



Software

Strategic priorities 2018–2020:

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

2019 progress against strategic priorities:

- Investment in products such as SIMS, Retain, Payment Facilitator and One Housing.
- Delivered cost savings through standardisation and further business integration.
- Grew digital delivery centre in India to 1,200 employees.
- Cross-Capita collaboration, supporting new contracts.

Capita is one of the UK's largest software companies; and our specialist enterprise software products serve sector-specific and cross-sector markets in the UK and overseas. Our software, deep industry expertise and functional IP support critical public services and business processes. They also form a differentiating component of Capita's wider digitally enabled services offering.

More than 70% of our revenue is recurring and more than 80% of licence revenue is spread over the term of our client relationships, irrespective of whether it is a perpetual licence or a 'pay as you go', software as a service (SaaS) model.

Our markets and growth drivers

We are a UK top-10 provider of enterprise software products and the market is expected to grow at around 4–5% in 2020. We have market-leading positions in sectors such as education and emergency services and are a top-three provider in local government.

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. We are focusing on cross-selling opportunities in existing and adjacent markets, and strategic expansion into new markets. With continued pressure on education budgets, and increasing demand for access to cloud

Better outcomes

Public safety agencies rely on Capita's technology to respond to emergencies and major events. Our solutions have helped London Fire Brigade reach incidents on average 19 seconds more quickly than previously; and, in the West Midlands, Capita enables 999 callers to securely send footage of incidents directly to emergency call rooms.

services, we are expanding our offerings of complementary cloud products to schools. The growth of cloud solutions has increased the accessibility of our products and allowed us to offer alternative commercial models for clients.

Our strategy

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

The division is transforming 29 siloed businesses into a single software business. We are aiming to invest in using reusable components and standard architectures, supported by scaled, integrated, shared service functions and our digital delivery centre in India. We are investing in both existing and new products and markets to defend and grow the business, with the aim of achieving market rates of revenue growth in 2020.

Financial performance

Adjusted revenue in 2019 fell by 1.2% to £375.4m, with year-on-year growth in the second half offset by annualising 2018 contract losses in the first half. Notable contract wins included a number of emergency service contracts and work to support delivery of the next generation of smart meters. There was an encouraging improvement in order intake despite a slowdown in orders during the fourth quarter, particularly in local government.

Adjusted operating profit decreased by 6.1% to £102.9m, due to the changes in revenue, and investments in improving products, sales and marketing, including in the US, which were partly offset by benefits from transformation cost savings.

Cost and operational excellence

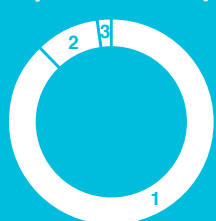
Many of the changes required to create a streamlined division are now in place. We have built a best-in-class digital delivery centre to produce standardised, repeatable software. It is supporting the rest of Capita in creating scaled, integrated, shared service functions. It has also allowed us to move to an agile delivery platform with releases every 13 weeks, providing value adding enhancements to clients on a regular basis. We will continue to drive consolidation and efficiency alongside productivity benefits to clients.

Investing in growth

During 2019, we ensured we had clearer propositions in the marketplace and focused more on finding solutions to client problems in markets where we have experience and through data-driven insight. Over the past two years we have been reducing technological debt from prior under-investment and this is now starting to normalise.

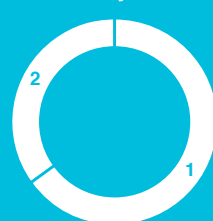
New product development in 2019 included a well-received lite version of Retain, our resource planning software, with a cloud release in 2020. There were a number of developments in education software including Reading Cloud, Parental Engagement and SIMS 8, which is now live in a number of primary schools with a pipeline of further interest. Robotic process automation will also support SIMS migration for our clients who need it. Reading Cloud now supports more than eight million students and allows us to enter the schools' literacy market with the launch of Literacy 360 in 2020. We have also now built a sales team in North America and are focusing on pipeline build and lead conversion. 911 Eye is proving popular and is currently with 13 police forces in the US, while we continue to pursue further opportunities.

Adjusted revenue by type (%)



1. Refer to alternative performance measures on pages 187–188.

Revenue by market (%)



1 65% Public sector
2 35% Private sector

Financial performance

Divisional financial summary	2019	2018	Change %
Adjusted revenue (£m)	375.4	379.9	(1.2)
Adjusted operating profit (£m)	102.9	109.6	(6.1)
Adjusted operating margin (%)	27.4	28.8	
Order book (£m)	578.4	554.9	4.2

Adjusted revenue

£375.4m

(2018: £379.9m) -1.2%

Adjusted operating profit

£102.9m

(2018: £109.6m) -6.1%

Employees

4,100 (2018: 4,000)

Key regions

UK, India, US and Australasia

Key markets

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

Key products

- Education – SIMS
- Public safety – ControlWorks
- Finance and housing – Integra
- Payments – Pay360
- Resource planning – Retain, Workforce Management
- Utilities and transport – MarketFlow, FieldReach, Geofield

People Solutions solves complex people issues for large public and private clients across the entire employment lifecycle. Our market-leading portfolio of solutions range from sourcing the hardest to reach talent, such as IT and cyber security, delivering learning to a large number of employees across all sectors, to administering payroll and pensions to a significant portion of the UK workforce.

We are focused on developing and delivering digitally enabled, consultancy-led solutions that drive better outcomes for our clients and deliver a consumer-grade experience to their employees and end-users.

In the second half of the year, we reassessed the leadership requirements of the division and appointed a new Executive Officer, Chantal Free, to lead the division through its next phase of transformation as it returns to growth.

Our markets and growth drivers

People are at the centre of our clients' stated business strategies, creating significant growth opportunities for our business. According to NelsonHall, the market for people services is expected to grow at a rate of 5% through to 2023. The key market growth drivers are: (i) our clients' needs for financial sustainability; (ii) a better employee experience to execute on their strategy; and (iii) the necessity to have access to skills to enable them to be fit

People Solutions

Strategic priorities 2018–2020:

- Integrate and enhance solutions to align to key client challenges.
- Invest in core products and technology platforms to deliver a better user experience.
- Integrate solutions both intra and inter-divisionally, leveraging the Group's investment in the creation of Capita Consulting.
- Connect existing standalone solutions to solve our clients' complex issues through clearly articulated client value propositions (CVPs).

2019 progress against strategic priorities:

- Invested in new digital solutions for Vetting and Onboarding which will be launched in the first half of 2020. Both products reached minimum viable product (MVP) stage by 31 December 2019 and the first live client has been trialled on the new Vetting platform.
- Invested in improving client experience in pensions administration with an improvement in service-level agreement (SLA) performance (and reduction in cost of failure).
- Developed CVPs which connect our offerings.
- Improved performance of RPP through collaborative and effective strategic partnership approach.

Better outcomes

Capita makes a significant impact on the UK workforce. From attracting and processing 118,000 applications for the British Army, administering the pensions of around five million members and making 23 million pension payments, screening over 250,000 individuals for almost 40,000 jobs, to processing two million payslips for almost 500,000 employees across the UK, we created better outcomes for our clients and their people in 2019.

for a digital future. Our divisional pillars help clients address these issues: the pensions business helps with financial sustainability; HR Solutions addresses the employee experience need; and Learning and Resourcing are at the heart of the access to skills services.

Our strategy

Our strategy focuses on a rejuvenated account management model that aims to retain and grow existing accounts, driving profitable growth. Profitability improvements will be delivered by instilling operational excellence processes and mindsets into our existing operations, as well as financial prudence in investments and expenditure. The partnership with Capita Consulting, advising clients on their digital transformation journey, is also a significant opportunity for profitable growth.

Financial performance

Adjusted revenue increased in 2019 by 1.2% to £500.5m, reflecting growth in our Managed Learning and Apprenticeships and point solutions such as IT Recruitment and Employed Resourcing model, which resulted from IR35 regulatory changes, offsetting contract attrition in our Managed Resourcing Operations and Pensions business.

Adjusted operating profit declined by 22.4% to £34.9m, reflecting change in revenue mix in our Resourcing and

Learning businesses, challenged implementations in our Pensions business and capacity investment lag in our Pensions consultancy business to deliver future growth. We also increased investment to improve SLA performance and support client retention, particularly in Pensions Administration. Savings in operational excellence and technology were reinvested in strategic initiatives.

Cost and operational excellence

We have made progress on the integration of People Solutions and have driven cost efficiencies across the division, which will drive incremental benefits and service enhancements. We expect additional investment in 2020 to continue our transformation journey.

Our army recruitment programme (RPP) contract saw significant improvement, where the process review, technology advances and partnership with the client produced vastly improved outcomes. Following a successful advertising campaign, we have received the highest levels of applications to join the British Army in more than five years, and we are on track to deliver our regular soldier and officer targets for the recruitment year to 31 March 2020. We also rolled out a new process that includes clinical triage, which has made the candidate journey more rapid and bespoke. Inability to meet recruiting targets could lead to reduced

contract profitability and require an assessment as to whether associated contract assets were generating sufficient profits to support the carrying value.

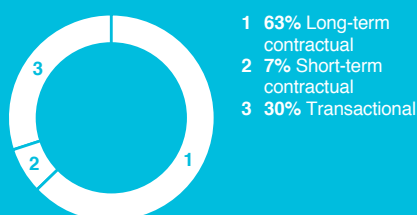
Investing in growth

During 2019 we invested in the development of our first truly digital products: Vetting and Onboarding. These investments are our model for our digital strategy going forward, affording our clients the opportunity to buy a positive employee experience. They reached MVP stage at the end of 2019, and will launch in 2020. They will deliver greater value to our clients through speed, efficiency and improved employee engagement.

We signed several new contracts in 2019, including: the provision of resourcing services for the Home Office; learning services for Network Rail; and screening services for Nestlé.

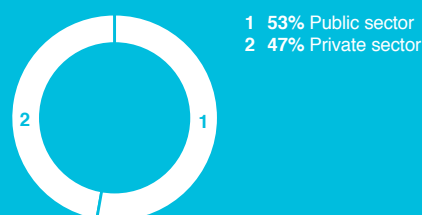
We have also taken advantage of the opportunities presented by the market stimulated by changes in the regulatory environment, including: IR35, apprenticeships levy and guaranteed minimum pension (GMP) equalisation. Furthermore, we have continued to invest in upgrading our core business process outsourcing platforms (learning and pensions software).

Adjusted revenue by type (%)



1. Refer to alternative performance measures on pages 187–188.

Revenue by market (%)



Financial performance

Divisional financial summary	2019	2018	Change %
Adjusted revenue (£m)	500.5	494.6	1.2
Adjusted operating profit (£m)	34.9	45.0	(22.4)
Adjusted operating margin (%)	7.0	9.1	
Order book (£m)	497.2	715.3	(30.5)

Adjusted revenue

£500.5m

(2018: £494.6m) +1.2%

Adjusted operating profit

£34.9m

(2018: £45.0m) -22.4%

Employees

5,900 (2018: 5,800)

Key regions

UK, US and Europe

Key markets

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

Key services and contracts

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



Customer Management

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 customers 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.

- 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.

2019 progress against strategic priorities:

- Built omni-channel, data and analytical platforms and new automation technologies.
- Invested in people and improved infrastructure.
- Increased our use of technology and offshoring through the global delivery centre.
- New framework in place for digital customer experience value proposition.

Capita is a leading provider of multi-channel customer engagement services, in the UK, Germany and Switzerland. We primarily serve customers in the retail, utility and telecommunications sectors, from a mix of locations in Europe, India and South Africa. The division also provides remediation, complaints management and collections services.

Our approach is to build partnerships, based on shared outcomes and value, while continuing to deliver transactional supply where this helps our clients to meet customer demands. The value we bring to our clients is increasingly built around transforming the customer experience through the application of digital services underpinned by data insight and analytics. These enable us to manage complex, high-value interactions, automate repetitive tasks and use technology and capability to drive positive quality improvement.

Our markets and growth drivers

Capita competes with a range of local and global players for transactional contracts, typically priced on a price per full-time equivalent (FTE) hour basis, and a smaller number of strategic players for outcome-based contracts. We are the largest provider of customer management services in the UK. According to NelsonHall, the UK market is estimated to be worth £4bn a year and is expected to grow at approximately 4% a year through to 2022.

Better
outcomes

Every year Capita answers 800,000 calls for the National Trust, resolves 25,000 webchat queries and handles 220,000 emails. By improving and embedding market-leading digital technology into the Trust's customer experience operation, we have improved the services and choices available to its members.

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 '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. This commitment to outcomes is core to our differentiation in the marketplaces we serve. Our operational scale allows us to derive meaningful insight from our customer interaction data, driving business improvement across our operations. Automation and digital augmentation is increasingly a solution to clients who want faster and closer interaction with customers.

Financial performance

Adjusted revenue for 2019 was flat year on year at £802.4m. Following a 1% decline in the first half, revenue increased by 1% in the second half thanks to wins and scope increases with existing clients such as Southern Water and British Gas.

Adjusted operating profit increased by 31.7% to £54.9m, mainly due to strong cost management, including the increasing use of resources in India and South Africa.

Cost and operational excellence

Cost improvement was delivered in 2019, particularly from operating model initiatives and procurement. We have started to leverage our global delivery centres in India, South Africa and Poland, offering efficiencies and innovative solutions to our customers. We invested significantly in capability and skills, as well as in our people, where better training and improved financial and working conditions have improved attrition and customer service.

The transformation of our customer services contract with mobilcom-debitel continues to progress well. We have been successfully driving the transformation programme through implementation of the new Capita-built mobile app, initiatives to shift the volume to digital channels and the increase in automation and self-services. We continue to expect to reach the inflection point and break even on the contract in 2020. Inability to achieve this key milestone could lead to reduced contract profitability and a risk of impairment of the associated contract assets.

During 2019, the O2 contract saw the best performance in both sales and service during the history of the partnership, reflecting the growing impact of work jointly undertaken to develop the target operating model.

Investing in growth

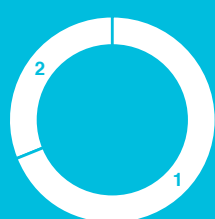
Clients are seeking partnerships which are characterised less by FTE numbers and more by a range of value-adding services. This increasingly complex service offering provides opportunities for players with deeper outsourcing capabilities.

During the year, we won, renewed and extended a number of contracts. This included the extension of contracts with:

- The National Trust – worth £46m over five years.
- British Gas – to November 2020, the contract has since been extended further to June 2024.

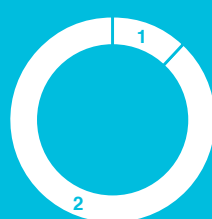
During the year, we applied data and analytics technology to existing clients, where examples include producing analytics on caller data and delivering insight on social media mentions. In the second half of 2019, we rolled out a like-for-like chat operation based in Pune and Mumbai; this will be followed in 2020 by the introduction of messaging, in-chat payments and automated services. Our investment in technology to date has provided the opportunity to build new relationships where automation is the focus from the outset, and further investment is expected in 2020 as we seek to build on our consulting experience.

Adjusted revenue by type (%)



1. Refer to alternative performance measures on pages 187–188.

Revenue by market (%)



- 1 12% Public sector
- 2 88% Private sector

Financial performance

Divisional financial summary	2019	2018	Change %
Adjusted revenue (£m)	802.4	802.6	–
Adjusted operating profit (£m)	54.9	41.7	31.7
Adjusted operating margin (%)	6.8	5.2	
Order book (£m)	1,723.7	2,012.2	(14.3)

Adjusted revenue

£802.4m

(2018: £802.6m) –%

Adjusted operating profit

£54.9m

(2018: £41.7m) +31.7%

Employees

29,200 (2018: 30,000)

Key regions

UK, Germany and Switzerland

Key markets

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

Key services and contracts

Services

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

Contracts

- O2
- TV Licensing
- British Gas
- npower
- Southern Water

Capita is a strategic partner to government in the application of digital transformation to improve the productivity of government operations and the citizen experience of public services.

We do this in a socially responsible way to make public services better for citizens and government employees, and to help our clients to release resources so that they can be deployed back into frontline service priorities. We believe that quality public services, innovatively designed and powered by technology, are critical to delivering safer, greener and healthier communities that support everyone, including society's most vulnerable.

Our markets and growth drivers

Capita is one of the largest providers to government in the UK with an estimated market share of 13%. Within this we have top-three leadership positions in several focused sectors where we have deep, proven experience and expertise, including education, health, transport, defence, central and local government. Governments globally are under pressure to deliver a greater quantity of services at better quality to citizens, driving counteracting forces for the sector. On the downside, they have reset interactions with traditional outsourcers – resulting in the disaggregation of services and insourcing. Conversely, there continues to be strong demand for innovative digital solutions that allow government to deliver

Government Services

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 and create headroom for reinvestment.
- Transformation of business model to a consulting, transformation and digital services company.

2019 progress against strategic priorities:

- Major contract wins in DFRP and PIP.
- Return to green supplier status with Cabinet Office.
- Continued improvement in performance of challenging contracts, including PCSE.
- Successful implementation of ULEZ.
- Delivery of cost-out targets.

**Better
outcomes**

Rossendale Borough Council, in Lancashire, commissioned us to deliver their out-of-hours customer support. Following successful delivery of our emergency planning, our contract was extended to implement a homelessness service, arranging urgent accommodation for vulnerable people.

their goals for improved productivity and better citizen experience. Government departments are actively engaging with the private sector to reflect this: reshaping contracts at renewal, but also awarding new work and renewing existing relationships. In particular local government markets have seen significant reshaping of the landscape.

During 2019, Brexit substantially affected the volume of new initiatives. With the election of a strong majority government, we are starting to see indications of an acceleration of decision making and the potential for new opportunities in support of emerging policies.

Our strategy

Our strategy is to focus our business around the aforementioned six core market sectors where we have a leading position; offer a refined set of value propositions developed on top of a defined and controlled stack of underlying replicable digital products and capabilities; invest in a full-lifecycle digital transformation capability; and focus on excellence in our transformation and operational service delivery performance.

Financial performance

Adjusted revenue was broadly flat in 2019 at £777.9m. Prior-year losses of our contracts with the Home Office supporting the immigration sector and the Defence Infrastructure Organisation, and a decline in local government, were offset by growth

in contracts such as smart metering and by increased scope in our Transport for London (TfL) contract. Adjusted operating profit increased significantly to £58.8m with the impact of contract losses being offset by performance improvements on contracts such as Primary Care Support England (PCSE), one-off contract-related items, and efficiency improvements.

Operational excellence

In 2019, we continued to devote resource to our service quality, which improved with over 95% of key performance indicators green, while we also returned to green strategic supplier rating with the Cabinet Office. Operational service delivery on our PCSE contract with NHS England continues to improve. A small proportion of the contract, which administered cervical screening, was transferred back to the NHS in August 2019. We started the roll-out of our transformed solutions for ophthalmic payments, pharmacy market entry and performer list at the end of the year, with positive feedback. We continue to expect to reach the inflection point and break even on the contract in 2020. Inability to achieve this key milestone could lead to reduced contract profitability and a risk of impairment of the associated contract assets.

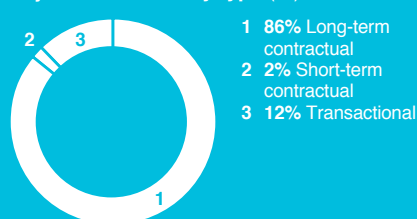
We successfully introduced the ultra-low emission zone (ULEZ) for TfL, including vehicular image capture and processing, billing and a mobile payments app, data

management, enforcement and customer call centre operations.

Investing in growth

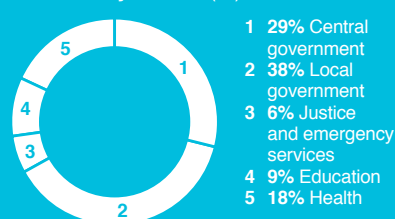
2019 was a successful year when we managed to offset some major contract losses with new business wins. These included: a £525m contract to modernise and support improvement to the operational effectiveness of the Ministry of Defence's fire and rescue service (DFRP) with the mobilisation for this contract going well; and a £145m extension of our contracts with the Department for Work and Pensions (DWP), and the Department of Communities in Northern Ireland, to deliver Personal Independence Payment (PIP) assessments. Smaller contracts with Charnwood, Bexley, and the extension of the Ministry of Justice Technology Transition Programme contract were also won. Our growth model going forward focuses on understanding the problems of our clients in government and helping them to transform their business with scalable digital products and solutions. Growth will come from investment in scalable and repeatable products and solutions. We have invested in robotic process automation and artificial intelligence, and they will be used to drive further productivity gains with the savings used to invest in our client value propositions. We also expect a strong benefit from our colleagues in Capita Consulting, who have deep knowledge of the industry verticals that we are targeting, as well as the tools we use to deliver services.

Adjusted revenue by type (%)



1. Refer to alternative performance measures on pages 187–188.

Revenue by market (%)



Financial performance

Divisional financial summary	2019	2018	Change %
Adjusted revenue (£m)	777.9	780.5	(0.3)
Adjusted operating profit (£m)	58.8	40.3	45.9
Adjusted operating margin (%)	7.6	5.2	
Order book (£m)	2,328.4	2,187.5	6.4

Adjusted revenue

£777.9m

(2018: £780.5m) -0.3%

Adjusted operating profit

£58.8m

(2018: £40.3m) +45.9%

Employees

8,200 (2018: 8,700)

Key regions

UK

Key markets

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

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
- Gas Safe Register

As part of our strategy to simplify and strengthen, we have renamed IT & Networks as Technology Solutions. Capita is a top-10 service provider of digital IT and connectivity solutions in the UK, focused on the mid-sized enterprise market.

We consult, transform and deliver digital solutions to help businesses improve, realise their digital strategies and provide better business outcomes. We have strategic partnerships with leading global IT vendors, have invested in our portfolio of hosted platforms and operate our own UK-wide network and data centres.

Our markets and growth drivers

Technology Solutions operates in a broad and fast-changing market. The market in the UK was estimated to be worth £54bn in 2019 and is expected to grow at a compound annual growth rate of 2.6%, according to Teknowlogy group. In 2019, the market reached an inflection point where spending on the high-growth Fast/Digital IT segment, such as cloud, cyber, artificial intelligence and data analytics, overtook spending on legacy IT, such as traditional data centres, workplace and server applications services.

Technology Solutions

Strategic priorities 2018–2020:

- Consolidate multiple standalone IT businesses into a single, integrated division.
- Upgrade and consolidate 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.

2019 progress against strategic priorities:

- Successfully brought to market new client propositions to the market for cloud, cyber, SD-WAN and digital.
- Consolidated five standalone IT businesses into a single, integrated unit through our One-ITS programme.
- Completed phase one and two of our data centre consolidation and cloud migration programme to create an enhanced, resilient and secure client infrastructure.
- Invested and developed our people's capabilities and work environment, resulting in reduced attrition and increased employee satisfaction scores.

Better
outcomes

Capita built and runs the Scottish 'wide area network' (SWAN), a single, shared network and common information and communication technology infrastructure for the country's public sector. Today, more than 6,000 sites comprising schools, local council offices, GP surgeries and pharmacies, as well as every hospital and ambulance station across Scotland, are connected.

Our strategy

Our strategy is to create innovative technology solutions, underpinned by a comprehensive range of services which address the needs of our enterprise clients; such as how to benefit from robotic process automation technologies. Our new automation hub can provide consulting solutions that improve business processes, whether they are human, digital or hybrid.

Growth, resilience and 'Value for IT' are our strategic objectives. We are developing repeatable propositions to meet our clients' needs, with a focus on creating improved customer experience and expanding our client base. We have already started to increase the standardisation, robustness and security of the platforms and processes that underpin our products. We are also continuing the simplification of technology operations, platforms, products and suppliers to generate efficiency savings, strengthen our capabilities and ultimately deliver greater value to our clients.

Our expertise in business process improvement – complemented by consulting – allows us to address emerging opportunities. This combination of expertise in technology with a robust and integrated product offering helps clients extract value out of their legacy systems, while adopting and gaining benefit from the latest digital, cloud-enabled technologies.

Financial performance

Adjusted revenue decreased by 2.4% to £429.3m, with the benefit of new work with TfL offset by other contract losses and reduced transactional business in LAN and voice networking solutions.

Adjusted operating profit decreased by 5.8% to £50.7m, as savings from simplifying the division were offset by lower margins and increased costs in networking solutions.

These lower margins in networking solutions are caused by high competition and market pressures, and while we continue to win new revenue, albeit not at the expected level of growth, the margin pressure is expected to continue until we move to provision of our digital transformation propositions. Excluded from 2019 adjusted profit is a charge of £41.4m from the impairment of goodwill (refer to note 3.4 of the consolidated financial statements).

Cost and operational excellence

Cost improvements have been delivered across the division, with operational effectiveness initiatives – such as common processes, consolidating service desks and an increase in the use of offshoring – resulting in significant savings. We have also turned around and stabilised several challenging contracts, and increased our customer satisfaction. These outcomes have been achieved through a combination of

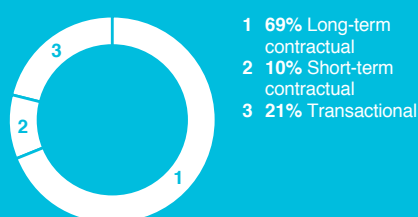
activities, such as: focusing on strengthening relationships and delivering results for our customers; our ongoing programme to modernise our infrastructure and automate workloads; our enhanced operational efficiency measures; reskilling and training our workforce; and our One-ITS programme to consolidate five businesses into one.

Investing in growth

We have invested significantly in the development of our Fast/Digital IT propositions – in cloud, cyber security, software defined network monitoring, internet of things and robotics process automation – to provide new digital offerings to our clients. We have and will continue to strengthen our partnerships with key technology providers, combining our consulting and delivery expertise with their technologies.

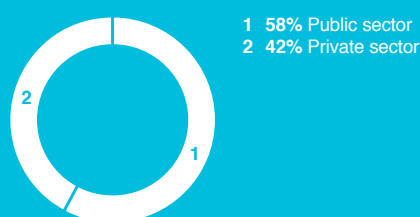
In 2019, we saw strong performance in our TfL contract with additional large project wins on the back of the core network contract. Our Northern Ireland Education contract was also extended for a further two years. Other major wins included long-term contract renewals with Liberata and Energia, and new business supporting the outsourced Defence Fire Risk Management Organisation.

Adjusted revenue by type (%)



1. Refer to alternative performance measures on pages 187–188.

Revenue by market (%)



Financial performance

Divisional financial summary	2019	2018	Change %
Adjusted revenue (£m)	429.3	439.7	(2.4)
Adjusted operating profit (£m)	50.7	53.8	(5.8)
Adjusted operating margin (%)	11.8	12.2	
Order book (£m)	389.7	380.4	2.4

Adjusted revenue

£429.3m

(2018: £439.7m) -2.4%

Adjusted operating profit

£50.7m

(2018: £53.8m) -5.8%

Employees

3,200 (2018: 3,400)

Key regions

UK and Ireland

Key markets

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

Key services

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

Specialist Services comprises a portfolio of businesses and delivers a range of service 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. The businesses are actively managed on a portfolio basis in order to maximise value.

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.

Our strategy

Due to the varied nature of the activities in the division, each Specialist Services business has its own strategy uniquely tailored to their service offerings and the needs of their clients.

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 make better use of Capita's wider client base, and to simplify and strengthen the portfolio.

Specialist Services

Strategic priorities 2018–2020:

- Manage as a portfolio and focus on continuing value optimisation.
- Rationalise service lines, processes, properties and IT.
- Make use of cross-sell opportunities within portfolio and wider Capita.

2019 progress against strategic priorities:

- Continued to manage the division as a portfolio of separate businesses, focusing on value optimisation.
- Investment in a number of product/service enhancements.
- Delivered significant cost savings and cash generation.

Better
outcomes

In November, Capita signed a new six-year contract worth £141m with The Co-operative Bank. Capita provides mortgage services to the bank's UK customers, and a key element of the contract is the collaborative approach Capita and the Bank are taking to transformation. There is a renewed focus on redesigning and simplifying processes and systems to enhance the end-customer's experience, increase productivity and reduce costs.

The focus across the portfolio is on operational excellence and cost optimisation. In line with our drive to simplify Capita, we have continued to review our portfolio – and decided in early 2020 to reorganise our Specialist Services division. We have concluded that a number of businesses in the division would benefit from closer alignment with core Capita and should be moved into other divisions. Some of the other businesses are being prepared for disposal, with the proceeds earmarked to help strengthen the organisation.

Financial performance

In 2019, adjusted revenue fell by 16.1% to £744.5m, reflecting the contract losses in 2018 of Prudential UK (life) and Marsh (general insurance) and a decline in the structurally challenged Life and Pensions business, this was partly offset by one-off contract related items.

Adjusted operating profit increased by 10.2% to £141.7m as we offset the revenue losses with cost savings and one-off contract related items, and by winning profitable and cash-backed new business.

Cost and operational excellence

We made significant cost savings during the year mainly through IT rationalisation and productivity gains across the division. We did this while retaining clients and adding new business. In the Life and Pensions business in particular, we have driven out IT efficiencies to mitigate the structural decline in certain contracts.

We were particularly pleased with the new contract extension with The Co-operative Bank where our more collaborative and values-based approach was recognised by our client, as well as recognising Capita's core competencies in digital transformation.

Investing in growth

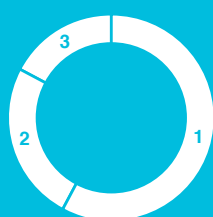
We have continued to invest in product development, IT infrastructure and client portals, and in security and compliance to support existing contracts and future revenue growth.

During the year the division invested in key products: for example, AXELOS's launch of its new qualification, ITIL 4 Foundation; a new digital platform in Capita Travel and Events; a digital platform update at Optima; and IT and cyber protection in our Life and Pensions business.

New sales wins in 2019 included:

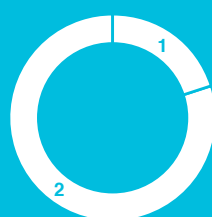
- Real Estate and Infrastructure won two major contracts in the year – the next stage of support to 'Future Luton', London Luton Airport owner's expansion plans with specialist aviation, planning and multi-disciplinary design and management services. We were also appointed to be part of Network Rail's design services framework, securing several lots that enable us to deliver consultancy services to support upgrade and maintenance projects for control period 6.
- An extension to our current scope of business with Zurich UK to service a new protection product. This will drive better customer outcomes, cost savings and support Zurich UK's growth, assisted by the introduction of digital capabilities.
- A number of new contracts for Travel and Events with some well-known clients such as the BBC.

Adjusted revenue by type (%)



1. Refer to alternative performance measures on pages 187–188.

Revenue by market (%)



- 1 20% Public sector
- 2 80% Private sector

Financial performance

Divisional financial summary	2019	2018	Change %
Adjusted revenue (£m)	744.5	887.3	(16.1)
Adjusted operating profit (£m)	141.7	128.6	10.2
Adjusted operating margin (%)	19.0	14.5	
Order book (£m)	1,191.7	1,226.4	(2.8)

Adjusted revenue

£744.5m

(2018: £887.3m) -16.1%

Adjusted operating profit

£141.7m

(2018: £128.6m) +10.2%

Employees

9,600 (2018: 11,000)

Key regions

UK, Dubai and India

Key markets

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

Key services and businesses

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