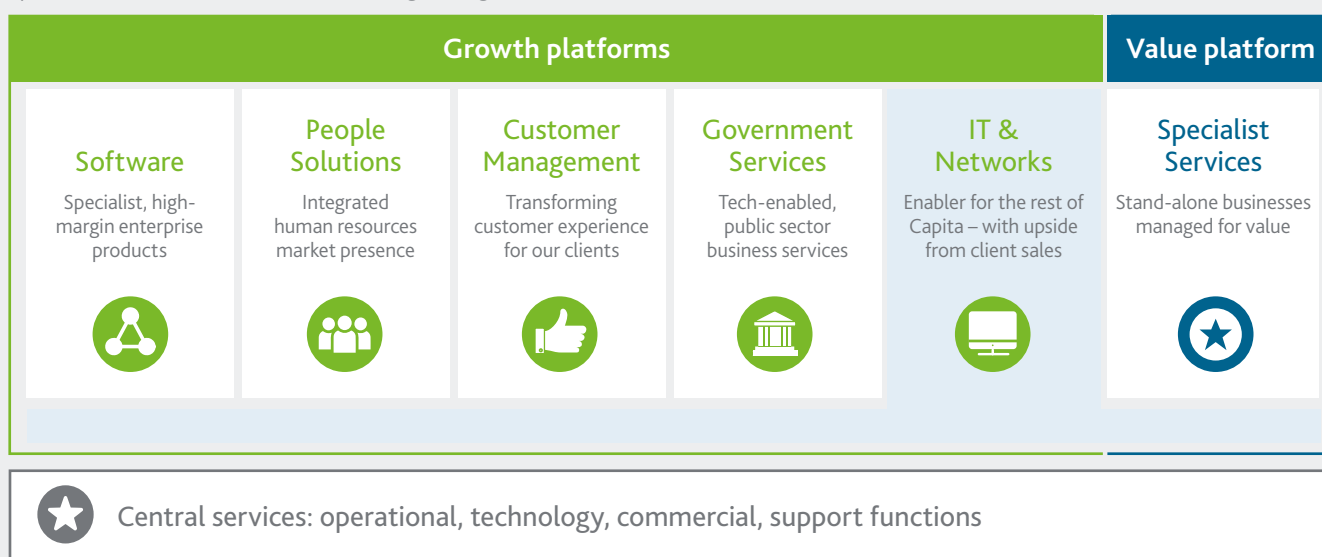


Divisional strategy and performance

Divisional structure

We report our financial performance across six operating divisions: five are focused on key growth markets; and the sixth contains a portfolio of stand-alone businesses being managed for value.



Divisional strategy

Our multi-year transformation and strategy – simplify, strengthen and succeed – are driving a change programme across our six divisions. It is focused on strengthening the underlying operating model, creating shared resources and infrastructure, optimising value from the existing portfolio, and investing in our products, services and capabilities. It aims to address underinvestment in the functions and underperformance in our divisions.

	Simplify	Strengthen	Succeed
Software	Develop a shared backbone	Invest in adjacent product offerings, pilot US market	Drive profitable growth and expand internationally
People Solutions	Leverage integrated business structure	Invest in products, platforms, partnerships and analytics	Outperform market and improve cash generation
Customer Management	Roll out best practice consistently	Invest in analytics, infrastructure and tools; expand into new sectors	Extend UK market leadership, turn around Europe margin
Government Services	Focus our portfolio on proven, scalable offerings	Build out partnerships and innovation	Deliver contracts and reliable cash flow
IT & Networks	Leverage single platform; focus on customer	Upgrade data centres, invest in cloud and SD Wan	Fix the basics and support Capita's technology ambitions
Specialist Services	16, mostly stand-alone, operating units	Managed on a portfolio basis	Delivering plan to maximise value for each

The following divisional financial performance is presented on an adjusted revenue and operating profit basis. The 2017 adjusted revenue and operating profit have been restated for the impact of businesses exited in 2018. Reported profit is not included, as the Board assesses divisional performance on adjusted results. The calculation of adjusted figures and our KPIs are contained in the APMs on pages 197–198.

Divisional strategy and performance continued

Software



Adjusted revenue

£396.4m

2017: £401.7m

Order book

£559.6m

2017: £543.4m

Adjusted operating profit

£112.4m

2017: £111.7m

Adjusted operating margin

28.4%

2017: 27.8%

Employees

4,000

Key regions

- UK
- India
- US
- Australasia

Key products

Education

- SIMS

Public safety

- ControlWorks

Finance & housing

- Integra

Payments

- Pay360

Resource planning

- Retain, Workforce Management

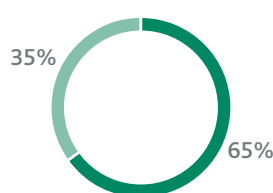
Utilities & transport

- FieldForce

Key markets

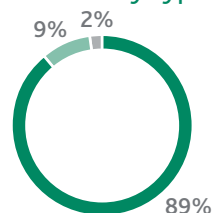
- Education
- Local government
- Public safety
- Utilities
- Transport
- Payments
- Financial services
- Private sector

Revenue by market



- Public sector
- Private sector

Revenue by type



- Long-term contractual
- Short-term contractual
- Transactional

Capita's Software division is one of the UK's largest software companies.

Our specialist enterprise software products serve sector specific and cross-sector markets in the UK and overseas. We develop and deliver specialist application software and wider solutions for education, local government, public safety, utilities and transport, consulting and legal, and payments. As a software products provider, our deep industry expertise and functional IP supports critical public services and business processes. Our software and technology expertise forms a differentiating component of Capita's wider digitally-enabled services offering.

Revenue is generated from licence sales, maintenance and support, and implementation. Over 70% of our revenue is recurring and over 80% of licence revenue is recognised over the term of our client relationships, smoothing our revenue profile, irrespective of whether it is a perpetual licence or a 'pay as you go', software as a service (SaaS) model.

Key products

SIMS

Cloud-based MIS system for managing administrative functions in 22,000 primary, secondary and Academy schools, with optional parental engagement, payment and finance modules.

ControlWorks

The UK's leading Contact Management and Control Room solution used by Public Safety Agencies. A single fully integrated application for all Emergency and Non-Emergency contact via a range of channels including voice, web, email, SMS and social media.

Capita One Suite

Enterprise solution for managing all revenue, financial and critical business functions within local authorities, housing sector, social care and education.

Integra

A suite of financial accounting and purchasing software solutions, with the capability to integrate with further systems to provide an end-to-end ERP capability.

Affinity Suite

A powerful enterprise suite of products helping utilities, energy and infrastructure industries manage complex and evolving business challenges.

Retain

A resource planning and management solution used worldwide by professional services and legal firms, providing a consolidated view of engagements, projects or jobs to resources.

Pay360

Multi-channel payment provider providing solutions across payment, fraud, digital collections and compliance capabilities across both private and public sectors.

Strategic priorities 2018–2020:

- Accelerate investment in key products and platforms.
- Transform the software life cycle operations across all products.
- Create a software development centre of excellence for production of standardised software.
- Create scaled, integrated shared service functions.
- Create a market-aligned, high-performing sales force and marketing capability.
- Selective sales drive in UK vertical and international markets.

2018 progress against strategic priorities:

- Defined and commenced investment strategy.
- Established digital development centre in India.
- Introduced product management capability across product portfolio.
- Executed cost competitiveness and offshoring targets.
- Executed US entry strategy for selected products.
- Introduced standardised core processes across 29 businesses.

Our strategy

Our strategic priorities are focused on creating a world-class specialised software products business, investing in our core products with distinctive offerings and providing best-in-class solutions for clients in the UK and in targeted international markets.

The division is implementing the Group's strategy – simplify, strengthen and succeed – and transforming what was once a division of 29 siloed businesses into a single software business. This transformation was started in 2017 and during 2018 many of the structural and operational changes required to create a single business were put in place. We have built a best-in-class digital delivery centre in India for the production of standardised, repeatable software and to support the rest of Capita and are creating scaled, integrated, shared service functions. We are investing in both our existing and new products and markets to defend and grow the business, with the aim of achieving mid to high single digit revenue growth in 2020.

Divisional financial summary

	2018 £m	2017 £m	change %
Adjusted revenue	396.4	401.7	(1.3)
Adjusted operating profit	112.4	111.7	0.6
Adjusted operating margin	28.4%	27.8%	
Order book	559.6	543.4	3.0

Our markets and growth drivers

We are a top-five provider of enterprise software products in the UK, a market currently valued at £17bn and expected to grow at 8% CAGR through 2022 (source: Gartner). Our products compete in a wide range of market sectors, primarily in the UK, and in many sectors we have market-leading positions. We mainly compete with other specialist product software providers.

Overall market growth is being driven by software's deepening role in every aspect of business and consumer life. The drive for automation and demand for apps to engage with end-users is set to continue in a digital-first world. In response to slower growth in our more mature markets – particularly in education and secure software – we are focusing on cross-selling opportunities in existing and adjacent markets and strategic expansion into new markets. In response to shrinking education budgets and increasing demand for access to cloud services, we are expanding our offering to schools of complimentary cloud products such as SIMS Pay and SIMS Finance. The payments market is consolidating and growth in e-commerce is driving this demand. The growth of cloud solutions has increased the accessibility of our products and allowed us to offer alternative commercial models for our customers to suit their requirements.

Financial performance

Adjusted revenue fell by 1.3%, reflecting good growth in AMT-Sybex and growth in our cross-sector products, including Payments, which was offset by declines in Healthcare Decisions, as a result of the end of our NHS24 Scotland contract, and Secure Solutions. Education Software was flat. Our book-to-bill ratio was 104%, reflecting an encouraging improvement in order intake, and we expect revenue to grow in 2019.

Adjusted operating profit increased by 1%, due to the aforementioned changes in revenue, investments in sales, including the US pilot, and benefits from transformation actions.

Sales and operational performance

Over the course of 2018 we have been increasing our focus on sales and standardising our sales processes and demand generation marketing, which is resulting in a stronger qualified pipeline.

There were a number of notable wins in the year. In partnership with Motorola Solutions, we were awarded a contract to supply our ControlWorks solution to a major metropolitan police service in Asia. We were also awarded a contract to provide ControlWorks to West Midlands Police, worth £6m over 10 years, and renewed our contract to provide support and maintenance to the Ministry of Justice for digital radio networks across the prison estate in England and Wales for the next five years. Pay360, our payment platform, won a significant contract with Luxon Payments, to support its global e-wallet launch. SIMS won a contract with City Montessori School (CMS) in India, the world's largest private school with more than 56,000 pupils.

We piloted the next cloud-based version of our main education software product SIMS8, launched SIMS Finance, a cloud-based financial reporting product and started development of a 'light-touch' smartphone-enabled version of SIMS for emerging markets. We also set up a marketing and sales operation in the US to roll out selected products, including AMTSybex, Retain, Pay360 and 911eye, and consolidated multiple support desks into an integrated shared service.

The increasing focus on application development offshoring led us to build a strong development skill base in India at a lower cost base, with particular focus on key technologies such as cloud and digital transformation. This will enable us to fully support our multi-year product development cycles, critical to supporting our future sales pipeline.

Divisional strategy and performance continued

People Solutions



Adjusted revenue

£498.3m

2017: £520.5m

Order book

£715.3m

2017: £786.5m

Adjusted operating profit

£40.7m

2017: £62.7m

Adjusted operating margin

8.2%

2017: 12.0%

Employees

5,800

Key regions

- UK
- US
- India
- Europe

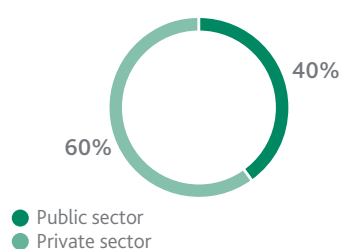
Key services and contracts

- Screening
- Recruitment
- HR services
- Learning services
- Corporate benefits
- Pension administration
- Army recruitment

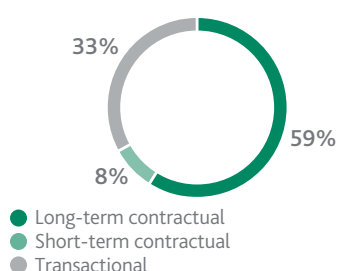
Key markets

- Financial services
- Central government
- Local government
- Technology
- Utilities
- Defence
- Education

Revenue by market



Revenue by type



People Solutions provides a full suite of HR offerings across the employment life cycle.

They include leading market positions in recruitment process outsourcing (RPO), learning process outsourcing, HR service (including payroll), and pensions and benefits administration, which are supported by our proprietary digital platforms, Orbit, Hartlink and Tessello.

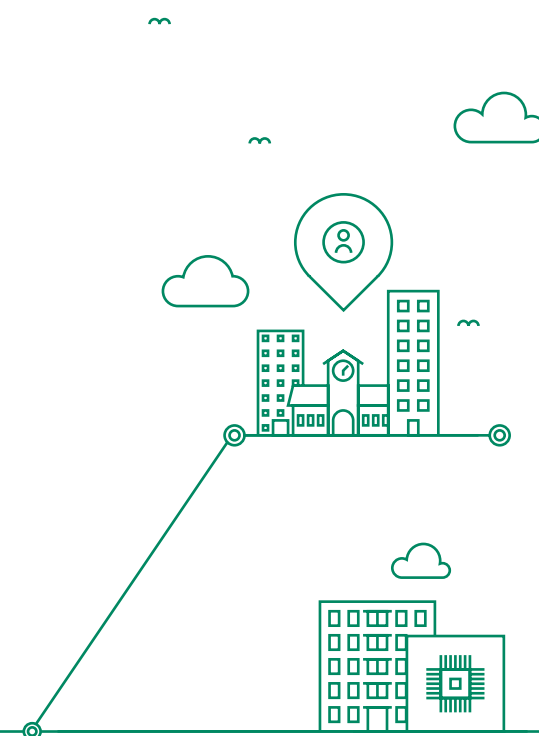
We also provide attraction, screening and performance management services, and best-in-class fire prevention and protection training facilities from the Fire Service College.

Our strategy

In April 2018, we brought our existing HR businesses together under a single leadership team for the first time, to create the People Solutions division.

Our strategy is to derive benefits from the new structure, by creating and leveraging a single sales engine and realising cost savings.

We are investing in our core products and platforms, developing a suite of new products and solutions, strengthening our analytics capability and growing our scalable, repeatable solution.



Strategic priorities 2018–2020:

- Integrate multiple HR businesses into a single end-to-end HR services business.
- Upgrade core products and technology platforms across key client services.
- Develop an enhanced external and cross-divisional sales function and culture.
- Invest in value-add advisory and analytics services to enhance core HR offering.
- Build on and replicate existing solutions to achieve scale.

2018 progress against strategic priorities:

- Creation of a new division with new leadership team and operating model.
- Investments in people and process to address specific operational under performance.
- Investments made in sales, technology platforms and digital.
- Met cost-out targets.
- Identified additional opportunities for automation and offshoring.
- Cultural change programme aligned with Capita-wide, refreshed values and behaviours.

Divisional financial summary

	2018 £m	2017 £m	change %
Adjusted revenue	498.3	520.5	(4.3)
Adjusted operating profit	40.7	62.7	(35.1)
Adjusted operating margin	8.2%	12.0%	
Order book	715.3	786.5	(9.1)

Our markets and growth drivers

The UK market for people services was valued at £6bn in 2018 and is expected to grow at an annual growth rate of 5% through to 2022 (source: Nelson Hall). Capita is a leading provider in most segments, including benefits administration where we have an 8% market share, learning process outsourcing with 21% market share and recruitment process outsourcing with 12% market share. The market is being driven by a customer propensity to buy digital self-service, a move away from large-scale contracts to modular product buying, where customers require expert advisory support as they transition to digitally-enabled operating models. In the learning market there is a shift away from traditional classroom training to online personalised and informal development, and the market is experiencing consolidation. Players with digital platforms and access to data and analytics are likely to innovate and win market share.

Financial performance

Adjusted revenue fell by 4.3% as a result of declines in our transactional businesses Capita Resourcing and Learning Services, which were impacted by the transition to a new public sector training framework, previously Civil Service Learning, and the transfer of the Contingent Labour One (CL1) public sector resourcing contract to a new provider in the second half.

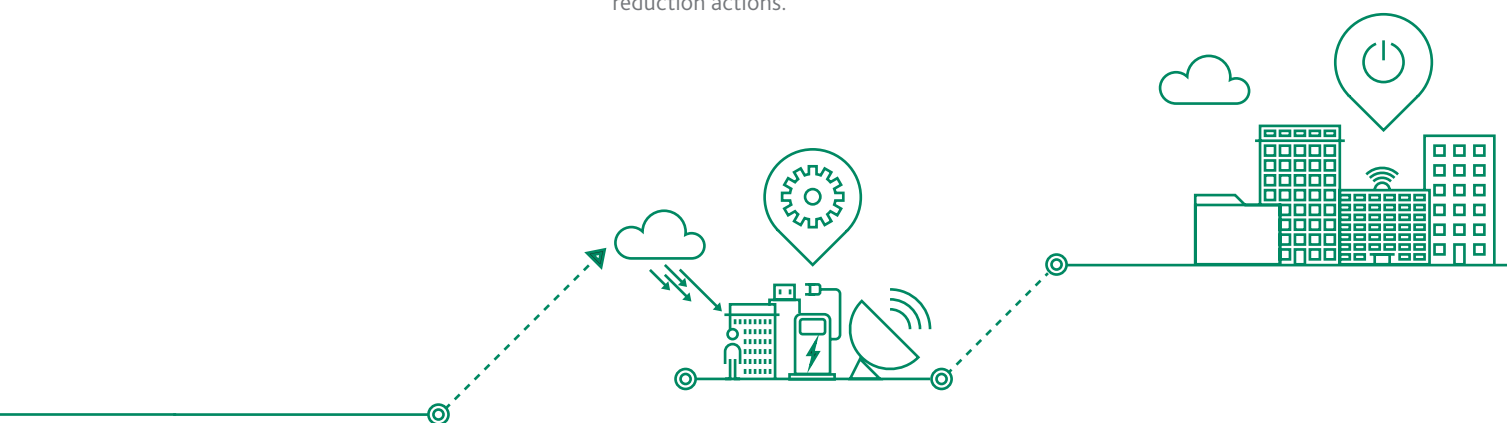
Adjusted operating profit decreased, reflecting the above decline in revenue, investment to strengthen the business and lower margins in Employee Solutions, which have yet to be offset by cost reduction actions.

Sales and operational performance

Our forward order book was £715m at year-end. We signed a number of new contracts in the year, including the provision of resourcing services for the Home Office and German energy company Innogy, the management of apprenticeships for the Department of Work and Pensions and provision of learnings services for Vodafone. We also extended our learning services contract with a major retail bank.

We started investments in: the development of a digital onboarding product to complement our suite of 'hire to retire' services; the next generation of the Orbit benefits platform, onto which a number of clients were migrated; our KnowledgePool learning booking system; and the candidate portal of our pre-employment screening system to improve customer experience.

We have re-set our partnership with the Army on the Recruiting Partnering Project (RPP) at a senior level and the contract is starting to show signs of improvement. The number of regular soldier recruitment applications were at a five-year high at the time of writing this Annual Report and we're working hard to reduce the amount of time it takes to be offered a job in the Army. The contract aims and performance were the subject of an National Audit Office report in December 2018, the findings of which related to what are now largely historical contract issues, and we attended a Public Accounts Committee with the Army in January 2019. We have been open about mistakes made in the past and we know there is still a lot for us to do to deliver on our commitments.



Divisional strategy and performance continued

Customer Management



Adjusted revenue

£794.2m

2017: £828.9m

Order book

£2,011.8m

2017: £1,843.6m

Adjusted operating profit

£39.6m

2017: £57.8m

Adjusted operating margin

5.0%

2017: 7.0%

Employees

30,000

Countries of operation

- UK
- Germany
- Switzerland
- South Africa
- India
- Poland
- Argentina
- Bulgaria

Key services and contracts

Services

- Customer experience enhancement
- Revenue generation
- Escalated case/complaints management

- Digital transformation.

Contracts

- O2
- TV Licensing
- British Gas
- npower

Key markets

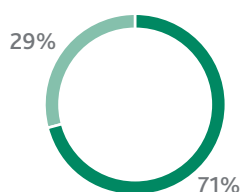
- Retail
- Telecoms and media
- Utilities
- Automotive
- Financial services
- Travel and leisure

Revenue by market



- Private sector
- Public sector

Revenue by type



- Long-term contractual
- Short-term contractual

Capita is a leading provider of multi-channel customer engagement services, underpinned by full-service business management capabilities, in the UK, Switzerland and Germany.

We primarily serve customers in the telecommunications, retail and utility sectors, from a mix of onshore locations in Europe and offshore locations in India, Poland, South Africa, Argentina and Bulgaria.

The division also provides remediation, complaints management and collections services, including TV Licensing. Our approach is to build shared outcome partnerships, increasingly based on partnering for value, not transactional supply. The value we bring to our clients is increasingly built around transforming the customer experience through the application of data insight and analytics. These enable us to manage complex, high-value interactions, drive positive quality improvement, and improve financial benefits for clients.

Our strategy

We have a differentiated strategy and core-value proposition in our markets; our approach is customer experience-led, tech-enabled and underpinned by contracted commitment to business outcomes. We are building capability to underpin our core value proposition that we 'make great customer experience happen'. Our commercial model increasingly includes a commitment to client outcomes such as improvements in the net promoter score, revenue generation, customer acquisition and cost-to-serve, deploying a range of operational, technology and process capabilities from within both Customer Management and the wider Capita group. This commitment to outcomes and 'making great experience happen' is core to our differentiation in the marketplaces in which we operate. Our operational scale allows us to derive meaningful insight from our customer interaction data, driving business improvement across our operations. Consequently, we are able to build longer-term, more strategic partnerships, with richer solutions.

Strategic priorities 2018–2020:

- Invest in our infrastructure to ensure consistent, high-quality service delivery, including facilities, core technology and tools.
- Build new digital platforms to support all channels and customer on behalf of clients.
- Build enhanced data and analytical platforms and capabilities to enable the business to drive insights from customer interactions into our client engagements.
- Implement a stronger operating framework to standardise our operational routines and transfer best practice across our operations, both on and offshore.
- Invest in improved consultative selling capability to increase origination, pipeline and order book.
- To standardise best practice, improve our infrastructure, invest in people, increase our use of technology and offshoring.
- Diversify and accelerate growth in some of our secondary sectors, notably financial services and travel and leisure.

2018 progress against strategic priorities:

- Investment in sales resource to drive origination and consultative selling, reflected in order book growth in 2018.
- Pilots built for both omni-channel and new automation technologies, ahead of full production in 2019, underpinning our differentiated customer experience approach.
- Customer Experience Improvement methodology proposition embedded and rolled out to first tranche of clients.

Divisional financial summary

	2018 £m	2017 £m	change %
Adjusted revenue	794.2	828.9	(4.2)
Adjusted operating profit	39.6	57.8	(31.5)
Adjusted operating margin	5.0%	7.0%	
Order book	2,011.8	1,843.6	9.1

Our market and growth drivers

We are the largest provider of customer management services in the UK with a 14% market share. The UK market is estimated to be worth £4bn a year and is expected to grow at approximately 4% per annum through 2022 (source: Nelson Hall). The German and Swiss customer management markets are estimated to be valued at £4bn per annum and are expected to grow at around 5% per annum through to 2022.

In both the UK and Europe, Capita competes with a range of local and global players for transactional contracts, typically priced on a price per FTE hour basis, and a smaller number of strategic players for outcome-based contracts. In Germany, the market has consolidated following a period of low growth and pricing pressure. Clients are seeking partnerships which are characterised less by FTE numbers and more by a range of value-adding services: revenue generation, complaints management, digital channels and data/insight. This increasingly complex service offering provides opportunities for players with deeper outsourcing capabilities. Customer experience is getting wide organisational attention from our clients, as they seek more sustainable models for attracting and retaining customers and driving revenue growth.

Financial performance

Adjusted revenue fell by 4.2%, due to contract scope changes and lower volume in the UK retail and energy sectors and Switzerland. Adjusted operating profit decreased due to: the aforementioned decline in revenue; a weaker performance in Europe, which was impacted by lower profits in Switzerland, and a slightly higher loss on our contract with mobilcom-debitel; increases in some cost items including the adoption of General Data Protection Regulation; and the dropping-out of a one-off contract modification benefit in 2017. Excluded from 2018 adjusted profit is a charge of £61.7m from the impairment of acquired intangibles (refer to note 3 of the consolidated financial statements).

Sales and operational performance

Our order book increased by 10% to £2.0bn in 2018, due to the extension and expansion of existing contracts and signing of new contracts to deliver high-quality services for a number of leading clients, including:

- The extension and expansion of our existing contract with Germany's largest integrated telecommunications provider, taking over the operation of three contact centres and 640 employees. This contract is estimated to be worth £300m (€340m) to Capita to December 2022.
- British Airways selected us to deliver a new five-year contract to deliver enhanced customer services from our global centre in Cape Town, South Africa.
- Expanded contract with Southern Water for end-to-end customer services – including the management of back-office billing processes, correspondence-handling, print and mail – worth £30m over five years.
- Expanded contract with the Financial Services Compensation Scheme (FSCS) – to consolidate all its claims handling services, including all inbound and outbound customer contact – worth £37m over four years and nine months.
- Extensions of our contracts with: npower, worth £41m over three years; Marks & Spencer, worth £70m over five years; and BBC Audience Services for five years.

The transformation of our seven-year customer services contract with mobilcom-debitel – one of Germany's largest mobile, internet services and telecoms products providers – is now progressing well. During 2018, the investment of management time has improved contract performance, and we delivered all transformation milestones on time. This included the roll-out of a new multi-channel telephony platform and the launch of IOS and Android mobile apps. We continue to plan to reach break even on the mobilcom-debitel contract by the end of 2020.

Divisional strategy and performance continued

Government Services



Adjusted revenue

£745.5m

2017: £861.7m

Order book

£2,187.5m

2017: £2,660.6m

Adjusted operating profit

£35.2m

2017: £78.7m

Adjusted operating margin

4.7%

2017: 9.1%

Employees

8,700

Key regions

- UK
- India

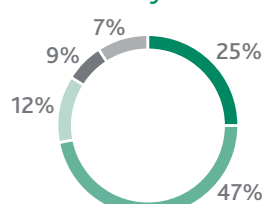
Key services and contracts

- Local government business process management and transactional services
- DWP PIP
- DCC Smart Metering
- Electronic Monitoring
- Primary Care Support England
- TfL Congestion Charging and ULEZ
- STA
- Gas Safe Register

Key markets

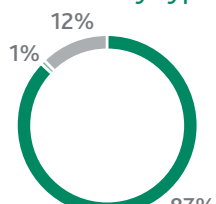
- Local government
- Central government
- Defence
- Education and health

Revenue by market



- Central government
- Local government
- Justice & emergency services
- Education
- Health

Revenue by type



- Long-term contractual
- Short-term contractual
- Transactional

Capita is a trusted strategic partner to central government for the delivery and transformation of technology-enabled business services.

It includes the operation of large, complex contracts that underpin the achievement of policy outcomes.

We are also a leading provider of support services such as revenues, benefits and back-office processing, IT, HR, and finance to local authorities, and education and health organisations.

Our strategy

Our strategy is to focus on and leverage areas where Capita has core expertise, invest in our transformation, technology and operational capabilities, package more of our services making them simpler to procure, improve the performance of challenging contracts, and implement structured client account management. We are also discontinuing smaller non-core activities such as facilities management and focusing on core areas of collections and disbursement, regulatory and planning services, and customer and digital services. Since April, we have begun a programme to drive operational excellence and put in place continuous improvement plans for all businesses.

Key contracts¹

Personal Independence Payments (PIP)

Administration of personal independence payments in two regions in England and Northern Ireland

Primary Care Support England (PCSE)

Support services for GPs, pharmacies, opticians and dental practices

Home Office Electronic Monitoring

Administration of tagging for offenders

Transport for London

Administration of Congestion Charge and Ultra Low Emissions Zone

DCC Smart Metering

Management, implementation and development of the national smart metering infrastructure

Birmingham City Council

IT and digital services

Staffordshire County Council (Entrust)

Provisions of support services to schools

London Borough of Barnet

Customer services, finance, HR and property strategic partnership

¹ Contracts over 1% of 2018 annual revenue.

Strategic priorities 2018–2020:

- Develop existing core service capabilities as repeatable product propositions to drive growth.
- Continuous programme of operational excellence to improve service delivery.
- Transformation of local government business away from a traditional outsourced contract model to business process as a service (BPaaS) where clients pay for services as they consume and are not tied into lengthy contract commitments.

2018 progress against strategic priorities:

- Local government strategy reviewed and reset to address accelerated market and contract decline.
- Commenced local government transformation programme to change service model.
- Investment in establishing delivery excellence partnership relationships with key government departments.
- Focused resources on securing re-bids with targeted accounts.
- Delivered cost-out targets.

Our market and growth drivers

Capita is one of the largest providers to government in the UK with an estimated market share of 13%. The UK market for central and local government services is valued at £6.7bn a year and estimated to be growing at approximately 3% per annum (source: Nelson Hall). However the local government market for large outsourced 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 accelerated decline is being driven by fiscal pressures, the expectation that this will provide a more flexible cost and delivery model but also an ideological shift away from outsourcing by some council leaderships. This structural decline has proved challenging for the division in the year, and a greater focus has been put on redefining and simplifying our core capabilities alongside managing the declining contracts.

Brexit is still affecting the volume of new policy initiatives by Government departments, resulting in fewer new opportunities for private sector contractors. Following the collapse of Carillion, 2018 was a challenging year for the outsourcing

Divisional financial summary

	2018 £m	2017 £m	change %
Adjusted revenue	745.5	861.7	(13.5)
Adjusted operating profit	35.2	78.7	(55.3)
Adjusted operating margin	4.7%	9.1%	
Order book	2,187.5	2,660.6	(17.8)

sector, but engagement by Capita with the Cabinet Office has increased and improved as it embarked on a review of contracting. After consultation across the sector, the Government has pledged to take on a greater share of the risk on outsourced public sector contracts, as part of a new set of rules drawn up in February 2019 to improve stability in the sector.

Despite these challenges, Government departments are still actively engaging with the private sector and continue to renew existing contacts and award new work.

Financial performance

Adjusted revenue fell by 13.5%, due to the re-shaping of our Defence Infrastructure Organisation (DIO) contract, which benefited from the recognition of previously deferred income in the prior year, and a decline in our local government long-term strategic partnerships, reflecting the aforementioned market weakness. Adjusted operating profit decreased due to the dropping-out of the £22m one-off benefit from DIO, as previously disclosed, and weakness in local government, which were partially offset by a reduction in loss on Primary Care Support England (PCSE). Excluded from 2018 adjusted profit is a charge of £33.8m from the impairment of goodwill (refer to note 15 of the consolidated financial statements).

Sales and operational performance

Despite the difficulties faced by the company in the early part of 2018, we remain a strategic partner to the Cabinet Office.

We won, renewed and extended a number of contracts in 2018, including:

- Department for Education's Standards and Testing Agency – new contract to manage the administration, processing and support for all primary school national curriculum assessment tests in England.
- Transport for London – implementation and management of the Central London Ultra Low Emission Zone.
- Renewed contracts with Westminster City Council to manage the authority's revenues and benefits services, and the Health and Safety Executive to continue to manage the Gas Safe Register.

In 2018 Capita's subsidiary, SmartDCC, went live with its GB-wide infrastructure for the rollout of second-generation smart meters. Alongside this service, SmartDCC is delivering key programmes of work for the government and energy industry to integrate first-generation smart meters into its network and deliver next-day consumer switching in the energy retail market.

We took firm action towards the end of 2018 over issues relating to our PCSE contract with NHS England. This followed the discovery of delays in the issuing of cervical screening correspondence, which forms part of PCSE, to thousands of women. We apologised to all the women affected by this administrative error and, following an investigation of the managerial handling of the matter, appropriate internal disciplinary action was taken. We have improved quality processes and other operational service delivery levels on the contract continue to be stable. We continue to expect the PCSE contract to reach break even by the end of 2020.

The local government market for large, multi-year deals, declined at an accelerated rate during the year. Southampton, Sheffield and Birmingham City Councils have notified us of their intention to end contracts with them 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 local authority management.

Divisional strategy and performance continued

IT & Networks



Adjusted revenue

£404.0m

2017: £415.4m

Order book

£380.4m

2017: £508.3m

Adjusted operating profit

£45.3m

2017: £62.0m

Adjusted operating margin

11.2%

2017: 14.9%

Employees

3,400

Key regions

- UK
- India
- Poland

Key services

- Managed networks
- Data centre and cloud infrastructure
- Managed IT support
- Testing
- Cybersecurity and consulting

Key markets

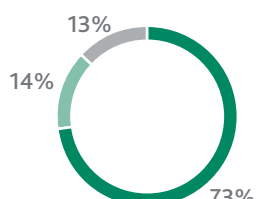
- Local government
- Central government
- Defence
- Education
- Financial services
- Telecoms
- Aerospace
- Transport

Revenue by market



- Public sector
- Private sector

Revenue by type



- Long-term contractual
- Short-term contractual
- Transactional

Capita is one of the top 10 suppliers of IT Services and networks in the UK, focused on the mid-sized market.

Our IT services business acts as a technology enabler across all of Capita's services both internally and externally. We provide end-to-end enterprise IT services and solutions focused around four key areas: digital transformation and innovation; core platforms – cloud, hosted and on-premise and services; LAN and WAN connectivity solutions; and professional services – advising and running IT solutions for our customers, testing, data consulting and cybersecurity.

We operate across the UK and from our operations in India, supporting clients at a local and national level. We have strategic partnerships with leading global IT vendors, have invested in our own portfolio of hosted platforms and operate our own UK-wide network and data centres.

Our strategy

Our strategy is to consolidate separately run entities into single IT & Networks businesses. We will: simplify the service catalogue and professionalise internal relationships; invest in our infrastructure, cloud and people; and build technical and sales capabilities to improve customer experience.

In 2018, we launched the 'One ITS' programme, which is expected to realise significant cost savings over the next three years and includes the introduction of shared service centres with common processes and an increase in the use of offshoring.

We also started a programme to invest in our data centre network to simplify and consolidate the existing environment and improve performance and consistency.



Strategic priorities 2018–2020:

- Consolidation of multiple stand-alone IT business into a single of integrated IT & Networks business.
- Upgrade and consolidation of data centres to create an enhanced resilient and secure client infrastructure.
- Invest in key client propositions across networks, cloud, cyber and digital.
- Develop our people.

2018 progress against strategic priorities:

- Improved our conduct and control environment.
- Upgraded our legacy IT infrastructure (data centres) and technical capabilities.
- Achieved cost competitiveness targets.
- Revamped our brand and client value proposition.
- Improved our services, internal relationships and customer experience.
- Simplified our organisation and our service/product offering.

Divisional financial summary

	2018 £m	2017 £m	change %
Adjusted revenue	404.0	415.4	(2.7)
Adjusted operating profit	45.3	62.0	(26.9)
Adjusted operating margin	11.2%	14.9%	
Order book	380.4	508.3	(25.2)

Our markets and growth drivers

The IT infrastructure services market in the UK was estimated to be worth £28bn in 2018. The overall market is expected to grow at 2% a year to 2021 (source: TechMarketView). However, this is highly polarised with high growth in cloud services and shrinking client device support. While the market is large and growing, it is also changing, providing both opportunities and threats to our current business. In IT services, the demand for customer value creation is driving digitisation and automation across the sector. Large, fully managed legacy service contracts are being replaced by a 'pick and mix' service model driving a need for a standardised offering with modular add-ons. In Networks, the global shift to digital comes with enormous data, security and network resource requirements. New product areas, such as SD-Wan, are opening up new market opportunities for smaller players to compete with the large telcos.

Financial performance

Adjusted revenue fell by 2.7%, due to contract losses and lower volume in Managed IT Solutions and Enterprise Services. Adjusted operating profit decreased due to the dropping-out of a £9m one-off supplier settlement in the prior year and lower margins in Networking Solutions.

Sales and operational performance

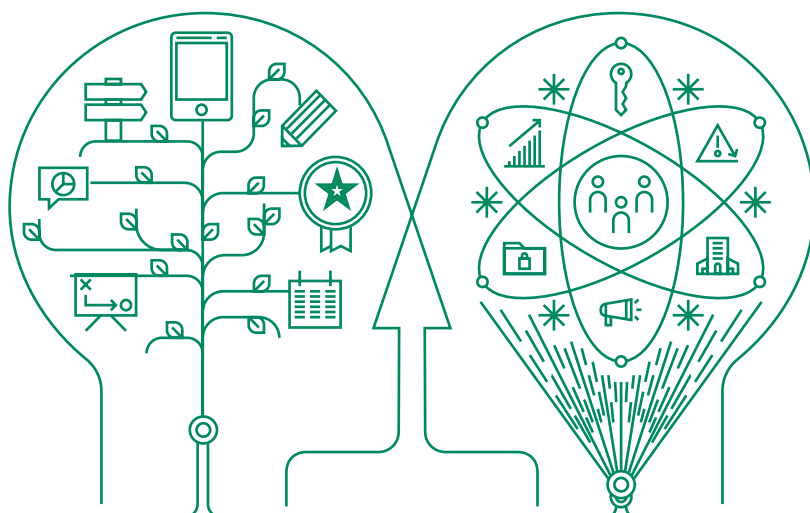
2018 was a year of fixing the basics across the division, bringing together the separate operating businesses and stabilising them. This 'One ITS' programme is expected to realise significant cost savings over three years and includes the introduction of shared service centres with common processes and an increase in the use of offshoring.

Following an IT data centre outage in 2017, we have invested significantly in our existing data centre estate to simplify and consolidate the environment and improve performance and consistency. Plans are progressing for the phasing of legacy clients onto a new cloud infrastructure.

We began work on simplifying our product and service portfolio into six key product lines to position the division for improved client retention and growth. As part of this review, we retired a number of legacy brands and brought all our services together under the Capita brand. In November, a new divisional sales and marketing organisation was created, with additional resource focused on product cross-sell and key account management.

We began the implementation of the Transport for London networks contract in March and successfully went live in late August. Transformation of the network is ongoing and is due to be completed by the end of 2020.

Contract wins and renewals in the year included the NHS Business Services Authority, Ministry of Defence, Kent Public Service Network, North Essex Partnership, Driver and Vehicle Standards Agency, and Transport for London.



Divisional strategy and performance continued

Specialist Services



Adjusted revenue

£992.2m

2017: £1,022.7m

Order book

£1,241.4m

2017: £1,844.8m

Adjusted operating profit

£139.5m

2017: £140.6m

Adjusted operating margin

14.1%

2017: 13.7%

Employees

11,000

Key regions

- UK
- India
- Dubai
- Poland

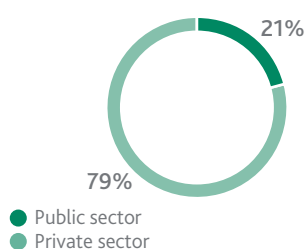
Key services and businesses

- Life & pensions administration
- Insurance services
- Mortgage processing
- Travel & events
- Enforcement
- Legal services
- Real estate and infrastructure
- AXELOS
- Fera
- Managed print
- Translation & interpreting
- Hardware re-selling

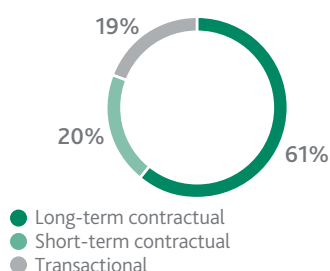
Key markets

- Financial services
- Central and local government
- Education
- Defence
- Housing
- Healthcare
- Technology
- Utilities
- Environment and transport

Revenue by market



Revenue by type



Our Specialist Services division comprises a portfolio of 16 businesses, delivering a range of services offerings through joint ventures, trading businesses and traditional IT-enabled legacy BPO contracts.

The division includes those businesses which either are not within Capita's growth markets and/or have little in common with our other divisions and/or 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 actively managed on a portfolio basis in order to maximise value and include Life Insurance, Insurance Services, Mortgage Services & Collections, Optima, Travel & Events, Evolvi, Real Estate & Infrastructure, AXELOS, Fera, Managed Print, Hardware Reselling and Enforcement.

Our strategy

Due to the varied nature of the activities in the division, each business has its own strategy uniquely tailored to their service offerings and the needs of their clients which has been defined through a 'value optimisation' programme.

This programme, which involved a detailed review of each business and its market position, identified strategic and tactical opportunities to improve value generation from them.

We enjoy strong market positions in many of the verticals sectors, with strong brands and positive client perception of our services. This provides an ongoing opportunity to leverage Capita's wider client base better, and to simplify and strengthen the portfolio. The focus across the portfolio is on operational excellence, cost-optimisation and leveraging Capita-wide infrastructure, clients and capabilities where possible.



Strategic priorities 2018–2020:

- Manage as a portfolio and focus on continuing 'value optimisation'.
- Rationalise service lines, processes, properties and IT.
- Leverage cross-sell opportunities across portfolio and wider Capita.

2018 progress against strategic priorities:

- Restructured a number of businesses and closed unprofitable service lines.
- Introduced tightly managed investment process and governance.
- Delivered cost competitiveness targets in 2018.
- Investment in a number of product/service enhancements.

Our markets and growth drivers

Specialist Services includes a range of businesses serving public and private clients across multiple vertical sectors, which are generally mature. Our closed book Life Insurance administration business is in structural decline as books run off and some customers, with legacy IT systems, are switching to suppliers who can provide a single digital platform for all their life books.

Divisional financial summary

	2018 £m	2017 £m	change %
Adjusted revenue	992.2	1,022.7	(3.0)
Adjusted operating profit	139.5	140.6	(0.8)
Adjusted operating margin	14.1%	13.7%	
Order book	1,241.4	1,844.8	(32.7)

Financial performance

Adjusted revenue decreased by 3%. This reflected good growth at AXELOS and modest growth at Fera and Enforcement, which was outweighed by declines in Real Estate & Infrastructure, Insurance and Life insurance. Revenue included a £38m release of deferred income on the early transfer of Prudential UK's life insurance business to a new supplier in the second half of 2018.

Adjusted operating profit fell by 1%, as a result of increases in AXELOS and Real Estate, which benefited from restructuring actions, which were offset by declines in Managed Print and Mortgage Services. Profits included a £9m one-off benefit on the end of the general insurance contract with Marsh and a £6m one-off benefit on the end of the Prudential contract, which were partly offset by one-off write downs and provisions.

Sales and operational performance

During the year we disposed of a number of businesses, notably Supplier Assessment Services (including Constructionline) and ParkingEye, delivering over £400m in disposal proceeds.

The Life and Insurance Services business was impacted by the loss of the Prudential UK and Marsh contracts. We are focusing the business on supporting our customer services clients, where we are delivering high quality services for open book products.

We have restructured our real estate and infrastructure business, invested in our IT infrastructure and client portals and enhanced our security and compliance in our regulated businesses.

New sales wins in the year included: the award of a new courts enforcement contract by the Ministry of Justice; Travel & Events contracts with the Department for International Trade, and Rolls Royce; and a Customer Solutions win with Electric Ireland, providing collection and credit-control services.

