Finance Director's review

Turnover and profitability
The results for this year again showed record turnover for the Group, which grew by 5.3% to almost £2.1 billion. However while first half revenue grew by 26.6% over H1 2000, second half revenue fell by 13.4% over H2 2000 (see table 1). This fall clearly reflected the reduction in IT infrastructure spending as a result of the global slowdown as the year progressed.

Pre-exceptional pre-tax profits reduced by 8.0%. In 2000 our reporting focused on pre-tax profits prior to our investment in the Biomni joint venture; however for 2001 the Biomni results are included, as market conditions make it unlikely that there will be a flotation of this business in the near term.

However, the pre-exceptional pre-tax profit half-year comparisons are significantly more variable (see table 2).

The first half pre-exceptional pre-tax profit growth of 70.0% over H1 2000 reflected both weak performance in H1 2000, arising from the millennium slowdown, and the strong growth enjoyed in H1 2001. However, H2 2001 pre-exceptional pre-tax profit was down by 49.2% over the same period of 2000, reflecting a millennium recovery effect in H2 2000 and the IT spending slowdown in H2 2001.

The Group recorded its first non-operating exceptional charges during 2001 as part of the tighter focus on core operations, which involved the closure of the iGroup knowledge management business and the withdrawal from the German business.

In recognition of the lower product sales in the UK business in H2 2001, the Group took actions to reduce the overhead structure. This resulted in a charge of over £1 million that was included in the operating profit.

Operating profits
The UK remains our major market, representing almost 84% of Group revenues in 2001. H2 2001 revenue in the UK declined by 24.8% on H1. This reduction includes a fall in product sales of 28%, which was mitigated by service revenue growth. Historically, our systems integration service revenues have been closely related to revenues from products sold and installed, and the increasing independence of the two revenue streams is a noteworthy and pleasing development. The variability in revenue in each half significantly impacted operating margins (see table 4), with 2001 UK operating margins reduced from 3.8% in H1 to 2.4% in H2. Operating profit from continuing operations reduced by 14.1% over 2000.

As expected, product margins remained very competitive. Product margins reduced overall by 0.5% in 2001 over 2000, although this was partly due to a change in the mix of business across different market sectors.

In the France and BeLux region performance was encouraging. Operating profit in these operations increased from £1.2 million to £5.1 million and revenue grew 22% from £227.2 million to £276.8 million, (see tables 3 and 4) which is significantly ahead of market growth. While profit declined as a result of the millennium slowdown in the first half of 2000, operating margin has since returned to 1999 levels of 1.9%. The operating profit improvement was adversely affected by the continued disappointing results in Belgium where operating loss increased from £0.6 million to £0.8 million, due to extended difficulties in the integration of the two acquired businesses and the slowdown in international opportunities referred from other countries.

In Germany the operating loss reduced significantly in H1 2001 over H1 2000, partly due to the absence of the millennium effect and the result of a restructuring programme completed in early 2001. However, given our weak competitive position in this marketplace and the continuing high cost of organic growth, we took the decision to sell this business.

Earnings per share and dividend
Diluted earnings per share reduced by 52% to 9.9p. However, excluding the impact of non-operating exceptional items, the reduction on the diluted EPS was 14%. It is our intention to recommend an unchanged dividend of 2.9p per share. The dividend will be payable on 30 May 2002 to registered shareholders as of 3 May 2002.

Disposal of non-core operations
During 2001 the Group closed the iGroup, which developed knowledge management solutions, and disposed of the German operations to GE Compunet Computer AG. The iGroup closure resulted in a non-operating exceptional charge of £3.1 million, largely relating to redundancy costs, the write-down of assets and withdrawal from third party agreements.

The sale of the German operations resulted in a non-operating exceptional charge of £13.1 million that includes an impairment provision against fixed assets of £2.1 million, office closure costs of £1.5 million, staff costs of £5.2 million and other costs of £4.3 million, which include a non-cash charge of £2.6 million relating to goodwill previously written off.

In total the non-cash element of the exceptional item arising on the disposal is £4.7 million. Approximately £2 million of the cash element had not been paid at 31 December 2001.

We do not expect any further operating loss or exceptional costs relating to Germany.

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

	Dec 2001	Dec 2000	Change
Stock Days	21	29	8
Debtor Days	42	50	8
Creditor Days	36	48	12

Following the millennium recovery, we enjoyed high sales in the last quarter, relative to the average daily sales of the whole year. This resulted in high working capital ratios at 2000 year-end. The reverse of this position applied in 2001

Table 1
Group revenues, H1 2000 to H2 2001, £million

	Half 1	Half 2	Total
2000	926.7	1,061.7	**1,988.4**
2001	1,173.6	919.8	**2,093.4**
% Change	**+26.6**	**-13.4**	**+5.3**

Table 2
Group pre-exceptional pre-tax profit, H1 2000 to H2 2001, £million

	Half 1	% return	Half 2	% return	TOTAL	% return
2000	19.2	2.1	36.4	3.4	55.6	2.8
2001	32.6	2.8	18.5	2.0	51.1	2.4
% change	**+70.0**	-	**-49.2**	-	**-8.0**	

as a consequence of low sales in the last quarter relative to the year as a whole. In a year with normal seasonal patterns we continue to expect debtor days of 45, creditor days of 40 and stock days of 28.

The cash inflow from operating activities to operating profit was in excess of 157%, which compares to 88% in 2000. This level of cash generation is exceptional and was driven by the significant slowdown experienced in H2 2001, with a consequent reduction in the level of working capital required.

Cash generation from operations of £86.6 million contributed to the improvement in the Group's net cash position to £53.3 million. Capital expenditure reduced from £27.5 million to £15.8 million, which was mainly due to the completion of the Hatfield facility in 2000.

Taxation
The effective tax rate for the Group was 45.3% compared to 29.4% in the previous year. In 2000 we benefited from a contribution to a Qualifying Employee Share Scheme Trust for the satisfaction of options granted under the Group's Sharesave scheme. No contributions were made in 2001. However the major reason for the increase in the effective tax rate was the impact of the unrelieved operating losses in Germany and, in particular, the loss incurred on the disposal of the German operations. This accounted for a 14.2% differential in the tax rate from the standard 30%. The UK trading company effective tax was 31.5% and, as we do not expect this to change materially in 2002, we expect the Group tax rate to be approximately 32% in 2002.

Acquisitions
The Group purchased certain assets from GE Capital Information Technology Solutions Limited on 30 November 2001. 247 employees, primarily sales and technical staff, transferred to Computacenter (UK) Ltd. The purchase price of the business was £2.5 million, which was reduced by an integration payment of £1.1 million. Goodwill of £2.1 million was generated on the transaction, which will be written down in accordance with our existing accounting policy. Integration is progressing according to plan, with the customer accounts and employees transferred to the appropriate sectors of Computacenter's UK business during January 2002.

On 15 February 2002 we completed the purchase of the business and certain assets of GE Capital Information Technology Solutions SA for £0.7 million. The integration of this acquisition is also proceeding as per plan. We do not anticipate a requirement to make an integration provision for either the UK or French businesses.

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, other than as required for the business operations.

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 are 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. When long-term borrowings are utilised the Group's policy is to maintain these 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 funding and committed bank facilities in place to meet any foreseeable peak in borrowing requirements. At 31 December 2001 we had £47.0 million of committed bank facilities with maturities for up to one year, of which 39% were drawn down. The Group has historically maintained fixed borrowings, which mature in November 2002, to ensure continuity of funding and to allow it to meet working capital requirements during the year.

The bond balance outstanding of £38.1 million will be repaid on 24 November 2002 and it is our current intention to repay the bond from existing cash resources which were £109.7 million at the year-end. The interest rate charged on the bond is 10% and, compared to current interest rates, we will see an improvement in the net interest position of over £2 million per annum with effect from 24 November 2002.

The Group's net cash position at the year- end of £53.3 million, in combination with the above facilities and the ability to access approximately £50 million of funds through sale and lease back of fixed assets, provides a generous cushion for financing working capital movements.

Foreign currency risks
The Group operates in the UK, France, Belgium and Luxembourg, and uses local borrowings to fund its operations in each of these countries, where principal receipts and payments are denominated in local currency. A small proportion of the sales of the Group's UK businesses is to customers outside 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

Table 3
Revenues by country, H1 2000 to H2 2001, £million

	2000		2001	
	Half 1	Half 2	**Half 1**	**Half 2**
UK	799.5	887.0	**1,001.0**	**753.0**
France & BeLux	92.7	134.5	**125.6**	**151.2**
Germany	34.5	40.2	**47.0**	**15.6**
TOTALS	926.7	1,061.7	**1,173.6**	**919.8**

Table 4
Operating profit, H1 2000 to H2 2001, £million

	2000				2001			
	Half 1	% return	Half 2	% return	**Half 1**	**% return**	**Half 2**	**% return**
UK continuing	25.2	3.2	43.0	4.8	**37.8**	**3.8**	**16.6**	**2.4**
UK discontinued	(0.4)		(4.1)		**(3.4)**		**0.3**	
France & BeLux	(1.6)	(1.7)	2.8	2.1	**1.6**	**1.3**	**3.5**	**2.3**
Germany	(1.8)	(5.1)	(1.7)	(4.3)	**(0.6)**	**(1.3)**	**(0.8)**	**(5.1)**
TOTALS	21.4		40.0		**35.4**		**19.6**	