8.3**	**(1.2)**	7.8	(2.7)

The terms of the forward currency contracts have been executed 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 and USD up to 2023. These were assessed to be highly effective at 31 December 2018 and a net cumulative unrealised gain of £4.7m (2017: gain of £5.1m) less income tax credit of £3.3m (2017: credit of £3.2m) was recognised in equity. The net gain recognised on cash flow hedges during the year was £2.0m (2017: net gain £2.0m) while net gains of £2.5m (2017: losses of £0.3m) were reclassified to the income statement and included in finance costs. The tax effect of the net movement in cash flow hedges during the year was a credit to OCI of £0.1m (2017: debit of £0.4m).

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.

An impairment analysis is performed at each reporting date to measure expected credit losses. The transition to IFRS 9 has not resulted in a material change to the Group's level of receivable provisioning.

With respect to credit risk arising from the other financial assets of the Group, such as cash and cash equivalents, held for trading financial investments, investment loan, certain derivative instruments and accrued income, the Group's exposure to credit risk arises from the risk of a 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 USD denominated loan notes.

Liquidity risk

The Group's policy is to hold cash and undrawn committed facilities at a level sufficient to fund the Group's operations and its medium-term plans.

The Group monitors its risk of experiencing a shortage of funds through 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 or availability of multiple sources of funding including private placement loan notes, bank loans, term loans, cash, overdrafts and finance leases over a broad spread of maturities to 2027.

26 Financial instruments continued

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2018 based on contractual undiscounted payments.

As at 31 December 2018	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	314.8	—	—	—	—	—	314.8
Private placement loan notes	83.8	238.6	243.3	254.9	72.4	221.0	1,114.0
Other loan notes	0.3	—	—	—	—	—	0.3
Interest on above loan notes	45.0	32.6	26.2	14.8	9.2	20.0	147.8
Term loan	100.0	—	—	—	—	—	100.0
Interest on above term loan	0.8	—	—	—	—	—	0.8
Contingent consideration	—	8.9	—	—	—	—	8.9
Public sector subsidiary partnership payment	9.4	9.4	9.4	9.4	9.4	—	47.0
Put options of non-controlling interests	107.3	—	11.2	—	—	—	118.5
Currency swaps	1.3	1.3	1.3	0.9	0.9	1.4	7.1
Non-designated foreign exchange forwards and swaps	0.1	—	—	—	—	—	0.1
Cash flow hedges	1.0	—	—	—	—	—	1.0
	663.8	290.8	291.4	280.0	91.9	242.4	1,860.3

As at 31 December 2017	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	443.3	—	—	—	—	—	443.3
Private placement loan notes	219.0	109.2	310.0	313.6	324.9	363.8	1,640.5
Other loan notes	—	—	0.3	—	—	—	0.3
Interest on above loan notes	65.8	52.4	41.6	33.2	18.6	35.5	247.1
Term loan	—	100.0	—	—	—	—	100.0
Interest on above term loan	1.6	0.6	—	—	—	—	2.2
Contingent consideration	12.1	—	12.5	—	—	—	24.6
Public sector subsidiary partnership payment	9.4	9.4	9.4	9.4	9.4	9.4	56.4
Put options of non-controlling interests	6.8	108.8	—	10.5	—	—	126.1
Obligations under finance leases	0.2	—	—	—	—	—	0.2
Currency swaps	1.4	1.4	1.4	1.4	1.0	2.6	9.2
Non-designated foreign exchange forwards and swaps	0.2	—	—	—	—	—	0.2
Cash flow hedges	1.7	—	—	—	—	—	1.7
	761.5	381.8	375.2	368.1	353.9	411.3	2,651.8

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.

As at 31 December 2018	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	957.5	(280.3)	677.2
Financial liabilities			
Overdrafts	(314.8)	280.3	(34.5)

As at 31 December 2017	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	921.7	(387.7)	534.0
Financial liabilities			
Overdrafts	(443.3)	387.7	(55.6)

Notes to the consolidated financial statements continued

26 Financial instruments continued

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit standing, evidenced by healthy capital ratios, to support its ongoing business operations and to maximise shareholder value. The Group manages its capital structure, and makes adjustments to it, in light of changes in economic conditions. The Group's capital management includes consideration of dividend payments or the return of capital to shareholders or issuing new shares. Focus on capital management forms an important component of 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 Group's lenders to immediately accelerate repayment of loans and borrowings. The Group monitors, as part of its monthly Board review, the adherence 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.

On 23 April 2018, the Company provided a transformation update and proposed rights issue. The proceeds of the rights issue are being used to: (i) support the delivery of Capita's new strategy; (ii) continue to make further investments in the business; and (iii) reduce its indebtedness in order to help achieve its target leverage ratio of between 1.0x and 2.0x adjusted net debt to adjusted EBITDA (prior to the adoption of IFRS 16).

The Group uses long-dated debt, generally private placement loan notes and long-term bank facilities, to enable it to manage refinancing risk and for the general purposes of the Group. There are various constraints preventing the Group in using surplus cash to further reduce its debt. These include the need to maintain adequate liquidity for operations over the course of the planning horizon, cash that is restricted under the terms of its regulated businesses, and the temporary prohibition on the early repayment of debt that was agreed with the lenders of the Group's private placement loan notes as set out above. A further consideration is that future prepayments of debt could result in a requirement for a pound-for-pound acceleration of the payments to the pension scheme.

Capita plc supports the growth of its various financial services businesses. These financial firms are subject to various capital requirements imposed by 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, each 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. At 31 December 2018, our annualised adjusted net debt to adjusted EBITDA ratio was 1.2x (2017: 2.2x) with annualised interest cover at 8.2x (2017: 8.6x). These ratios are monitored monthly by the Board. The Group's transformation plan includes an assessment of the appropriate financial leverage for the Group over the medium term, to ensure that it has a sustainable capital base to support its clients and operations, increase investment in the business and deliver its future strategy. The Board considers that the appropriate financial leverage for Capita over the medium term should be an adjusted net debt to adjusted EBITDA ratio of between 1.0x and 2.0x (prior to the adoption of IFRS 16).

The Group's debt facilities include typical maintenance obligations including covenant tests on indebtedness and restrictions on the level of liens and indebtedness permitted outside a group of guarantor companies. The Board monitors ongoing compliance with the tests. The Group is satisfied that the procedures in place ensure ongoing full compliance with the covenants.

The Group raises debt in a number of markets including the bank loan market, bank overdraft, finance lease and private placement 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. The facility was undrawn at 31 December 2018 (2017: undrawn), and is available for the Group's immediate use.

The Group has historically made use of short-term non-recourse invoice financing facilities provided to it by relationship banks. £nil invoices had been sold under these arrangements and not been settled at 31 December 2018 (2017: £110.0m).

The Group has now completed the normalisation of working capital management practices, an objective that was first announced on 31 January 2018. The Group does not expect to use such invoice financing in future. Furthermore, the Group will aim to pay suppliers on time in accordance with agreed terms and not seek to accelerate payments for customers beyond terms previously agreed.

Following the rights issue and strategic disposals made during the year, the Group repaid and prepaid a total of £577.2m of the private placement loan notes, fixed rate bearer notes and the Schuldschein loan (see note 23). The maturity of the remaining balances is spread between 2019 and 2027 (see note 23).

Further to the Board's update on Capita's transformation, capital structure, funding and trading outlook provided on 31 January 2018, the dividend has been suspended until the Company is generating sustainable free cash flow.

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

	2018 £m	2017 £m
Cash in hand	**(957.5)**	(921.7)
Overdraft	**314.8**	443.3
Other loan notes	**0.3**	0.3
Obligations under finance leases	**0.0**	0.2
Private placement loan notes	**1,108.0**	1,664.0
Term loan	**100.0**	100.0
Undrawn available Revolving Credit Facility	**600.0**	600.0
Currency and interest rate swaps	**(101.5)**	(182.2)
At 31 December	**1,064.1**	1,703.9

27 Issued share capital

Allotted, called up and fully paid	2018 m	2017 m	2018 £m	2017 £m
Ordinary shares of 2 1/15p each				
At 1 January	**670.1**	670.1	**13.8**	13.8
Rights issue	**1,001.0**	—	**20.7**	—
At 31 December	**1,671.1**	670.1	**34.5**	13.8

In May 2018, the Group offered a rights issue to existing shareholders on the basis of 3 shares for every 2 fully paid ordinary shares held. The issue was fully subscribed and resulted in the issue of 1,001,032,281 ordinary shares at £0.70 per share.

Share premium	2018 £m	2017 £m
Ordinary shares of 2 1/15p each		
At 1 January	**501.3**	501.3
Rights issue	**642.0**	—
At 31 December	**1,143.3**	501.3

The rights issue raised gross funds of £700.7m. The total amount capitalised to share capital and share premium was £662.7m (£700.7m less issuance costs of £38.0m).

Treasury shares	2018 m	2017 m	2018 £m	2017 £m
Ordinary shares of 2 1/15p				
At 1 January	**2.9**	3.2	**(0.1)**	(0.1)
Shares allotted in the year	**—**	(0.3)	**—**	—
At 31 December	**2.9**	2.9	**(0.1)**	(0.1)

In 2018, the Group made no purchases of shares into Treasury and allotted 28,057 (2017: 283,281) shares with an aggregate nominal value of £580 (2017: £4,420). The total consideration received in respect of these shares was £nil (2017: £nil).

Employee benefit trust shares	2018 m	2017 m	2018 £m	2017 £m
Ordinary shares of 2 1/15p				
At 1 January	**1.6**	1.7	**(0.1)**	(0.1)
Shares allotted in the year	**—**	(0.1)	**—**	—
Shares acquired during the year	**10.4**	—	**(11.0)**	—
At 31 December	**12.0**	1.6	**(11.1)**	(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 32,367 (2017: 69,337) ordinary 2 1/15p shares with an aggregate nominal value of £669 (2017: £1,434) 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 (2017: £nil). The Group acquired 3.2m (2017: nil) ordinary 2 1/15p shares paying average market price of £1.87 per share with the total value of £6.0m (2017: £nil). Further, the Group exercised its rights under the rights issue, purchasing 7.2m of shares at £0.70 per share, paying £5.0m. The aggregate value of shares were transferred to the EBT.

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

28 Share-based payment plans

The Group operates several share-based payment plans. In April 2018 Capita announced a rights issue. The rights issue was made on the basis of three new shares for every two existing shares held by qualifying shareholders at the record date.

To adjust for the dilutive impact of the 2018 rights issue, for share options held that had not vested by 25 May 2018, Capita granted an additional 1.639 (the adjustment factor) share options for every share option that an employee held to ensure that the fair value remained unchanged after dilution.

The expense recognised for share based payments in respect of employee services received during the year to 31 December 2018 was £3.4m (2017: £2.9m credit), all of which arises from equity-settled share based payment transactions. Details of the schemes are as follows:

Deferred annual bonus plan

This scheme is 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 80–98).

The value of deferred shares is determined by the pay-out under the annual bonus scheme: half of the annual bonus is paid in cash and the remainder is deferred into shares under the deferred annual bonus plan. Directors have the option to defer up to 100% of their annual bonus into deferred shares or net bonus into a restricted share award. The deferred/restricted shares are held for a period of three 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

Long-term incentive plans (LTIPs) – 2008 & 2017

The 2008 LTIP was approved and adopted at the AGM on 6 May 2008 and the 2017 LTIP was approved and adopted at the AGM on 13 June 2017. This scheme is open to senior employees and shares will vest according to performance criteria.

For the 2016 award, vesting of the award will depend on share price growth, EPS growth and return on capital employed measured over a three-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. 75% of the number of shares which will vest is dependent upon the Company's EPS growth exceeding 6% and on banding within the scheme and 25% of the number of shares which will vest is dependent upon the Company's return on capital employed exceeding 14%, and on banding within the scheme.

For the 2017 award, vesting of the award will depend on EPS growth and return on capital employed measured over a three-year period. 75% of the number of shares which will vest is dependent upon the Company's EPS growth exceeding 3% and on banding within the scheme and 25% of the number of shares which will vest is dependent upon the Company's return on capital employed exceeding 11%, and on banding within the scheme.

For the 2018 award, vesting will depend on annualised cost savings, free cash flow and margin. 100% of the number of shares which will vest is dependent upon the Company's annualised cost savings reaching £205m, free cash flow reaching £240m and margin of 12%. 25% of the number of shares which will vest is dependent upon annualised costs savings reaching £160m, free cash flow reaching £180m and margin of 9%.

1997 Executive share option scheme

This scheme was 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 three-year vesting period from the date of grant. The contractual life of each option granted is seven years. There are no cash settlement alternatives. During the year ended 31 December 2017, the total outstanding 0.1m share options, with a weighted average exercise prices (WAEP) of £6.83, were forfeited. No further awards were made under this scheme.

2008 & 2017 LTIP

	2018 m	2017 m
Outstanding as at 1 January	**8.9**	8.7
Awarded during the year	**27.1**	4.6
Exercised	**—**	0.0
Forfeited	**(6.3)**	(4.4)
Outstanding as at 31 December	**29.7**	8.9
Exercisable as at 31 December	**—**	—

The weighted average remaining contractual life of the above shares outstanding at 31 December 2018 was 1.5 years (2017: 1.6 years). There are no exercise prices for any options issued under the 2008 LTIP scheme.

Deferred annual bonus plan

The weighted average share price of options at the date of exercise in 2018 was £1.67. The weighted average share price during the year was £1.48 (2017: £5.62).

The total cash value of the Deferred Shares awarded during the year was £nil (2017: £nil).

All schemes

The fair value of the options granted/awarded during the year was £1.10 (2017: £4.37). None of the existing option schemes have exercise prices.

The fair value for the 2017 and 2018 share scheme issues is effectively the market price of a Capita share at the date of grant. Accordingly, no assumptions have been disclosed. The fair value of equity-settled share options granted pre-2017 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.

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 2018

As set out in note 2, the Group has simplified its non-statutory reporting measures to improve transparency and make it easier for the readers of the Annual Report and Accounts to understand its financial performance. The revised presentation is reported results on the face of the income statement, with a footnote detailing adjusting profit and earnings per share, and a note to the accounts (see note 3) providing a reconciliation between reported and adjusted profit. The presentation of the cash flow statement and additional cash flow information in the notes have also been revised to show the same split. Refer to note 3 for detail of the items excluded from adjusted results.

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

		2018		Restated 2017	
	Note	Adjusted £m	Reported £m	Adjusted £m	Reported £m
Cash flows from operating activities:					
Operating profit/(loss)	3	**335.3**	**34.9**	447.5	(420.1)
Adjustments for non-cash items:					
Depreciation	13	**59.1**	**60.1**	56.4	63.5
Amortisation of intangible assets	14	**27.9**	**114.6**	15.4	144.2
Share based payment expense	28	**3.4**	**3.4**	2.9	2.9
Employee benefits	32	**12.3**	**17.7**	30.8	30.8
(Profit)/loss on sale of property, plant and equipment	7	**11.4**	**11.4**	(4.5)	(4.5)
Accelerated deprecation / amortisation on business exit		**—**	**—**	—	1.9
Contingent consideration		**—**	**(5.4)**	—	(2.5)
Impairment of property plant and equipment	13	**6.1**	**6.1**	—	9.0
Impairment of intangibles acquired in business combinations	14	**—**	**61.7**	—	14.0
Impairment of goodwill and intangible assets	14	**—**	**58.1**	—	551.6
Impairment of contract related assets and investment loan	3	**—**	**—**	—	119.2
Impairment of loans and investments		**—**	**1.6**	—	—
Other adjustments:					
Movement in provisions		**2.8**	**(9.1)**	(25.2)	(22.7)
Other adjustments:					
Pension deficit contribution		**—**	**(42.0)**	—	—
Other contributions into pension schemes		**(16.1)**	**(21.0)**	(29.8)	(29.8)
Professional fees on acquisition		**—**	**—**	—	0.5
Re-measurement of businesses held for disposal		**—**	**—**	—	8.6
Movement in Capita Asset Services settlement provisions		**—**	**—**	—	3.4
Movements in working capital:					
Trade and other receivables		**91.2**	**89.3**	(37.2)	(30.6)
Non-recourse receivables financing		**(110.0)**	**(110.0)**	(23.6)	(23.6)
Trade and other payables		**(98.5)**	**(91.7)**	(115.3)	(111.7)
Deferred income		**(243.4)**	**(243.7)**	(75.2)	(66.8)
Contract fulfilment assets (non current)		**(11.7)**	**(11.7)**	(11.9)	(11.9)
Cash generated from operations		**69.8**	**(75.7)**	230.3	225.4
Adjustments for free cash flows:					
Income tax received		**26.6**	**25.3**	9.5	9.5
Net interest paid		**(39.0)**	**(52.5)**	(54.2)	(54.2)
Purchase of property, plant and equipment	14	**(74.6)**	**(89.4)**	(62.5)	(66.2)
Purchase of intangible assets	15	**(67.2)**	**(70.1)**	(70.8)	(71.0)
Proceeds from sale of property, plant and equipment/intangible assets		**1.9**	**1.9**	23.1	23.1
Free cash flow		**(82.5)**	**(260.5)**	75.4	66.6

Notes to the consolidated financial statements continued

29 Additional cash flow information continued

Adjusted free cash flow and cash generated from operations

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

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

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

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

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

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

				Non-cash flow movements				
	Note	Net debt at 1 January 2018 £m	Cash flow movements £m	Acquisitions in 2018 £m	Foreign exchange movements £m	Fair value changes £m	Other[2] £m	Net debt at 31 December 2018 £m
Cash, cash equivalents and overdrafts	20	**478.4**	**165.5**	**—**	**(1.2)**	**—**	**—**	**642.7**
Other loan notes	23	**(0.3)**	**—**	**—**	**—**	**—**	**—**	**(0.3)**
Private placement loan notes[1]	23	**(1,664.0)**	**580.9**	**—**	**3.1**	**(27.5)**	**(0.5)**	**(1,108.0)**
Currency swaps in relation to USD denominated private	18, 23	**176.8**	**(103.6)**	**—**	**—**	**26.4**	**—**	**99.6**
Interest rate swaps in relation to GBP denominated private	18	**5.4**	**—**	**—**	**—**	**(3.5)**	**—**	**1.9**
Term loan	23	**(100.0)**	**—**	**—**	**—**	**—**	**—**	**(100.0)**
Finance leases	18	**(0.2)**	**0.2**	**—**	**—**	**—**	**—**	**—**
Total net liabilities from financing activities		**(1,582.3)**	**477.5**	**—**	**3.1**	**(4.6)**	**(0.5)**	**(1,106.8)**
Deferred consideration	23	**(13.1)**	**11.1**	**—**	**—**	**—**	**—**	**(2.0)**
Net debt		**(1,117.0)**	**654.1**	**—**	**1.9**	**(4.6)**	**(0.5)**	**(466.1)**

1 The sum of these items held at fair value equates to the underlying value of the Group's private placement loan note's debt of £1,006.5m (2017: £1481.8m). Cash flow movement in private placement loan notes includes both repayment of private placement loan notes of £(577.2)m and financing arrangement costs of £(3.7)m.
2 Other comprises the amortisation of the discount on the euro debt issue.

The aggregate private placement loan note's fair value above of £1,108.0m (2017: £1,664.0m) (disclosed in note 23: Financial liabilities) includes the GBP value of the USD, GBP and EUR denominated loan notes at 31 December 2018. To remove the Group's exposure to currency fluctuations it has entered into currency swaps which effectively hedge the movement in the underlying USD loan notes' fair value. The interest rate swap is being used to hedge the exposure to changes in the fair value of GBP denominated private placement loan notes.

29 Additional cash flow information continued

The combined fair value of the interest and currency swaps, of £101.5m (2017: £182.2m), is disclosed in note 18: Financial assets, and note 23: Financial liabilities.

	Note	Net debt at 1 January 2017 £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 2017 £m
Cash, cash equivalents and overdrafts	20	565.8	(90.5)	—	3.1	—	—	478.4
Other loan notes	23	(0.3)	—	—	—	—	—	(0.3)
Private placement loan notes[1]	23	(1,961.7)	126.2	—	(10.7)	184.0	(1.8)	(1,664.0)
Interest and currency swaps in relation to USD denominated	18, 23	357.9	—	—	—	(181.1)	—	176.8
Interest rate swaps in relation to GBP denominated private	18, 23	7.7	—	—	—	(2.3)	—	5.4
Term loan	23	(650.0)	550.0	—	—	—	—	(100.0)
Finance leases	23	(2.3)	2.1	—	—	—	—	(0.2)
Total net liabilities from financing activities		(2,248.7)	678.3	—	(10.7)	0.6	(1.8)	(1,582.3)
Fixed rate interest rate swaps	23	(85.1)	84.6	—	—	0.5	—	—
Deferred consideration	23	(10.8)	10.8	(2.0)	—	—	(11.1)	(13.1)
Net debt		(1,778.8)	683.2	(2.0)	(7.6)	1.1	(12.9)	(1,117.0)

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

30 Capital commitments

At 31 December 2018, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £10.7m (2017: £8.8m), relating to building improvement on a leased property and software upgrades.

31 Contingent liabilities

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

The Group has provided, through the normal course of its business, performance bonds and bank guarantees of £84.0m (2017: £88.4m).

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

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

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

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

32 Employee benefits

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

Pension expense included in the income statement

	2018 £m	2017 £m
Defined contribution scheme	**94.9**	86.2
Defined benefit schemes		
Current Service cost	**8.2**	30.0
Administration costs	**2.9**	2.3
Past service cost/(credit)	**6.6**	(1.3)
Settlements	**—**	(0.2)
Total charged to profit before tax	**112.6**	117.0
Interest cost/(income)	**9.4**	9.2
Total in the income statement	**122.0**	126.2

Contributions to the defined contribution schemes are charged to the income statement as they fall due. The Group has no further obligations once the contributions have been made.

At 31 December 2018, retirement obligations were disclosed in relation to 10 (2017: 11) defined benefit pension schemes. The main defined benefit scheme is the Capita Pension and Life Assurance Scheme for which the Group is the sole employing sponsor. Grouped together under 'Other schemes' are nine smaller arrangements.

Notes to the consolidated financial statements continued

32 Employee benefits continued

The Capita Pension and Life Assurance Scheme (Scheme)

The Scheme is an HMRC-registered pension scheme and is subject to standard UK pensions and tax law. Details of the benefits provided are set out in the Scheme's documentation.

Responsibility for the operation and governance of the Scheme lies with a corporate Trustee which is independent of the Group. The Trustee Board is made up of member-nominated and employer-nominated directors plus an independent chairman. The nature of the relationship between the Group and the Trustee Board is governed by the rules of the Scheme and regulations.

The assets of the Scheme are held in a separate fund (administered by the Trustee Board) to meet long-term pension liabilities to beneficiaries. The Trustee Board invest the assets in line with their Statement of Investment Principles, which is regularly reviewed.

The Statement of Investment Principles has been established after taking into consideration the liabilities of the Scheme and the investment risk that the Trustee Board is willing to accept. The Group is consulted before the Statement of Investment Principles is formally adopted.

Benefits are continuing to accrue in the Scheme for a limited group of employees following the closure to future accrual for the majority of members on 30 November 2017.

A full actuarial valuation of the Scheme is carried out every three years by an independent actuary for the Trustee, with the last full valuation carried out at 31 March 2017. The purpose of that valuation is to design a funding plan to ensure that the pension scheme has sufficient assets available to meet future benefit payments, based on assumptions agreed between the Trustee and the Group. The 31 March 2017 valuation showed a funding deficit of £185m (31 March 2014: £1.4m). This equates to a funding level of 86.1% (31 March 2014: 99.8%).

The main reason for the increase in deficit was due to the fall in government bond yields, which was partly offset by greater asset returns than assumed.

As a result of the funding valuation, the Group and the Trustee agreed the following plan to eliminate the deficit of £185m, which is in addition to £21.5m paid in early 2018 as part of the disposal of Capita Asset Services to Link Administration Holdings and reflecting that a number of employers ceased to employ contributing members:

	2018	2019	2020	2021
Deficit contribution	£42m	£71m	£59m	£4m

The next scheme funding assessment is being carried out with an effective date of 31 March 2020. At each scheme funding assessment, the present value of the contributions detailed in the current recovery plan is compared with any shortfall revealed. Where the contributions under the current recovery plan are no longer expected (by the end of periods specified in the recovery plans) to be sufficient to remove the shortfall, a new recovery plan 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 Group expects to contribute £86.0m to the Scheme over 2019.

The valuation of liabilities for funding purposes differs to the valuation for accounting purposes (which are shown in these financial statements) mainly due to different assumptions being used and different market conditions at the different valuation dates. The assumptions used for funding purposes are agreed between the Trustee and the Group, with the discount rate being based on the actual assets of the Scheme. While for accounting purposes the assumptions are determined in accordance with IAS19, with the discount rate being based on the yields available on high quality corporate bonds of appropriate currency and term.

As part of the sale of Capita Asset Services businesses to Link Administration Holdings, it was agreed with the Trustees that a cash contribution of £17.0m would be made to the Scheme. This was paid in January 2018.

The Scheme was closed to future accrual for the majority of members on 30 November 2017, with these members joining the Group's main defined contribution scheme. As a result of the Scheme closing to future accrual, there was a past service curtailment gain of £2.3m in 2017 reflecting the affected members moving from active members to deferred members. In addition, a number of employers ceased to employ contributing members of the Scheme. As a consequence of this the Group paid £4.5m into the Scheme during January 2018 and guarantees have been provided by four of these employers in favour of the Scheme (to put them in the same position as if they continued to be participating employers).

In 2012, the Group established the Capita Scotland (Pension) Limited Partnership (the 'Partnership') with the 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 Scheme's interest in the Partnership entitles it to an annual distribution of £8.0m 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 Scheme's deficit position presented in these accounts does not reflect the Scheme's interest in the Partnership. Accordingly, distributions from the Partnership to the Scheme are reflected in these Group accounts as pension contributions to the Scheme on a cash basis as paid.

32 Employee benefits continued

Other schemes

The total employer contributions to the 'Other' schemes for 2019 are estimated to be £3.0m.

Admitted Body arrangements

For the Admitted Body scheme under which benefits are continuing to accrue, the Group will only participate in the scheme for a finite period up to the end of the contract. The Group is required to pay regular contributions as decided by the relevant Scheme Actuary and as detailed in the 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.

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

Other UK schemes

- An allocated section of a Local Government Pension Scheme under which benefits are continuing to accrue where the Group is the employing sponsor.
- A segregated section of a multi-employer scheme in which the Group is a participating employer (under which benefits are not continuing to accrue).
- Three segregated sections in an industry-wide scheme (in one of which benefits are continuing to accrue).

For the non-public sector 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. Each of the Capita sections in these schemes is fully segregated and so there is no cross-subsidy with any other employer's section.

For these 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.

For the local government pension scheme there is a similar funding regime which is set out in the Local Government Pension Scheme (Administration) Regulations 2008. When the last contributing member in Capita's section of this scheme ceases to be a member, then this will trigger an exit debt. As at 31 March 2016, this was estimated at £3.1m.

Overseas schemes

The Irish scheme is classed as a cross-border scheme for which the beneficiaries of the scheme have their liabilities, and the trustees hold assets, denominated in euros. The scheme is governed under the UK regulations and subject to the further requirements applying to cross-border schemes.

The Swiss schemes are administered and governed through collective foundations which are separate legal entities. Benefits are continuing to accrue in the Swiss schemes.

There are a further 50 (2017: 55) defined benefit pension arrangements in which various Capita businesses have participated during 2018. These have been included in the defined contribution pension charge on materiality grounds either due to contractual protections or the size of the scheme.

However, one of these defined benefit schemes relates to participation in the Social Housing Pension Scheme which is a non-segregated multi-employer defined benefit pension scheme where it is not currently possible to identify the Group's share of the scheme under IAS 19. For this reason it has been included in the defined contribution pension charge. At the last valuation in 2017, a total deficit of £1,522m was disclosed. Total deficit contributions from all employers as a result of the 2017 valuation were £161m per annum, of which the Group's share is £0.41m per annum. If the Group were to cease to be a participating employer in this scheme there would be an exit debt payable. As at 30 September 2017 this was estimated at £11.9m. The Group's expected employer contributions for this scheme in 2019 is £0.4m.

Risks associated with the Group's pension schemes

These defined benefit pension schemes expose the Group to various risks, with the key risks set out below:

Investment risk: the schemes invest in a wide range of assets with a view to provide long-term investment returns at particular levels. There is a risk that investment returns are lower than expected which, in isolation, could result in a worsening of the funding position of the schemes.

Interest rate risk: the IAS 19 discount rate is derived based on the yields available on good quality corporate bonds of suitable duration. If these yields decrease, then in isolation, this would increase the value placed on the IAS 19 obligation and result in a worsening of the funding position of the schemes.

Inflation risk: the liabilities of the schemes are linked to future levels of inflation. If future inflation is higher than expected then this would result in the cost of providing the benefits increasing and thereby worsening the funding position of the schemes.

Longevity risk: if members live longer than expected, then pensions will be paid for a longer time which will increase the value placed on the liabilities and therefore worsen the funding position of the schemes.

In order to manage these risks, the Group and the trustees carry out regular assessments of these risks. For the main defined benefit scheme the following actions have been taken:

- The Trustee of the Capita Pension and Life Assurance Scheme has entered into two bulk annuity contracts with an insurer in respect of a small number of high individual liability pensioner members (one in 2015 and the second in late 2017) with total value included in the assets at 31 December 2018 of £68.7m (2017: £76.7m).
- The Trustee has entered into a Liability Driven Investment programme. The level of risk that is managed by this is set by various market-related and funding trigger points.

Together, these actions have led to a current level of hedging (interest rate and inflation) of around 65% of the liabilities measured on the trustees' long-term funding basis. As the funding level improves it is planned to further increase the level of hedging.

The hedging aims to match the value of the assets to the movement in liabilities due to inflation and interest rate changes. As part of this strategy and to retain exposure to growth assets, the scheme invests in derivatives to gain synthetic equity exposure. Therefore, the equity allocation shown below is in economic exposure terms (i.e. inclusive of the derivative based position).

Notes to the consolidated financial statements continued

32 Employee benefits continued

Assets and liabilities

Under IAS19, plan assets must be valued at the bid market value at the balance sheet date. Asset valuations have been sourced from the scheme's investment managers and custodians, based on their pricing sources and methodologies. For the main asset categories:

- Equities listed on recognised stock exchanges are valued at closing bid prices.
- Bonds are measured using a combination of broker quotes and pricing models making assumptions for credit and market risks and market yield curves.
- Properties are valued on the basis of open market values.
- Assets in investment funds are valued at fair value which is typically the Net Asset Value provided by the investment manager.
- Certain unlisted investments are valued using a model based valuation such as discounted cash flow.
- The value of bulk annuity contracts have been assessed by discounting the projected cash flows payable under the contracts (projected by an actuary, consistent with the terms of the contract) and is equal to the corresponding liability calculated by reference to the IAS19 assumptions.

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	
			2018	2017			2018	2017	2018	2017
	Quoted £m	Unquoted £m	Total £m	Total £m	Quoted £m	Unquoted £m	Total £m	Total £m	Total £m	Total £m
Scheme assets at fair value:										
Equities:										
– UK	3.6	—	3.6	40.6	1.6	0.3	1.9	4.9	5.5	45.5
– Overseas	94.9	96.2	191.1	305.9	7.9	3.1	11.0	10.4	202.1	316.3
– Private	—	—	—	—	—	0.7	0.7	1.5	0.7	1.5
	98.5	96.2	194.7	346.5	9.5	4.1	13.6	16.8	208.3	363.3
Debt securities:										
– UK Government	323.3	(0.1)	323.2	249.9	17.0	—	17.0	13.8	340.2	263.7
– UK Corporate	—	0.1	0.1	45.0	0.4	—	0.4	0.4	0.5	45.4
– Overseas Government	—	17.8	17.8	34.1	2.8	—	2.8	2.6	20.6	36.7
– Overseas Corporate	—	118.5	118.5	137.2	0.5	—	0.5	0.4	119.0	137.6
– Emerging Markets	—	29.2	29.2	29.5	0.3	—	0.3	0.3	29.5	29.8
– Private Debt	—	57.3	57.3	34.6	—	—	—	—	57.3	34.6
– Secured Loans	—	—	—	—	1.6	—	1.6	1.6	1.6	1.6
	323.3	222.8	546.1	530.3	22.6	—	22.6	19.1	568.7	549.4
Property	—	85.7	85.7	78.3	4.8	0.3	5.1	4.8	90.8	83.1
Infrastructure	—	—	—	—	0.5	—	0.5	—	0.5	—
Credit Funds	—	—	—	—	8.0	—	8.0	8.2	8.0	8.2
Asset Backed Securities	—	—	—	—	0.8	—	0.8	0.7	0.8	0.7
Hedge Funds	80.1	135.2	215.3	214.4	0.6	—	0.6	0.6	215.9	215.0
Diversified growth funds	—	—	—	—	4.9	—	4.9	5.0	4.9	5.0
Insurance Contracts	—	68.7	68.7	76.7	—	17.5	17.5	16.4	86.2	93.1
Cash	24.1	1.4	25.5	(144.9)	(1.6)	—	(1.6)	1.2	23.9	(143.7)
Other	—	—	—	—	1.4	2.1	3.5	3.7	3.5	3.7
	104.2	291.0	395.2	224.5	19.4	19.9	39.3	40.6	434.5	265.1
Total	526.0	610.0	1,136.0	1,101.3	51.5	24.0	75.5	76.5	1,211.5	1,177.8
Present value of scheme liabilities			1,342.7	1,493.4			87.8	91.2	1,430.5	1,584.6
Net liability			(206.7)	(392.1)			(12.3)	(14.7)	(219.0)	(406.8)

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:

- The two bulk annuity contracts entered into by the Trustee of the Capita scheme late in 2015 and 2017.
- The investment of the assets in respect of the Swiss schemes occurs by the collective foundations in the context of reinsurance contracts.

Reconciliation of retirement benefits

Explanation of constituents of the Income Statement.

The cost of providing the pension scheme over the year is broken down as follows:

- Service cost is the cost to the Group of future benefits earned by contributing members over the current financial period.
- Past service cost represents the change in the present value of scheme liabilities in the current period in relation to prior years' service.
- Administration costs are those entailed by the pension schemes over the current period.
- Interest cost/(income) is made up of the interest cost on pension liabilities and assets over the current period based on the discount rate adopted at the start of the period.

32 Employee benefits continued

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

	Defined benefit obligation		Fair value of plan assets		Group total Net defined liability	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Balance at 1 January	**1,584.6**	1,454.9	**(1,177.8)**	(1,109.7)	**406.8**	345.2
Included in the income statement:						
Current service cost	**8.2**	30.0	**—**	—	**8.2**	30.0
Administration costs	**2.9**	2.3	**—**	—	**2.9**	2.3
Past service cost[1]	**6.6**	(1.3)	**—**	—	**6.6**	(1.3)
Settlements	**—**	(1.8)	**—**	1.6	**—**	(0.2)
Interest cost/(income)	**38.7**	39.8	**(29.3)**	(30.6)	**9.4**	9.2
Sub-total in income statement	**56.4**	69.0	**(29.3)**	(29.0)	**27.1**	40.0
Included in other comprehensive income:						
Actuarial loss/(gain) arising from:						
– demographic assumptions	**(16.1)**	(0.5)	**—**	—	**(16.1)**	(0.5)
– financial assumptions	**(100.7)**	83.9	**—**	—	**(100.7)**	83.9
– experience adjustments	**(39.5)**	14.1	**—**	—	**(39.5)**	14.1
– changes in asset ceiling/minimum liability	**—**	—	**—**	—	**—**	—
Return on plan assets excluding interest	**—**	—	**21.2**	(45.8)	**21.2**	(45.8)
Foreign currency translation	**1.1**	(0.9)	**(0.9)**	0.6	**0.2**	(0.3)
Sub-total in other comprehensive income	**(155.2)**	96.6	**20.3**	(45.2)	**(134.9)**	51.4
Employer contributions	**—**	—	**(80.0)**	(29.8)	**(80.0)**	(29.8)
Contributions by employees	**1.6**	1.6	**(1.6)**	(1.6)	**—**	—
Benefits paid	**(51.6)**	(37.3)	**51.6**	37.3	**—**	—
Contract bulk transfers/business combinations	**(5.3)**	(0.2)	**5.3**	0.2	**—**	—
Balance at 31 December	**1,430.5**	1,584.6	**(1,211.5)**	(1,177.8)	**219.0**	406.8

The defined benefit obligation comprises £1,430.5m (2017: £1,584.6m) arising from schemes that are wholly or partly funded.

Of the total pension cost of £27.1m (2017: £40.0m), £14.8m (2017: £28.5m) was included in cost of sales, £2.9m (2017: £2.3m) was included in administrative expenses, and £9.4m in finance costs (2017: £9.2m).

[1] Past service cost

The past service cost of £6.6m is made up of 3 elements:

- On 26 October 2018, the High Court issued a judgment which concluded that the schemes involved in the case should be amended to equalise pension benefits for men and women in relation to Guaranteed Minimum Pension (GMP) benefits. This will impact many pension schemes. The Group is working with the various trustees and their advisers to understand the extent to which the judgment crystallises additional liabilities in their schemes. This could take over a year to fully rectify. However, for the purpose of these financial reports, we have estimated that this will increase the reported liability of the Scheme by £4.4m and this is reflected as a past service cost in 2018. This cost is excluded from the adjusted profit as set out in note 3. There are still a number of uncertainties over how the equalisation is carried out, including the method of equalisation and any potential appeals about the ruling. Therefore, the overall cost could differ, but we have included our best estimate of this cost based on information known at this time. The impact of this will be considered at the next series of triennial valuations and any changes to future contributions will be assessed at that time.
- In addition, there is a past service cost of £1.0m in relation to the correction of an historic retirement age equalisation issue for a small group of members in the main scheme. This cost is excluded from the adjusted profit as set out in note 3.
- The remaining cost of £1.2m is in relation to the value of additional contractual benefits granted to members over the current period.

Notes to the consolidated financial statements continued

32 Employee benefits continued

Capita scheme

	Defined benefit obligation 2018 £m	Defined benefit obligation 2017 £m	Fair value of plan assets 2018 £m	Fair value of plan assets 2017 £m	Net defined liability 2018 £m	Net defined liability 2017 £m
Balance at 1 January	**1,493.4**	1,366.4	**(1,101.3)**	(1,038.0)	**392.1**	328.4
Included in the income statement:						
Current service cost	**6.1**	27.9	**—**	—	**6.1**	27.9
Administration cost	**2.7**	2.0	**—**	—	**2.7**	2.0
Past service cost including GMP equalisation and curtailment costs	**6.0**	(1.5)	**—**	—	**6.0**	(1.5)
Interest cost/(income)	**36.8**	37.8	**(27.7)**	(29.0)	**9.1**	8.8
Sub-total in income statement	**51.6**	66.2	**(27.7)**	(29.0)	**23.9**	37.2
Included in other comprehensive income:						
Actuarial loss/(gain) arising from:						
– demographic assumptions	**(16.0)**	(0.5)	**—**	—	**(16.0)**	(0.5)
– financial assumptions	**(95.6)**	81.2	**—**	—	**(95.6)**	81.2
– experience adjustments	**(39.5)**	13.8	**—**	—	**(39.5)**	13.8
Return on plan assets excluding interest	**—**	—	**19.0**	(42.5)	**19.0**	(42.5)
Sub-total in other comprehensive income	**(151.1)**	94.5	**19.0**	(42.5)	**(132.1)**	52.0
Employer contributions	**—**	—	**(77.2)**	(25.5)	**(77.2)**	(25.5)
Contributions by employees	**—**	0.1	**—**	(0.1)	**—**	—
Benefits paid	**(45.9)**	(33.6)	**45.9**	33.6	**—**	—
Contract bulk transfers/business combinations	**(5.3)**	(0.2)	**5.3**	0.2	**—**	—
Balance at 31 December	**1,342.7**	1,493.4	**(1,136.0)**	(1,101.3)	**206.7**	392.1

Other schemes

	Defined benefit obligation 2018 £m	Defined benefit obligation 2017 £m	Fair value of plan assets 2018 £m	Fair value of plan assets 2017 £m	Net defined liability 2018 £m	Net defined liability 2017 £m
Balance at 1 January	**91.2**	88.5	**(76.5)**	(71.7)	**14.7**	16.8
Included in the income statement:						
Current service cost	**2.1**	2.1	**—**	—	**2.1**	2.1
Administration cost	**0.2**	0.3	**—**	—	**0.2**	0.3
Past service cost including curtailment	**0.6**	0.2	**—**	—	**0.6**	0.2
Settlements	**—**	(1.8)	**—**	1.6	**—**	(0.2)
Interest cost/(income)	**1.9**	2.0	**(1.6)**	(1.6)	**0.3**	0.4
Sub-total in income statement	**4.8**	2.8	**(1.6)**	—	**3.2**	2.8
Included in other comprehensive income:						
Actuarial loss/(gain) arising from:						
– demographic assumptions	**(0.1)**	—	**—**	—	**(0.1)**	—
– financial assumptions	**(5.1)**	2.7	**—**	—	**(5.1)**	2.7
– experience adjustments	**—**	0.3	**—**	—	**—**	0.3
– changes in asset ceiling/minimum liability	**—**	—	**—**	—	**—**	—
Return on plan assets excluding interest	**—**	—	**2.2**	(3.3)	**2.2**	(3.3)
Foreign currency translation	**1.1**	(0.9)	**(0.9)**	0.6	**0.2**	(0.3)
Sub-total in other comprehensive income	**(4.1)**	2.1	**1.3**	(2.7)	**(2.8)**	(0.6)
Employer contributions	**—**	—	**(2.8)**	(4.3)	**(2.8)**	(4.3)
Contributions by employees	**1.6**	1.5	**(1.6)**	(1.5)	**—**	—
Benefits paid	**(5.7)**	(3.7)	**5.7**	3.7	**—**	—
Contract bulk transfers/business combinations	**—**	—	**—**	—	**—**	—
Balance at 31 December	**87.8**	91.2	**(75.5)**	(76.5)	**12.3**	14.7

32 Employee benefits continued

Breakdown of liabilities for the Capita Scheme

Information about the defined benefit obligation for the Capita Scheme:

	Proportion of overall liability % 2018	Duration (years) 2018	Proportion of overall liability % 2017	Duration (years) 2017
Active members	**7**	**24.6**	8	24.8
Deferred members	**64**	**23.9**	64	24.4
Pensioners	**29**	**13.5**	28	13.8
Total	**100**	**20.9**	100	21.5

Financial and demographic assumptions

Main assumptions:	Capita scheme 2018 %	Capita scheme 2017 %	Other schemes[2] 2018 %	Other schemes[2] 2017 %
Rate of price inflation – RPI/CPI	**3.20/2.20**	3.20/2.20	**3.20/2.20**	3.20/2.20
Rate of salary increase	**3.20**	3.20	**3.20**	3.20
Rate of increase of pensions in payment[1]:				
– RPI inflation capped at 5% per annum	**3.10**	3.10	**3.10**	3.10
– RPI inflation capped at 2.5% per annum	**2.20**	2.20	**2.20**	2.20
– CPI inflation capped at 5% per annum	**2.25**	2.25	**2.25**	2.25
– CPI inflation capped at 2.5% per annum	**1.80**	1.80	**1.80**	1.80
Discount rate	**2.85**	2.50	**2.85**	2.50
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 2018 and 31 December 2017 are as follows:

	Member currently aged 65 (current life expectancy)				Member currently aged 45 (life expectancy at 65)			
	Male		Female		Male		Female	
	2018	2017	2018	2017	2018	2017	2018	2017
Capita scheme[3]	**22.7**	22.7	**24.3**	24.4	**23.1**	23.1	**25.4**	25.4
Other schemes[4]	**22.7 to 24.2**	22.7 to 24.2	**24.3 to 24.4**	24.4	**23.1 to 25.9**	23.1 to 25.9	**25.4 to 26.2**	25.4 to 26.2

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 scheme. Different assumptions apply to non-UK schemes, for example: the discount rate for the Irish Scheme is 2.25% per annum and for the two Swiss schemes, 0.75% per annum in 2018.
3 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.
4 This does not apply to the Admitted Body scheme or the Swiss schemes.

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 2018 actuarial assumptions	Capita scheme £m	Other schemes £m
0.1% decrease in discount rate	**28.0**	**1.3**
0.1% increase in salary increases	**0.5**	**0.1**
0.1% increase in inflation (and related assumption, e.g. salary and pension increases)	**14.6**	**0.9**
1 year increase in life expectancy	**53.7**	**2.7**

Notes to the consolidated financial statements continued

33 Related-party transactions

Compensation of key management personnel

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

Gains on share options exercised in the year by Capita plc Executive Directors were £0.0m (2017: £0.7m) and by key management personnel £0.0m (2017: £0.2m), totalling £0.0m (2017: £0.9m).

During the year, the Group rendered administrative services to Smart DCC Ltd, a wholly-owned subsidiary which is not consolidated (refer to note 34). The Group received £64.3m (2017: £55.5m) of revenue for these services. The services are procured by Smart DCC on an arm's length basis under the DCC licence. The services are subject to review by Ofgem to ensure that all costs are economically and efficiently incurred by Smart DCC.

Capita Pension and Life Assurance Scheme is a related party of the Group. Transactions with the Scheme are disclosed in note 32 – Employee benefits on pages 157–164.

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

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

1 This includes the holding of Veritas Funds PLC.

34 Group composition and non-controlling interests

The Group's subsidiaries are listed in notes 8 and 18 of the parent company financial statements on pages 185 and 190–195. This list includes AXELOS Limited and Entrust Support Services 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 2018 and 2017.

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 licence). 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

As set out in note 25 the Company continues to discuss with the Financial Conduct Authority the final quantum of the redress payments regarding the Connaught Income Series 1 Fund. Since the year end the Company has been notified that it is probable that a reimbursement will be due to Capita. The amount is subject to final agreement but is not material to the financial statements. There are no post balance sheet events that have an adjusting effect on the financial statements.

Statement of Directors' responsibilities

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

- 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.
- 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.
- 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.

Jon Lewis
Chief Executive Officer

Patrick Butcher
Chief Financial Officer

13 March 2019

Independent auditor's report

to the members of Capita plc

1. Our opinion is unmodified

We have audited the financial statements of Capita plc ("the Company") for the year ended 31 December 2018 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement, company balance sheet, company statement of changes in equity, and the related notes, including the accounting policies in note 2 to the Group financial statements and note 1 to the Parent Company financial statements.

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 2018 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit & Risk Committee.

We were first appointed as auditor by the Directors on 18 August 2010. The period of total uninterrupted engagement is for the 9 financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview	
Materiality: Group financial statements as a whole	£8m (2017: £12m) 3.8% (2017: 4.8%) of normalised Group profit before tax
Coverage	82% (2017: 82%) of total Group revenue 84% (2017: 85%) of total profits and losses before tax 84% (2017: 78%) of total Group assets

Risks of material misstatement		**vs 2017**
Recurring risks for the Group	Revenue and profit recognition	◀▶
	Impairment of intangible assets and goodwill	◀▶
	Items excluded from adjusted profit	◀▶
	Capitalisation and recoverability of contract assets	◀▶
	Provisions and contingent liabilities	◀▶
	Pensions obligations	◀▶
Recurring risk for the Group and the Parent Company	Going concern	▼
Recurring risks for the Parent Company	Recoverability of Parent Company's investment in, and amounts due from, its subsidiaries	◀▶

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Revenue and profit recognition Reported Group revenue of £3,918.4 million (2017: 4,234.6 million). Refer note 2(e), and Audit and Risk Committee report (pages 71-79).	**Accounting treatment** Professional standards require us to make a rebuttable presumption that the fraud risk from revenue is a significant risk. The incentive/pressures on management to achieve bonus targets and/or market consensus increase the risk of fraudulent revenue and profit recognition. **Subjective estimate** Following the adoption of IFRS15 the significant risk on long-term contracts relates to revenue recognised from variations or scope changes, where significant judgment is required to be exercised by the Board. There is a risk that revenue may be recognised even though it is not probable (i.e., not more likely than not) that consideration will be collected, which could be due to uncertainties over contractual terms and ongoing negotiations with customers. For long-term contracts, the contractual arrangements can be complex with regard to variable consideration and service performance measures. This can involve significant judgments that may impact the recognition of revenue and contract profits including, among others, those over: – the interpretation of contract terms concerning future obligations; – the allocation of revenue to performance obligations; – the combining of performance obligations where the services are inter related; and – the consideration of onerous contract conditions and associated loss provisions. For contracts that are in the pre-inflection stage, there are typically increased risks as the transformation activities are still to be completed. The execution risk associated with successful transformation requires judgment to be applied concerning costs to complete and the overall estimation of profit over the lifetime of the contract. There is a risk that such matters are not fully identified resulting in increased profits being recognised or the lack of consideration of contract loss provisions. The effect of these matters is that, as part of our risk assessment, we determined that revenue recognised from long-term contracts has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. **Disclosure quality** There is a risk that the disclosures presented are not sufficient to explain revenue recognition accounting policies and the key judgments applied.	**Our procedures included:** **Tests of detail:** – We obtained and inspected a sample of the contractual agreements to understand the contract terms and conditions that underpin the revenue and the profit recognition assumptions and to identify conditions under which variable revenue can arise. – Where contract negotiations are ongoing in relation to variable consideration we discussed the current status with those involved in the negotiations and by reference to the associated signed contract or variations amendment. – We considered the assumptions within the business plans and lifetime assessments, checking that onerous contracts had been recognised appropriately, particularly on contracts that have had a poor performance in the current year and those contracts that are in a pre-inflection phase of transformation. – 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 critically assessing the assumptions over future costs including projected savings and the actions required to achieve these by comparison to historical cost savings achieved on similar projects. This assessment covered a sample of contracts including those identified by the Board as being high risk, and comprising the major contracts in a pre-inflection phase. – where significant variable consideration had been recognised, we obtained and inspected the contractual agreements to understand the contract terms and conditions that underpin the revenue recognition assumptions – where relevant we also inspected correspondence with customers or other supporting documentation in relation to the variations or scope; and – we challenged whether the judgments made by the Board are appropriate based on the underlying contractual terms and evidence obtained. **Assessing transparency**: we considered the disclosures in the financial statements to check that these were comprehensive and provided sufficient detail of the revenue recognition policies and of the key judgments applied. **Our findings**: We found the amounts of revenue and profit recognised to be acceptable (2017: acceptable).

Independent auditor's report continued

to the members of Capita plc

	The risk	Our response
Impairment of Intangible Assets and Goodwill The Group records goodwill of £1,259.0 million (2017: £1,367.9 million) and other intangible assets £328.7 million (2017: £444.2 million) – see notes 14 & 15. Refer the Audit and Risk Committee report on pages 71-79.	**Forecast based valuation** 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. The introduction of the new policies under IFRS15 led to a separation of revenue recognition from cash receipts, and adjustments are required to ensure that the future forecasts used in the impairment assessment approximate to future cash flows. The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of goodwill and intangible assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 15) disclose the sensitivity estimated by the Group. **Disclosure quality** There is a risk that the disclosures presented are not sufficient to explain the key assumptions that drive the value in use calculations, and the key sensitivities that the Board has considered. In addition there is a risk that the disclosures do not adequately explain the events and circumstances that led to the impairment charge recorded in 2018. During the year there has been a change in the CGU structure, which requires explanation in the disclosures.	**Our procedures included:** – **Comparing valuations**: we compared the total amount of discounted cash flows as per the calculations to the Group's market capitalisation and assessed the rationale for the difference at the year end with the support of our own internal valuation specialists. – **Control operation**: we tested the principles and integrity of the Group's discounted cash flow model. – **Tests of detail**: 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. – This included an assessment over any adjustments made to ensure that the future forecasts approximated to cash flows. – **Historical comparison**: we assessed the historical accuracy of the forecasts used in the Group's impairment model by considering actual performance against prior year budgets, and considering any relevant Group internal audit reports over this process. – **Benchmarking assumptions**: we used external data and our own internal valuation specialists to evaluate the key inputs and assumptions for growth and discount rates. – **Sensitivity analysis**: 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. – **Assessing transparency**: we evaluated the adequacy of the disclosures related to the estimation uncertainty, judgments made and assumptions over the recoverability of intangible assets and goodwill, in particular checking that the sensitivity disclosures provided sufficient detail. We also assessed whether the disclosures adequately explained the events and circumstances that led to the impairment charge in 2018. **Our findings**: We found the amounts of intangible assets and goodwill recognised as at 31 December 2018 to be acceptable (2017: acceptable).

	The risk	Our response
Items excluded from adjusted profit Refer note 3 that details items excluded from adjusted profit and the Audit and Risk Committee report on pages 71-79.	**Presentation appropriateness** The Group separately presents adjusted operating profit and adjusted profit before tax as a note to the consolidated income statement and in note 3. The Company's financial highlights and commentary refers to 'adjusted' measures as well as those derived on an adopted IFRS basis. The reasoning behind this presentation is set out in notes to the financial statements. Items to be excluded from adjusted profit are not defined by IFRSs and therefore judgment is required by the Directors to identify such items 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 items excluded from adjusted profit may distort the reader's view of the financial result in the year. **Disclosure quality** During the year the company has simplified the presentation of the consolidated income statement and reduced the number of adjusted profit measures. The disclosures need to include sufficient explanation of the items adjusted to ensure these are transparent and understandable.	**Our procedures included:** **Assessing principles**: – We communicated our consideration on the classification of items excluded from adjusted profit to the Audit and Risk Committee to inform the debate on the Board's assessment of the policy decision to present adjusted profit measures. – We examined the presentation of adjusted profit measures in the front half of the annual report and consider this against applicable guidelines (including the FRC publications on the presentation of alternative performance measures). **Assessing balance**: – We considered whether there are any items included in the adjusted profit measures that it would be more appropriate to exclude from these measures and vice versa. – We also assessed whether there was sufficient balance between credit and debit items that are so separately presented. – We tested on a sample basis items recorded as adjustments to source documentation to assess the appropriateness of classification. – As part of this consideration, we assessed the consistency of application of the Group's accounting policy for the classification of items excluded from adjusted profit year-on-year. **Assessing transparency**: – We assessed whether the basis of the 'adjusted' financial information is clearly and accurately described and consistently applied and that all 'alternative performance measures', together with reconciliations to the adopted IFRS position, are shown with sufficient prominence in the annual report. **Our findings**: We found the amounts presented for adjusted profit to be acceptable (2017: acceptable).

Independent auditor's report continued

to the members of Capita plc

	The risk	Our response
Capitalisation and recoverability of contract assets The adoption of IFRS15 has led to the recognition of contract fulfilment assets (see note 17). Refer notes 2(e) & 17, and Audit and Risk Committee report (pages 71-79).	**Accounting application** IFRS15 requires that costs incurred on a contract, or an anticipated contract that generate or enhance the resources of an entity to deliver the contract should be capitalised and amortised over the expected life of the contract. **Subjective estimate** Judgment is required in applying the accounting policy that Capita has introduced to assess whether the costs incurred will enhance the future economic benefits to the Company. Where a contract is not performing as expected the costs capitalised may not be recoverable and an impairment of the asset may need to be recorded. Contract fulfilment assets are required to be amortised over the expected life of the contract and this requires an estimate of any likely contract extensions. The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of contract assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. **Disclosure quality** There is a risk that the disclosures presented are not sufficient to explain the capitalisation criteria that are used to assess whether items of expense should be recorded as a contract asset.	**Our procedures included:** – **Tests of detail:** we tested on a sample basis the costs capitalised in 2018 as contract fulfilment assets by reference to the criteria set out in the Group's accounting policy. For each of the assets sampled we obtained third party support, or for internally generated time, we obtained the relevant costing rates and records, to support the basis of capitalisation. – **Sensitivity analysis:** where a contract has performed below budget, we assessed whether there was uncertainty in regard to the recoverability of the contract fulfilment asset through future contract profitability. – **Tests of detail:** we considered on a sample basis the useful economic lives applied to the contract fulfilment assets and assessed the expected contract life by reference to the contract terms or where appropriate any agreed extensions to the original contract. – **Assessing transparency:** we considered the disclosures in the financial statements to assess that these provided sufficient detail of the criteria used to assess whether expense items should be recorded as a contract asset. **Our findings:** We found the amounts of contract assets recognised to be acceptable (2017: acceptable).

	The risk	Our response
Provisions and Contingent Liabilities See note 25 for details of the provisions totalling £116.2 million as at 31 December 2018 (2017: £212.6 million) and note 31 for a discussion on the contingent liabilities identified. Also refer the Audit and Risk Committee report on pages 71-79.	**Subjective estimates** Significant judgment is required to assess whether actual or potential claims, litigation or fines arising from regulatory oversight, or from contractual arrangements with customers and suppliers, should be recognised as provisions within the financial statements or warrant disclosing as contingent liabilities. The determination and estimation of amounts for these provisions is inherently judgmental by their nature and there is a risk that the estimate is incorrect and any provision is materially misstated. The effect of these matters is that, as part of our risk assessment, we determined that provisions have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. **Disclosure quality** 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 procedures included:** – **Personnel interviews**: We enquired of the Directors and inspected board minutes for actual and potential claims arising in the year based on any external communications with the Group as noted in any Board discussions, and assessed whether provisions are required for these claims. Our enquiries are included as standard questions in all our meetings with those responsible for preparing the financial statements including the divisional Finance Directors, heads of functions at Group and corporate level, and the Executive Directors. **Tests of detail**: – We obtained an understanding and status of existing claims and litigations via enquiries and examining any relevant correspondence. This included enquiries of the Directors' assessment regarding the likelihood of the existence of obligations, and the basis used to measure any 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. – **Assessing transparency**: we evaluated the adequacy of the Group's provisions and contingent liability disclosures in the financial statements in accordance with accounting standards, and in particular the disclosure of the estimation uncertainty and the quantification of that uncertainty where appropriate. **Our findings**: We found the amounts included for provisions to be acceptable (2017: acceptable). We found the disclosures included for provisions and contingent liability to be acceptable (2017: acceptable).
Pensions obligations See note 32 for details of the Group pension schemes and their obligations as at 31 December 2018. Also refer to the Audit and Risk Committee report on pages 71-79.	**Subjective estimation** Significant estimates are made in estimating the Group's defined benefit pension obligations and small changes in assumptions and estimates used would have a significant effect on this amount. There is a risk that the assumptions applied are not appropriate in the context of the pension scheme arrangements. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of pension obligations has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 32) disclose the sensitivity estimated by the Group. **Disclosure quality** There is a risk that the disclosures presented are not sufficient to explain the key assumptions that the Board has adopted for the purpose of valuing the pension obligations.	**Our procedures included:** – **Assessing the valuer's credentials**: we evaluated the competence and independence of the external actuaries who are engaged by the Group to estimate the pension scheme obligations for the purpose of the financial statements. – **Methodology choice**: we used our internal actuary specialists to consider and critically assess the methodologies applied including benchmarking the key assumptions applied in determining the Group's defined benefit obligations, being the discount rate, inflation rate and mortality/life expectancy. This included a comparison of these key assumptions against externally derived data. – **Assessing transparency**: we evaluated the adequacy of the disclosures in respect of the sensitivity of the obligations to these assumptions. **Our findings**: We found the amounts included for pension schemes obligations to be acceptable (2017: acceptable).

Independent auditor's report continued

to the members of Capita plc

	The risk	Our response
Going concern Refer to note 2(b) and the viability statement on page 52 for the Board's assessment of the appropriateness of the going concern basis of preparation and the Group's longer-term viability. We have assessed this risk as having reduced compared to prior year when there was a material uncertainty related to the planned rights issue, which completed during 2018.	**Disclosure quality** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the group and parent company. The going concern assumption and viability assessment is dependent on the successful implementation of the transformation plan described in the strategic report That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations, taking into account all available information about the future, which covers a period of at least a year from the date of approval of the financial statements but is not limited to that period. The risks most likely to adversely affect the Group's and Company's available financial resources in the future relate to continued execution risk associated with the Group's transformation plan. These include, but are not limited to, the following: • An inability to sustain the forecast cost savings and achieve cost competitiveness; • An inability to achieve the growth targets in the Group's business plan; • A significant unexpected downturn in performance in one of the group's businesses; and • An increase in attrition and/or continuing reduction in new contract wins. There are also less predictable but realistic second order impacts, such as the impact of Brexit on customer or supplier confidence. In the event that one or more of the above risks were to materialise the Board's assessment of the group's ability to continue as a going concern would involve significant judgment with respect to the ability to comply with debt covenants and maintain liquidity in the future. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	**Our procedures included:** **Our sector experience:** – We tested the integrity of the cash flow projections and considered the appropriateness of key assumptions used in preparing those projections, with a specific focus on the cost reduction and revenue growth assumptions. We evaluated these via enquiries with each of the divisional Finance Directors, and other Executives including the Chief Transformation Officer and Chief Growth Officer. We assessed the projections and assumptions by reference to our knowledge of the business and general market conditions and assessed the potential risk of management bias. **Funding assessment:** – We re-performed calculations, for 30 June 2019, 31 December 2019, 30 June 2020 and 31 December 2020, prepared to test expected compliance with the key financial covenant tests to test mathematical accuracy. – We considered the adjustments made in the adjusted EBITDA for the covenant calculations, considering the appropriateness compared to the loan agreements and historical accepted practice with the current lenders. In addition, we inspected the correspondence between the Company and the private placement lenders that set out the proposed items to be excluded in the adjusted EBITDA definition and compared these against the items included in the covenant calculations. **Sensitivity analysis:** – We challenged the level of sensitivities applied (including downside scenarios) for reasonableness based on our knowledge of the business and markets served, and we evaluated whether the Directors' plans to alleviate the downside risk evident from these scenarios were feasible in the circumstances. – We considered management's assessment of the potential impacts of Brexit on the Group along with their plans to mitigate those risks. **Assessing transparency:** – We also assessed the completeness and accuracy of the matters covered in the going concern disclosure, including whether they sufficiently explain the judgements made by the Directors in assessing whether the going concern basis of preparation is appropriate. **Our findings**: we found the going concern disclosure without any material uncertainty to be acceptable (2017: disclosure with a material uncertainty acceptable).

	The risk	Our response
Recoverability of the Parent Company's investment in, and amounts due from, its subsidiaries Investment carrying value £507.9 million (2017: £220.2 million), and amounts due from subsidiaries £969.5m (2017: £992.7m). Refer to note 1 (accounting policies) and notes 8-9 (financial disclosures) and Parent Company Balance Sheet	**Low risk, high value** The carrying amount of the Parent Company's investment in, and amounts due from, its subsidiaries represents 22.6% and 43.1% (2017: 11.2% and 50.7%) of its total assets respectively. The recoverability is not at a high risk of significant misstatement or subject to significant judgment. However, due to its materiality in the context of the Parent Company financial statements, this is considered to be the area that had the greatest effect on our overall Parent Company audit.	**Our procedures included:** – **Tests of detail**: we compared the carrying amount of the investment, and the amounts due from subsidiaries, with the relevant subsidiary's draft statutory balance sheet to identify whether its net assets, being an approximation of its minimum recoverable amount, was in excess of its carrying amount and assessed whether the subsidiary has historically been profit-making. **Our findings**: we found the Parent Company's assessment of the recoverability of the investment in subsidiaries to be acceptable (2017: acceptable).

We identified the IFRS 15 Opening Balance Restatement as a key audit matter for the prior year audit. We continue to perform procedures over the application of IFRS 15. However, as it is no longer the first year of adoption of IFRS 15, we have not assessed the restatement as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

Independent auditor's report continued

to the members of Capita plc

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 £8.0 million, determined with reference to a benchmark of normalised Group profit before tax of £212.2 million, of which it represents 3.8%.

In order to set this benchmark we consider the nature of items excluded in determining adjusted profit before tax. Group reported profit before tax from continuing operations is £272.6 million. We normalised by adding back certain specific items including the profit on business exits – £309.7 million (note 3); impairment charges against goodwill and acquired intangibles – £95.5 million (note 3); claims and litigation provisions release – £1.8 million (note 3); non-trading business exit disposal expense – £29.7 million (note 3); private placement loan notes prepayments costs - £15.9 million (note 9); significant restructuring expense – £110.0 million (note 3). Total adjustments to reported profit before tax amount to £60.4 million resulting in a normalised Group profit before tax for materiality purposes of £212.2 million.

Materiality for the prior year was set at £12.0 million determined with reference to a benchmark of normalised Group profit before tax of £251.5 million, of which it represented 4.8%.

In order to set that benchmark we considered the nature of items excluded in determining adjusted profit before tax. Group originally reported loss before tax was £513.1 million. We normalised by adding back certain specific items including the non-trading business exit disposal expense – £13.7 million (note 3); losses on business disposals – £30.6 million (note 3); impairments of other non-current assets – £63.5 million (note 3); impairments of life and pension assets – £61.2 million (note 3); impairment charges against goodwill and acquired intangibles – £565.6 million (note 14); claims and litigation provisions expense – £30.0 million (note 3). Total adjustments to reported profit before tax amount to £764.6 million resulting in a normalised Group profit before tax for materiality purposes of £251.5 million.

Materiality for the parent company financial statements as a whole was set at £5.2 million (2017: £7.8 million), by reference to component materiality. This is lower than the materiality we would otherwise have determined by reference to total assets, and represents 0.2% of the Company's total assets (2017: 0.7%).

We report to the Audit and Risk Committee any corrected or uncorrected identified misstatements with a profit impact in excess of £0.4 million (2017: £0.6 million), and reclassification misstatements greater than £1m (2017: £0.6 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Audits for Group reporting purposes were performed by component auditors at 28 (2017: 29) key reporting components in the United Kingdom, Switzerland, Germany, and by the Group audit team over 2 key components in the United Kingdom, including the parent company (2017: in the United Kingdom, Switzerland, Germany, Ireland and Guernsey and by the Group audit team over 2 key components in the United Kingdom, including the parent company).

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 82.3% of total Group revenue (2017: 81.5%); 84.1% of the total profits and losses that made up Group profit before tax (2017: 85.0%); and 84.0% of total Group assets (2017: 78.3%). 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 operates a shared service centre in London, the outputs of which are included in the financial information of the components it services. The service centre is subject to risk-focused audit procedures, predominantly the testing of transaction processing and review controls. Additional procedures are performed at certain reporting components to address the audit risks not covered by the work performed over the shared service centre.

The Group audit team approved the component materiality levels, which ranged from £0.4 million to £5.2 million (2017: £0.1 million to £7.8 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 component auditors throughout the audit. At these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in Note 2(b) to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements ; or
- the related statement under the Listing Rules set out on page 65 is materially inconsistent with our audit knowledge .

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report

Based solely on our work on the other information:
- we have not identified material misstatements in the strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:
- the Directors' confirmation within the viability statement (page 52) 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 and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Independent auditor's report continued

to the members of Capita plc

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:
- we have identified material inconsistencies between the knowledge we acquired during our financial statements 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 section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

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.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 68, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

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Firstly, the group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation, and pension regulation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the group's licence to operate. We identified the following areas as those most likely to have such an effect: anti-bribery and corruption, data protection, employment law, health and safety, and regulatory capital and liquidity recognising the broad range of business process outsourcing services offered by the Group that include financial and regulated activities in the Specialist Services, People Solutions and Customer Management divisions, and the Governmental nature of many of the group's customers in the Government Services division. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Robert J Brent (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL
13th March 2019

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Company balance sheet

As at 31 December 2018

	Notes	2018 £m	2017 £m
Fixed assets			
Intangible assets	5	**63.2**	29.7
Tangible assets	6	**26.9**	18.6
Investments	8	**507.9**	220.2
		598.0	268.5
Current assets			
Financial assets	7	**7.1**	8.1
Debtors due within 1 year	9	**1,025.0**	1,099.5
Debtors due after more than 1 year	9	**109.1**	129.5
Cash		**509.9**	452.5
		1,651.1	1,689.6
Creditors: amounts falling due within 1 year	10	**185.2**	276.5
Provisions	10	**28.4**	130.4
Net current assets		**1,437.5**	1,282.7
Total assets less current liabilities		**2,035.5**	1,551.2
Creditors: amounts falling due after more than 1 year	10	**229.9**	281.4
		1,805.6	1,269.8
Capital and reserves			
Called up share capital	12	**34.5**	13.8
Employee benefit trust and treasury shares	12	**(11.2)**	(0.2)
Share premium account	12	**1,143.3**	501.3
Capital redemption reserve		**1.8**	1.8
Merger reserve		**44.6**	44.6
Cash flow hedging reserve		**0.8**	—
Profit and loss account		**591.8**	708.5
		1,805.6	1,269.8

The accompanying notes form part of the financial statements.

The accounts were approved by the Board of Directors on 13 March 2019 and signed on its behalf by:

Jon Lewis
Chief Executive Officer

Patrick Butcher
Chief Financial Officer

Company registered number: 02081330

Company statement of changes in equity

For the year ended 31 December 2018

	Share capital £m	Employee benefit trust and treasury shares £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Cash flow hedging reserve £m	Profit and loss account £m	Total £m
At 1 January 2017	13.8	(0.2)	501.3	1.8	44.6	—	476.1	1,037.4
Profit for the year	—	—	—	—	—	—	440.5	440.5
Total comprehensive income for the year	—	—	—	—	—	—	440.5	440.5
Share based payment	—	—	—	—	—	—	2.9	2.9
Equity dividends paid	—	—	—	—	—	—	(211.0)	(211.0)
At 1 January 2018	13.8	(0.2)	501.3	1.8	44.6	—	708.5	1,269.8
Loss for the year	**—**	**—**	**—**	**—**	**—**	**—**	**(120.1)**	**(120.1)**
Other comprehensive income	**—**	**—**	**—**	**—**	**—**	**0.8**	**—**	**0.8**
Total comprehensive expense for the year	**—**	**—**	**—**	**—**	**—**	**0.8**	**(120.1)**	**(119.3)**
Share based payment	**—**	**—**	**—**	**—**	**—**	**—**	**3.4**	**3.4**
Shares issued/(purchased) (note 12)	**20.7**	**(11.0)**	**642.0**	**—**	**—**	**—**	**—**	**651.7**
As at 31 December 2018	**34.5**	**(11.2)**	**1,143.3**	**1.8**	**44.6**	**0.8**	**591.8**	**1,805.6**

The accompanying notes are an integral part of the financial statements.

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 determining the appropriate basis of preparation of the financial statements for the year ending 31 December 2018, the Directors are required to consider whether the Company can continue in operational existence for the foreseeable future. Having taken decisive action to strengthen the balance sheet through the raising of new equity and the disposal of non-core businesses, the Board are satisfied that the Group will continue to have adequate financial resources to realise their assets and discharge its liabilities as they fall due. Accordingly, the Directors have formed the judgement that it is appropriate to prepare these financial statements on the going concern basis. Therefore, the financial statements do not include any adjustments which would be required if the going concern basis of preparation is inappropriate.

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

The Group has net debt of £466.1m at 31 December 2018 (2017: £1,117.0m) and adjusted net debt of £494.7m at 31 December 2018 (2017: £1,153.0m). Net debt is reported in note 29 of the consolidated financial statement – additional cash flow information. Adjusted net debt is used to calculate the gearing ratio being adjusted net debt to adjusted EBITDA (refer to the alternative performance measures on pages 197–198).

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

A separate profit and loss account dealing with the results of the parent company 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 100–164 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; and
- 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; and
- 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 three 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.

1 Accounting policies continued

(f) Pension schemes

The Company participates in a number of 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 a defined benefit scheme operated by the Group – the Capita Pension & Life Assurance Scheme (the 'Capita DB Scheme').

As there is no contractual arrangement or stated Group policy for charging the net defined benefit cost of the Capita DB Scheme is recognised fully by the principal employer which is Capita Business Services Limited, a subsidiary undertaking. The Company then recognises a cost equal to its contribution payable for the period. The contributions payable by the participating entities are determined on the following basis:

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.
- 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 Capita DB Scheme.

A full actuarial valuation of the Capita DB Scheme is carried out every three years by an independent actuary for the Trustee, with the last full valuation carried out at 31 March 2017. The purpose of that valuation is to design a funding plan to ensure that the pension scheme has sufficient assets available to meet future benefit payments, based on assumptions agreed between the Trustee and the Group. The 31 March 2017 valuation showed a funding deficit of £185m (31 March 2014: £1.4m). This equates to a funding level of 86.1% (31 March 2014: 99.8%). The principal employer has agreed to make additional contributions to the Capita DB Scheme totalling £176m over the period from November 2018 to the end of 2021 to address the deficit. The next full valuation is expected to be as at 31 March 2021. Note 32 of the Annual Report sets out more detail.

(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 144–152.

Notes to the Company financial statements continued

1 Accounting policies continued

(l) Investments and other financial assets

Classification

Applicable from 1 January 2018, the Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the contractual terms of the cash flows.

For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

Regular way purchases and sales of financial assets are recognised on trade date (that is, the date on which the Group commits to purchase or sell the asset). Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.

FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses), and impairment expenses are presented as a separate line item in the statement of profit or loss.

FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Company subsequently measures all equity investments at fair value. Where the cCmpany's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Company's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

From 1 January 2018, the Company assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Accounting policies applied until 31 December 2017

The Company has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy, as shown below:

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 company's financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy.

1 Accounting policies continued

(m) Trade and other receivables

The Company assesses on a forward-looking basis the expected credit losses associated with its receivables carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Company applies the simplified approach permitted by IFRS 9, resulting in trade receivables recognised and carried at original invoice amount less an allowance for any uncollectible amounts based on expected credit losses.

(n) 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 original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(0) Financial instruments

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. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

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

Derivative financial instruments

Derivative financial instruments are used to manage exposure to the financial risks of changes in foreign exchange rates and interest rates. The principal derivative instruments used by the Company are foreign currency swaps, interest rate swaps and foreign exchange forward contracts. The Company does not hold or issue derivative financial instruments for trading or speculative purposes.

Derivatives are initially recognised at fair value on the date that a derivative contract is entered into, and they are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Company designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges); or
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

At inception of the hedge relationship, the Company documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Company documents its risk management objective and strategy for undertaking its hedge transactions.

In relation to fair value hedges (for example, receive fixed and pay 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 re-measuring 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 changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement, within other gains/(losses).

When forward contracts are used to hedge forecast transactions, the Company generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item ('aligned forward element') is recognised the income statement at the same time as the hedged transaction. For some hedge relationships, the Company may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in the cash flow hedge reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss, as follows:

- Where the hedged item subsequently results in the recognition of a non-financial asset, both the deferred hedging gains and losses and the deferred forward points, if any, are included within the initial cost of the asset. The deferred amounts are ultimately recognised in the income statement, since the hedged item affects the income statement.

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.

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-adjusting.

Notes to the Company financial statements continued

1 Accounting policies continued

(p) 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

	2018 £m	2017 £m
The deferred taxation included in the balance sheet is as follows:		
Accelerated capital allowances	**0.6**	(2.2)
Losses	**3.4**	—
Provisions	**2.0**	4.1
Included in debtors (note 9)	**6.0**	1.9

3 Loss attributable to members of the parent company undertaking

The loss after taxation dealt with in the accounts of the parent company undertaking was £120.1m (2017: profit of £440.5m).

4 Dividends

	2018 £m	2017 £m
Declared and paid during the year		
Ordinary shares (equity):		
Final for 2017 paid: nil per share (2016: 20.6p per share)	**—**	137.1
Interim for 2018 paid: nil per share (2017: 11.1p per share)	**—**	73.9
	—	211.0
Proposed for approval at AGM (not recognised as a liability at 31 December)		
Ordinary shares (equity):		
Final for 2018: nil per share (2017: nil per share)	**—**	—

5 Intangible assets

	Capitalised software development £m	Other intangibles £m	Total £m
Cost			
1 January 2018	0.6	30.1	30.7
Additions	**36.6**	**—**	**36.6**
Retirement	**—**	**(0.2)**	**(0.2)**
31 December 2018	**37.2**	**29.9**	**67.1**
Amortisation			
1 January 2018	—	1.0	1.0
Charge for year	**0.3**	**2.8**	**3.1**
Retirement	**—**	**(0.2)**	**(0.2)**
31 December 2018	**0.3**	**3.6**	**3.9**
Net book value at:			
1 January 2018	0.6	29.1	29.7
31 December 2018	**36.9**	**26.3**	**63.2**

Other intangibles relates to software purchased from third parties.

6 Tangible fixed assets

	Computer equipment £m	Short-term leasehold improvements £m	Total £m
Cost			
1 January 2018	25.5	0.3	25.8
Additions	**0.8**	**12.1**	**12.9**
Asset retirements	**(1.1)**	**(0.1)**	**(1.2)**
31 December 2018	**25.2**	**12.3**	**37.5**
Depreciation			
1 January 2018	6.9	0.3	7.2
Charge for year	**4.1**	**0.5**	**4.6**
Asset retirements	**(1.1)**	**(0.1)**	**(1.2)**
31 December 2018	**9.9**	**0.7**	**10.6**
Net book value at:			
1 January 2018	18.6	—	18.6
31 December 2018	**15.3**	**11.6**	**26.9**

7 Financial assets

Current	**2018 £m**	2017 £m
Cash flow hedges	**5.0**	4.0
Non-designated foreign exchange forwards and swaps	**2.1**	4.1
	7.1	8.1

8 Investments

Fixed asset investments

	Shares in subsidiary undertakings £m
Cost	
1 January 2018	220.2
Additions1	**287.7**
31 December 2018	**507.9**

1 During the year ended 31 December 2018, Capita plc invested a further £180.0m and £107.7m in Capita Life & Pensions Regulated Services Limited and Capita International Limited, respectively.

Direct investments	Registered office	Proportion of nominal value of issued shares held by the Company
Capita Legal Services Limited[2]	30 Berners Street, London, England, W1T 3LR	100%
Capita Financial Services Holdings Limited[1]	30 Berners Street, London, England, W1T 3LR	100%
Capita Group Insurance PCC Limited[2]	Maison Trinity, Trinity Square, St. Peter Port, Guernsey, GY1 4AT, Guernsey	100%
Capita Gwent Consultancy Limited[2]	St David'S House Pascal Close, St. Mellons, Cardiff, CF3 0LW	51%
Capita Holdings Limited[1]	30 Berners Street, London, England, W1T 3LR	100%
Capita International Limited[2]	30 Berners Street, London, England, W1T 3LR	100%
Capita Life & Pensions Regulated Services Limited[2]	30 Berners Street, London, England, W1T 3LR	100%
SIMS Holdings Limited[2]	30 Berners Street, London, England, W1T 3LR	0.001%
Capita Life & Pensions Services Limited[2]	30 Berners Street, London, England, W1T 3LR	100%

1 Investing holding company.
2 Outsourcing services company.

On 13 November 2018, the direct investment in Brokers Educational Supply Teachers Underwriting Agency Limited was dissolved.

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 in note 18 to the Company financial statements 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 2018 in accordance with Section 479A of The Companies Act 2006.

In order to facilitate the adoption of this exemption, Capita plc, the parent company of the subsidiaries concerned, undertakes to provide a guarantee under Section 479C 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 in note 18 to the Company financial statements.

Notes to the Company financial statements continued

9 Debtors

Debtors due within 1 year	2018 £m	2017 £m
Amounts owed by subsidiary undertakings	**969.5**	992.7
Trade receivables	**1.3**	—
Taxation recoverable	**30.6**	15.3
Other debtors	**0.9**	4.9
Other taxes and social security	**3.7**	4.3
Other debt securities held – current	**1.3**	5.0
Interest rate swaps	**0.6**	—
Currency swap – USD private placement loan notes	**9.3**	72.2
Prepayments and accrued income	**7.8**	5.1
	1,025.0	1,099.5

Debtors due after more than 1 year	2018 £m	2017 £m
Prepayments and accrued income	**2.8**	1.7
Deferred taxation	**6.0**	1.9
Currency swaps	**93.8**	113.1
Interest rate swaps	**1.4**	5.4
Non-designated foreign exchange forwards and swaps	**1.8**	—
Cash flow hedges	**3.3**	7.4
	109.1	129.5

10 Creditors

Amounts falling due within 1 year	2018 £m	2017 £m
Amounts owed to subsidiary undertakings	**17.6**	72.8
Bank overdraft	**107.8**	161.8
Trade creditors	**15.6**	9.2
Other creditors	**2.6**	0.3
Accruals and deferred income	**38.1**	30.5
Cash flow hedges	**1.2**	1.9
Non-designated foreign exchange forwards and swaps	**1.4**	—
Other taxes and social security	**0.9**	—
	185.2	276.5

Provisions	2018 £m	2017 £m
At 31 December 2017	**130.4**	5.8
Reclassified from amounts falling due after more than 1 year	**0.6**	15.0
(Released)/provided in the year	**(13.2)**	107.2
Utilisation	**(89.4)**	(2.6)
Intra-group transfer	**—**	5.0
At 31 December 2018	**28.4**	130.4

The majority of the provisions relate to the claim and litigation provision (£16.4m) and business exit provision (£8.4m). Further detail on these provisions can be found in note 25 to the consolidated financial statements.

Amounts falling due after more than 1 year	2018 £m	2017 £m
Private placement loan notes	**226.5**	271.8
Currency swap	**3.4**	8.5
Cash flow hedges	**—**	1.1
	229.9	281.4

The private placement loan notes are unsecured. The bank overdraft is guaranteed by cash held by other members of the Group.

11 Deferred taxation

	£m
At 1 January 2018	1.9
Deferred tax movement in the year	**4.1**
At 31 December 2018 – included in debtors (note 9)	**6.0**

12 Share capital

Allotted, called up and fully paid	2018 m	2017 m	2018 £m	2017 £m
Ordinary shares of 21/15p each				
At 1 January	**670.1**	670.1	**13.8**	13.8
Rights issue	**1,001.0**	—	**20.7**	—
At 31 December	**1,671.1**	670.1	**34.5**	13.8

In May 2018, the Group offered a rights issue to existing shareholders on the basis of 3 shares for every 2 fully paid ordinary shares held. The issue was fully subscribed and resulted in the issue of 1,001,032,281 ordinary shares at £0.70 per share.

Share premium	2018 £m	2017 £m
Ordinary shares of 21/15p each		
At 1 January	**501.3**	501.3
Rights issue	**642.0**	—
At 31 December	**1,143.3**	501.3

The rights issue raised gross funds of £700.7m. The total amount capitalised to share capital and share premium was £662.7m (£700.7m less issuance costs of £38.0m).

Treasury shares	2018 m	2017 m	2018 £m	2017 £m
Ordinary shares of 2 1/15p				
At 1 January	**2.9**	3.2	**(0.1)**	(0.1)
Shares allotted in the year	**—**	(0.3)	**—**	—
At 31 December	**2.9**	2.9	**(0.1)**	(0.1)

In 2018, the Group made no purchases of shares into Treasury and allotted 28,057 (2017: 283,281) shares with an aggregate nominal value of £580 (2017: £4,420). The total consideration received in respect of these shares was £nil (2017: £nil).

Employee benefit trust shares	2018 m	2017 m	2018 £m	2017 £m
Ordinary shares of 2 1/15p				
At 1 January	**1.6**	1.7	**(0.1)**	(0.1)
Shares allotted in the year	**—**	(0.1)	**—**	—
Shares acquired during the year	**10.4**	—	**(11.0)**	—
At 31 December	**12.0**	1.6	**(11.1)**	(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 32,367 (2017: 69,337) ordinary 2 1/15p shares with an aggregate nominal value of £669 (2017: £1,434) 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 (2017: £nil). The Group acquired 3.2m (2017: nil) ordinary 2 1/15p shares paying average market price of £1.87 per share with the total value of £6.0m (2017: £nil). Further, the Group exercised its rights under the rights issue, purchasing 7.2m of shares at £0.70 per share, paying £5.0m. The aggregate value of shares were transferred to the EBT.

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

Notes to the Company financial statements continued

13 Commitments and contingent liabilities

(a) At 31 December 2018, the Company was committed to making the following payments under non-cancellable operating leases and other agreements:

	2018 £m	2017 £m
Not later than 1 year	**0.1**	0.1
Later than 1 year but not more than 5 years	**—**	0.1
Over 5 years from the balance sheet date	**—**	—
	0.1	0.2

(b) The Company has a committed Revolving Credit Facility amounting to £600.0m (2017: £600.0m), of which £nil had been drawn down at 31 December 2018 (2017: £nil drawn down).

(c) The Company has provided, through the normal course of its business, performance bonds and bank guarantees of £84.0m (2017: £88.4m).

14 Borrowings

	2018 £m	2017 £m
Private placement loan notes	**226.3**	271.8
Repayments fall due as follows:		
Within 1 year	**—**	—
After more than 1 year:		
In more than 1 year but not more than 2 years	**—**	—
In more than 2 years but not more than 5 years	**172.9**	219.1
In more than 5 years	**53.4**	52.7
Total borrowings	**226.3**	271.8

The Company has issued guaranteed unsecured private placement loan notes as follows:

	Interest rate (%)	Denomination	EUR (m)	Maturity
Issued 2015				
Fixed rate bearer notes	2.125	EUR	179.0	10 November 2022
Fixed rate bearer notes	2.875	EUR	60.0	10 November 2027
Schuldschein loan	2.125	EUR	16.0	10 November 2022
Total of euro denominated private placement loan notes			255.0	

All series are unsecured.

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 (2017: £0.1m). The Company purchased goods/services in the normal course of business for £nil (2017: £nil). At the balance sheet date, the net amount receivable from Urban Vision Partnership Limited was £nil (2017: £nil).

During the year, the Company sold goods/services in the normal course of business to Entrust Support Services Limited for £0.6m (2017: £0.3m). The Company purchased goods/services in the normal course of business for £nil (2017: £nil). At the balance sheet date, the net amount receivable from Entrust Support Services Limited was £nil (2017: £nil).

During the year, the Company sold goods/services in the normal course of business to AXELOS Limited for £0.1m (2017: £0.2m). The Company purchased goods/services in the normal course of business for £nil (2017: £nil). At the balance sheet date, the net amount receivable from AXELOS Limited was £nil (2017: £nil).

During the year, the Company sold goods/services in the normal course of business to Capita Glamorgan Consultancy Limited for £0.1m (2017: £0.1m). The Company purchased goods/services in the normal course of business for £nil (2017: £nil). At the balance sheet date, the net amount receivable from Capita Glamorgan Consultancy Limited was £nil (2017: £0.1m).

During the year, the Company sold goods/services in the normal course of business to Fera Science Limited for £0.3m (2017: £1.8m). The Company purchased goods/services in the normal course of business for £0.1 (2017: £nil). At the balance sheet date, the net amount receivable from Fera Science Limited was £nil (2017: £1.5m).

16 Pension costs

The Company operates a defined contribution scheme.

The pension charge for the defined contribution scheme for the year was £2.4m (2017: £4.7m).

17 Share-based payments

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.

The Group recognised an expense for share-based payments in respect of employee services received during the year to 31 December 2018 of £3.4m (2017: £2.9m), all of which arises from equity-settled share-based payment transactions. The total Company expense, after recharging subsidiary undertakings, charged to the profit and loss account in respect of share-based payments was £1.3m (2017: £1.2m).

Notes to the Company financial statements continued

18 Indirect investments

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 sold or dissolved since 31 December 2018 are marked *. Companies are listed under their registered office address as at 31 December 2018.

Company Name	% ownership	Directly held by Capita plc	Share class
30, Berners Street, London, W1T 3LR, England			
ABS Network Solutions Ltd (application for strike off)			
Acutest Limited			
Aghoco 1005 Limited (application for strike off)			
Amity Communications Limited			
AMT-Sybex (Engineering) Limited (in liquidation)			
AMT-Sybex Limited			
Aspire Business Solutions Ltd			
Atlas Master Trust Trustee Limited			
AXELOS Limited	51%		(£0.01 Ordinary B)
BCS Design Ltd			
Beovax Computer Services Limited			
Booking Services International Limited			
Brentside Communications Limited			
BSI 360 Limited (application for strike off)			
BSI Group Limited			
BSI Holdings Limited (in liquidation)			
Call Centre Technology Limited			
Call Vision Technologies Ltd			
Capita (06243477) Limited (application for strike off)			
Capita (6588350) Limited			
Capita (Banstead 2011) Limited			
Capita (D1) Limited			
Capita 03075476 Limited			
Capita Aurora Limited			
Capita Building Standards Limited			
Capita Business Services Ltd			
Capita Commercial Insurance Services Limited			
Capita Consulting Limited (in liquidation)			
Capita Corporate Director Limited			
Capita Customer Management Limited			
Capita Customer Solutions (UK) Limited			
Capita Dubai Limited			
Capita Employee Benefits (Consulting) Limited			
Capita Employee Benefits Holdings Limited			
Capita Employee Benefits Limited			
Capita Employee Benefits Services Limited (in liquidation)			
Capita Financial Services Holdings Limited	100%	•	
Capita Financial Software Limited (application for strike off)			
Capita Glamorgan Consultancy Limited			
Capita GMPS Trustees Limited			
Capita Grosvenor Limited			
Capita Group Secretary Limited			
Capita Hartshead Benefit Consultants Limited (in liquidation)			
Capita Hartshead Consultancy Services Limited (in liquidation)			
Capita Health Holdings Limited			
Capita Health and Wellbeing Limited			
Capita IB Solutions (UK) Limited			
Capita Information Limited (in liquidation)			
Capita Insurance Services Group Limited			
Capita Insurance Services Holdings Limited			
Capita Insurance Services Limited			
Capita Intelligent Building Infrastructure Services Limited			
Capita International Retirement Benefit Scheme Trustees Limited			
Capita IT Services (BSF) Holdings Limited			
Capita IT Services Holdings Limited			
Capita Justice & Secure Services Holdings Limited			
Capita Land Limited			
Capita Legal Services Limited	100%	•	
Capita Life & Pensions Regulated Services Limited	100%	•	
Capita Life & Pensions Services Limited	100%	•	
Capita Managing Agency Limited			
Capita Mortgage Administration Limited			
Capita Mortgage Software Solutions Limited			
Capita Property and Infrastructure (Structures) Limited			
Capita Property and Infrastructure Holdings Limited			
Capita Property and Infrastructure International Holdings Limited			
Capita Property and Infrastructure International Limited			
Capita Property and Infrastructure Limited			
Capita Property and Planning Limited (in liquidation)			
Capita Resourcing Limited			
Capita Retail Financial Services Limited			

Company Name	% ownership	Directly held by Capita plc	Share class
Capita Secure Information Solutions Limited			
Capita Secure Resource Solutions Limited			
Capita SIP Services Limited			
Capita Southampton Limited			
Capita Symonds (Asia) Limited			
Capita Symonds (Health & Safety) Limited (application for strike off)			
Capita Translation and Interpreting Limited			
Capita Travel & Events Holdings Limited			
Capita Travel and Events Limited			
Capita Treasury Services Limited			
Capita Wealth and Distribution Services Limited			
Capita Workforce Management Solutions Limited			
Capita Workplace Technology Limited			
Cardiff Research Consortium (HOG) Limited			
Clinical Solutions Acquisition Limited			
Clinical Solutions Holdings Limited			
Clinical Solutions IP Limited			
CMGL Group Limited			
CMGL Holdings Limited			
Complete Imaging Limited			
Complete Imaging Trustee Company Limited			
Computerland UK Limited			
Contact Associates Limited			
CPLAS Trustees Limited			
Data Mail Systems Limited			
Data Equipment Limited			
Design & Manage Europe Limited	50%		
E.B. Consultants Limited			
Eastgate Insurance Market Solutions Limited			
Eclipse (Hardware) Limited			
Electra-Net (UK) Limited			
Electra-Net Group Limited			
Electra-Net Holdings Limited			
Elsworth Sykes Northern Limited			
Elsworth Sykes Partnership Limited			
Emercom Ltd			
Entrust Education Services Limited			
Equitable Holdings Limited			
ESA Design Limited (in liquidation)			
ESPM Project Management Limited			
Euristix (Holdings) Limited			
Evolvi Rail Systems Limited			
Expotel Hotel Reservations Limited			
Fera Science Limited	75%		(£1.00 Ordinary B)
Fire Service College Limited			
First Retail Finance Limited			

Company Name	% ownership	Directly held by Capita plc	Share class
FirstAssist Services Limited			
Fish Financial Solutions Limited			
Fortek Computers Limited			
FPS Group of Companies Limited			
G2G3 Digital Limited			
G L Hearn Limited			
G L Hearn Management Limited			
Gissings Trustees Limited			
Grosvenor Career Services Limited			
Hallco 1626 Limited			
IBS Opensystems (UK) Limited			
International Reservations Limited			
International Travel Group Limited			
ITR International Translation Resources Limited			
John Crilley Limited			
Knowledgepool Group Limited			
Latemeetings.com Limited			
Leadcall Limited			
Liberty Communication Services Ltd.			
Liberty Printers (Ar And Rf Reddin) Limited			
Lovejoy Partnership Limited (in liquidation)			
Madagans Limited			
Magnos (Holdings) Limited			
Market Mortgage Limited	50%		£0.001 Ordinary Capita Shares
Medicals Direct International Limited			
Metacharge Limited			
Micro Librarian Systems Holdings Limited			
Micro Librarian Systems Limited			
Multi-Tech Contracts Limited			
NB Real Estate Group Limited (in liquidation)			
NB Real Estate Holdings Limited (in liquidation)			
Network Technology Solutions (UK) Limited			
NIS Europe Limited (application for strike off)			
Nova Bidco Limited			
Nova Midco Limited			
NYS Corporate Ltd.			
NYS Holdings Limited			
Octal Business Solutions Limited			
Optilead Limited			
Orange Bus Limited			
Pay360 Limited			
RE (Regional Enterprise) Limited	51%		(£1.00 Ordinary A)
RE Ltd			

Notes to the Company financial statements continued

Company Name	% ownership	Directly held by Capita plc	Share class
Red Procurement and Business Systems Ltd (application for strike off)			
Repair Management Services Limited (application for strike off)			
Resource Management Limited			
Retain International (Holdings) Limited			
Retain International Limited			
Right Document Solutions Holdings Limited			
Right Document Solutions Limited (in liquidation)			
S3dc Limited			
Sbj Benefit Consultants Limited			
Sbj Professional Trustees Limited			
Security Watchdog Limited			
Sigma Seven Limited			
SIMS Holdings Limited	100%	•	
SIMS Limited			
Smart DCC Limited			
Smart Public Limited			
Smiths Consulting Limited (application for strike off)			
Solid State Solutions Limited			
STL Technologies Limited			
Synaptic Software Limited			
Synetrix (Holdings) Limited			
Synetrix Limited			
Tascor E & D Services Limited			
Tascor Services Limited			
Tempus Finance Limited			
The Royal Borough Of Kensington And Chelsea Assured Homes Limited (in liquidation)			
Thirty Three Group Limited			
Trustmarque Solutions Limited			
Updata Infrastructure (North) Limited (application for strike off)			
Updata Infrastructure (UK) Limited			
Updata Infrastructure 2012 Limited			
Ventura (UK) India Limited			
Venues Event Management Limited			
Vision 2 Learn Limited			
Voice Marketing Limited			
Western Mortgage Services Limited			
Westpoint Limited			
Woolf Limited			
33/34 Winckley Square, Preston, Lancashire, PR1 3EL			
Akinika Debt Recovery Limited			
Akinika Limited			
Akinika UK Limited			
Legal & Trade Collections Limited (D)			
9 Bonhill Street, London, EC2A 4DJ			
Cobalt Insurance Holdings Limited	24.60%		

Company Name	% ownership	Directly held by Capita plc	Share class
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, 1 Radian Court, Knowlhill, Milton Keynes, MK5 8PJ			
NB Real Estate Limited (In Liquidation)			
Floor 2, Ibex House, 42-47 Minories, London, EC3N 1DY			
Cost Advocates Limited			
Hepworth House, Claypit Lane, Leeds, LS2 8AE			
Optima Legal Services Limited			
Mr S Fisher, The Grange, Bishops Cleeve, Cheltenham, Gloucestershire, GL52 8YQ			
Cobex Corporate Member No. 1 Limited	50.10%		
5th Floor, Fort Dunlop, Fort Parkway, Birmingham, B24 9FD			
Capita Birmingham Limited (previously Service Birmingham Limited)			
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			
The Courtyard Shoreham Road, Upper Beeding, Steyning, West Sussex, BN44 3TN, England			
Munnypot Limited	14.88%		
42/44 Henry Street, Northampton, Northamptonshire, NN1 4BZ			
Equita Limited			
1 More London Place, London, SE1 2AF			
Inventures Limited (in liquidation)			
Myshares Limited (in liquidation)			
Sector Holdings Limited (in liquidation)			
Westhill Consulting Limited (in liquidation)			
PIFC Consulting Limited (in liquidation)			
4th Floor, Park Gate 161-163, Preston Road, East Sussex, Brighton, BN1 6AF			
Premier Medical Holdings Limited (D)	19.90%		(£1 Ordinary A)
Pavilion Building, Ellismuir Way, Tannochside Park, Uddingston, Glasgow, G71 5PW			

Company Name	% ownership	Directly held by Capita plc	Share class
Barrachd Intelligence Solutions Limited			
Barrachd Limited			
Capita IT Services Limited			
Capita Scotland (Pension) Limited Partnership			
Capita Scotland General Partner (Pension) Limited			
Capita Secure Mobile Solutions Limited			
G2G3 Propulsion Ltd.			
Opin Systems Limited			
24 Blythswood Square, Glasgow, G2 4BG			
Sp Collect Ltd			
Stirling Park LLP			
The Beacon, 176 St Vincent Street, Glasgow, G2 5SG			
Capita Mclarens Limited			
Hillview House, 61 Church Road, Newtownabbey, Co Antrim, BT36 7LQ			
AMT-Sybex (Ni) Limited			
AMT-Sybex Holdings Limited			
Capita Managed IT Solutions Limited			
St David's House, Pascal Close, St Mellons, Cardiff, CF3 0LW			
Capita Gwent Consultancy Limited	51%	•	(£0.01 Preference)
Bedford House, 16 Bedford Street, Belfast, Co Antrim, BT2 7DT			
Learnserve Limited			
2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland			
AMT Group Limited			
AMT-Sybex (I) Limited			
AMT-Sybex (Managed Services) Limited			
AMT-Sybex (Research) Limited			
AMT-Sybex (Software) Limited			
AMT-Sybex Group Limited			
Capita Business Support Services Ireland Limited			
Capita IB Solutions (Ireland) Limited			
Dupree Holdings Limited			
Marrakech (Ireland) Limited			
Marrakech Limited			
Rathcush Limited			
Vilanova Management Limited			
Wabowden Limited			
Unit B, West Cork Technology Park, Clonakilty, Cork, Ireland			
Capita Customer Solutions Limited			
Montague House, Adelaide Road, Dublin 2, Ireland			
Capita Life and Pensions Services (Ireland) Limited	0.001% (99.999% held by a subsidiary)	•	

Company Name	% ownership	Directly held by Capita plc	Share class
12 Castle Street, St. Helier, JE2 3RT			
Capita Symonds (CI) Limited (in liquidation)			
Symonds Group (Jersey) Limited (in liquidation)			(£0.10 Ordinary-a, £0.10 Ordinary-b, £0.10 Ordinary-c)
Maison Trinity, Trinity Square, St. Peter Port, Guernsey, GY1 4AT			
Capita Group Insurance PCC Limited	100%	•	(£1 CG1, £1 CIC2, £1 Ordinary)
Clinch's House, Lord Street, Douglas, IM99 1RZ			
Capita Life and Pensions Services (Isle of Man) Limited			
Capita Services (Isle of Man) Limited			
33-37 Athol Street, Douglas, IM1 1LB, Isle Of Man			
Capita (Isle of Man) Limited (D)			
Deloitte Place, Mriehel ByPass, Mriehel, BKR 3000, Malta			
Capita Symonds (Malta) Limited (in liquidation)			
Käfertaler Str. 190, Mannheim, 68167, Germany			
adato GmbH			
Kelzstraße 21, Saalfeld, 07318, Germany			
3C DIALOG Saalfeld GmbH			
Kommandatenstrasse 22, Berlin, 10969, Germany			
Capita Customer Services (Germany) GmbH			
Capita rentable GmbH			
Capita Süd GmbH			
Capita West GmbH			
Nassauer Ring 39-41, Krefeld, 47803, Germany			
Capita Energie Services GmbH	74.90%		
20, Ostrower Damm, Cottbus, BB, 03046, Germany			
Capita Customer Services (Cottbus) GmbH			
75, Kaiserslauterer Strasse, Halle, 06128, Germany			
Capita Customer Services (Halle) GmbH			
82, Nachtweide, Magdeburg, 39124, Germany			
Capita Customer Services (Magdeburg) GmbH			
21/9, Warszawska Street, 40-009, Katowice, Poland			
ESA spółka z ograniczoną odpowiedzialnością w likwidacji – in liquidation			
Centrum Biurowe Lubicz I,ul. Lubicz 23, 31–503, Krakow, Poland			

Notes to the Company financial statements continued

Company Name	% ownership	Directly held by Capita plc	Share class
Capita (Polska) Spółka z ograniczoną odpowiedzialnoscią			
Hardturmstrasse 101, Zürich, 8005, Switzerland			
TELAG AG			
Konstanzerstrasse 17, Tägerwilen, 8274, Switzerland			
Capita Customer Services AG			
Plant 6, Gate No.2, Godrej & Boyce Complex, Pirojshahnagar, L.B.S Marg, Vikhroli (West), Maharashtra, Mumbai, 400079, 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			
Wing 'C', Marisoft Annex, Vadgaon sheri, Kalyani Nagat, Maharashtra, Pune, 411014, India			
Ventura (India) Private Limited			
Themistokli Dervi, 3, Julia House, P.C. 1066, Nicosia, Cyprus			
Capita Cyprus Holdings Limited			
Capita Cyprus Limited			
9, Allee Scheffer, L-2520, Luxembourg			
CAPITA (Luxembourg) s.a r.l			
Level No. 3, Gate Village 7, Dubai International Finance Centre, Dubai, PO BOX 49983			
Capita (Dubai FZ) Limited			
1004 Bin Hamoodah Building, Khalifa St., PO Box 113 740, Abu Dhabi			
Capita Property and Infrastructure Consultants LLC	49%		
8th Floor, Union Castle Building, 55 St Georges Mall, Cape Town, 8001, South Africa			
Capita (South Africa) (Pty) Limited			
Full Circle Contact Centre Services (Proprietary) Limited			
Room 615 Zhucheng Building, No Jia 6 Zhongguancun South Street, Beijing 100086, Haidian District, China			
Symonds Project Management Consultancy (Beijing) Ltd			
Suite 4301-5, Tower One Times Square, 1 Matheson Street, Causeway Bay, Hong Kong			
Symonds Travers Morgan (Hong Kong) Limited			
1603 C.C Wu Building, 302-308 Hennessy Road, Wan Chai, Hong Kong			

Company Name	% ownership	Directly held by Capita plc	Share class
Capita IB Solutions (HK) Limited			
803, Manning House, 38 Queen's Road Central, Hong Kong			
ThirtyThree APAC Limited			
Landmark Virtual Offices, Africa Re Building - Plot 1679, Karimu Kotun Street, Lagos, Victoria Island, Nigeria			
Capita Norman + Dawbarn Limited	97.30%		
850 New Burton Road, Suite 201, Dover DE 19904, USA			
Capita (USA) Holdings Inc.			
Capita Business Services (USA) LLC			
Capita CTI (USA) LLC			
Capita Software (US) LLC			
Optilead Inc.			
ThirtyThree USA Inc.			
Corporation Service Company 2711, Centerville Road, Suite 400, Wilmington, County of Newcastle DE 19808, USA			
CAS Services US Inc			
Clinical Solutions Group (International) LLC			
Corporation Trust Centre, 1209 Orange Street, Wilmington, New Castle DE 19801, USA			
Capita Translation and Interpreting LLC			
Suite 13.03, 13th Floor, Menara Tan & Tan, 207 Jalan Tun Razak, 50409 Kuala Lumpur, Malaysia			
Symonds Travers Morgan (Malaysia) SDN. BHD			
Alameda dos Guaramomis, no 930, 1st Floor, Suite 01, Bairro, Moema, CEP 04076-011, Brazil			
Eureka Asessoria Empresarial Ltda	49.90%		
King Abdul Aziz Street, PO Box 7052, Dammam, Saudi Arabia			
Capita Symonds Property and Infrastructure Consultants (KSA) (Capita Saudi Arabia)	50%		

Listed below are subsidiaries controlled and consolidated by the Group, where the Directors have taken the exemption from having an audit of its financial statements for the year ended 31 December 2018. This exemption is taken in accordance with Companies Act Section 479A.

Company Name	%	Registered Office	Company registration	Location	Held directly by Capita plc	Share Class
Brightwave Enterprises Limited	100%	30 Berners Street, London, England, W1T 3LR	7066783	UK		
Brightwave Holdings Limited	100%	30 Berners Street, London, England, W1T 3LR	7462788	UK		
Brightwave Limited	100%	30 Berners Street, London, England, W1T 3LR	4092349	UK		
Capita Gas Registration and Ancillary Services Limited	100%	30 Berners Street, London, England, W1T 3LR	5078781	UK		
Capita HCH Limited	100%	30 Berners Street, London, England, W1T 3LR	2384029	UK		
Capita HELM Corporation Limited	100%	Beacon House, 27 Clarendon Road, Belfast, BT1 3PR	NI025165	UK		
Capita IT Services (BSF) Limited	100%	30 Berners Street, London, England, W1T 3LR	1855936	UK		
Cardiff Research Consortium Limited	100%	30 Berners Street, London, England, W1T 3LR	3962364	UK		
CCSD Services Limited	100%	30 Berners Street, London, England, W1T 3LR	5399460	UK		
CHKS Limited	100%	30 Berners Street, London, England, W1T 3LR	2442956	UK		
Clinical Solutions Finance Limited	100%	30 Berners Street, London, England, W1T 3LR	5337592	UK		
Clinical Solutions International Limited	100%	30 Berners Street, London, England, W1T 3LR	4394761	UK		
Creating Careers Limited	100%	30 Berners Street, London, England, W1T 3LR	03885966	UK		
Cymbio Limited	100%	30 Berners Street, London, England, W1T 3LR	6462086	UK		
Debt Solutions (Holdings) Limited	100%	33-34 Winckley Square, Preston, Lancashire, PR1 3EL	3673307	UK		
Euristix Limited	100%	30 Berners Street, London, England, W1T 3LR	05420948	UK		
Health Analytics Limited	100%	30 Berners Street, London, England, W1T 3LR	6947862	UK		
Marrakech (U.K.) Limited	100%	30 Berners Street, London, England, W1T 3LR	3785263	UK		
PageOne Communications Limited	100%	30 Berners Street, London, England, W1T 3LR	4560277	UK		
Pervasive Limited	100%	30 Berners Street, London, England, W1T 3LR	5679204	UK		
Pervasive Networks Limited	100%	30 Berners Street, London, England, W1T 3LR	3429318	UK		
SDP Regeneration Services 2 Limited	100%	30 Berners Street, London, England, W1T 3LR	4626963	UK		
Smartpoint Limited	100%	30 Berners Street, London, England, W1T 3LR	2831803	UK		
Tempus Finance Limited	100%	30 Berners Street, London, England, W1T 3LR	6943069	UK		
The G2G3 Group Ltd.	100%	Pavilion Building, Ellismuir Way, Tannochside Park, Uddingston, Glasgow, G71 5PW	SC199414	UK		
The Write Research Company Limited	100%	30 Berners Street, London, England, W1T 3LR	04272836	UK		
Thirty Three LLP	100%	30 Berners Street, London, England, W1T 3LR	OC372712	UK		