Executive summary

MIKE NORRIS
CHIEF EXECUTIVE OFFICER

There were many encouraging aspects to Computacenter's performance in 2007. Most significantly, the Group delivered a 34.1% increase in adjusted* diluted earnings per share (adjusted* EPS) to 18.5p (2006: 13.8p). This was underpinned by a strong underlying improvement in adjusted* profit before tax, up 12.3% to £42.7 million (2006: £38.0 million). The main contributors to profit growth were our European operations and Germany in particular. Overall Group sales increased 4.8% to £2.38 billion (2006: £2.27 billion). Even allowing for the modest impact of acquisitions, this is the first time in several years that Computacenter has achieved revenue growth, and reflects the success that we are having in multiple market sectors.

On a statutory basis, Group profit before tax increased 27.7% to £42.1 million (2006: £32.9 million) and diluted earnings per share grew 67.0% to 18.2p (2006: 10.9p).

Efficient use of capital is central to our strategy of delivering shareholder value. It was with this in mind that we returned £74.4 million of cash to shareholders in 2006 and, more recently, have begun to use the strength of our balance sheet to purchase shares in the market for subsequent cancellation. This programme began in November and by year-end, 1.5 million shares, representing 0.9% of the issued share capital, had been purchased for this purpose. This was in addition to the purchase of 4.3 million shares by the Computacenter Employee Share Ownership Plan to satisfy awards made under the Group's share schemes. The repurchase programme has continued into 2008 and as at 10 March a further 3.5 million shares had been purchased.

The strong balance sheet continues to serve Computacenter well. At year-end, net borrowings prior to customer-specific financing were £16.2 million, after cash acquisition expenses during the year of £32.6 million and £11.3 million spent on share purchases. The Board is pleased to recommend a final dividend of 5.5p per share, bringing the total dividend for the year to 8.0p (2006: 7.5p). The increased dividend is consistent with our stated policy of maintaining the level of dividend cover within the target range of 2–2.5x. The dividend will be paid on 12 June 2008 to shareholders on the register as at 16 May 2008.

Our performance in Germany, after a lacklustre 2006, was the highlight of the year. Adjusted* operating profit grew substantially, from £2.6 million in 2006 to £10.4 million, partly due to a substantial reduction in losses associated with two shared datacentre services contracts announced last year and partly due to underlying improvements in the business. This is a record performance for Computacenter Germany. Undoubtedly we were assisted by stronger market conditions, but this should in no way detract from the achievements of the German management team, who have been particularly successful in extending our penetration of the datacentre and networking markets. There is still scope to improve the service margins in our German business and the prospects for further growth are encouraging.

The French performance also improved strongly in 2007, with operating losses reducing to £1.8 million (2006: £6.5 million, prior to £5.0 million of exceptional charges). Computacenter France remains heavily dependent upon traditional lines of business, and in particular, the reselling of desktop and laptop systems. Nonetheless, our efforts to increase the services component of the business mix there are bearing fruit, with services share of revenue growing from 11.1% in 2006 to 12.8% in 2007. The management team in France has been strengthened considerably in recent years and the benefits of this are increasingly evident. We expect the performance of Computacenter France to continue to improve, although the business remains heavily dependent on a small number of key contracts and further effort is needed to broaden the customer base.

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There is also encouragement to be derived from the UK performance. Whilst adjusted* operating profit decreased to £33.1 million (2006: £37.4 million), this conceals some significant underlying improvements. Second half performance was considerably better than the first half and also ahead of the comparable period in 2006. This arises from the fact that we achieved substantial services contract base growth during the second half of the year, enabling us to recover from the 2006 contract losses and to enter 2008 with a considerably stronger pipeline of business.

Our strategy in the UK has led us to focus increasingly on datacentre opportunities, and we made useful further progress here in 2007. The acquisition of Digica was intended to accelerate this development and this business is performing well. In 2007, sales of personal systems accounted for only 31% of our UK revenues, down from over 40% in 2004, demonstrating just how much progress Computacenter has made in shifting its business mix towards the less-commoditised end of the market.

As stated previously, it is not possible to draw any meaningful conclusions about current trading until the first quarter has been completed. Like many companies we are concerned that the current credit crisis will have a negative effect on market conditions, however to date there is no obvious sign of this materialising. The strong performance in the UK in the second half of last year and the gains made throughout the course of 2007 in Germany and France, allow us to look to the future with confidence. We have for some years been pursuing a strategy of strengthening our services capabilities, restructuring the cost base of our product supply business, increasing our mid-market penetration, and upgrading our sales capabilities. We believe that we have made, and are continuing to make, strong progress in all of these areas.

Due to his new commitment at Northern Rock, Ron Sandler resigned as Non-Executive Chairman and from the Computacenter Board on 18 February 2008. A search to find a permanent replacement led by our senior independent Non-Executive Director Cliff Preddy is currently in progress.

We would like to thank Ron Sandler for his contribution to Computacenter and wish him every success.

As ever, the credit for the Group's performance belongs to the staff. Their commitment and hard work throughout the year has been exemplary, and we offer them our wholehearted thanks.

* Adjusted for exceptional items and amortisation of acquired intangibles. Adjusted operating profit is stated after charging finance costs on customer-specific financing.