CAPITA

7 September 2017

IFRS 15 early adoption and presentation

Capita plc ('Capita') is today hosting a presentation for institutional investors and analysts on the application of the International Accounting Standards Board's IFRS 15, *Revenue from Contracts with Customers* which, as previously stated, the Group adopted from 1 January 2017. Capita's results for the first six months of 2017 are due to be released, as planned, on 21 September and are expected to be in line with the outlook provided in our AGM statement on 13 June 2017.

Summary of key points of adopting IFRS 15:

No impact on:

- Lifetime profitability of contracts
- Cash flow of contracts
- Majority of transactional businesses.

Key impacts:

- The main changes for Capita from the adoption of IFRS 15 are in its long-term contracts and software business.
- Revenue is more evenly phased over the life of contracts and active software licences in line with the delivery of valued outcomes to clients and, consequently, the timing of profits is re-profiled.
- Capita will potentially recognise lower profits or losses in the early years of contracts where there are significant upfront restructuring costs or higher operating costs prior to transformation, with a compensating increase in profits in later years. The total net impact at Group level is a function of the balance of contracts in early or late stage of their life cycle at transition to IFRS 15.
- Balance sheet includes:
    - New "contract fulfilment assets" created in the process of transforming services
    - Deferred income in relation to contracts where payments have been received from clients to undertake transformation prior to the planned outcomes being delivered.

Nick Greatorex, Group Finance Director, commented:

"We believe early adoption of IFRS 15 is a sensible step to take in this transitional year for Capita. Adoption in 2017 immediately provides a consistent basis for our investors to evaluate our business going forwards. It ensures we have embedded the new standard well in advance of the 2018 deadline and is in line with our strategy of simplifying the business and improving transparency.

The new standard more closely aligns our revenue recognition with the commercial substance of our contracts. The application of IFRS 15 has no impact on the lifetime profitability or cash flow of our contracts, or the majority of our transactional businesses. Instead, the resulting changes in the timing of revenue and cost recognition more closely aligns our financial results with the timing of the delivery of our valued outcomes to clients.

For comparative purposes, we have applied the new standard to our 2016 financial results with support from EY and these financial results have been reviewed by KPMG."

Capita's adoption of IFRS 15

Revenue recognition

- The standard introduces a clear link between the value provided to a client via the transformation and delivery of a service and the timing of revenue recognition. For the majority of Capita's contracts this value is delivered over time, regardless of upfront restructuring, necessary transformation activities and any price step downs over the life of the contract. This means that under IFRS 15 revenue will be recognised more evenly over the lifetime of those contracts, which will affect 2017 and future years.
- Similarly, for software licences where the Group retains an active role in the updating and maintenance of a sold licence to ensure its continuing value to the client, revenue will be recognised evenly over the expected length of the contract or related client relationship. Again, this has resulted in a change in the phasing of when revenue is recognised, which will affect 2017 and future years.

Profits

- As a result of the above, the timing of revenue and therefore profits recognised on contracts is likely to be later across the life of the contracts, with potentially lower profits or losses in the early years of contracts and potentially higher profits in later years. This occurs where there are significant upfront restructuring, transformation, or higher operating costs prior to completion of transformation.
- Profits are further impacted by a new class of asset, "contract fulfilment assets", which are created in the process of transforming a service and amortised over the life of the associated contract, such as process mapping and design.
- Total net impact for the Group is a function of the balance of contracts in early or late stages of their life cycle at transition to IFRS 15 and in subsequent years.

Balance sheet

- The balance sheet includes:
  - The new contract fulfilment assets; and
  - An increased level of deferred income in relation to contracts where cash payment has been received in advance of revenue recognition associated with delivering specific planned outcomes for clients. The majority of deferred income will unwind within the following 12 months and is expected to be replaced by similar advanced payments subject to additions or changes to the Group's contract portfolio.
- The recognition of the significant deferred income balances results in the Group recording net liabilities on 1 January 2016. As noted above, the deferred income reflects cash payments received in advance of when revenue will now be recognised on the majority of our contracts and the accounting liability represents our promise to deliver planned outcomes for clients in future periods.

Application of IFRS 15 to Capita's 2016 results:

As part of its early adoption of IFRS 15 and for consistent comparability, Capita has applied the new standard to its 2016 financial results and these are published today. The Capita Asset Services businesses, the disposal of which was announced on 23 June, have been treated as a discontinued operation.

The changes reflected in the 2016 results under IFRS 15 predominantly relate to the timing of revenue recognition with revenues now recognised later across the life of contracts as valued outcomes are delivered to clients.

Revenue, under IFRS 15, in 2016 therefore reflects changes in the timing of recognition of transformation revenue and price step downs across some major contracts, the impact of recognising revenue over time for certain clients within our software business rather than at the point of sale of licences and additionally an adjustment in moving from principal to agency accounting in certain transactional businesses.

Profit before tax, under IFRS 15, in 2016 therefore reflects the aforementioned changes in the timing of revenue recognition across some major contracts and software licences, the amortisation charge of the new contract fulfilment assets, and the inclusion of certain non-recurring items previously disclosed within non-underlying.

Under IFRS 15, 2016 results major movements

In 2016 the impact of applying IFRS 15 was a reduction in underlying revenue from £4.6bn (excluding Capita Asset Services businesses £0.3bn) to £4.4bn, approximately three fifths of which is due to the re-profiling of long-term contracted revenue. The remaining changes result from a move from principal to agent basis of revenue recognition for certain transactional revenue under IFRS 15, which has no impact on profit.

In 2016 the impact of applying IFRS 15 was a reduction in underlying operating profit from £481m to £335m. This is as a result of a blend of impacts, the most significant of which are the aforementioned change in long-term contracted revenue and moving last year's Group re-structuring provision of £59m into underlying profits. This is consistent with the approach Capita will adopt in the future where the impact of significant new contracts and restructuring will form part of the Group's underlying earnings, albeit disclosed clearly to show the impact these items have in the first year that they arise.

The Group's net assets move from £483m to net liabilities of £553m. The £1bn swing can be summarised as follows. Under IFRS 15 Capita ended 2016 with deferred income of £1.6bn, an increase of £1.3bn. This represents cash received in 2016 which is for services delivered or to be delivered but not recognised as revenue until 2017 or later. Furthermore, accrued income reduces by some £250m with the re-profiling of when revenue is recognised. These were partially offset by contract fulfilment assets of some £300m at the end of the year, being costs incurred on improving services for the long term which have been capitalised under IFRS 15 and will be released over the relevant contract term, and the recognition of a net deferred tax asset of some £200m.

Capita's 2016 debt covenants do not need to be retested and for 2017 the covenants have been updated to include the adoption of IFRS 15 with effect from 1 January 2017.

Finally, cash flow does not change. In 2016 Capita generated £750m of operating cash and this remains the case.

2016 full year	**IFRS 15**	**Pre-IFRS 15**
Underlying revenue	**£4,357m**	£4,582m
Underlying operating profit	**£335m**	£481m
Net (liabilities)/assets	**£(553)m**	£483m
Underlying operating cash	**£750m**	£750m

Presentation and webcast

Today's presentation will commence at 08:30 UK time and is expected to conclude at around 11:00 UK time, including a question and answer session. There will be a live audio webcast of the presentation at 08:30 UK time and slides will be available on the Capita website at that time.
Link: http://www.investis-live.com/capita/5994012e0954050c000f1919/qzmn

To register for the webcast please click on the link above and follow the on-screen instructions.

-ENDS-

This announcement contains inside information.

For further information:
Capita plc
Tel: 020 7799 1525
Shona Nichols, Executive Director, Communications
Andrew Ripper, Head of Investor Relations

Media enquiries
Capita Press Office Tel: 020 7654 2399
Powerscourt Tel: 020 7250 1446
capita@powerscourt-group.com
Victoria Palmer-Moore, Peter Ogden and Andy Jones

About Capita

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

Financial statements under IFRS 15 *Revenue from Contracts with Customers*

The Group early adopted IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") on 1 January 2017 using the full retrospective method. This document details the Group's new accounting policy for revenue and shows the impact of the adoption of IFRS 15 on the Group's primary financial statements.

The cumulative effect of the adoption of IFRS 15 has resulted in a decrease in net assets of £942.3 million as at 1 January 2016 (31 December 2016: £1,036.3million). This reflects an important change in accounting policy as the Group moves from one based predominantly on percentage of completion revenue recognition to a methodology that is focused on aligning revenue recognition to the delivery of solutions and value to its customers.

Discontinued operation

The Capita Asset Services businesses, the disposal of which was announced on the 23 June 2017, have been treated as a discontinued operation in this restatement so as to be in line with how these will be presented in the 2017 half year report. As at 31 December 2016, the disposal of Capita Asset Services did not meet the criteria to be held for sale.

Initial adoption of IFRS 15

The standard has an effective date of 1 January 2018 but the Group has decided to early adopt this standard with a date of initial application to the Group of 1 January 2017.

IFRS 15 replaces all existing revenue requirements in IFRS and applies to all revenue arising from contracts with customers unless the contracts are within the scope of other standards such as IAS 17 Leases.

The standard outlines the principles entities must apply to measure and recognise revenue with the core principle being that entities should recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for fulfilling its performance obligations to a customer.

The principles in IFRS 15 must be applied using the following 5 step model:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies its performance obligations

The standard requires entities to exercise considerable judgement taking into account all the relevant facts and circumstances when applying each step of this model to its contracts with customers. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract as well as requirements covering matters such as licences of intellectual property, warranties, principal versus agent assessment and options to acquire additional goods or services.

The Group has applied IFRS 15 fully retrospectively in accordance with paragraph C3 (a) of the standard restating the prior period's comparatives and electing to use the following expedients:

- in respect of completed contracts, the Group will not restate contracts that (i) begin and end within the same annual reporting period; or (ii) are completed contracts at the beginning of the earliest period presented (para. C5(a));
- in respect of completed contracts that have variable consideration, the Group will use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative periods (para. C5(b)); and
- for all reporting periods presented before the date of initial application, the Group will not disclose the amount of the transaction price allocated to the remaining performance obligations or an explanation of when the Group expects to recognise that amount as revenue (para C5(c)).

Accounting policy for 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 (‘MSA’s’) 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 standalone prices due to the specialised services required by customers and therefore the Group applies judgement to determine an appropriate standalone 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 standalone 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:

Contract term longer than 2 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 service contracts in this category include contracts with either a single or multiple performance obligations.

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.

Over time service with contract length less than 2 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 probably that no revenue reversal will occur.

Principal versus agent

The Group has arrangements with some of its customers 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.

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 related assets and liabilities

As a result of the contracts which the Group enters into with its customers, a number of different assets and liabilities are recognised on the Group's balance sheet. These include but are not limited to:

- Property, plant and equipment*
- Intangible assets*
- Contract fulfilment assets^
- Contract assets derived from costs to obtain a contract^
- Trade receivables*
- Accrued income^
- Deferred income^

* No change in the accounting policies for these assets as a result of the adoption of IFRS 15

^ Refer below for the accounting policy applied following the adoption of IFRS 15

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.

Capitalisation of costs to obtain a contract

The incremental costs of obtaining a contract with a customer are recognised as an 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 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 and capitalised costs to obtain a contract 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 or capitalised costs to obtain a contract 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, capitalised costs to obtain a contract, accrued income and trade receivables. At each reporting date, the Group determines whether or not the contract fulfilment assets and capitalised costs to obtain a contract 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 or specific performance obligations 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.

Property commercialisation

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

Consolidated income statement under IFRS 15

	Adjustment	As reported, six months ended 30 June 2016				Discontinued operations		Impact of IFRS 15		Under IFRS 15, six months ended 30 June 2016			
		Underlying	Business exit	Specific items	Total	Underlying	Specific items	Underlying	Specific items	Underlying	Business exit	Specific items	Total
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Revenue	A,B,C	2,405.4	24.6	—	2,430.0	(147.3)	—	(126.8)	—	2,131.3	24.6	—	2,155.9
Cost of sales	A,D	(1,716.9)	(17.9)	—	(1,734.8)	57.2	—	3.1	—	(1,656.6)	(17.9)	—	(1,674.5)
Gross profit		688.5	6.7	—	695.2	(90.1)	—	(123.7)	—	474.7	6.7	—	481.4
Administrative expenses	H	(370.9)	(6.7)	(81.3)	(458.9)	62.2	2.6	—	—	(308.7)	(6.7)	(78.7)	(394.1)
Operating profit		317.6	—	(81.3)	236.3	(27.9)	2.6	(123.7)	—	166.0	—	(78.7)	87.3
Net finance costs		(32.3)	—	(17.8)	(50.1)	—	0.1	—	—	(32.3)	—	(17.7)	(50.0)
Loss on disposal		—	(0.1)	—	(0.1)	—	—	—	—	—	(0.1)	—	(0.1)
Profit before tax		285.3	(0.1)	(99.1)	186.1	(27.9)	2.7	(123.7)	—	133.7	(0.1)	(96.4)	37.2
Income tax expense	E	(52.8)	—	18.7	(34.1)	4.4	(0.5)	27.4	—	(21.0)	—	18.2	(2.8)
Profit for the period from continuing operations		232.5	(0.1)	(80.4)	152.0	(23.5)	2.2	(96.3)	—	112.7	(0.1)	(78.2)	34.4
Profit for the period from discontinued operations		—	—	—	—	23.5	(2.2)	—	—	—	23.5	(2.2)	21.3
Total profit for the period		**232.5**	**(0.1)**	**(80.4)**	**152.0**	**—**	**—**	**(96.3)**	**—**	**112.7**	**23.4**	**(80.4)**	**55.7**
Attributable to:													
Owners of the Company		227.1	(0.1)	(78.1)	148.9			(96.7)	—	106.9	23.4	(78.1)	52.2
Non-controlling interests		5.4	—	(2.3)	3.1			0.4	—	5.8	—	(2.3)	3.5
		232.5	(0.1)	(80.4)	152.0			(96.3)	—	112.7	23.4	(80.4)	55.7
Earnings per share													
Continuing operations:													
– basic		34.24p	(0.02)p	(11.78)p	22.45p	(3.54)p	0.33p	(14.58)p	—p	16.12p	(0.02)p	(11.44)p	4.66p
– diluted		34.05p	(0.01)p	(11.71)p	22.33p	(3.52)p	0.33p	(14.50)p	—p	16.03p	(0.01)p	(11.38)p	4.63p
Total operations:													
– basic		34.24p	(0.02)p	(11.78)p	22.45p	—p	—p	(14.58)p	—p	16.12p	3.53p	(11.78)p	7.87p
– diluted		34.05p	(0.01)p	(11.71)p	22.33p	—p	—p	(14.50)p	—p	16.03p	3.51p	(11.71)p	7.83p

Consolidated income statement under IFRS 15 (continued)

	Adjustment	As reported, year ended 31 December 2016				Discontinued operations		Impact of IFRS 15		Under IFRS 15, year ended 31 December 2016			
		Underlying £m	Business exit £m	Specific items £m	Total £m	Underlying £m	Specific items £m	Underlying £m	Specific items £m	Underlying £m	Business exit £m	Specific items £m	Total £m
Revenue	A,B,C	4,897.9	11.3	—	4,909.2	(316.3)	—	(224.3)	—	4,357.3	11.3	—	4,368.6
Cost of sales	A,D	(3,627.7)	(6.7)	(7.5)	(3,641.9)	111.8	—	97.4	(34.8)	(3,418.5)	(6.7)	(42.3)	(3,467.5)
Gross profit		1,270.2	4.6	(7.5)	1,267.3	(204.5)	—	(126.9)	(34.8)	938.8	4.6	(42.3)	901.1
Administrative expenses	H	(728.9)	(1.8)	(388.3)	(1,119.0)	144.5	4.3	(19.8)	59.4	(604.2)	(1.8)	(324.6)	(930.6)
Operating profit		541.3	2.8	(395.8)	148.3	(60.0)	4.3	(146.7)	24.6	334.6	2.8	(366.9)	(29.5)
Net finance costs		(66.0)	—	(7.6)	(73.6)	(0.1)	(0.1)	—	—	(66.1)	—	(7.7)	(73.8)
Loss on disposal		—	0.1	—	0.1	—	—	—	—	—	0.1	—	0.1
Profit before tax		475.3	2.9	(403.4)	74.8	(60.1)	4.2	(146.7)	24.6	268.5	2.9	(374.6)	(103.2)
Income tax expense	E	(87.9)	0.5	54.9	(32.5)	9.5	(0.9)	32.0	(3.9)	(46.4)	0.5	50.1	4.2
Profit for the period from continuing operations		387.4	3.4	(348.5)	42.3	(50.6)	3.3	(114.7)	20.7	222.1	3.4	(324.5)	(99.0)
Profit for the period from discontinued operations		—	—	—	—	50.6	(3.3)	—	—	—	50.6	(3.3)	47.3
Total profit for the period		387.4	3.4	(348.5)	42.3	—	—	(114.7)	20.7	222.1	54.0	(327.8)	(51.7)
Attributable to:													
Owners of the Company		376.7	3.4	(343.2)	36.9			(115.5)	20.7	210.6	54.0	(322.5)	(57.9)
Non-controlling interests		10.7	—	(5.3)	5.4			0.8	—	11.5	—	(5.3)	6.2
		387.4	3.4	(348.5)	42.3			(114.7)	20.7	222.1	54.0	(327.8)	(51.7)
Earnings per share													
Continuing operations:		56.67p	0.51p	(51.63)p	5.55p	(7.61)p	0.50p	(17.38)p	3.11p	31.68p	0.51p	(48.02)p	(15.83)p
– basic		56.67p	0.51p	(51.63)p	5.55p	(7.61)p	0.50p	(17.38)p	3.11p	31.68p	0.51p	(48.02)p	(15.83)p
– diluted													
Total operations:													
– basic		56.67p	0.51p	(51.63)p	5.55p	—p	—p	(17.38)p	3.11p	31.68p	8.12p	(48.52)p	(8.71)p
– diluted		56.67p	0.51p	(51.63)p	5.55p	—p	—p	(17.38)p	3.11p	31.68p	8.12p	(48.52)p	(8.71)p

Total adjustment to Total profit for the period due to the adoption of IFRS 15 is £(114.7)m to underlying + £20.7m to specific items, being £94.0m.

Consolidated balance sheet under IFRS 15

	Adjustment	As reported 1 Jan 2016	Impact of IFRS 15	Under IFRS 15 1 Jan 2016	As reported 31 Dec 2016	Impact of IFRS 15	Under IFRS 15 31 Dec 2016
		£m	£m	£m	£m	£m	£m
Non-current assets							
Property, plant and equipment		406.0	—	406.0	394.7	—	394.7
Intangible assets		2,810.0	—	2,810.0	2,754.2	—	2,754.2
Contract fulfilment assets	D	—	277.6	277.6	—	240.6	240.6
Financial assets		186.6	—	186.6	337.6	—	337.6
Deferred taxation	E	18.8	162.8	181.6	32.0	190.4	222.4
Trade and other receivables	F	86.1	(41.7)	44.4	128.4	(79.6)	48.8
		3,507.5	398.7	3,906.2	3,646.9	351.4	3,998.3
Current assets							
Financial assets		44.3	—	44.3	92.6	—	92.6
Contract fulfilment assets	D	—	40.4	40.4	—	41.6	41.6
Disposal group assets held for sale		84.1	—	84.1	—	—	—
Funds assets		161.7	—	161.7	173.6	—	173.6
Trade and other receivables	F	1,011.9	(284.1)	727.8	976.0	(174.9)	801.1
Cash		534.0	—	534.0	1,098.3	—	1,098.3
		1,836.0	(243.7)	1,592.3	2,340.5	(133.3)	2,207.2
Total assets		5,343.5	155.0	5,498.5	5,987.4	218.1	6,205.5
Current liabilities							
Trade and other payables	G	1,144.0	(271.0)	873.0	1,297.6	(320.6)	977.0
Deferred income	B,C,G	—	1,157.3	1,157.3	—	1,374.9	1,374.9
Overdrafts		448.7	—	448.7	532.5	—	532.5
Financial liabilities		230.8	—	230.8	224.2	—	224.2
Disposal group liabilities held for sale		40.4	—	40.4	—	—	—
Funds liabilities		161.7	—	161.7	173.6	—	173.6
Provisions		69.4	—	69.4	112.5	—	112.5
Income tax payable	E	46.2	—	46.2	18.6	—	18.6
		2,141.2	886.3	3,027.5	2,359.0	1,054.3	3,413.3
Non-current liabilities							
Trade and other payables	G	29.3	(15.5)	13.8	35.1	(14.1)	21.0
Deferred income	B,C,G	—	228.5	228.5	—	216.7	216.7
Financial liabilities		2,163.4	—	2,163.4	2,694.4	—	2,694.4
Deferred taxation	E	19.0	(2.0)	17.0	22.1	(2.5)	19.6
Provisions		49.0	—	49.0	48.2	—	48.2
Employee benefits		188.3	—	188.3	345.2	—	345.2
		2,449.0	211.0	2,660.0	3,145.0	200.1	3,345.1
Total liabilities		4,590.2	1,097.3	5,687.5	5,504.0	1,254.4	6,758.4
Net assets / (liabilities)		753.3	(942.3)	(189.0)	483.4	(1,036.3)	(552.9)
Capital and reserves							
Issued share capital		13.8	—	13.8	13.8	—	13.8
Share premium		500.7	—	500.7	501.3	—	501.3
Employee benefit trust and treasury shares		(0.3)	—	(0.3)	(0.2)	—	(0.2)
Capital redemption reserve		1.8	—	1.8	1.8	—	1.8
Foreign currency translation reserve		(21.2)	—	(21.2)	(6.2)	—	(6.2)
Cash flow hedging reserve		(12.0)	—	(12.0)	—	—	—
Retained earnings		196.5	(934.7)	(738.2)	(102.3)	(1,029.3)	(1,131.6)
Equity attributable to owners of the Company		679.3	(934.7)	(255.4)	408.2	(1,029.3)	(621.1)
Non-controlling interests		74.0	(7.6)	66.4	75.2	(7.0)	68.2
Total equity		753.3	(942.3)	(189.0)	483.4	(1,036.3)	(552.9)

Consolidated cash flow statement under IFRS 15

As a result of the adoption of IFRS 15, certain reclassifications are required in relation to the following cash flow movements between relevant balance sheet accounts. There has been no change in the net cash generated from operations as a result of these reclassifications or adjustment of these balance sheet accounts:

- As identified in adjustment H (below), in 2016, the Group recognised a write down of accrued income in underlying profit and specific items in relation to certain long term service contracts. Under IFRS 15 this accrued income would not have been originally recognised and hence has been reversed out of the income statement on adoption of IFRS 15. Movements in the operating cash flow note reflect the reversal of this non-cash movement;

- As identified in adjustment D (below), the Group has recognised new contract fulfilment assets on adoption of IFRS 15 from 1 January 2016 with amortisation and impairment expenses recorded through the income statement in the six months ended 30 June 2016 and year ended 31 December 2016. Movements in the operating cash flow note reflect these non-cash movements recorded in the income statement; and

- As identified in adjustments D, B and C, on transition to IFRS 15 as at 1 January 2016, the Group has recognised contract fulfilment assets and an adjustment to the accrued income and deferred revenue accounts recorded in the balance sheet. Movements in the operating cash flow note reflect the relevant cash and non-cash movements in reclassified line items.

Consolidated statement of changes in equity under IFRS 15

No reconciliation of the consolidated statement of changes in equity is presented as the only changes to this primary statement for the relevant period presented are as follows:

- ***Consolidated statement of changes in equity as at 1 January 2016:*** recognition of the adjusted retained earnings figure as presented in the adjusted consolidated balance sheet as at this date.

- ***Consolidated statement of changes in equity as at 30 June 2016:*** recognition of the adjusted profit for the six month period ended 30 June 2016 as presented in the adjusted consolidated income statement for this period.

- ***Consolidated statement of changes in equity as at 31 December 2016:*** recognition of the adjusted profit for the year ended 31 December 2016 as presented in the adjusted consolidated income statement for this year.

Notes to the financial statements under IFRS 15

Management has undertaken an extensive exercise to consider the Group's major contractual arrangements as part of the implementation of IFRS 15. A number of significant areas have been identified for adjustment which include:

- Recognition of revenue by the Group as agent or principal (Adjustment A);
- Accounting for software licences (Adjustment B);
- Recognition of profit from service contracts over time in line with the output method (Adjustment C);
- Recognition, utilisation and derecognition of contract fulfilment assets (Adjustment D);
- Impact on tax balances as a result of adoption of IFRS 15 (Adjustment E);
- Decrease in trade and other receivables (Adjustment F);
- Reclassification of trade and other payables (Adjustment G);
- Reversal of prior period accrued income impairment within specific items (Adjustment H); and
- Reclassification of significant restructuring to underlying (Adjustment I).

These adjustments are discussed in the relevant sections below.

Under IFRS 15, the pattern and timing of revenue recognition has changed resulting in an overall decrease of £126.8m in revenue for the 6 months ended 30 June 2016 (year ended 31 December 2016: £224.3m), increase in deferred income of £1,099.3m at the 1 January 2016 opening balance sheet date (31 December 2016: £1,256.9m) and decrease in accrued income of £325.8m at the 1 January 2016 opening balance sheet date (31 December 2016: £254.5m).

Table 1 on the following page reconciles the movements in relation to IFRS 15 for the income statement for the six months ended 30 June 2016 and the year ended 31 December 2016 and the balance sheet as at 1 January 2016 and as at 31 December 2016.

Table 2 provides further detail on the reconciling movements for the income statement for the year ended 31 December 2016.

Following the tables are explanatory notes for each of the adjustments referred to above.

The table below reconciles movements in relation to IFRS 15 for the income statement for the six months ended 30 June 2016 and the year ended 31 December 2016 and the balance sheet as at 1 January 2016 and as at 31 December 2016. Refer to below the tables for explanatory notes on each of the adjustments.

Table 1:

Consolidated income statement for the six months ended 30 June 2016

		Underlying				Specific items			
Adjustment	Adjustment to net assets at 1 January 2016	Revenue	Cost of sales	Admin expenses	Tax	Cost of sales	Admin expenses	Tax	Profit for the period
	£m	£m	£m	£m	£m	£m	£m	£m	£m
A - Agent vs. principal	—	0.7	(0.7)	—	—	—	—	—	—
B - Software licences	(163.2)	(7.2)	—	—	—	—	—	—	(7.2)
C - Recognition in line with output	(1,214.8)	(120.3)	—	—	—	—	—	—	(120.3)
D - Recognition of non-current contract fulfilment assets	214.7	—	(3.7)	—	—	—	—	—	(3.7)
D - Recognition of software contract fulfilment assets	62.9	—	1.7	—	—	—	—	—	1.7
D - Recognition of current contract fulfilment assets	40.4	—	5.8	—	—	—	—	—	5.8
E - Tax	164.8	—	—	—	27.4	—	—	—	27.4
H - Reversal of accrued income impairment	(47.1)	—	—	—	—	—	—	—	—
I - Reclassification of significant restructuring	—	—	—	—	—	—	—	—	—
Total	**(942.3)**	**(126.8)**	**3.1**	**—**	**27.4**	**—**	**—**	**—**	**(96.3)**

Consolidated income statement for the year ended 31 December 2016

		Underlying				Specific items			
Adjustment	Adjustment to net assets at 1 January 2016	Revenue	Cost of sales	Admin expenses	Tax	Cost of sales	Admin expenses	Tax	Profit for the period
	£m	£m	£m	£m	£m	£m	£m	£m	£m
A - Agent vs. principal	—	(90.9)	90.9	—	—	—	—	—	—
B - Software licences	(163.2)	(15.3)	—	—	—	—	—	—	(15.3)
C - Recognition in line with output	(1,214.8)	(118.1)	—	—	—	—	—	—	(118.1)
D - Recognition of non-current contract fulfilment assets	214.7	—	(0.6)	—	—	(42.3)	—	—	(42.9)
D - Recognition of software contract fulfilment assets	62.9	—	5.9	—	—	—	—	—	5.9
D - Recognition of current contract fulfilment assets	40.4	—	1.2	—	—	—	—	—	1.2
E - Tax	164.8	—	—	—	32.0	—	—	(3.9)	28.1
G - Reclassification of trade and other payables	—	—	—	—	—	—	—	—	—
H - Reversal of accrued income impairment	(47.1)	—	—	39.6	—	7.5	—	—	47.1
I - Reclassification of significant restructuring	—	—	—	(59.4)	—	—	59.4	—	—
Total	**(942.3)**	**(224.3)**	**97.4**	**(19.8)**	**32.0**	**(34.8)**	**59.4**	**(3.9)**	**(94.0)**

Consolidated balance sheet for the year ended 31 December 2016

	Trade and other receivables		Deferred income		Trade and other payables		Contract fulfilment asset		Deferred tax		Adjustment to net liabilities at 31 December 2016
Adjustment	Non-current	Current	Current	Non-current	Current	Non-current	Non-current	Current	Asset	Liability	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
A - Agent vs. principal	—	—	—	—	—	—	—	—	—	—	—
B - Software licences	—	—	(104.8)	(73.7)	—	—	—	—	—	—	(178.5)
C - Recognition in line with output	(79.6)	(174.9)	(949.5)	(128.9)	—	—	—	—	—	—	(1,332.9)
D - Recognition of non-current contract fulfilment assets	—	—	—	—	—	—	171.8	—	—	—	171.8
D - Recognition of software contract fulfilment assets	—	—	—	—	—	—	68.8	—	—	—	68.8
D - Recognition of current contract fulfilment assets	—	—	—	—	—	—	—	41.6	—	—	41.6
E - Tax	—	—	—	—	—	—	—	—	190.4	2.5	192.9
G - Reclassification of trade and other payables	—	—	(320.6)	(14.1)	320.6	14.1	—	—	—	—	—
H - Reversal of accrued income impairment	—	—	—	—	—	—	—	—	—	—	—
I - Reclassification of significant restructuring	—	—	—	—	—	—	—	—	—	—	—
Total	**(79.6)**	**(174.9)**	**(1,374.9)**	**(216.7)**	**320.6**	**14.1**	**240.6**	**41.6**	**190.4**	**2.5**	**(1,036.3)**

The table below provides further detail on the reconciling movements for the income statement for the year ended 31 December 2016. Refer to below the table for explanatory notes in respect of each adjustment.

Table 2:

Adjustment		As reported	Discontinued operations	As reported - continuing operations	Adjustments: from pre 1 Jan 16 and recognised in 2016	Adjustments: previously recognised in 2016 now spread forward	Reclassifications	Under IFRS 15
		Consolidated income statement for the year ended 31 December 2016						
		£m	£m	£m	£m	£m	£m	£m
Agent vs. Principal	A	—	—	—	—	—	(90.9)	
Software revenue from pre 1 Jan 16 and recognised in 2016	B	—	—	—	100.0	—	—	
Software revenue previously recognised in 2016 now spread forward	B	—	—	—	—	(115.3)	—	
Recognition in line with output from pre 1 Jan 16 and recognised in 2016	C	—	—	—	1,096.6	—	—	
Recognition in line with output previously recognised in 2016 now spread forward	C	—	—	—	—	(1,214.7)	—	
Underlying Revenue		**4,897.9**	**(316.3)**	**4,581.6**	**1,196.6**	**(1,330.0)**	**(90.9)**	**4,357.3**
Agent vs. Principal	A	—	—	—	—	—	90.9	
Non-current contract fulfilment asset utilisation in 2016	D	—	—	—	(47.1)	—	—	
Non-current contract fulfilment asset disposals in 2016	D	—	—	—	(17.0)	—	—	
Non-current contract fulfilment asset additions in 2016	D	—	—	—	—	63.5	—	
Software contract fulfilment asset utilisation in 2016	D	—	—	—	(7.1)	—	—	
Software contract fulfilment asset additions in 2016	D	—	—	—	—	13.0	—	
Completion of point in time performance obligations	D	—	—	—	(40.4)	—	—	
Costs deferred to future point in time performance obligations	D	—	—	—	—	41.6	—	
Underlying cost of sales		**(3,627.7)**	**111.8**	**(3,515.9)**	**(111.6)**	**118.1**	**90.9**	**(3,418.5)**
Reversal of accrued income impairment	H	—	—	—	39.6	—	—	
Reclassification of 2016 group restructuring to underlying from specific items	I	—	—	—	—	—	(59.4)	
Underlying admin expenses		**(728.9)**	**144.5**	**(584.4)**	**39.6**	**—**	**(59.4)**	**(604.2)**
Underlying operating profit		**541.3**	**(60.0)**	**481.3**	**1,124.6**	**(1,211.9)**	**(59.4)**	**334.6**
Underlying profit before tax		**475.3**	**(60.1)**	**415.2**	**1,124.6**	**(1,211.9)**	**(59.4)**	**268.5**
Specific items - contract fulfilment asset disposal	D	—	—	—	(42.3)	—	—	
Specific items - reversal of accrued income impairment	H	—	—	—	7.5	—	—	
Specific items cost of sales		**(7.5)**	**—**	**(7.5)**	**(34.8)**	**—**	**—**	**(42.3)**
Reclassification of 2016 group restructuring to underlying from specific items	I	—	—	—	—	—	59.4	
Specific Items admin expenses		**(388.3)**	**4.3**	**(384.0)**	**—**	**—**	**59.4**	**(324.6)**
Specific items profit before tax		**(403.4)**	**4.2**	**(399.2)**	**(34.8)**	**—**	**59.4**	**(374.6)**
Profit before tax		**74.8**	**(55.9)**	**18.9**	**1,089.8**	**(1,211.9)**	**—**	**(103.2)**

Adjustment A - Accounting for agent vs. principal

The previous agent vs. principal guidance contained in IAS 18 has been revisited by the Group in light of the revised guidance under IFRS 15 in assessing whether it acts as an agent or as a principal in its major contractual arrangements.

As a result of this assessment, the Group concluded that for certain contracts it is appropriate to move from principal to agency accounting or vice versa. In respect to moving from principal to agency, this related to certain software sales arrangements as the Group has concluded that the Group does not control the good or service being provided to the customer. As a result, there is a net adjustment of £0.7m to increase revenue and cost of sales for the 6 months period ended 30 June 2016, and of £90.9m to reduce revenue and cost of sales for the year ended 31 December 2016.

Adjustment B - Accounting for software licences

Under previous accounting, revenue in relation to certain software licences was recognised at a point in time. Under IFRS 15, the Group has determined that a number of these arrangements result in the customer having the right to access the licence (an 'active' licence) rather than having the right to use the licence (a 'passive' licence). Under an active licence the ongoing support and upgrades are fundamental to the ongoing use of the licences by the customer.

Hence total revenue for the licence and upgrades are combined with these revenues now recognised over the term of the customer contract rather than at a point in time resulting in a net decrease in accrued/deferred income at 1 January 2016 of £163.2m, 31 December 2016: £178.5m; and a net decrease in revenue in the six months ended 30 June 2016 of £7.2m and in the year ended 31 December 2016 of £15.3m.

For the year ended 31 December 2016 the net decrease in revenue comprises the recognition of £100.0m of revenue from pre 1 January 2016 and the deferral of £115.3m of revenue previously recognised in 2016.

Adjustment C - Revenue recognition in line with output

Under the previous accounting, revenue for certain contracts was recognised under the percentage of completion method based upon costs incurred to date as a proportion of the estimated full cost of completing the contract, and applying the percentage to the total revenue expected to be earned. Such percentage of completion accounting would typically result in higher levels of revenue recognised in the earlier stages of a contract in line with the profile of costs incurred.

Under IFRS 15, all elements of the contract, including transformation activity, are combined. Due to the application of the series guidance and output methodology within IFRS 15, these contracts now have revenue recognised in line with their output measured on a contract specific basis.

As such, revenue is now spread over the expected life of the contract rather than in line with the costs profile, which has resulted in a reduction in revenue recognised in periods prior to 1 January 2016 and a net increase in deferred/accrued income as at 1 January 2016 of £1,214.8m, as at 31 December 2016: £1,332.9m; and a decrease in opening retained earnings as at 1 January 2016 of £1,214.8m, a decrease in revenue in the six months ended 30 June 2016 of £120.3m, and year ended 31 December 2016 of £118.1m.

For the year ended 31 December 2016 the net decrease in revenue comprises the recognition of £1,096.6m of revenue from pre 1 January 2016 and the deferral of £1,214.7m of revenue previously recognised in 2016.

Adjustment D - Recognition, utilisation and derecognition of contract fulfilment assets

IFRS 15 specifies that certain costs to fulfil a contract are to be capitalised as contract fulfilment assets if relevant criteria are met.

The Group incurred costs that were previously expensed and which related to resources to allow it to deliver services under its long term contracts and active software licence arrangements. In certain situations, costs associated with the installation of certain IT equipment in contracts have also been capitalised as contract fulfilment assets.

The adjustments to recognise contract fulfilment assets on the balance sheet as at 1 January 2016 of £318.0m recognises the net book value of the identified contract fulfilment assets at the opening balance sheet date.

These adjustments also include the recognition of certain costs of obtaining a contract. IFRS 15 specifies that the incremental costs of obtaining a contract with a customer are capitalised if the entity expects to recover them.

The cost of utilising these assets is recognised within cost of sales on a consistent basis over the life of the relevant customer contract.

The adjustment of £3.8m for the 6 months period ended 30 June 2016 (year ended 31 December 2016: £6.5m) is to recognise a net decrease in cost of sales due to the de-recognition of contract costs now capitalised as contract fulfilment assets net of the utilisation charge recorded for the period in relation to these assets and the de-recognition of certain contract fulfilment assets.

For the year ended 31 December 2016, the above net adjustment of £6.5m comprises: non-current contract fulfilment additions of £63.5m, utilisation of £47.1m, and disposals of £17.0m; software contract fulfilment additions of £13.0m, and utilisation of £7.1m; and current contract fulfilment additions of £41.6m, and utilisation of £40.4m.

Specific item

As disclosed in the 31 December 2016 financial statements, Capita ceased to work on the IT system transformation in respect of its contract with The Co-operative Bank plc. Under IFRS 15 this modification has led to an impairment of a contract fulfilment asset in respect of this contract as these costs were no longer considered recoverable.

The adjustment of £42.3m in the year ended 31 December 2016 recognises the charge incurred on derecognising this contract fulfilment asset. This item has been included within the other non-underlying column because it is one-off in nature and is due to a contractual dispute rather than arising as a result of service credit penalties

Adjustment E - Tax

Due to the changes in assets, liabilities, income and expenses recognised as a result of the application of IFRS 15, there are consequent IAS 12 Income taxes differences that arise as discussed below.

Deferred tax

Due to the changes in the pattern and timing of revenue recognition under IFRS 15, a deferred income liability is recognised on the balance sheet from 1 January 2016, which will be recognised through the income statement in later periods. The impact of these revenue recognition changes is only recognised for tax purposes via a one-off transitional tax adjustment on 1 January 2017, so no tax deduction is available in 2016 for the reduction in historic revenue recognised.

Contract fulfilment assets have also been recognised on the balance sheet from 1 January 2016, which will be charged to the income statement in later periods. Under IAS 12, the tax base of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset. The tax base of the contract fulfilment asset recognised on the balance sheet prior to 1 January 2017 is therefore reduced by the amounts for which tax deductions have already been taken, creating a temporary difference.

Under the principles of IAS 12, a movement of £164.8m in deferred tax therefore arises, recognised as an increase in the deferred tax asset of £162.8m and a reduction in the deferred tax liability of £2.0m as at 1 January 2016 (31 December 2016: £192.9m movement, increase in deferred tax asset of £190.4m, and reduction in deferred tax liability of £2.5m) as a result of the transition to IFRS 15.

Income statement deferred tax credit

The deferred tax asset balance increase of £190.4m and the deferred tax liability decrease of £2.5m as at 31 December 2016, give rise to an income statement deferred tax credit of £27.4m for the 6 month period to 30 June 2016 and of £28.1m for the year ended 31 December 2016.

Income statement current tax expense

There is no income statement current tax expense impact for the 6 months ended 30 June 2016 or the year ended 31 December 2016.

Adjustment F - Decrease in trade and other receivables

The decrease in trade and other receivables relates to the adjustment to accrued revenues as detailed in Adjustments B and C above, The decrease in non-current accrued income is £41.7m as at 1 January 2016, and £79.6m at 31 December 2016, and the decrease in current accrued income is £284.1m and £174.9m at 31 December 2016.

Adjustment G - Reclassification of trade and other payables

In order to provide users with relevant financial information in the primary financial statements, the Group has decided to reclassify deferred income into its own primary statement line item reflecting the materiality and nature of this balance in the context of the Group's business.

The decrease in trade and other payables relates to the reclassification and adjustment of deferred income as discussed above. Prior to adoption of IFRS 15, deferred income was classified within ‘Trade and other payables’ although this was not accounted for as a financial liability.

Adjustment H - Reversal of accrued income impairments

In 2016, the Group recognised an impairment of £47.1m historic accrued income, of which £39.6m was recognised in underlying profit, and £7.5m within the specific items column in relation to the dispute with The Co-operative Bank plc. Under IFRS 15 this accrued income would not have been originally recognised as the timing of revenue recognition has changed in comparison to the previous accounting policy as discussed in Adjustment C above, hence the adjustment of £47.1m for the year ended 31 December 2016 recognises the reversal of these previous impairments.

Adjustment I - Reclassification of significant restructuring

Following the adoption of IFRS 15, the Board has adopted a policy to separately disclose the in year operating profit/loss from significant new contract wins and related, or significant, restructuring ("Significant new contract wins and restructuring") within underlying results, in order for users of the financial statements to obtain a proper understanding of the financial information and the performance of the business.

The Group continually assesses the resourcing levels, both at a divisional level and also in relation to the management and delivery of individual contracts. This results in restructuring in the normal course of business and any such charges are recorded in "underlying before significant new contract wins and restructuring" results. A significant restructuring is assessed as that above this normal level of restructuring.

In the year ended 31 December 2016, the Board announced a major programme, with the restructuring of the Group into 6 new reporting divisions under a Group-wide programme. The cost of this Group-wide programme, £59.4m, was charged to specific items, being the element above the normal level of restructuring undertaken by the Group. Following the adoption of the above policy, the 2016 income statement has been represented to reclassify the cost of this programme to 'Significant new contract wins and restructuring' within underlying.