

Notes to the financial statements

1 Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

In preparing the financial statements for the current year, the Group and Company have adopted UITF 38 'Accounting for ESOP trusts'. This abstract had no impact on the results for the period but shareholders funds have been reduced by £2,503,000 following the recognition of the ESOP trust within reserves.

Basis of consolidation

The Group financial statements consolidate the financial statements of Computacenter plc and all its subsidiary undertakings for the period drawn up to 31 December each year. No profit and loss account is presented for Computacenter plc as permitted by section 230 of the Companies Act 1985. The profit after tax for Computacenter plc was £81,948,000 (2002: £15,259,000).

Undertakings, other than subsidiary undertakings, in which the Group holds a participating interest and over which it exerts significant influence are treated as associated undertakings. The Group financial statements include the appropriate share of those undertakings' results (from the date of acquisition) and net assets based on audited financial statements of those undertakings. Undertakings that the Group jointly controls with other entities are accounted for as joint ventures. The Group financial statements include the appropriate share of those undertaking's results, and the appropriate share of the gross assets and liabilities of those undertakings.

Intangible Assets

Intangible assets acquired separately from a business are capitalised at cost. Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

Intangible assets are amortised on a straight line basis over their estimated useful lives up to a maximum of 20 years. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Goodwill

Goodwill arising on acquisitions prior to 31 December 1997 was written off against reserves in the period of acquisition. Goodwill previously eliminated against reserves has not been reinstated on implementation of FRS10. On disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off against reserves is included in determining the profit or loss on disposal.

Goodwill arising on acquisitions since 1 January 1998 has been capitalised, classified as an intangible asset on the balance sheet and amortised on a straight-line basis over its useful economic life up to a presumed maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Negative goodwill arising on acquisitions is classified as an intangible item on the balance sheet and amortised on a straight-line basis over its estimated useful economic life.

Depreciation of tangible fixed assets

Freehold land is not depreciated. Depreciation is provided on all other tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Freehold buildings	50 years
Leasehold acquisition costs	period to expiry of lease
Structural improvements	shorter of 7 years & period to expiry of lease
Fixtures and fittings	
– Head office	5 – 15 years
– Other	shorter of 7 years & period to expiry of lease
Office machinery, computer hardware and software	2 – 15 years
Motor vehicles	3 years

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

Investments

Fixed asset investments are shown at cost less provision for impairment.

Leases

Assets held under finance leases and hire purchase contracts that transfer substantially all the risks and rewards of ownership to the Group are treated as if they had been purchased and an amount equivalent to their fair value is included under tangible fixed assets. Depreciation is provided in accordance with the Group's normal depreciation policy. The capital element of the related rental obligations is included in creditors. Leasing and hire purchase payments are treated as consisting of capital and finance charge elements and the finance charge is included in interest payable in the profit and loss account.

Rentals paid under operating leases are charged to income on a straight-line basis over the term of the lease.

Stocks

Stocks are valued at the lower of average cost and net realisable value after making due allowance for any obsolete or slow moving items. Cost includes all costs incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Revenue recognition and deferred product revenue

Product revenue is recognised when receivable under a contract following delivery of a product. Maintenance revenue is recognised over the maintenance period on a straight-line basis, which approximates to the level of completion of an individual contract. The unrecognised maintenance revenue is included as deferred income in the balance sheet. Amounts invoiced relating to more than one period are deferred and recognised over their relevant life.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date, with the following exceptions:

- deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.
- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Pensions

The Group operates a defined contribution pension scheme available to all UK employees. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date, except to the extent that such assets or liabilities are covered by forward exchange contracts. In such cases the contracted rates are used. All differences are taken to the profit and loss account.

2 Turnover and segmental analysis

The Group operates in one principal activity, that of the provision of distributed information technology and related services. Turnover represents the amounts derived from the provision of goods and services that fall within the Group's ordinary activities, stated net of VAT.

An analysis of turnover, operating profit and net assets is given below:

	2003	2002
	£'000	£'000
Turnover by origin		
UK	1,455,296	1,597,344
France	324,517	316,773
Belgium & Luxembourg	17,320	12,620
Continuing operations	1,797,133	1,926,737
Germany – acquisition	635,150	–
Austria – acquisition	49,012	–
Total	2,481,295	1,926,737

Turnover by destination is not materially different to turnover by origin and has, therefore, not been disclosed.

Net assets of overseas subsidiaries and associated undertakings are translated at the rate of exchange ruling at the balance sheet date. Profit and loss accounts of overseas subsidiaries are translated using average rates of exchange. Exchange differences arising from the retranslation of opening net assets and profit and loss accounts using year-end rates of exchange are taken directly to reserves.

Financial instruments

A discussion of how the Group manages its financial risks is included in the Finance Director's review on pages 10 to 12. Forward exchange contracts are used to hedge foreign exchange exposures arising on forecast receipts and payments in foreign currencies. Gains or losses arising on these forward contracts are taken to the profit and loss account at maturity.

The Group has decided not to include short-term debtors and creditors within the numerical disclosures, as permitted under FRS13.

Capital instruments

Shares are included in shareholders' funds. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits and, if not, they are included in shareholders' funds. The finance cost recognised in the profit and loss account in respect of capital instruments other than equity shares is allocated to periods over the term of the instrument at a constant rate on the carrying value.

Investment in own shares

Own shares are recorded at cost as a deduction from shareholders' funds.

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2 Turnover and segmental analysis continued

	2003 £'000	2002 £'000
Gross profit		
UK	188,369	196,820
France	36,059	34,932
Belgium & Luxembourg	1,842	1,053
Continuing operations	226,270	232,805
Germany – acquisition	90,709	–
Austria – acquisition	5,507	–
Total	322,486	232,805

Gross profit is defined as: Turnover less decrease/(increase) in stocks of finished goods, goods for resale and consumables and less £408,475,000 (2002: £210,087,000) for those staff costs, depreciation and other amounts written off tangible and intangible assets and other operating charges that are incurred in delivering technology sourcing, managed services and infrastructure integration to the customer. Sales, general and administration (SG&A) costs are defined as the balance of staff costs, depreciation and other amounts written off tangible and intangible assets and other operating charges.

	2003 £'000	2002 £'000
Operating profit/(loss)		
UK	61,829	57,642
France	(2,727)	2,389
Belgium & Luxembourg	(390)	(3,864)
Continuing operations	58,712	56,167
Germany – acquisition	8,728	–
Austria – acquisition	(1,502)	–
Total Group excluding associates & joint venture undertakings	65,938	56,167
Share of operating result of associates and joint venture	177	(1,285)
Total operating profit	66,115	54,882

	2003 £'000	Restated 2002 £'000
Net assets/(liabilities) employed		
UK	187,167	180,843
France	33,326	10,400
Belgium & Luxembourg	(6,397)	(4,426)
Germany – existing	(291)	(588)
	213,805	186,229
Germany – acquisition	21,333	–
Austria – acquisition	(2,690)	–
Subtotal	232,448	186,229
<i>Net assets of associated undertaking</i>		
UK	–	46
Rest of the world	510	62
Net assets employed	232,958	186,337
Net funds	49,925	83,430
Net operating assets	282,883	269,767
Non-operating liabilities	–	(26,998)
Net assets	282,883	242,769

During the period, Computacenter France acquired the businesses of Alsace Informatique Investissement (All) and AB Microconseil (ABM) in France. These operations have been fully integrated with those of Computacenter France and therefore it is not possible to separate the financial performance of the acquired activities.

3 Operating costs

	2003 £'000	2002 £'000
Increase in stocks of finished goods	(5,027)	(357)
Goods for resale and consumables	1,755,361	1,484,202
Staff costs (note 6)	406,061	227,175
Depreciation and other amounts written off tangible and intangible assets	18,702	16,758
Other operating charges	240,260	142,792
	2,415,357	1,870,570

The total figures for 2003 include the following combined amounts in relation to the acquisition of GE CompuNet and GECITS Austria: decrease in stocks of finished goods £958,000, goods for resale and consumables £420,585,000, staff costs £154,415,000, depreciation and other amounts written off tangible and intangible assets £6,112,000 and other operating charges £94,867,000.

4 Operating profit

	2003 £'000	2002 £'000
This is stated after charging:		
Auditors' remuneration – audit services – UK	164	147
– audit services – overseas	226	65
– non-audit services – UK	121	154
– non-audit services – overseas	8	16
Depreciation of owned assets	22,188	16,884
Depreciation of assets held under finance leases and hire purchase contracts	477	255
Operating lease rentals – plant & machinery	10,049	1,635
– land & buildings	18,493	10,637
Amortisation of positive goodwill	544	449
Impairment of listed investment	–	1,865
Impairment of goodwill	46	2,899
And after crediting:		
Amortisation of negative goodwill	4,261	3,728
Increase in listed investment	292	–
Rentals received under operating leases	661	260

In addition to the auditors' remuneration disclosed above, further costs of £440,000 relating to non-audit services in respect of the acquisition of GE CompuNet and GECITS Austria have been capitalised.

Non-audit services principally relate to taxation advice.

5 Exceptional items

	2003 £'000	2002 £'000
Recognised below operating profit:		
Germany		
Release of closure provision	–	863

6 Staff costs

	2003 £'000	2002 £'000
Wages and salaries	337,690	191,851
Social security costs	59,690	30,369
Other pension costs	8,681	4,955
	406,061	227,175

The Group operates a defined contribution scheme available to all UK employees.

The cost to the Group for the period to 31 December 2003 was £8,188,000 (2002: £4,730,000). There were no outstanding or prepaid contributions as at the balance sheet date.

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6 Staff costs continued

The average number of persons employed by the Group, including Directors, during the year was as follows:

	Number of employees	
	2003	2002
Supply chain services	2,125	1,592
Managed services	3,448	1,898
Sales and customer services	1,765	1,224
Business support	1,049	643
Direct business	124	129
Professional services	1,193	438
Other services	25	50
Total	9,729	5,974

Details of Directors' remuneration, pension entitlements and share options are disclosed in the Directors' remuneration report on page 28.

7 Interest receivable and similar income

	2003	2002
	£'000	£'000
Bank interest	2,773	5,802
Other interest receivable	476	1,565
Total	3,249	7,367

8 Interest payable and similar charges

	2003	2002
	£'000	£'000
Bank loans and overdrafts	3,448	3,256
Other loans	755	4,775
Total	4,203	8,031

9 Taxation

(a) The charge based on the profit for the year comprises:

	2003	2002
	£'000	£'000
UK Corporation Tax	17,612	20,021
Tax overprovided in previous years	(621)	(1,197)
	16,991	18,824
Foreign	20	35
Group current tax	17,011	18,859
Share of joint venture's tax	(100)	(339)
Total current tax	16,911	18,520
Deferred tax		
Origination and reversal of timing differences	1,542	(504)
Prior year adjustments	449	58
Group deferred tax	1,991	(446)
Tax on profit on ordinary activities	18,902	18,074

9 Taxation continued

(b) Factors affecting the current tax charge

The tax charge for the year is lower than the standard rate of Corporation Tax in the UK (30%). The principal reasons for this difference are set out below:

	2003 £'000	2002 £'000
Total profit before taxation	65,161	55,081
At 30%	19,548	16,524
Expenses not deductible for tax purposes	640	487
Relief on share option gains	(2,845)	–
Goodwill amortised	(919)	(984)
Impairment of goodwill	11	870
Accounting depreciation in excess of tax depreciation	(284)	(137)
Amount provided against investments	–	558
Profits of overseas undertakings not taxable due to brought forward loss offset	(2,590)	–
Losses of overseas undertakings not available for relief	3,350	1,202
Current tax charge	16,911	18,520

(c) Factors that may affect future tax charges

Based on current capital investment plans the Group expects to continue to be able to claim capital allowances in excess of depreciation in future years.

The Group has tax losses arising from the results of overseas subsidiaries of £9,800,000. Deferred tax assets have not been recognised in full in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group and they have arisen in subsidiaries that have been loss making for some time or in subsidiaries where the length of time that the loss remains available is limited.

(d) Deferred tax

Group

The deferred tax included in the balance sheet is as follows:

	2003 £'000	2002 £'000
Included in debtors (note 16)	3,314	–
Included in provisions for liabilities and charges (note 21)	(1,668)	(1,743)
	1,646	(1,743)
	2003 £'000	2002 £'000
Accelerated capital allowances	(1,804)	(2,133)
Tax losses carried forward	3,314	–
Other short-term timing differences	136	390
	1,646	(1,743)
		£'000
At 1 January 2003		(1,743)
Acquisition of subsidiary undertaking		5,380
Deferred tax charge in Group profit and loss account:		
Current year		(1,542)
Prior year		(449)
At 31 December 2003		1,646

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9 Taxation continued

(d) Deferred tax continued

Company

The deferred tax included in the balance sheet is as follows:

	2003 £'000	2002 £'000
Accelerated capital allowances	1,538	1,577

Provision for deferred tax (included in provisions for liabilities and charges):

	£'000
At 1 January 2003	1,577
Deferred tax credit in Group profit & loss account:	
Current year	(39)
At 31 December 2003	1,538

10 Dividends

	2003 £'000	2002 £'000
Equity dividends on ordinary shares:		
interim paid 2.0p (2002: nil)	3,775	–
final proposed 5.0p (2002: 5.8p)	9,236	10,657
	13,011	10,657

The Computacenter ESOP trust has waived the dividends payable in respect of 1,427,042 (2002: 1,427,042) ordinary shares that it owns, which are not allocated to employees. Computacenter Trustees Limited has waived dividends in respect of 457,796 (2002: 457,796) shares that it owns, which are not allocated to employees and the Computacenter Quest ('Qualifying Employee Scheme Trust') has similarly waived dividends in respect of 1,031,134 (2002: 1,102,266) shares that it owns.

11 Earnings per share

The calculation of earnings per ordinary share is based on profit attributable to members of the holding Company of £46,304,000 (2002: £37,032,000) and on 184,853,000 (2002: 181,622,000) ordinary shares, being the weighted average number of ordinary shares in issue during the year after excluding the shares owned by the Computacenter Employee Share Trust, Computacenter Trustees Limited and the Computacenter Quest.

The diluted earnings per share is based on the same earnings figure of £46,304,000 (2002: £37,032,000) and on 188,610,000 (2001: 186,632,000) ordinary shares, calculated as the basic weighted average number of ordinary shares, plus 3,757,000 (2002: 5,010,000) dilutive share options.

12 Intangible assets

	Goodwill	
	Positive £'000	Negative £'000
<i>Group</i>		
Cost		
At 1 January 2003	9,041	8,521
Additions	306	–
At 31 December 2003	9,347	8,521
Amortisation		
At 1 January 2003	4,002	3,728
Charge/credit in the year	544	4,261
Impairment	46	–
At 31 December 2003	4,592	7,989
Net book value		
At 31 December 2003	4,755	532
At 31 December 2002	5,039	4,793

The Group has amortised its acquired positive goodwill on a straight-line basis over a period of the estimated useful economic life. In addition, the Group has reviewed the carrying value of goodwill acquired and has recognised an impairment to reduce the carrying value to a level that the Directors consider to be appropriate. The acquired negative goodwill is amortised over a period of two years. The Group will continue to review the estimated useful life of the goodwill acquired.

	Intellectual property £'000	
	<i>Company</i>	
Cost		
At 1 January 2003		–
Additions		169,737
At 31 December 2003		169,737
Amortisation		
At 1 January 2003		–
Charge in the year		16
At 31 December 2003		16
Net book value		
At 31 December 2003		169,721
At 31 December 2002		–

Intellectual property was purchased during the year from a subsidiary. It is being amortised over its useful life of 20 years.

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13 Tangible fixed assets

	Freehold land and buildings £'000	Short leasehold property and improvements £'000	Fixtures, fittings, equipment and vehicles £'000	Total £'000
<i>Group</i>				
Cost				
At 1 January 2003	60,941	11,221	95,883	168,045
Additions	6,021	602	7,489	14,112
Acquisition of subsidiary undertaking	–	7,482	3,972	11,454
Disposals	–	(141)	(12,994)	(13,135)
Exchange adjustments	–	969	1,381	2,350
At 31 December 2003	66,962	20,133	95,731	182,826
Depreciation				
At 1 January 2003	7,530	6,395	57,387	71,312
Charge in the year	2,460	2,878	17,327	22,665
Disposals	–	(88)	(12,133)	(12,221)
Exchange adjustments	–	34	487	521
At 31 December 2003	9,990	9,219	63,068	82,277
Net book value				
At 31 December 2003	56,972	10,914	32,663	100,549
At 31 December 2002	53,411	4,826	38,496	96,733

Freehold land
and buildings
£'000

Company

Cost	
At 1 January 2003 and 31 December 2003	42,350
Depreciation	
At 1 January 2003	4,093
Charge in the year	1,616
At 31 December 2003	5,709
Net book value	
At 31 December 2003	36,641
At 31 December 2002	38,257

Included in the figures above are the following amounts relating to leased assets:

	Fixtures, fittings, equipment and vehicles	
	2003 £'000	2002 £'000
<i>Group</i>		
Cost	1,164	1,164
Accumulated depreciation	(732)	(255)
Net book value	432	909
Depreciation charge for the year	477	255

14 Investments

	2003 £'000	2002 £'000
<i>Group</i>		
Loan to joint venture, at cost	7,450	7,000
Associated undertakings (a)	539	108
Other listed investments (b)	3,047	2,755
	11,036	9,863

(a) Associated undertakings

	Share of net tangible assets £'000
At 1 January 2003	108
On acquisition of subsidiary	81
Share of profit of associated undertaking	510
Disposal	(63)
Transfer to subsidiary undertaking	(126)
At 31 December 2003	510

The Group's share of post acquisition accumulated profits of associated undertakings at 31 December 2003 is £510,000 (2002: £26,000). The Group has received £nil (2002: £710,000) from the associated undertakings for the provision of administrative services and the reimbursement of costs incurred.

ICG BV was disposed of during the year for a consideration of £130,000.

(b) Other listed investments

	£'000
Cost	
At 1 January 2003 and 31 December 2003	4,617
Provision	
At 1 January 2003	1,862
Credit in the year	292
At 31 December 2003	1,573
Net book value	
At 31 December 2003	3,047
At 31 December 2002	2,755

At 31 December 2003, the market value of listed investments was £3,047,000 (2002: £2,755,000).

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14 Investments continued

Company	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Shares in joint venture £'000	Shares in associated undertaking £'000	Other listed investments £'000	Total £'000
Cost						
At 1 January 2003	158,157	2,754	25	38	4,617	165,591
Additions	39,908	13,512	–	–	–	53,420
Increase in investment	38	–	–	(38)	–	–
At 31 December 2003	198,103	16,266	25	–	4,617	219,011
Amounts provided						
At 1 January 2003	31,925	2,754	–	–	1,862	36,541
During the year	–	–	–	–	(292)	(292)
At 31 December 2003	31,925	2,754	–	–	1,570	36,249
Net book value						
At 31 December 2003	166,178	13,512	25	–	3,047	182,761
At 31 December 2002	126,232	–	25	38	2,755	129,050

On 2 January 2003, the Group acquired GE CompuNet in Germany. This resulted in the Group's shareholding in ICG Services Ltd increasing from 35.7% to 71.4%. Since the purchase of GE CompuNet, the Group has acquired the remaining 28.6% shareholding in ICG Services Ltd.

Details of the principal investments at 31 December 2003 in which the Group or the Company holds more than 20% of the nominal value of ordinary share capital are as follows:

Subsidiary and associated undertaking	Country of registration	Nature of business	Proportion held
Computacenter (UK) Limited	England	IT infrastructure services	100%
Computacenter France SA	France	IT infrastructure services	99.4%
CC CompuNet GmbH	Germany	IT infrastructure services	100%
Computacenter Austria	Austria	IT infrastructure services	100%
Computacenter GmbH	Germany	IT infrastructure services	100%
Computacenter NV/SA	Belgium	IT infrastructure services	100%
RD Trading Limited	England	IT asset management	100%*
Computacenter NV	Luxembourg	IT infrastructure services	100%
Biomni Limited	England	Software development	50%
HelpByCom GmbH	Germany	IT infrastructure services	47.4%**
ICG Services Limited	England	International IT infrastructure services	100%***

* includes indirect holdings of 100% via Computacenter (UK) Limited.

** includes indirect holdings of 47.4% via CC CompuNet GmbH.

*** includes indirect holdings of 35.7% via CC CompuNet GmbH.

14 Investments continued

Acquisitions – Germany and Austria

On 2 January 2003, the Group acquired GE CompuNet in Germany and GECITS in Austria for an initial consideration of £38,134,000. Because the audited value of the net assets at completion was lower than stipulated in the purchase agreement, Computacenter anticipates receiving a repayment of £32,448,000 from GE Capital, the vendors, resulting in a net consideration for the acquisition of £5,686,000. Elements of this repayment calculation are disputed by GE Capital and in accordance with the purchase agreement, PricewaterhouseCoopers has been appointed, as an independent expert, to settle the matter. The Board has reviewed the likely outcome and is confident that this is properly reflected in the Group's accounts.

The assets of each of the acquired companies have been included in the Group's balance sheet at their fair values at the date of acquisition. Further consideration may be payable to the vendor, contingent on the result of the acquired businesses in 2004. No provision has been made for further payments, based on the actual performance in 2003 and the likely performance for 2004.

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 €52,165,292 (£36,762,000), 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.

Analysis of the acquisition of GE CompuNet and GECITS Austria

Net assets at date of 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)
	21,153	(15,467)	5,686
Discharged by:			
Fair value of net consideration			5,686
Goodwill arising on acquisition			–

Adjustments relate to the adoption of Computacenter's Group accounting policies and recognition of property provisions.

GE CompuNet and GECITS Austria together accounted for an outflow of £16,426,000 to the Group's net operating cash flows, paid £638,000 in respect of net returns on investments and servicing of finance and received £238,000 in respect of taxation and utilised £2,738,000 for capital expenditure and financial investment.

There was no trading in GE CompuNet and GECITS Austria in the period between 1 January 2003 and the date of acquisition. The combined loss after tax of GE CompuNet and GECITS Austria for the year ended 31 December 2002 was £2,846,000 and the minority interest was a loss of £14,000.

Acquisitions – France

During the year the Group acquired the trade and assets of ABM and All in France for a consideration of £448,000 and £102,000 respectively. There were no fair value adjustments to the assets and liabilities acquired. The goodwill arising on these purchases totalled £204,000 and £102,000 respectively.

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15 Stocks

	Group 2003 £'000	Group 2002 £'000
Goods held for resale	134,133	95,742

There is no material difference between the balance sheet value of stock and its replacement cost.

16 Debtors

	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Trade debts factored without recourse				
– Gross debts	108,186	250	–	–
– Less non-returnable proceeds	(78,390)	–	–	–
	29,796	250	–	–
Other trade debtors	325,320	265,788	–	–
Amount owed by subsidiary undertaking	–	–	90,000	91
Other debtors	35,694	1,846	187	126
Prepayments and accrued income	48,186	18,998	–	250
Deferred tax	3,315	–	–	–
	442,311	286,882	90,187	467

Included above are deferred tax debtors falling due after more than one year of £3,315,000.

During the year the factoring arrangements within France changed. Under the terms of the new scheme certain trade debts are sold to the factor. The factor advances cash payments in relation to these debts.

The Group is not obliged (and does not intend) to support any losses arising from the assigned debts against which the cash has been advanced. In the event of default in payment of a debtor, the providers of finance seek repayment of cash advanced only from the remainder of the cash pool of debts in which they hold an interest; repayment is not required from the Group in any other way.

The interest expense in relation to this arrangement was £720,000 (2002: £nil) and the administration expenses of the scheme were £284,000 (2002: £nil).

17 Creditors: amounts falling due within one year

	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Bank overdrafts	46,535	7,626	–	–
Obligations under finance leases and hire purchase contracts (note 19)	211	690	–	–
Trade creditors	207,145	155,828	–	–
Corporation tax	5,801	9,280	484	–
Other taxation and social security costs	29,740	51,978	–	–
Amounts owed to subsidiary undertakings	–	–	170,777	21,137
Amounts owed to associated undertakings	–	186	–	–
Accruals	89,915	57,308	1,557	–
Deferred income	78,179	34,910	–	–
Dividend payable	9,290	10,716	9,290	10,716
	466,816	328,522	182,108	31,853

18 Creditors: amounts falling due after more than one year

	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Loans (note 20)	326	326	–	–
Deferred income	10,907	1,287	89,704	–
Other creditors	2,690	–	–	–
	13,923	1,613	89,704	–

19 Amounts due under finance leases and hire purchase contracts

	2003 £'000	2002 £'000
<i>Group</i>		
Amounts payable:		
Within one year	211	690

Notes to the financial statements

continued

20 Loans

	Group 2003 £'000	Group 2002 £'000
Loans comprise:		
Wholly repayable within five years	326	326
Analysed as amounts due:		
Between two and five years	326	326

The loan due between two and five years comprises an amount of £326,000 relating to the Company's employee share option schemes.

21 Provisions for liabilities and charges

(a) Provision for joint venture deficit

	£'000
<i>Group</i>	
At 1 January 2003	6,891
Share of loss retained by joint venture	333
At 31 December 2003	7,224

(b) Other provisions

	Property provisions £'000	Deferred taxation £'000	Total £'000
<i>Group</i>			
At 1 January 2003	7,953	1,743	9,696
On acquisition of subsidiary undertaking	9,135	–	9,135
Arising in the year	299	–	299
Utilised	(652)	–	(652)
Capital allowances in advance of depreciation	–	(75)	(75)
At 31 December 2003	16,735	1,668	18,403

Certain amounts included within accruals at 31 December 2002 have been reclassified as vacant property provisions. Property provisions are based on the Directors' best estimates of the likely time before the relevant leases can be reassigned and range between 3 years and 13 years.

	Deferred taxation £'000
<i>Company</i>	
At 1 January 2003	1,577
Capital allowances in advance of depreciation	(39)
At 31 December 2003	1,538

There are no potential deferred tax liabilities at 31 December 2003 (2002: nil). Note 9 (c) details those assets that have not been provided for.

22 Share capital

	2003 £'000	2002 £'000
<i>Authorised</i>		
Equity		
Ordinary shares of 5p each	25,000	25,000

	2003 No '000	2003 £'000	2002 No '000	2002 £'000
<i>Allotted, called up and fully paid</i>				
Equity				
Ordinary shares of 5p each	188,822	9,441	184,752	9,237

Options

Executive Share Option Scheme

During the year, options were exercised with respect to 4,067,800 (2002: 1,131,273) 5p ordinary shares at a nominal value of £203,400 (2002: £57,000) and at an aggregate premium of £2,482,000 (2002: £494,000).

Under the executive share option schemes, the number of shares under outstanding options at the year-end comprise:

Date of grant	Exercisable between	Exercise price	2003 Number outstanding	2002 Number outstanding
01/06/1993	01/06/1996 – 31/05/2003	28.75p	–	15,000
09/04/1996	09/04/1999 – 08/04/2003	25.00p	–	2,700,000
09/04/1996	09/04/1999 – 08/04/2006	41.25p	150,000	802,000
31/07/1997	31/07/2000 – 30/07/2007	160.00p	609,700	1,007,000
16/03/1998	16/03/2001 – 15/03/2008	300.00p	467,900	571,400
01/04/1999	01/04/2002 – 31/03/2009	565.00p	125,003	141,331
05/05/1999	05/05/2002 – 04/05/2009	565.00p	277,983	306,255
24/08/1999	24/08/2002 – 23/08/2009	565.00p	22,573	22,573
24/08/1999	24/08/2003 – 23/08/2009	565.00p	13,724	13,724
30/06/2000	30/06/2003 – 29/06/2010	377.50p	–	92,000
30/06/2000	30/06/2004 – 29/06/2010	377.50p	–	66,000
30/06/2000	30/06/2005 – 29/06/2010	377.50p	–	40,000
27/09/2000	27/09/2003 – 26/09/2010	380.00p	1,134,138	1,273,471
27/09/2000	27/09/2004 – 26/09/2010	380.00p	256,665	289,998
27/09/2000	27/09/2005 – 26/09/2010	380.00p	256,665	289,998
20/03/2001	20/03/2004 – 19/03/2011	333.50p	158,995	158,995
20/03/2001	20/03/2005 – 19/03/2011	333.50p	150,000	150,000
20/03/2001	20/03/2006 – 19/03/2011	333.50p	200,000	200,000
19/09/2001	19/09/2004 – 18/09/2011	245.00p	100,000	100,000
19/09/2001	19/09/2005 – 18/09/2011	245.00p	50,000	50,000
19/09/2001	19/09/2006 – 18/09/2011	245.00p	50,000	50,000
10/04/2002	10/04/2005 – 09/04/2012	322.00p	864,482	864,482
10/04/2002	10/04/2005 – 09/04/2012	331.00p	66,000	81,000
11/10/2002	11/10/2005 – 10/10/2012	220.00p	85,000	85,000
21/03/2003	21/03/2006 – 20/03/2013	266.50p	1,275,000	–
			6,313,828	9,370,227

During the year options in respect of 263,599 shares lapsed, and new options over 1,275,000 shares were granted.

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22 Share capital continued

Computacenter Performance Related Share Option Scheme

Under the Computacenter Performance Related Share Option Scheme, options granted will be subject to certain performance conditions designed to produce significant and sustained improvements in the Company's underlying performance. During the year options in respect of 633,863 shares were granted and options in respect of 33,156 shares lapsed. At 31 December 2003 the number of shares under outstanding options were as follows:

Date of grant	Exercisable between	Exercise price	2003 Number outstanding	2002 Number outstanding
25/04/2000	25/04/2003 – 24/04/2010	942.50p	–	33,156
20/03/2001	20/03/2004 – 19/03/2011	333.50p	84,708	84,708
10/04/2002	10/04/2005 – 09/04/2012	322.00p	280,666	280,666
21/03/2003	21/03/2006 – 20/03/2013	266.50p	433,863	–
21/03/2003	21/03/2007 – 20/03/2013	266.50p	200,000	–
			999,237	398,530

Computacenter Sharesave Scheme

The Company established the Computacenter Sharesave Scheme, which is available to all employees and full time Executive Directors of the Company and its subsidiaries who have worked for a qualifying period. Under the scheme the following options have been granted and are outstanding at the year-end:

Date of grant	Exercisable between	Share price	2003 Number outstanding	2002 Number outstanding
August 1998	01/09/2003 – 29/02/2004	670.00p	6,484	7,908
September 1998	01/12/2003 – 31/05/2004	425.00p	159,778	242,943
September 1999	01/12/2002 – 31/05/2003	565.00p	–	50,956
September 1999	01/12/2004 – 31/05/2005	565.00p	9,905	13,009
September 2000	01/12/2003 – 31/05/2004	435.00p	5,916	8,408
September 2000	01/12/2005 – 31/05/2006	435.00p	3,101	4,107
January 2001	01/02/2004 – 31/07/2004	350.00p	132,280	159,668
January 2001	01/02/2006 – 31/07/2006	350.00p	77,858	106,638
October 2001	01/12/2004 – 31/05/2005	185.00p	1,171,308	1,282,071
October 2001	01/12/2006 – 31/05/2007	185.00p	577,073	634,217
October 2002	01/12/2005 – 31/05/2006	220.00p	703,504	796,698
October 2002	01/12/2007 – 31/05/2008	220.00p	555,967	668,388
October 2002	01/12/2007 – 31/05/2008	225.00p	62,346	–
October 2003	01/12/2006 – 31/05/2007	395.00p	584,538	–
October 2003	01/12/2008 – 31/05/2009	395.00p	278,617	–
October 2003	01/12/2008 – 31/05/2009	417.00p	9,803	–
			4,338,478	3,975,011

The Group has taken advantage of the SAYE exemption available under UITF 17 in accounting for options granted under the Sharesave Scheme.

23 Reconciliation of shareholders' funds and movements on reserves

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Investment in own shares £'000	Merger reserve £'000	Profit and loss account £'000	Total shareholders' funds £'000
<i>Group</i>							
At 1 January 2002	9,281	68,710	–	–	–	143,825	221,816
Prior year adjustment	–	–	–	(2,503)	–	–	(2,503)
At 1 January 2002 (restated)	9,281	68,710	–	(2,503)	–	143,825	219,313
Shares issued	56	294	–	–	–	–	350
Shares repurchased	(100)	–	100	–	–	(4,646)	(4,646)
Total recognised gains in the year	–	–	–	–	–	38,270	38,270
Equity dividends	–	–	–	–	–	(10,657)	(10,657)
At 31 December 2002	9,237	69,004	100	(2,503)	–	166,792	242,630
Shares issued	204	2,482	–	–	–	–	2,686
Total recognised gains in the year	–	–	–	–	–	50,463	50,463
Equity dividends	–	–	–	–	–	(13,011)	(13,011)
At 31 December 2003	9,441	71,486	100	(2,503)	–	204,244	282,768
<i>Company</i>							
At 1 January 2002	9,281	68,710	–	–	55,990	58	134,039
Shares issued	56	294	–	–	–	–	350
Total recognised gains in the year	–	–	–	–	–	15,259	15,259
Shares repurchased	(100)	–	100	–	–	(4,646)	(4,646)
Equity dividends	–	–	–	–	–	(10,657)	(10,657)
At 31 December 2002	9,237	69,004	100	–	55,990	14	134,345
Shares issued	204	2,482	–	–	–	–	2,686
Total recognised gains in the year	–	–	–	–	–	81,948	81,948
Equity dividends	–	–	–	–	–	(13,011)	(13,011)
At 31 December 2003	9,441	71,486	100	–	55,990	68,951	205,968

The cumulative amount of goodwill resulting from acquisitions which has been written off directly to reserves is £79,469,000 (2002: £79,469,000). All shareholders' funds are attributable to equity interests in the Company.

Own shares comprise the following:

i) Computacenter Employee Share Ownership Plan

Shares in the parent undertaking comprise 1,427,042 (2002: 1,427,042) 5p ordinary shares of Computacenter plc purchased on behalf of the Computacenter Employee Share Ownership Plan ("the Plan").

None of these shares were awarded to executives of the Company under the Computacenter (UK) Limited Cash Bonus and Share Plan. Shares previously awarded are to be held on behalf of employees and former employees of Computacenter (UK) Limited and their dependants, excluding Jersey residents. The distribution of these shares is dependent upon the trustee holding them on the employees' behalf for a restrictive period of three years.

Since 31 December 2002 the definition of beneficiaries under the ESOP Trust has been expanded to include employees who have been awarded options to acquire ordinary shares of 5p each in Computacenter plc under the other employee share plans of the Computacenter Group, namely the Computacenter Services Group plc Approved Executive Share Option Plan, the Computacenter Employee Share Option Scheme 1998, the Computacenter Services Group plc Unapproved Executive Share Option Scheme, the Computacenter Performance Related Share Option Scheme 1998, the Computacenter Sharesave Plus Scheme and any future similar share ownership schemes.

All costs incurred by the plan are settled directly by Computacenter (UK) Limited and charged in the accounts as incurred.

The Plan Trustees have waived the dividends payable in respect of 1,427,042 shares that it owns, which are not allocated to employees. Any dividends received by the plan in respect of shares allocated to the beneficiaries would be paid in full to them.

Notes to the financial statements

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ii) Computacenter Qualifying Employee Share Trust ("the QUEST")

During the year there were no 5p ordinary share subscriptions by the Quest. The total shares held are 1,031,134 (2002: 1,102,266). All of these shares will continue to be held by the Quest until such time as the Sharesave options granted against them are exercised. The market value of these shares at 31 December 2003 was £4,846,000. The Quest Trustees have waived dividends in respect of all of these shares.

iii) Computacenter Trustees Limited

During the year no new awards of share allocations were made under the Computacenter Bonus Plus Scheme. As at the year-end date the total number of shares held by Computacenter Trustees Limited was 457,796 (2002: 501,036) shares of which nil (2002: 43,240) shares are allocated against the Bonus Plus awards and 457,796 (2002: 457,796) shares are unallocated shares. Dividends are paid in respect of the allocated shares but waived in respect of the unallocated shares.

24 Reconciliation of operating profit to operating cash flows

	2003 £'000	2002 £'000
Operating profit	65,938	56,167
Depreciation	22,665	17,138
Impairment of listed investment	–	1,865
Amortisation of positive goodwill	544	449
Impairment of positive goodwill	46	2,899
Amortisation of negative goodwill	(4,261)	(3,728)
Revaluation of listed investment	(292)	–
Loss on disposal of fixed assets	914	110
(Increase)/decrease in debtors	(16,963)	8,955
Increase in stocks	(4,908)	(282)
Decrease in creditors	(8,432)	(23,708)
Currency and other adjustments	1,730	749
Net cash inflow from operating activities	53,521	60,614

25 Analysis of gross cash flows

	2003 £'000	2002 £'000
Returns on investments and servicing of finance		
Interest received	3,249	7,367
Interest paid	(4,203)	(7,835)
Net cash outflow for returns on investments and servicing of finance	(954)	(468)

	2003 £'000	2002 £'000
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(14,112)	(9,154)
Receipts from sales of tangible fixed assets	–	807
Investment in joint venture	(450)	(750)
Net cash outflow for capital expenditure and financial investment	(14,562)	(9,097)

25 Analysis of gross cash flows continued

	2003 £'000	2002 £'000
Acquisitions and disposals		
Payments to acquire interest in subsidiary undertakings	(36,883)	(419)
Receipt from sale of shares in associate	130	38
Net cash acquired with subsidiary undertakings	–	8,521
Payment to acquire business	(550)	(581)
Net cash (outflow)/inflow for acquisitions and disposals	(37,303)	7,559

	2003 £'000	2002 £'000
Financing		
Issue of ordinary share capital	2,686	350
Repurchase of own shares	–	(4,646)
Net repayment of capital element of finance leases	(479)	(474)
Bonds repurchased	–	(38,313)
Net cash inflow/(outflow) from financing	2,207	(43,083)

26 Analysis of changes in net funds

	At 1 January 2003 £'000	Cash flows in year £'000	Exchange differences £'000	At 31 December 2003 £'000
Cash at bank and in hand	92,072	4,925	–	96,997
Bank overdrafts	(7,626)	(38,306)	(603)	(46,535)
	84,446	(33,381)	(603)	50,462
Finance leases	(690)	479	–	(211)
Debt due after one year	(326)	–	–	(326)
Total	83,430	(32,902)	(603)	49,925

27 Other financial commitments

Annual commitments under non-cancellable operating leases are as follows:

	2003 Land/buildings £'000	2003 Other £'000	2002 Land/buildings £'000	2002 Other £'000
<i>Group</i>				
Operating leases which expire:				
Within one year	1,970	10,673	225	2,114
Between two and five years	6,692	15,359	637	3,874
Over five years	6,262	104	4,692	–
	14,924	26,136	5,554	5,988

Notes to the financial statements

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28 Capital commitments

At both 31 December 2002 and 31 December 2003 all future contracted Group capital expenditure had been provided for.

29 Contingent liabilities

The Group has given a VAT deferred import duty guarantee of £500,000 (2002: £500,000).

Computacenter plc has given a guarantee in the normal course of business to a supplier of a subsidiary undertaking for an amount not exceeding £25,828,000 (2002: £994,000).

Computacenter plc has provided cross guarantees in respect of certain bank loans and overdrafts of its subsidiary undertakings. The amount outstanding at 31 December 2003 is £17,000,000 (2002: £7,441,000).

Further contingent liability disclosure is included in note 14.

30 Related party transactions

Group
Biomni, the joint venture between Computacenter plc and Lowkin Limited, provides the Computacenter e-procurement system used by many of Computacenter's major customers. An annual fee has been agreed on a commercial basis for use of the software for each installation. Total fees paid in the year to Biomni amounted to £1,751,000 (2002: £3,759,000). Both PJ Ogden and PW Hulme are directors of and have a material interest in Lowkin Limited.

During the year, the Group supplied goods to Lowkin in the normal course of business totalling £3,800 (2002: £114,500). At 31 December 2003 Lowkin owed the Group £nil (2002: £nil).

31 Financial instruments

The Group's approach to managing financial risk is described in the Finance Director's review on pages 10 to 12.

(a) Interest rate risk

Financial liabilities

The interest rate profile of the financial liabilities of the Group is as follows:

	At floating interest rates £'000	Interest free £'000	Total £'000
<i>2003</i>			
Sterling	326	8,463	8,789
Euro	45,725	11,173	56,898
US Dollar	810	–	810
	46,861	19,636	66,497

	At floating interest rates £'000	Interest free £'000	Total £'000
<i>2002 – restated</i>			
Sterling	511	8,643	9,154
Euro	7,441	–	7,441
	7,952	8,643	16,595

31 Financial instruments continued

The financial liabilities of the Group comprise:

	2003 £'000	Restated 2002 £'000
Other borrowings	46,861	7,952
Finance leases	211	690
Other creditors due after one year	2,690	–
Property provisions	16,735	7,953
	66,497	16,595

Financial assets

The interest rate profile of the financial assets of the Group is as follows:

	At floating interest rates £'000	Asset on which no interest is earned £'000	Total £'000
<i>2003</i>			
<i>Financial Assets:</i>			
Sterling	92,709	3,055	95,764
Euro	2,038	48	2,086
US Dollar	375	1,818	2,193
	95,122	4,921	100,043

	At floating interest rates £'000	Asset on which no interest is earned £'000	Total £'000
<i>2002</i>			
<i>Financial Assets:</i>			
Sterling	91,228	2,755	93,983
Euro	844	–	844
	92,072	2,755	94,827

The financial assets of the Group comprise:

	2003 £'000	2002 £'000
Cash and deposits	96,997	92,072
Long-term equity investments	3,046	2,755
	100,043	94,827

The sterling floating rate assets and liabilities are based on the three month LIBOR rate. The euro floating rate liabilities are based on the overnight Euribor rate.

Notes to the financial statements

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31 Financial instruments continued

(b) Currency exposure

As described in Note 14, the Group has recognised a debtor of €50,662,000 in respect of the acquisition made in the year. Other than this amount the Group does not have any significant currency exposures on monetary assets and liabilities. No Group company holds significant monetary assets or monetary liabilities that are not denominated in the functional currency of the company involved. At 31 December 2003, the UK company had entered into forward contracts to sell for sterling, in total, €10,610,000 at rates between 1.404 and 1.415 and US \$2,200,000 at rates between 1.742 and 1.750. In addition the UK Company had also contracted to sell for euros, in total, US \$8,800,000 at rates between 1.223 and 1.239 (2002: purchase €60,000,000 at 1.562).

(c) Maturity of financial liabilities

	2003 £'000	2002 £'000
In one year or less, or on demand	48,176	8,316
In more than one year but not more than two years	4,446	326
In more than two years but not more than five years	4,361	–
In more than five years	9,514	–
	66,497	8,642

(d) Undrawn committed borrowing facilities

The Group has various available borrowing facilities. The undrawn committed facilities available at 31 December 2003 in respect of which all conditions precedent had been met were £25,839,000 (2002: £69,618,000). All of these facilities are subject to annual review.

(e) Fair value of financial instruments

	2003 Book value £'000	2003 Fair value £'000	2002 Book value £'000	2002 Fair value £'000
Interests in equities	3,046	3,046	2,755	2,755
Cash and deposits	96,997	94,242	92,072	92,072
Other borrowings	47,072	47,072	(8,642)	(8,642)
Other creditors due after one year	2,690	2,690	–	–
Property provisions	16,735	16,735	7,953	7,953
Forward foreign currency contract	–	(75)	–	701
	66,497	66,497	(689)	12

Other than the forward currency contract above, which unwinds within one year, there are no other unrecognised amounts.