

Chief Executive's review

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UK

Our customers continue to look to us to reduce their costs, improve service levels and free up their own resources by outsourcing discrete IT infrastructure services. As a result, in 2003 we saw a further increase in service revenues and a growth of 9.2% in our UK contract base. Our continuing focus on reducing our own cost base achieved a 9.1% reduction in the sales, general and administration (SG&A) expenses of Computacenter's UK business.

We were awarded two major Managed Services contracts, by Abbey and HBOS plc, in the first half of the year. Under the terms of the former contract, valued at £70 million over five years and covering all of Abbey's 28,000 employees, Computacenter has responsibility for the design, implementation and management of Abbey's entire desktop infrastructure. At HBOS, the scope of Computacenter's existing Managed Services contract, announced in 2002, has been extended and we now manage 38,000 desktop PCs, approximately half of the HBOS estate, under a three-year agreement. Together, these two contracts entail the transfer of some 300 staff to Computacenter under TUPE regulations, during H2 2003 and H1 2004.

Government successes included a six-year Managed Services agreement with North Yorkshire County Council for managing the council's IT infrastructure, other than its communications equipment, and providing services such

as systems installation and maintenance. We secured a five-year contract with the Charity Commission for England and Wales, for whom we are deploying a new Windows XP-based infrastructure, integrated data network and IP telephony service. We also won a contract to provide a disaster recovery solution and managed data back-up services for the Department for Transport.

We saw a significant increase in Windows XP deployments in 2003, driving growth in product volumes and fuelling demand for our broad range of Infrastructure Integration Services. Major projects included the implementation of a standardised IT infrastructure for Places for People, and a fully supported in-room entertainment and business services system for London's Dorchester Hotel. We also project managed the testing of 135 application systems for Marks and Spencer plc.

The UK market for IT expenditure remained generally subdued, although demand from the public sector remained strong and there was a substantial improvement in the telecommunications market. Elsewhere, and particularly in financial services, corporate customers maintained their cautious approach. Whilst product volumes were satisfactory throughout the year, Computacenter's product revenues in the UK fell by 11.3%. This was largely due to a substantial price decline, driven by the weakness of the US dollar, of approximately 20% on desktop and laptop computers.



Mike Norris
Chief Executive

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The server product market was generally more buoyant, as organisations focused on consolidating their legacy IT infrastructures by replacing large numbers of network servers with fewer, but more powerful central computers. As a consequence we saw increased sales of high-end servers, with revenues from the sale of Sun Microsystems computers increasing by 12.8%.

We won a significant Technology Sourcing contract to provide technology and services to the UK’s Ministry of Defence via the Defence Communications Services Agency Catalogue. This will be our third major catalogue procurement contract, following the similar agreements we have with the Inland Revenue and the Office of Government Commerce.

Our distribution business, comprising CCD and Metrologie, outperformed its sector and grew revenue by approximately 14.9% on the previous year, maintaining a close relationship with HP, its principal product partner.

RDC, our re-cycling and remarketing arm, saw its profits rise for the fifth consecutive year since its acquisition by Computacenter in 1999.

We were delighted to receive the specialist award for Excellence in Sourcing and Procurement at the 2003 European Supply Chain Excellence Awards, organised by Logistics Europe and Cap Gemini Ernst & Young. The award recognised the quality of our end-to-end approach to purchasing

and expertise in areas such as performance measurement, sourcing and supplier management.

We remain fully committed to meeting standards for quality, the environment and equality of opportunity. During 2003 we achieved UK certification to international environmental standard ISO14001 and the international quality standard ISO 9001:2000, both by the British Standards Institute. In the area of race relations, we renewed our partnership agreement with the Commission for Racial Equality.

Germany

In 2003 CC CompuNet performed well in a difficult market. Operating profit grew to £8.7 million, despite a revenue decline of 10.9% to £635.2 million. Reductions in SG&A costs helped profitability and, as in the UK, we were able to grow our Managed Services business.

Following the acquisition of CC CompuNet in early January 2003, an extensive integration programme was initiated. This focused upon sharing best practice across the Group and leveraging central resources to improve the scope, quality and cost-effectiveness of CC CompuNet’s offerings.

This programme led to the creation of a new services enablement function, to allow transfer of best practice in the Managed Services area, and the introduction of a new sales and management structure, similar to that in the UK. We also made significant investments in new stock



Service Operations Centre, Hatfield
Our Service Operations Centre allows us to monitor remotely and, where necessary, resolve our customers’ IT systems problems before they affect end-users.

Chief Executive's review

continued

management and warehouse systems and launched our e-commerce system, Computacenter Connect, in Germany.

We are confident that these developments, together with such initiatives as the introduction of a new pay plan, customer profitability reporting and enhanced financial management systems, establish a solid basis for future profit growth.

CC CompuNet worked with other Computacenter companies to secure a four-year international Managed Services contract with Deutsche Börse AG, Frankfurt, servicing their employees across Germany, Luxembourg and the UK. Other successes included a contract for a Linux migration awarded by the Deutscher Bundestag (the lower house of the German parliament). Noteworthy new Technology Sourcing contracts included Wüstenrot & Württembergische, and Aachener und Münchener Versicherungsgruppe.

France

Difficult market conditions led to a disappointing performance from Computacenter France, which made an operating loss of £2.7 million on revenues of £324.5 million. The cost base of the French business remains too high, partly due to the challenges of integrating the

GECITS acquisition in 2002. Additionally, utilisation of Professional Services staff in France was particularly low in the first half and this contributed significantly to the poor financial performance.

Measures to address these issues, including steps to increase Professional Services utilisation and reduce SG&A expenses, led to an improvement in underlying performance in the second half of the year. Computacenter France also embarked upon a maintenance re-engineering initiative modelled on a similar project completed successfully in the UK. The pan-European management structure, established following the CC CompuNet acquisition, is proving to be of particular benefit in addressing the turn-around of Computacenter France, which remains a high priority for the Group.

Costs of £3.1 million relating to measures aimed at improving French performance are included in the operating result for the year. These measures, together with other initiatives currently underway, give us confidence that a strong foundation is being built to return Computacenter France to profitability.

Despite the weak market, Computacenter France continued to attract significant new customers. These included La Poste, RATP, Paris City Hall and the General Council of Paris, for whom we will supply desktops, laptops and networking technology. Our French business was also successful in winning important contract extensions with customers, including UNEDIC Assurance Chômage, Conseil Régional de Haute Normandie and

Gendarmerie Nationale. Computacenter France also designed, installed, integrated and supported the IT infrastructure for the G8 summit in Evian.

With the aim of growing its government business, Computacenter France acquired AB Microconseil, a small IT reseller specialising in that sector. The acquisition involved the transfer of some 30 employees and brought several new accounts including the General Councils of Hauts de Seine, Seine Saint-Denis and Seine et Marne.

Other businesses

Austria

On January 2, 2003 we acquired GECITS Austria, subsequently renamed Computacenter Austria. Despite showing improved performance over the figures reported by GECITS for the second half of 2002, performance of this business has been disappointing, with an operating loss of £1.5 million for the year on revenues of £49.0 million. However some significant new business was won during the year, including a contract for the hardware maintenance of the entire desktop estate of BAWAG-PSK, a leading Austrian bank, and a systems roll-out for PricewaterhouseCoopers Austria.

Belgium and Luxembourg

Our business in Belgium and Luxembourg ('BeLux') saw 37.2% revenue growth during 2003, primarily from increased product sales in new customer accounts. Results improved significantly, showing an 89.9% reduction in operating loss to £0.4 million, with the strongest contribution



International Support Centre, Kerpen

The International Support Centre provides a range of Managed Services, such as help desk support, to international customers. All technical analysts are required to speak a minimum of two languages and coverage is 24x7.

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coming from existing Managed Services contracts. Revenues in the year were £17.3 million.

During 2003 our ‘BeLux’ operation opened a new Luxembourg office in the city’s financial district. Major wins included technology sourcing for companies such as Clerical Medical Investment Group (part of HBOS), Pioneer Europe and Reynaers International. We also won a two-year extension to our SWIFT desktop outsourcing contract and delivered major technology refresh projects for the BP/Solvay joint venture company and Owens Corning.

Biomni

Computacenter’s share of Biomni’s operating losses reduced again in 2003 to £0.3 million (2002: £1.3 million).

Group

Across the Group, we maintained our focus on programmes designed to reduce our cost base and to leverage our resources more effectively.

Following the German and Austrian acquisitions, we introduced a pan-European management structure and made further progress in the closer integration of our European businesses. This facilitates the transfer of expertise and best practice across the Group, to enable the delivery of ever more competitive service to our customers. This structure also allows us to work more closely with major vendors who are operating, or intending to operate, pan-European supply arrangements.

Associated with this approach, we have also begun to deploy tools and processes across the Group. These include Computacenter Connect, our e-commerce system, and the implementation of a Group-wide HR information system. We are also in the process of making our integrated Services Management Tool Suite (SMTS), which we use to track and manage customer support requests, available across the Group.

In July our former ICG (International Computer Group) partner network became an extension of Computacenter International, the internal division responsible for supporting customer operations across multiple countries. The former ICG partners will remain independent, but will be the preferred partners of Computacenter in international business. The move is designed to give Computacenter greater control of international service delivery and to give our partners greater access to our expertise and tools.

I am very pleased with overall Group performance in 2003. The increasingly international character of Computacenter placed fresh demands upon the management team, to whom I offer my thanks for their admirable response. We will continue to take advantage of the many opportunities we see in our markets whilst maintaining a rigorous control over our cost base.



Mike Norris
Chief Executive Officer



Consultants’ meeting, Kerpen
Computacenter’s consultants are skilled in a wide range of disciplines, including data centre server technology, thin client computing, storage solutions, network infrastructures, security, enterprise management and messaging/directory services.