Finance Director's review

Turnover
Revenues for the year of £2.48 billion were 28.8% ahead of 2002. However, excluding the impact of acquisitions, revenues of £1.80 billion were down by 6.7%. Across the Group, and including the acquired businesses, product revenues reduced by over 15% from the previous year, despite unit volume growth in all countries. Service revenues increased by over 3%. The decline in product revenues is attributable to unprecedented price reductions in the industry, with average desktop and laptop prices across the Group falling by approximately 20%, principally because of the decline of the dollar against the euro and sterling.

Overall Group revenues in the second half of 2003 were broadly similar to those in the first six months.

Operating profit
Including acquisitions, Group operating profit increased by 17.4%, from £56.2 million to £65.9 million. Excluding acquisitions, the increase was 4.5%, from £56.2 million to £58.7 million.

The three principal drivers for profit growth were the increased revenue from higher-margin contracted services, our continuing success in reducing overhead costs and the profit contribution from the acquired German business. These factors more than offset the impact of the reduced product revenues and the poor performance in France.

We have increased the level of disclosure in our turnover and segmental analysis to include gross profit, which enables a year-on-year comparison of sales, general and administrative (SG&A) costs.

- In the UK, gross profit reduced by only 4.3%, despite an 8.9% decline in revenues. This reflects an improvement in gross margin percentage from 12.3% to 12.9%. SG&A cost reductions of 9.1% were achieved, and as a result, operating profit increased by 7.3%. Managed Services revenue growth was encouraging, at 10.9%, particularly as some recently won contracts did not generate revenue until later in the year and others will only do so in 2004. Other service revenues fell by approximately 16%, which reflects a fall in demand for large-scale implementation projects and the outsourcing of our training business.

- The operating profit contribution from the German business, at £8.7 million, was encouragingly ahead of our expectations. Revenues were disappointing, showing an overall reduction of 18.9% over 2002 in local currency, although service revenues increased by 3.3%. Gross margins in Germany at 14.3% were higher than in the UK, reflecting the greater proportion of overall revenues (over 32%) derived from services. SG&A costs reduced by over 13% in local currency.

- In France the overall performance was disappointing. Although revenues in sterling terms increased by 2.4%, local currency revenues declined by 6.9%, which includes the contribution of two small businesses acquired in the first half. Service revenues declined more rapidly than product revenues but despite this, overall gross margin percentages remained fairly stable. Operating profit of £2.4 million in 2002 declined to an operating loss of £2.7 million in 2003, including the release of negative goodwill of approximately £4 million in each year. The negative goodwill arose on the acquisition of GECITS France in February 2002 and was primarily intended to assist in the financing and development of the acquired business. In local currency, SG&A costs increased by 8.3%, which was mainly due to expenditures associated with restructuring initiatives. We expect these initiatives to lead to a significant SG&A cost reduction and substantial improvement in overall profit performance in 2004.

- The performance in Austria was poor, with revenues in local currency reducing by almost 25% from the previous year. Austrian market conditions were particularly challenging in the large corporate and government sectors, which are the prime focus of our business there. SG&A costs in local currency reduced by 7.2%. The outlook for Computacenter Austria is more positive following indications of a likely improvement in market conditions.

- Revenues in the 'Belux' region increased by 37.2% in sterling terms (24.7% in local currency). This is an encouraging performance and demonstrates market share gain, particularly in the product business. The operating loss reduced from £3.9 million to £0.4 million; on a like-for-like basis, excluding written-off goodwill, the operating loss reduced from £1.0 million to £0.4 million.

Earnings per share and dividend
Earnings per share increased by 22.5% to 25.0p. On a diluted basis, the increase was 24.2% to 24.6p. It is our intention to recommend a 20.7% increase in the total dividend for the year to 7.0p per share, maintaining dividend cover in accordance with our stated policy of circa 3.5 times.

Tony Conophy
Finance Director

The dividend will be payable on 1 June 2004 to registered shareholders as at 7 May 2004.

Cash flow and working capital

	Dec 2003	Dec 2002	Change
Stock days	**28**	24	4
Debtor days	**44**	43	1
Creditor days	**37**	33	(4)

Inventory levels increased from £95.7 million to £134.1 million and inventory days increased from 24 to 28. This relates largely to some year-end purchases and does not indicate any fundamental change to the inventory cycle.

Debtor days increased from 43 to 44, principally due to a change in our approach to French invoice factoring, resulting in the Computacenter France balance sheet showing a larger proportion of debt at the end of 2003 compared to 2002. Although trade debtors in France have been factored for many years, factoring arrangements were changed during 2003. This has led to a linked presentation showing the gross debtors less the amounts advanced against those debtors.

Creditor days increased from 33 to 37, mainly due to year-end timing issues arising on purchases from HP. However on an ongoing basis, changes in HP payment terms have led to a reduction of approximately 5 creditor days.

The cash inflow from operating activities relative to operating profit was 81.2% compared to 107.9% in 2002. The main reason for the decline was the non-receipt of a net asset shortfall refund from GE IT Solutions Inc. in connection with the GE CompuNet and GECITS Austria acquisitions. This was offset by the improvement in the creditor position noted above. Overall net funds reduced from £83.4 million at the end of 2002 to £49.9 million at the end of 2003, mainly due to the acquisition payment in cash of £36.9 and the non-receipt of the GECITS net asset shortfall refund.

Acquisitions

On 2 January 2003 the Group acquired GE CompuNet in Germany and GECITS Austria for an initial payment of £38.1 million. As noted above, the first year's trading performance in Germany was encouraging, generating revenues of £635.2 million and operating profit of £8.7 million, despite a weak market.

The following table analyses the asset values acquired at the date of the acquisition.

	Book value £'000	Adjustments £'000	Provisional fair value to Group £'000
Tangible fixed assets	15,457	(4,003)	11,454
Investments	81	–	81
Stocks	34,438	(1,074)	33,364
Debtors	103,881	5,380	109,261
Creditors due within one year	(132,704)	(3,945)	(136,649)
Creditors due after one year	–	(2,690)	(2,690)
Provisions for liabilities and charges	–	(9,135)	(9,135)
Total	**21,153**	**(15,467)**	**5,686**
Discharged by:			
Fair value of net consideration			5,686
Goodwill arising on acquisition			–

The adjustments relate to the application of the Group's accounting policies, which are generally more conservative than those applied by the acquired companies, and provisions relating to the CC CompuNet properties.

Note 14 to the accounts refers to several outstanding matters in connection with this acquisition. These are:

Net asset value shortfall

The following point was noted in Computacenter's announcement of the acquisition:

"The initial consideration for the acquisition is €57 million, payable at completion. Such initial consideration is subject to subsequent downward adjustment on a euro for euro basis upon final determination of the net asset value of GECITS at completion, on a cash and debt free basis, to the extent that it is less than €95 million."

A shortfall was discovered in the audited net assets acquired when compared to the terms of the purchase agreement. PwC have been appointed as expert accounting advisers in order to determine the value to be repaid in accordance with the purchase agreement provisions. The balance sheet contains a debtor of £32.4 million in relation to this claim. The Board has reviewed the likely outcome of the expert assignment and on the basis of legal advice received is of the view that this is properly reflected in the accounts.

Contingent liability

On 15 October 2003 the vendors claimed that the Group had breached a provision of the German purchase agreement concerning an adjustment relating to tax assets, and have issued a claim for €52.2 million, plus interest, for upfront payment for the tax assets as opposed to payment as the assets are utilised. The Group rejects this claim and legal proceedings are now pending between the parties. On the basis of legal advice received, the Board is confident that this claim is without merit and will be defended accordingly. No provision for this claim has been made in the Group's accounts.

Further acquisition consideration

Under the terms of the purchase agreement it was agreed that additional consideration would be payable, dependent on the results of the businesses in 2003 and 2004. No provision has been made for further payments, based on the actual performance in 2003 and the likely performance for 2004.

Table 1: Group revenues, H1 2001 to H2 2003 £million

	Half 1	Half 2	Total
2001	1,173.6	919.8	**2,093.4**
2002	975.0	951.7	**1,926.7**
2003	1,254.7	1,226.6	**2,481.3**
% Change*	**28.7**	**28.9**	**28.8**

*2003/2002

Table 2: Group pre-exceptional pre-tax profit, H1 2001 to H2 2003 £million

	Half 1	% return	Half 2	% return	Total	% return
2001	32.6	2.8	18.5	2.0	51.1	2.4
2002	24.4	2.5	29.8	3.1	54.2	2.8
2003	32.0	2.5	33.2	2.7	65.2	2.6
% Change*	**31.1**		**11.3**		**20.2**	

*2003/2002

Taxation

The effective tax rate for the Group was 29% compared to 32.8% in 2002. The reduction is mainly attributable to the inclusion in the tax computation of gains arising on the exercise of unapproved share options during the year. This resulted in a reduction in the effective rate of 4.4%, which is partially offset by the tax on unrelieved losses in France. The main reasons for the variance from the standard UK tax rate of 30% are set out below:

	2003 £'000
Total profit before taxation	65,161
At 30%	19,548
Expenses not deductible for tax purposes	640
Relief on share option gains	(2,845)
Goodwill amortised	(919)
Impairment of goodwill	11
Accounting depreciation in excess of tax depreciation	(284)
Profits of overseas undertakings not taxable due to brought forward loss offset	(2,590)
Losses of overseas undertakings not available for relief	3,350
Current tax charge	16,911
Deferred tax	
Origination and reversal of timing differences	1,542
Prior year adjustments	449
Group deferred tax	1,991
Tax on profit on ordinary activities	18,902

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, liquidity and foreign currency risks. The overall financial instruments strategy is to manage these risks in order to minimise their impact on the financial results of the Group. 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, in France, invoice factoring. During the year the French invoice factoring arrangements were reviewed with the aim of improving the collections process, which has resulted in the requirement to adopt a linked presentation method as shown in the Group balance sheet. The Group's bank borrowings, other facilities and deposits are at floating rates. 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 for 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 2003 the Group had £72.7 million of committed bank facilities with maturities for up to one year, of which 65% were drawn down.

The Group's net cash position at the year-end of £49.9 million, in combination with the above facilities, our ability to access approximately £50 million of funds through sale and lease back of fixed assets, and our strong covenant provides a generous cushion for financing working capital movements.

Equity investment

The Group holds an investment in listed equity shares. The risk associated with this investment is that the market price fluctuates.

Foreign currency risk

The Group operates in the UK, Germany, France, Austria, Belgium and Luxembourg, using local borrowings to fund its operations in each of these countries, where principal receipts and payments are denominated in local currency. In each country a small proportion of the sales are made to customers outside those countries. For those countries within the Euro Zone, the level of non-euro denominated sales is very small and if material, the Group's policy is to eliminate currency exposure through forward currency contracts. For the UK, the vast majority of sales and purchases are denominated in sterling and any material trading exposures are eliminated through forward currency contracts.

Anthony Conophy

Tony Conophy
Finance Director

Table 3: Revenues by country, H1 2002 to H2 2003 £million

	2003		2002	
	Half 1	**Half 2**	Half 1	Half 2
UK	**755.8**	**699.5**	828.9	768.4
France	**148.1**	**176.4**	140.1	176.7
Belux	**7.4**	**9.9**	6.0	6.6
Total Continuing Operations	**911.3**	**885.8**	975.0	951.7
Germany – acquisition	**316.0**	**319.2**	–	–
Austria – acquisition	**27.4**	**21.6**	–	–
Totals	**1,254.7**	**1,226.6**	975.0	951.7

Table 4: Operating profit, H1 2002 to H2 2003 £million

	2003				2002			
	Half 1	**% return**	**Half 2**	**% return**	Half 1	% return	Half 2	% return
UK	**31.4**	**4.2**	**30.4**	**4.3**	25.7	3.1	31.9	4.2
France	**(1.7)**	**(1.1)**	**(1.0)**	**(0.6)**	0.2	0.1	2.2	1.2
Belux	**(0.2)**	**(2.9)**	**(0.2)**	**(1.8)**	(0.5)	(8.3)	(3.3)*	(51.5)
Total Continuing Operations	**29.5**	**3.2**	**29.2**	**3.3**	25.4	2.6	30.8	3.2
Germany – acquisition	**3.2**	**1.0**	**5.5**	**1.7**	–	–	–	–
Austria – acquisition	**(0.3)**	**(1.1)**	**(1.2)**	**(5.5)**	–	–	–	–
Totals	**32.4**	**2.6**	**33.5**	**2.7**	25.4	2.6	30.8	3.2

*This includes a goodwill write-off of £2.9 million; excluding this charge the operating margin loss is 6.1%.