Finance Director's review

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Turnover and profitability
Group revenues increased for the first time in several years, by 4.8% to £2.38 billion, with a 2.2% increase prior to acquisitions. Growth was achieved in both the UK and German businesses, but there was a decline in revenue in France due to a more selective approach within the product business.

Whilst statutory profit before tax increased materially from £32.9 million to £42.1 million, on an adjusted basis (prior to exceptional items and amortisation of acquired intangibles) profit before tax improved by 12.3% from £38.0 million to £42.7 million.

Adjusted operating profit
Statutory operating profit, prior to the amortisation of acquired intangibles, improved from £28.6 million to £43.1 million. However, management measure the Group's operating performance using adjusted operating profit, which is stated prior to amortisation of acquired intangibles and exceptional items, and after charging finance costs on customer-specific financing for which the Group receives regular rental income.

Table 1 on page 17 shows the reconciliation between statutory and adjusted operating profit by geographical segment for 2007 and 2006.

UK
The UK business grew revenues for the first time in a number of years, even excluding the effect of acquisitions. Organic growth of 1.4% was supplemented with revenues from the acquisitions of Allnet and Digica, resulting in a 5.9% growth in revenues to £1,357.3 million. The higher mix of services sales from the acquired business contributed to a gross profit return increase equivalent to 0.3% in the UK.

Product sales in the UK increased on a like-for-like basis by 2.7%, driven by growth in enterprise product and software sales.

Like-for-like revenues in services contracted by 3.5% in 2007. Whilst professional services revenues increased by 19.0%, the reduction in support and managed services was driven by the effect of a number of lost contracts in the second half of 2006. Other operating expenses increased to £162.7 million (2006: £144.4 million). The increase of £18.3 million includes £11.5 million from acquired businesses, £0.5 million of amortisation on acquired intangibles, £2.3 million for the indirect costs of running an in-sourced international helpdesk in Barcelona, £1.0 million for share-based payments charges, and an estimated £4 million investment in the mid-market salesforce.

Adjusted operating profit in the UK reduced from £37.4 million to £33.1 million in 2007 taking into account £1.3 million of finance costs on customer-specific financing (2006: £39,000).

Germany
German revenues increased in 2007 by 8.2% to £708.6 million. The growth was spread across the business portfolio, with product revenue increasing by 5.8% and services revenue increasing by 13.1%.

Gross profit return in Germany improved overall by 0.6% of revenue to 13.3%, with the margin in the product business continuing to benefit from the continued strength of the datacentre and networking business. Whilst service gross profit has improved due to the substantial reduction of losses incurred in 2006 on two shared datacentre contracts, there is still scope to improve service margins further.

Other operating expenses have been controlled in a period of growth, increasing by just 3.1% from £80.6 million to £83.1 million. Taken together with the substantial increase in gross profit, the outcome was an improvement in adjusted operating profit of £7.8 million to £10.4 million in 2007.

TABLE 1 – RECONCILIATION OF STATUTORY TO ADJUSTED OPERATING PROFIT

	UK £'000	Germany £'000	France £'000	Benelux £'000	Total £'000
2007					
Operating profit	33,957	10,942	(1,754)	(44)	43,101
Add back					
Amortisation of acquired intangibles	481	132	–	–	613
After charging					
Finance costs on customer-specific financing	(1,339)	(686)	–	–	(2,025)
Adjusted operating profit	**33,099**	**10,388**	**(1,754)**	**(44)**	**41,689**
2006					
Operating profit	37,470	2,788	(11,526)	(191)	28,541
Add back					
Exceptional items	–	–	5,031	–	5,031
Amortisation of acquired intangibles	–	46	–	–	46
After charging					
Finance costs on customer-specific financing	(39)	(262)	–	–	(301)
Adjusted operating profit	**37,431**	**2,572**	**(6,495)**	**(191)**	**33,317**

France
The revenue generated in the French business reduced by 7.0% in 2007 to £285.7 million, due to a more selective approach in a challenging product market. Within the result, the services business in France grew by 7.1%, driven by a 19.2% growth in maintenance and managed services.

Product gross margins increased due to the selective approach mentioned above, and services margins increased largely as a result of improved utilisation in the maintenance business. Following a restructuring programme in the fourth quarter of 2006 which principally targeted the indirect cost base of the business, the other operating expenses of the business reduced in the year from £34.2 million to £33.3 million.

As a result, the operating result improved substantially to a loss of £1.8 million (2006: £6.5 million, prior to £5.0 million exceptional charges).

Benelux
Revenues in the Benelux region continued to grow in 2007, with a 4.1% increase in revenues driven by increased enterprise solutions and managed services revenues. The operating loss of the business reduced by 77% to £44,000 (2006: £191,000).

Capital management
Efficient use of capital is central to our strategy of delivering shareholder value. Following the £74.4 million return of cash to shareholders in 2006, the Group has begun to purchase shares in the market for subsequent cancellation. This programme began in November and by year-end, 1.4 million shares, representing 0.9% of the issued share capital, had been purchased. This was in addition to the purchase of 4.3 million shares by Computacenter Employee Share Ownership Plan in 2007, to satisfy awards made under the Company's share schemes.

Further disclosures on capital management in line with the new requirements of IAS 1 are included in note 24.

Finance income and costs
There was a deterioration during 2007 of £5.4 million, resulting in net finance costs of £1.0 million (2006: net finance income of £4.4 million). Finance costs on customer-specific financing increased to £2.0 million (2006: £0.3 million).

The effect of the share repurchases in July 2006 and H2 2007 on finance income is approximately £2 million. The overall effect on earnings per share is, however, positive. Additionally, the acquisitions of Digica and Allnet have resulted in a lower cash position and reduced finance income by approximately £1.5 million.

Taxation
The effective tax rate (based on pre-exceptional profit before tax) for the Group reduced from 36.9% in 2006 to 31.3% in 2007. The improvement is attributable to the reduction in unrelieved operating losses in France, and to a reassessment of the recoverable amount of the deferred tax asset recognised in relation to tax losses of Computacenter Germany, following the material improvement in profitability in the year.

Deferred tax assets of £6.5 million (2006: £5.5 million) have been recognised in respect of losses carried forward. In addition, at 31 December 2007, there were unused tax losses across the Group of £169.6 million (2006: £153.1 million) for which no deferred tax asset has been recognised. Of these losses, £116.5 million (2006: £107.6 million) arise in Germany, albeit a significant proportion have been generated in statutory entities that no longer have significant levels of trade. The remaining unrecognised tax losses relate to other loss-making overseas subsidiaries.

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TABLE 2 – GROUP REVENUES

	Half 1	Half 2	Total
2005	1,151.6	1,133.6	2,285.2
2006	1,114.9	1,155.0	2,269.9
2007	1,160.3	1,218.8	2,379.1
2007/06	4.1%	5.5%	4.8%

TABLE 3 – ADJUSTED* PROFIT BEFORE TAX

	Half 1	%	Half 2	%	Total	%
2005	9.9	**0.9%**	25.8	**2.3%**	35.7	**1.6%**
2006	14.5	**1.3%**	23.5	**2.0%**	38.0	**1.7%**
2007	13.1	**1.1%**	29.6	**2.4%**	42.7	**1.8%**
2007/06	(9.8%)		25.8%		12.3%	

Earnings per share and dividend

The repurchases of capital through 2006 and 2007 have delivered earnings per share increases in excess of improvements in profitability. Adjusted diluted earnings per share increased from 13.8p to 18.5p, an increase of 34.1%. On a statutory basis, diluted earnings per share increased by 67.0% from 10.9p to 18.2p. The Board is recommending an increase to the total dividend for the year to 8.0p per share (2006: 7.5p). The final dividend of 5.5p will be payable on 12 June 2008 to registered shareholders as at 16 May 2008.

Acquisitions

During the year, Computacenter UK purchased Digica Group and Allnet Limited, which has helped to accelerate the development of our services offerings in datacentre and networking services in the UK. After a disappointing performance in H1 2007, Digica performed well in H2 2007. The performance of Allnet was in line with management expectations for the business.

The Group's cash outlay on these acquisitions is a combined £32.6 million, net of cash acquired. As detailed in note 27, these business combinations have been accounted for using the purchase method of accounting. Acquired intangible assets have been separately recognised, where they can be individually separated and reliably measured, with the remainder recorded as goodwill.

For impairment testing purposes, goodwill has been allocated to the lowest level cash-generating unit that can be reliably measured. As detailed in note 14, the Allnet business has been integrated into the core Computacenter UK business. Digica has been tested as a standalone cash-generating unit, although it is expected that during 2008 Digica's cash flows will cease to be reliably and separately identifiable, and will be tested for impairment against the Computacenter UK cash-generating unit.

Cash flow

£'m	At 1 January 2007	Movements in year	At 31 December 2007
Cash and cash equivalents	59.0	(51.7)	7.3
Factor financing	(29.6)	6.1	(23.5)
Net funds/(debt) prior to customer-specific financing	29.4	(45.6)	(16.2)
Customer-specific financing	(18.6)	(45.0)	(63.6)
Net funds/(debt)	10.8	(90.6)	(79.8)

Cash and cash equivalents reduced by £51.7 million from £59.0 million to £7.3 million. Taking into account the factor financing in France, net funds prior to customer-specific financings reduced by £45.6 million from £29.4 million to a net borrowing position of £16.2 million.

The net cash outflow derives from a total net outflow in working capital of £30.2 million, income tax of £13.9 million, acquisitions of £32.6 million, dividends of £11.8 million and repurchased shares totaling £11.3 million.

The working capital outflow was generated by the growth in the product business in the UK and Germany, and the tendency for this part of the business to become more pronounced in December. In addition, there were increased stock-holding requirements on a limited number of customer contracts.

During the year, we entered into a number of customer-specific finance leases and loans, principally in relation to new datacentre offerings in the UK and Germany. Taking these into account, total net borrowings at the end of the year were £79.8 million, compared to net funds of £10.8 million at the start of the year.

TABLE 4 – REVENUES BY COUNTRY

	2007		2006	
	Half 1	Half 2	Half 1	Half 2
UK	671.1	686.2	661.1	620.4
Germany	340.7	367.9	297.7	357.0
France	135.3	150.4	141.7	165.5
Benelux	13.2	14.3	14.4	12.0
Total	1,160.3	1,218.8	1,114.9	1,155.0

TABLE 5 – ADJUSTED* OPERATING PROFIT BY COUNTRY

	2007				2006			
	Half 1	%	Half 2	%	Half 1	%	Half 2	%
UK	11.3	**1.7%**	21.8	**3.2%**	16.4	**2.5%**	21.0	**3.4%**
Germany	3.5	**1.0%**	6.9	**1.9%**	0.5	**0.2%**	2.1	**0.6%**
France	(2.1)	**(1.6%)**	0.3	**0.2%**	(5.4)	**(3.8%)**	(1.1)	**(0.7%)**
Benelux	(0.1)	**(0.8%)**	0.1	**0.4%**	(0.1)	**(0.6%)**	(0.1)	**(0.9%)**
Total	12.6	**1.1%**	29.1	**2.4%**	11.4	**1.0%**	21.9	**1.9%**

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. Further disclosures in line with the new requirements of IFRS 7 are included in note 23 of the accounts.

Interest rate risk

The Group finances its operations through a mixture of retained profits, bank borrowings, invoice factoring in France and finance leases for certain customer contracts. 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 it has sufficient funding and committed bank facilities in place to meet any foreseeable peak in borrowing requirements. Following the acquisitions and ongoing share repurchases in 2007, the Group has entered into a position of net borrowings for the first time in several years. The Group's net borrowing position at the year-end was £16.2 million prior to customer-specific financing, and statutory net funds were £79.8 million.

At 31 December 2007, the Group had available £148.1 million (2006: £132.9 million) of uncommitted overdraft and factoring facilities. Additionally, customer-specific financing facilities are committed.

Foreign currency risk

The Group operates primarily in the UK, Germany, France, and the Benelux countries, 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.

Credit risk

The Group principally manages credit risk through management of customer credit limits. The credit limits are set for each customer based on the creditworthiness of the customer and the anticipated levels of business activity. These limits are initially determined when the customer account is first set up and are continually monitored thereafter.

There are no significant concentrations of credit risk within the Group. The maximum credit risk exposure relating to financial assets is represented by carrying value as at the balance sheet date.