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Turnover and profitability

The results for the year once again represent record levels of turnover for the Group. Turnover grew by 12.9% to almost £2.0 billion with profits before tax reducing by 26.0% to £55.6m. However, excluding the impact of our e-commerce joint venture, Biomni, the reduction in pre-tax profits was 21.3%.

Operating profit reduced by 18.8% to £61.4m, representing 3.1% of sales, which is a reduction over last year's 4.3%. Operating profits were significantly affected by the Y2000 slow-down resulting in very low project implementation activity in the first half of the year.

These results do not reflect the significantly improved operating performance in the second half of 2000. The tables on page 21 list the revenues and operating profit by country for the four half year periods in 1999 and 2000 and show the impact of the millennium lock-down on the second half of 1999 and the first half of 2000.

Overall Group operating profit in the second half of 2000 was 14.6% ahead of the second half of 1999. In the UK, operating profits as a percentage of sales fell to 3.8% from the 5.1% in

1999. This was mainly due to the significant decrease in the utilisation of services staff during the first half of the year. Utilisation recovered substantially towards the end of the third quarter and remained high during the fourth quarter. Because salaries and other employment costs are fixed in the short term, periods of low utilisation result in a direct charge to the profit and loss account.

Following intense competitive activity in the first half of the year we also experienced a reduction in UK product margins (gross margin on product sales) of over 0.5%. We expect a similar reduction in 2001.

Despite these pressures, operating profit in the UK fell by only 14.1% due to the strong recovery in the second half and the significant scale economies enjoyed by the UK business. The adverse effect of Y2000 on product sales in the UK was less pronounced than in France or Germany due to the high growth enjoyed in our enterprise business. Enterprise system sales and services are less developed in France and Germany, leaving our operations in these markets more exposed to the full effects of the Y2000 lock-down.

In France and the Belux region the operating margin (operating profit as a percentage of sales) reduced to 0.4% of sales in 2000 from 2.0% of sales in 1999. The French business was impacted severely by the Y2000 slow-down, leading to significant losses in the first half. However business is traditionally much stronger in France in the second half and this was the case in 2000, with business showing a marked recovery over that period.

In Germany the operating loss as a percentage of sales increased from 4.0% in 1999 to 4.6% in 2000. Because our business in Germany is too small to compete effectively across a broad range of product fulfilment and service offerings, we have implemented changes to reduce the cost structure and increase our focus on higher growth enterprise products and related services. The German operating loss includes a restructuring charge of £0.4m related to these changes.

Our overseas subsidiaries accounted for 15.2% of Group turnover in 2000 compared to 17.0% in 1999. These operations contributed 2.1% of Group operating profit in 1999, changing to a loss of 3.5% in 2000.

**Earnings per share and dividends**  
Earnings per share reduced by 28.1% to 22.0p. On a diluted basis it reduced by 21.4% to 22.1p, excluding the results of the Biomni joint venture. It is our intention to recommend an unchanged dividend of 2.9p per share. Our dividend policy remains unchanged and we intend to return to a dividend pay-out ratio in the region of 10% of net profit attributable to shareholders when this equates to a dividend in excess of 2.9p. The dividend will be payable on May 23, 2001 to registered shareholders as of May 4, 2001.

**Cash flow and working capital**  
The main elements of working capital were as follows:

	Dec 2000	Dec 1999	Change
Stock days	29	25	4
Debtor days	50	41	9
Creditor days	48	38	10

Stock days increased by 4 to 29, a more usual operating level, which included relatively high levels of stock allocated to customers for project implementations. Debtor days increased, particularly in the UK, partly due to the impact of very high sales in November and December in proportion to sales in the year as a whole. Calculated on the basis of most recent sales, Group debtor days were a more usual 45 days.

Creditor days at the year-end increased significantly from 38 days to 48 days. This was mainly due to the effect of high purchases in the fourth quarter relative to the year as a whole, but was also affected by a shift in the mix of our vendors and higher stockholding.

In 2000 the cash generated to operating profit ratio was in excess of 88%. This compared to 108% in 1999. At the end of 1999 revenues were low due to the Y2000 lock-down and we enjoyed a corresponding in-flow of cash from working capital. This reversed at the end of 2000 as revenues increased in the last quarter.

Cash generated from operations of £54.3m was sufficient to ensure that the Group's net cash position remained substantially positive at £13.4m,

despite significant capital expenditure, including £14.0m in respect of the Hatfield operations centre.

**Taxation**  
The effective tax rate for the Group was 29.4% compared to 29.5% in 1999. We were able to maintain this rate despite the reduction in overseas operating profit. This was mainly due to the tax relief obtained on gifts by the Group to a Qualifying Employee Share Trust for the satisfaction of options granted under the Group's Sharesave scheme. As we do not currently anticipate any further gifts in 2001 we expect the tax rate to increase in 2001.

**Shareholder's funds**  
The net assets of the Group increased during the year from £168.5m to £204.2m, due principally to retained profits of £33.9m.

**Acquisitions**  
The Group made one small acquisition during the year, with operations in Belgium and Luxembourg, for a total consideration of £2.7m. This has increased the goodwill on the balance sheet to £6.2m. The goodwill acquired on acquisitions is being amortised over a period of 20 years, our estimate of the useful economic life. The acquisition increases the Group's project management capability and significantly enriches the service capabilities of our existing Belgian operations. Integration with the existing Belgian business was accomplished during the second half of the year.

**Financial instruments**  
The Group's financial instruments comprise borrowings, cash and liquid resources and various items that arise directly from its operations. The Group occasionally enters into hedging transactions, principally forward exchange contracts or currency swaps. The purpose of these transactions is to manage currency risks arising from the Group's operations and its sources of finance. The Group's policy remains that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. Our policies for managing each of these risks is set out below.

**Interest rate risk**  
The Group finances its operations through a mixture of retained profits, bank borrowings and bonds. The Group's bank borrowings and deposits are at floating rates whereas the bond, which was issued in 1995, is at a fixed rate of 10%. No interest rate derivative contracts have been entered into. We will continue to monitor this position to ensure that the interest rate profile is appropriate to the Group. The Group's policy is to keep long-term borrowings at fixed rates to manage the Group's exposure to interest rate fluctuations.

**Liquidity risk**  
The Group's policy is to ensure that we have sufficient long-term funding and committed bank facilities in place to meet foreseeable peak borrowing requirements. At 31 December 2000 we had £47.3m of committed bank facilities with maturities of up to 1 year, of which 35.9% were drawn down. The Company has maintained fixed borrowings, which mature in November 2002, to ensure continuity of funding and to allow it to meet any capital requirements during the year.

**Foreign Currency risks**  
The Group operates in the UK, France, Germany, Belgium and Luxembourg. The Group uses local borrowings to fund its operations in each of these countries. In each country the principal receipts and payments are denominated in local currency. A small proportion of the sales of the Group's UK businesses are to customers outside of the UK. These sales are priced in sterling but invoiced in the currencies of the customers involved. The Group's policy is to eliminate all material currency exposures on sales at the time of sale through forward currency contracts. All other sales of the UK businesses are denominated in sterling.

In certain circumstances the Group uses forward exchange contracts to hedge foreign currency exposures arising on forecast receipts and payments. In addition, the Group has entered into foreign currency swaps during the year to hedge against the exposure on fixed term loans made in foreign currencies.



Tony Conophy  
Finance Director

	1999		2000	
	Half 1	Half 2	Half 1	Half 2
Revenue £m	461.0	497.5	799.5	887.0
UK	763.0	697.5	799.5	887.0
France & Belgium	109.4	118.4	92.7	134.5
Germany	32.4	39.9	34.5	40.2
TOTALS	904.8	855.8	926.7	1061.7

Impact of millennium lock-down Half 1 1999 to Half 2 2000

Source: Computacenter plc

	1999		2000	
	Half 1	Half 2	Half 1	Half 2
Operating Profit £m	40.2	33.8	24.8	38.9
UK	40.2	33.8	24.8	38.9
France & Belgium	1.2	3.3	(1.6)	2.8
Germany	(0.7)	(2.2)	(1.8)	(1.7)
TOTALS	40.7	34.9	21.4	40.0