"In the UK, gross profit increased by 2.0%, despite a 1.5% decline in revenues. This reflects an improvement in gross margin percentage from 13.9% to 14.3%. SG&A costs increased by 1.1% and as a result, operating profit increased by 4.2%."

Turnover and profitability

Revenues for the year of £2.46 billion were broadly unchanged from those of 2003. The decline in product revenues was just 2.3% despite continued price erosion in the industry. Service revenues increased overall by 3.8%, although this result contained an encouraging 9.0% growth in the Group's Managed Services activities. Pre-tax profits reduced from £65.2 million to £64.6 million, caused by a £2.4 million non-operating exceptional charge arising on the sale of our Austrian business, and a net £0.3 million charge related to a partial deemed disposal of the Group's interest in Biomni. This charge arose as the Group took the decision to invest no further funds in Biomni. There was no net charge arising on the dilution that took place prior to the year-end; however after the year-end Biomni was recapitalised, resulting in the further provision of £0.3 million being required. Excluding these non-operating exceptional charges the Group's pre-tax profit increased by 3.2% from £65.2 million to £67.3 million.

Operating profit

Group operating profit decreased slightly from £65.9 million to £65.7 million.

The format of the profit and loss account has been changed in order to allow disclosure of gross profit (in accordance with format 1, schedule 4 of the Companies Act 1985), which enables a year-on-year comparison of gross profit and sales, general and administrative (SG&A) costs.

- In the UK, gross profit increased by 2.0%, despite a 1.5% decline in revenues. This reflects an improvement in gross margin percentage from 13.9% to 14.3%. SG&A costs increased by 1.1%, and as a result, operating profit increased by 4.2%. Managed Services revenue growth was encouraging, at 16.6%. Other service revenues, relating largely to Infrastructure Integration, reduced by approximately 12.6%, although the utilisation of resources and hence the profitability of this business remained strong. Included within operating profit is a write back of £1.6 million in respect of a previous impairment charge on a listed investment. The £1.9 million write down on the listed investment was charged in the 2002 accounts.

- The operating profit contribution from the German business, at £9.0 million, showed a modest increase over 2003. Revenues improved, with an overall increase of 5.2% over 2003 in local currency, with H2 being 10.1% higher than H2 2003. Gross margin achieved in Germany fell by 5.5%, resulting in a reduction of the gross margin percentage to 13.8% compared with 15.1% in 2003. This reflects an increase in the Technology Sourcing business, and continued price pressure in both product sales and services billing rates in Germany. SG&A costs reduced by 4.5% in local currency, reflecting continuing effective cost control in that business.

- In France the financial performance was disappointing. Revenues in sterling terms decreased by 7.4%, and in local currency revenues declined by 5.6%. Service revenues increased marginally, but product revenues reduced by 6.7% in local currency. The overall gross margin percentage reduced from 12.3% to 10.6%, although this was partly due to one-off transformation costs within the maintenance business. More generally, utilisation levels were lower than expected and significant pricing pressure for implementation services was encountered. SG&A costs reduced by 17.8%, despite high levels of expenditure associated with business improvement initiatives and cost reduction measures. The cost savings arise because even higher levels of expenditure in relation to these initiatives were incurred in 2003. We expect these efforts to lead to a significant SG&A cost reduction and substantial improvement in performance in the future. An operating loss of £2.7 million in 2003 declined to an operating loss of £6.2 million in 2004, including the release of negative goodwill. However, excluding the impact of negative goodwill the operating loss in 2004 of £6.7 million showed a slight improvement on the 2003 result of £7.0 million.

- The operating performance in Austria was broadly the same in 2004 as 2003. Revenues reduced by 7.9%, but the resulting reduction in gross profit was offset by savings in SG&A. However, given Computacenter's weak competitive position in this marketplace and the potentially high cost of organic growth, the decision was taken to sell this business. Completion of the transaction is anticipated in March 2005.

- Revenues in the 'BeLux' region increased by 21.4% in sterling terms (24.7% in local currency). This is an encouraging performance and demonstrates gain in market share, for both the Technology Sourcing and Managed Services businesses. For the first time, in 2004, the business showed an operating profit (2003: operating loss of £0.4 million).

"The operating profit contribution from the German business, at £9.0 million, showed a modest increase over 2003."

Table 1: Group revenues, H1 2002 to H2 2004 £million

	Half 1	Half 2	Total
2002	975.0	951.7	**1,926.7**
2003	1,254.7	1,226.6	**2,481.3**
2004	1,254.9	1,200.9	**2,455.8**
% Change*	**0.0**	**(2.1)**	**(1.0)**

*2004/2003

Table 2: Group pre-exceptional pre-tax profit, H1 2002 to H2 2004 £million

	Half 1	% return	Half 2	% return	Total	% return
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
2004	33.2	2.6	34.1	2.8	67.3	2.7
% Change*	**3.7**		**2.7**		**3.3**	

*2004/2003

Earnings per share and dividend

Excluding the non-operating exceptional charge, fully diluted earnings per share increased by 2.0% from 24.6p to 25.1p. Including the exceptional charge, fully diluted earnings per share reduced to 23.7p. It is our intention to recommend a 7.1% increase in the total dividend for the year to 7.5p per share, maintaining dividend cover in accordance with our stated policy of circa 3.5 times. The dividend will be payable on 31 May 2005 to registered shareholders as at 6 May 2005.

Cash flow and working capital

	2004	2003	Diff
Stock days	26	28	(2)
Debtor days	46	44	2
Creditor days	32	37	(5)

Inventory levels decreased from £134.1 million to £120.1 million and inventory days decreased from 28 to 26. The stock levels in 2003 were higher than usual due to some year-end purchases and do not indicate any fundamental change to the inventory cycle.

Debtor days increased from 44 to 46. However, in France the debtor collection process improved. The balance lodged with the French invoice factor (shown as non-returnable proceeds in the linked presentation on the face of the balance sheet) reduced from £78.4 million to £39.0 million.

Creditor days decreased from 37 to 32. The unusually high figure of 37 at the end of 2003 was mainly attributable to the year-end stock purchases in 2003. 32 creditor days is a more realistic ongoing expectation.

The cash inflow from operating activities relative to operating profit was 91.8% compared to 81.2% in 2003.

Overall net funds increased from £49.9 million at the end of 2003 to £80.0 million at the end of 2004, mainly due to the earnings from the year, corporate tax payments, and no acquisitions. The strong cash flow during 2004 contributed to a positive net interest income of £1.7 million compared to a net interest payment of £1.0 million in 2003.

Update on acquisitions – Germany and Austria

On 2 January 2003, the Group acquired GE CompuNet in Germany and GECITS Austria for an initial payment of £38.1 million. There has been no change in circumstances that has resulted in a change to the Board's view of the provisional fair value to the Group.

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."

As previously announced, 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 and, taking account of the proceedings to date, is still of the view that this is properly reflected in the accounts.

Contingent liability

As reported in the 2003 annual report, 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. They consequently issued a claim for €52,165,292, (£36,892,000) 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 proceeding between the parties. On the basis of legal advice received, the Board is confident that this claim is without merit and is being 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 each of these years.

Taxation

The effective tax rate for the Group was 30.7% compared to 29.0% in 2003.

Table 3: Revenues by country, H1 2003 to H2 2004 £million

	2004		2003	
	Half 1	Half 2	Half 1	Half 2
UK	758.4	675.3	755.8	699.5
Germany	311.9	343.6	316.0	319.2
France	147.1	153.3	148.1	176.4
BeLux	11.5	9.5	7.4	9.9
Total Continuing Operations	1,228.9	1,181.7	1,227.3	1,205.0
Austria – disposal	26.0	19.2	27.4	21.6
Totals	1,254.9	1,200.9	1,254.7	1,226.6

The increase is mainly attributable to the impact of unrelieved operating losses in France and Austria and also to the loss incurred on the disposal of the Austrian operation. These accounted for a 5.9% differential in the tax rate from the standard 30%. This is mostly offset by adjustments in respect of previous periods in the UK.

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, 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. The 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. 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 limit 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 £117.5 million of committed bank facilities with maturities for up to one year, of which 50% were drawn down.

The Group's net cash position at the year-end was £80.0 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.

Foreign currency risk

The Group operates in the UK, Germany, France, Belgium and Luxembourg, using local borrowings to fund its operations outside of the UK, where principal receipts and payments are denominated in Euros. 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.

Tony Conophy
Finance Director

Table 4: Operating profit by country, H1 2003 to H2 2004 £million

	2004				2003			
	Half 1	**% return**	**Half 2**	**% return**	Half 1	% return	Half 2	% return
UK	**32.2**	**4.2**	**32.2**	**4.8**	31.4	4.2	30.4	4.3
Germany	**2.5**	**0.8**	**6.5**	**1.9**	3.2	1.0	5.5	1.7
France	**(1.5)**	**(1.0)**	**(4.7)**	**(3.1)**	(1.7)	(1.1)	(1.0)	(0.6)
BeLux	**0.1**	**0.6**	**(0.1)**	**(0.6)**	(0.2)	(2.9)	(0.2)	(1.8)
Total Continuing Operations	**33.3**	**2.7**	**34.0**	**2.9**	32.8	2.7	34.7	2.9
Austria – disposal	**(0.3)**	**(1.1)**	**(1.3)**	**(6.6)**	(0.3)	(1.1)	(1.2)	(5.5)
Totals	**33.0**	**2.6**	**32.7**	**2.7**	32.4	2.6	33.6	2.7