Computacenter

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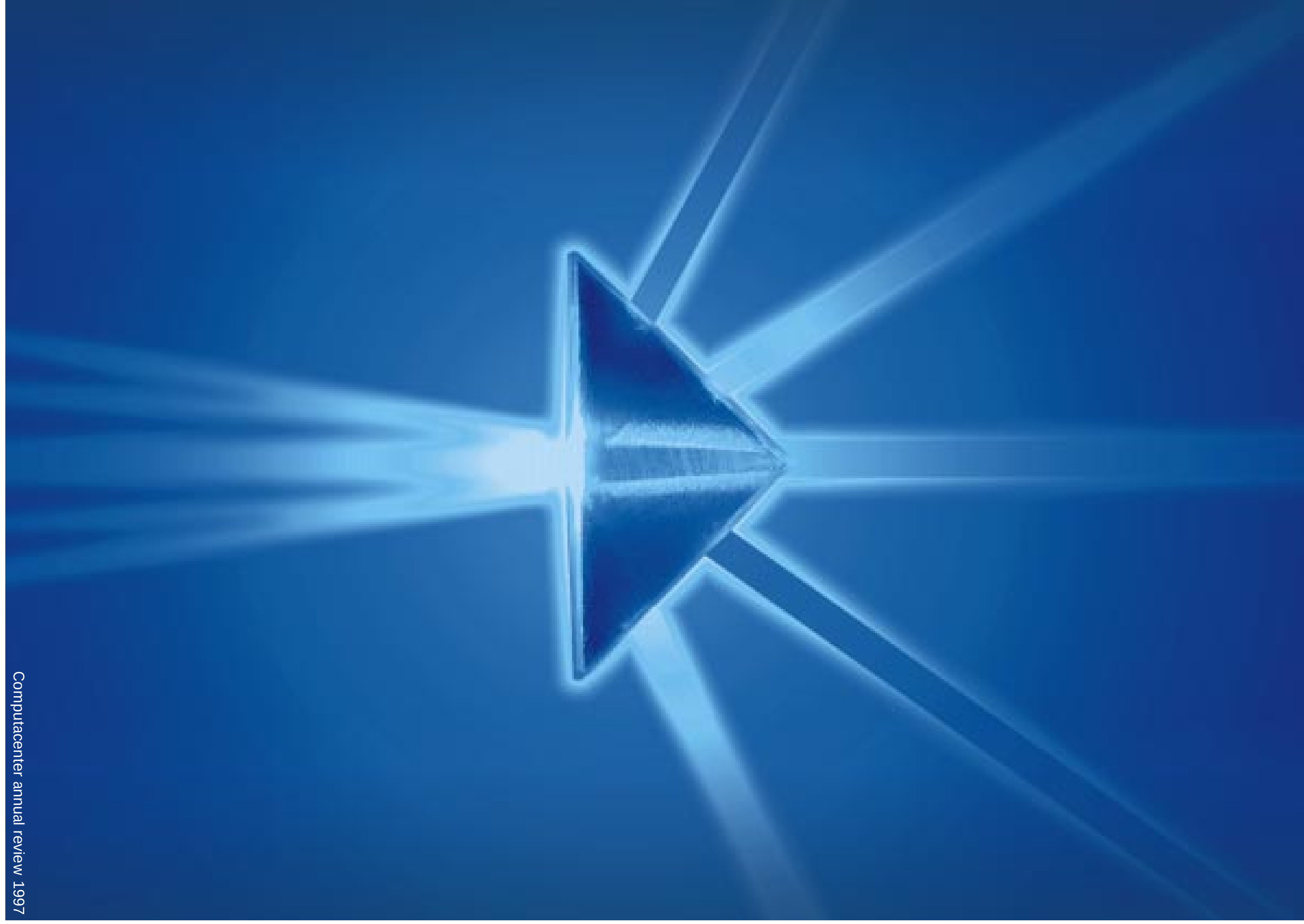


Annual review 1997

Computacenter

Computacenter specialises in the provision of distributed information technology and related services to large corporate and public sector organisations. The Group has operations in the UK, France and Germany.

Computacenter markets its services as PRISM. These services address all stages of the technology life-cycle, from the Planning and Requisition of appropriate technology, through its Implementation within a company's existing infrastructure to its subsequent Support and Management.

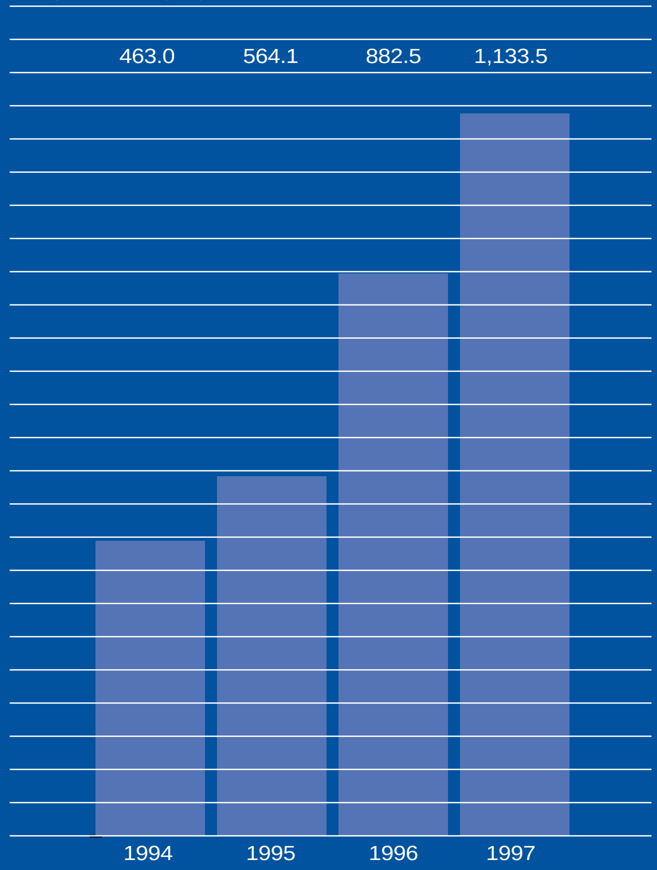
Computacenter aims to be the preferred partner of organisations seeking to implement and support distributed IT.

Financial highlights

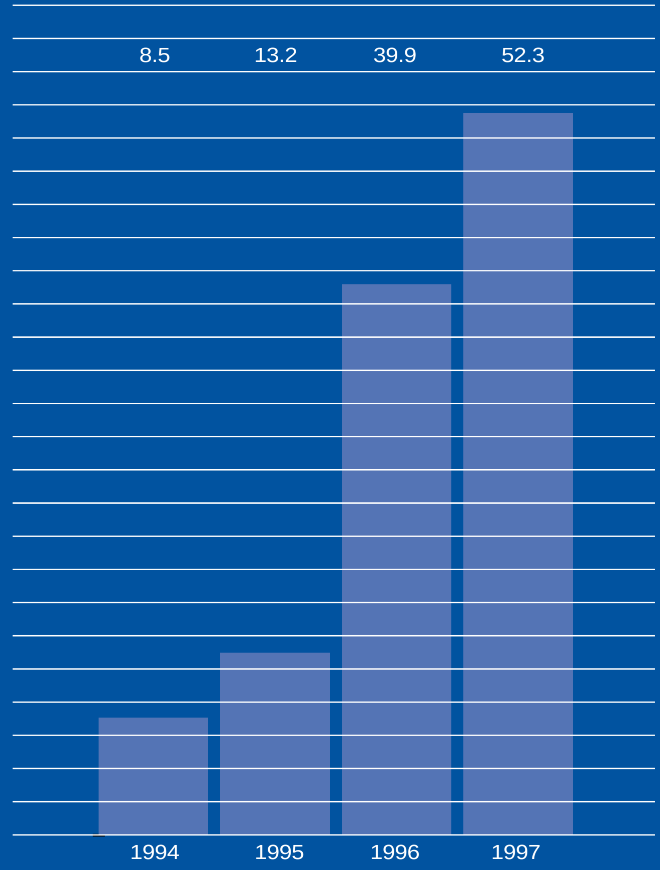
In 1997 the Computacenter Group continued its unbroken record of growth in turnover and UK profit before tax.

Total Group turnover for the year increased by 28.5% from £882 million in 1996 to £1,133 million in 1997.

Group turnover (£m)



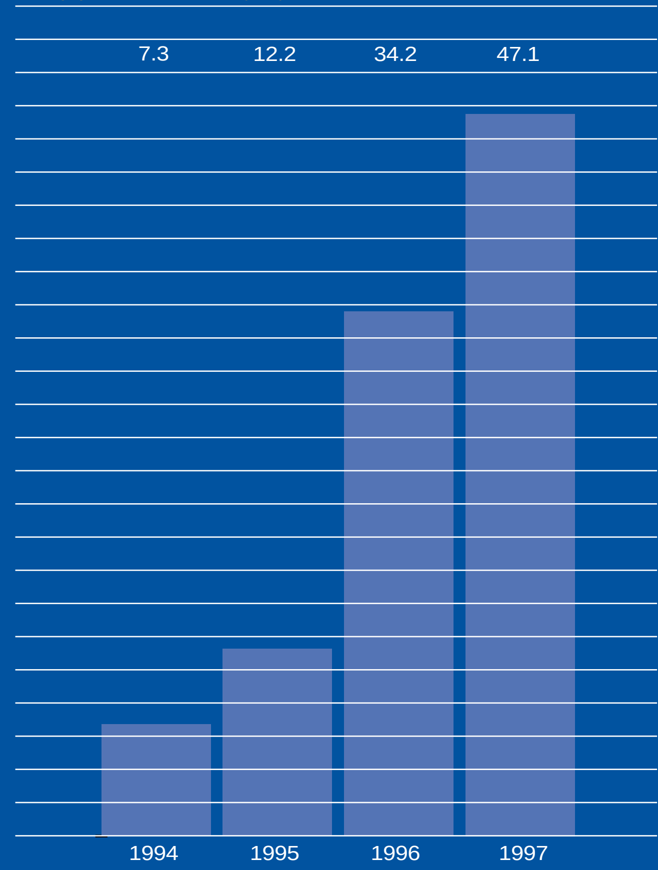
Group operating profit (£m)



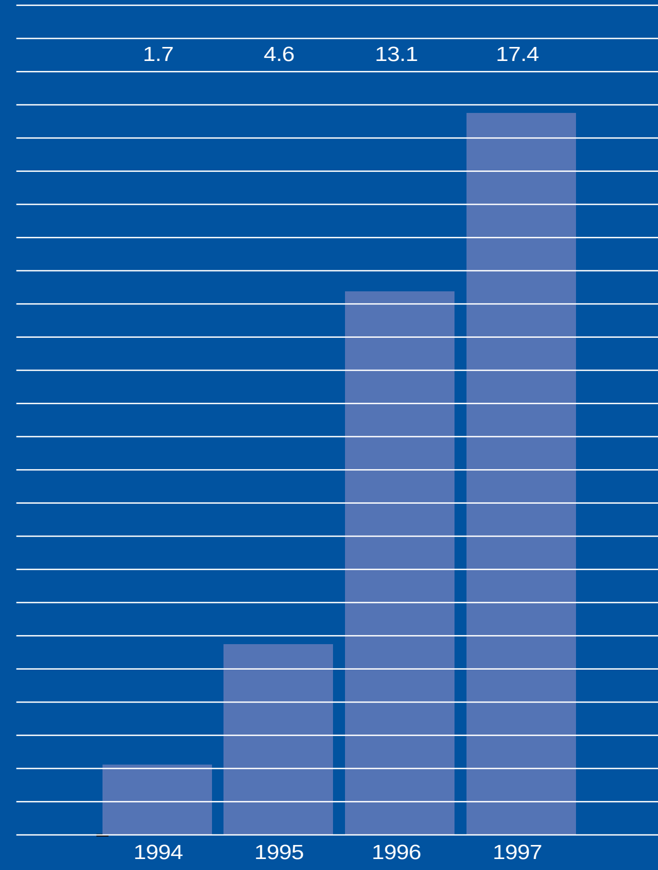
Operating profit for the Group rose by 31.1% from £39.9 million to £52.3 million.

Fully diluted earnings per share increased from 13.1p in 1996 to 17.4p in 1997.

Group profit before tax (£m)



Group fully diluted earnings per share (pence)



The figures shown for 1995 and 1996 have been extracted from the statutory accounts of the Group for the period 2 October 1995 to 31 December 1996 and of the consolidated statutory accounts of Computacenter Ltd for the year ended 31 December 1995 in order to provide a meaningful 12 month comparison. The figures for 1994 are from the consolidated statutory accounts of Computacenter Ltd for the year ended 31 December 1994.

Chief Executive Mike Norris (right) with Finance Director Tony Conophy announce Computacenter's intention to float

(left to right) Computacenter's Chairman Philip Hulme, Fergal O'Driscoll of Goldman Sachs and Mike Norris watch early trading at Goldman Sachs' City offices.

Chairman's statement

"Computacenter is a people business and a service business. The quality of our service depends entirely on the quality, teamwork and motivation of our staff."

This Annual Report is the last for Computacenter as a private Company. On Thursday 21 May 1998 Computacenter plc was floated on the London stock exchange. The offer was over 12 times over-subscribed. The market's enthusiasm for the issue reflected the Company's continued success and positive growth prospects.

In the year to 31 December 1997, Group turnover was up over 28% to £1.13 billion compared to 1996 and pre-tax profits rose almost 39% to £47.1 million.

The founding shareholders and the management team have great confidence in the future of the business and have retained the vast majority of their shareholdings, selling just sufficient to enable the flotation to take place.

The timing of the offer reflects management's desire to continue to realise its vision for the Company and hold true to the principles which have guided the Company's success since it was founded in 1981.

We wrote in last year's report that our objective is to build a truly great Company.

We laid emphasis on our core values which are to earn the loyalty of customers, staff and shareholders by delivering outstanding long-term value.

We said that it is our strategic and operational objectives, not our financial results, which drive our business. Profits are a consequence not a cause.

These remain the principles on which our success is based.

At the time of the flotation 17% of the equity was held by over 700 employees, excluding the founders. Most of these employee shareholders have been with the Company at least four years and many much longer. The flotation has enabled us to provide liquidity to these loyal staff and also to provide a practical route to continue to involve our staff in the ownership of the Company in the future. On flotation, free shares were issued to all employees who were with the company on 31 March, the date of the announcement of the intention to float. And new schemes have been put in place, such as a Sharesave scheme, which are accessible to all staff.

Over the last 17 years Computacenter has established an extremely strong competitive position in a market which is expected to continue to grow. Our staff are responsible for enabling us to reach this position. Computacenter is a people business and a service business. The quality of our service depends entirely on the quality, teamwork and motivation of our staff.

This is a landmark year for Computacenter. I would like to thank all of our staff personally for their professionalism, commitment and hard work and I look forward to our continued success.

Philip Hulme

Philip Hulme, Chairman

Chief Executive's review

"In 1997 Computacenter's customer base included significant relationships with 51 of the UK's FTSE 100 companies."

Computacenter is the largest UK-owned company specialising in providing distributed information technology and related services to large corporate and public sector organisations.

Our strategic objective is to be these organisations' preferred partner when they wish to implement and support distributed IT.

We work with our customers to help them realise the potential of the technology whilst at the same time managing their costs of ownership.

Over the years, we have invested in developing a wide range of services, together with systems and best practice, which can be replicated across our customer base. We have also invested in our centralised systems and facilities.

The product of this investment is a year-on-year progressive improvement in the quality and effectiveness of our services, continual innovation in service range and delivery and the building of economies of scale, all of which benefit both us and our customers and underpin our long-term customer relationships.

The results show in our continued growth. Group turnover has now doubled over the past two years. Our number of employees increased from 1,744 at the end of 1995 to 3,245 at the end of last year. Over the past three years, our profit before tax has increased from £12.2 million to £47.1 million and our after-tax earnings from £7.1 million to £31.1 million.

91% of our turnover came from selling directly to corporate and public sector companies. The remaining 9% came through our distribution business, CCD, which supplies hardware and a limited range of services to small and medium-sized computer resellers.

From our original base in the South of England, we now have an international network of sales and service operations with over 30 offices in the UK, France and Germany.

We were delighted last year to receive *Computing* magazine's 1997 Award for Excellence in Technical Support, recognising our new Enhanced Warranty service.

The Company also won two EuroChannels Innovator Awards for Best European Customer Support Services and for European Reseller of the Year. These were won against competing entries from across Europe.

The *Computing* award reflected the views of end-users; the EuroChannel awards those of the industry on a range of services including Help Desk support from our CallCenter.

Computacenter was also named Dealer of the Year by publisher VNU.

"In 1997 our largest ten accounts comprised four clearing banks, three investment banks, a leading telecommunications company, a leading IT services organisation and one of the UK's largest oil companies."

We remain focused on the continual investment in, and development of, our services, infrastructure, systems and people. During 1997, a wide range of initiatives were taken to strengthen our business and build competitive advantage.

Services

Computacenter continued to enhance and develop its services and saw increased revenues from these activities in 1997.

Technical services were developed around enterprise networking and cabling infrastructures, management of systems and networks across the enterprise, SAP infrastructure installations, and Unix implementations. New services also covered emerging technologies such as Internet/Intranet and the network computer.

A new Enhanced Warranty maintenance service extended standard manufacturer warranties by providing a cost-effective next-day on-site service for new equipment. It also allows the price for one, two or three years' support to be bundled into the capital purchase price.

We introduced a new call management system, 'Lynx', at the CallCenter, our software support facility. This enabled the centre's 65 employees to handle 135,000 calls during the year.

Internal systems

Over 90 of the 150 people employed in our internal IT division are focused on the development and implementation of new proprietary systems.

On-Trac, our customer procurement and tracking software, now handles some 35% of our business, processing on-line an average of £1 million of orders a day and providing easy access for customers to information on stock availability, delivery and prices. On-Trac is now installed with over 300 customers in the UK, France and Germany.

Over the year, our internal IT infrastructure enjoyed over 99.9% system availability.

Infrastructure

The bulk of our equipment is distributed from our logistics centre at Radlett, Hertfordshire.

In 1997, Radlett handled 357,000 system units – an average of almost 1,000 for each day of the year.

60% of systems are now despatched with all software pre-configured to specific customer requirements.

"We enjoy long-term trading relationships with many of our customers. Nine of the ten largest accounts in 1994 were still significant customers in 1997."

In addition to our core direct-to-customer business, overall investment in stock and logistics enables our reseller distribution business, CCD, to pass on significant cost and service benefits to customers.

During 1997, we opened a number of new facilities. These included an 11,400 sq. ft. training and account management centre in Bristol, a 12,000 sq. ft. centre in Reading, and some 13,000 sq. ft. of office accommodation in Birmingham.

Work continues apace on our new 210,000 sq. ft. logistical and headquarters centre at Hatfield in Hertfordshire in the UK.

The main logistics building will offer considerably greater storage capacity, much higher levels of automation and will enable us to meet the rapidly growing demand for channel assembly and individually configured network systems.

Channel assembly

In 1997 Computacenter became one of the first companies in the UK to launch a full channel assembly programme with IBM.

This approach increases availability for the customer and reduces our stockholding requirements. Similar terms have now been agreed with Hewlett-Packard.

We believe that channel assembly can bring economic benefits to Computacenter, its suppliers and its customers. It also helps us achieve superior levels of customer service. Consequently we expect to see substantial further growth in this area.

France and Germany

Computacenter France's turnover grew 48% to FF 920 million and the company reported its first profit.

France is Europe's third largest IT market, and Computacenter is now the country's fourth largest reseller, employing some 400 people.

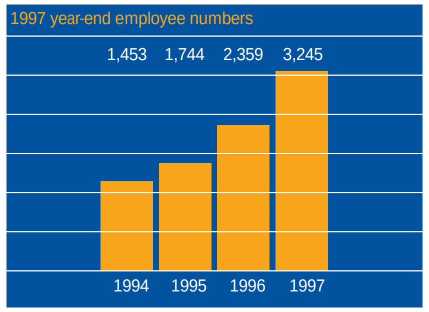
In June last year, we acquired BITService, a computer services company based in Bad Homburg on the outskirts of Frankfurt. The company has since been renamed Computacenter Germany. We have now added a new product supply operation and opened offices in Dusseldorf, Munich and Ludwigshafen.

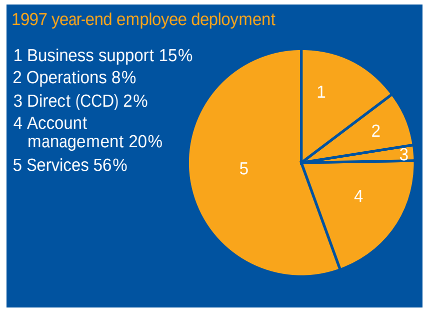
Computacenter Germany employed 112 people at the end of 1997 and achieved a turnover of £7 million.

Both France and Germany offer considerable opportunities, and we are pleased with the way the businesses are developing.

International Computer Group (ICG)

Computacenter is a co-founder of the International Computer Group – an international joint venture agreement between leading IT service companies in 42 countries.





ICG provides customers with a single interface for all national and international IT requirements. This can help reduce the cost of managing the IT functions of foreign subsidiaries and of international roll-outs. ICG provides Computacenter with additional leverage with vendors and a significant marketing advantage.

Developments in 1997 included a closer association with WM-data AB, Scandinavia's leading IT services company, which is now ICG's exclusive representative in Sweden, Finland and Denmark.

Employees

The ability to attract and retain skilled staff is especially important in an industry renowned for skills shortages and staff turnover.

A key management focus is to earn and retain the loyalty of our staff.

We do this through our training, career development and benefits programmes. By continuing to build our market leadership we also make Computacenter a more attractive employer and help staff motivation.

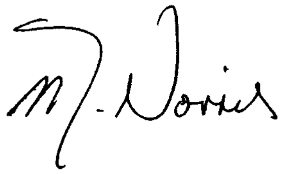
Over a two-year period in which our staff has doubled, our retention rates have improved significantly.

Future prospects

The demand for distributed IT systems and support services continues to grow rapidly.

We believe we have the right strategy, infrastructure, services, systems and people to continue to add value on behalf of our customers.

We look forward to the future with considerable confidence.



Mike Norris, Chief Executive

PRISM describes Computacenter's range of services. They are modular and flexible, so that customers can choose one, several or all of the services and tailor them to their needs.

Over the following pages we give an overview of each of the five elements of PRISM.

- Planning
- Requisition
- Implementation
- Support
- Management

Planning

Working with customers to plan and integrate their distributed IT systems.

Architecture design

We help design distributed IT infrastructures, from initial definition of the technical architecture and standards through to detailed design and testing of the chosen solution. The technology may span desktop, server and network operating systems, local and wide area networks, cabling systems, electronic mail and groupware systems and Internet/Intranet environments.

Multi-platform integration

Once a technology has been selected, it is likely to have to be integrated with other new and existing systems involving a range of different computing platforms and hardware and software from different vendors.

Project planning

Computacenter's project managers help reduce the risk of implementing complex IT solutions. Key to their success in this area is our project management methodology, PRIDE (PRojects In a Dynamic Environment).

Specialist consultancy

We have in-depth, specialist expertise in enterprise networking and cabling infrastructures, management of systems and networks across the enterprise, SAP infrastructure installations and Unix implementations, as well as emerging technologies such as Internet/Intranet and the network computer. Computacenter's largest group of specialist consultants is in the field of Microsoft technologies.

Technology management

Decentralised purchasing can make it difficult for many IT managers to know exactly what equipment and software are being used in their organisations, what software is running and whether the software is legally licensed.

Computacenter helps customers maintain control through hardware and software audits and automated tools to track and manage distributed IT assets. We also offer security audits and security products and processes to protect against viruses and prevent the theft of both data and equipment.

Requisition

Fast and efficient provision of best of breed technology.

Product supply and delivery

Companies typically demand rapid delivery and high availability of standard products. Computacenter holds on average over £100 million worth of inventory.

We maintain some 28,000 products in our current range from over 600 different suppliers. The main categories of products sold are system units (portables, desktops and servers), printers, networking equipment, peripherals and software.

High availability of product must be married with fast and accurate delivery and invoicing. For stock items that do not require configuration, customers can typically expect delivery in less than 24 hours from the time of the original order. We typically deliver over 12,000 items a day to our UK customers.

Channel assembly

Computacenter is one of the first companies in the UK to embark on a full channel assembly programme with IBM. Customers specify their exact requirements and Computacenter builds their machines to order. This approach increases availability for the customer and reduces stockholding requirements for Computacenter. A similar programme has been agreed with Hewlett Packard.

Electronic commerce

Computacenter uses an electronic procurement and tracking system, ‘On-Trac’, which enables customers to access Computacenter’s computer network from their own PCs. Customers can look up prices, obtain detailed product information, prepare their own specifications, check product availability, place orders, track their orders from initial order to delivery, check invoice status and receive a variety of management reports.

Portfolio management

Individual customers usually purchase distributed IT products which originate from a wide range of different vendors. Computacenter can manage this complexity on behalf of its customers, including portfolio selection, negotiation of prices and terms, product acquisition and invoice consolidation.

Implementation

Configuring, installing and integrating distributed IT.

Configuration and installation

The Radlett configuration centre has been equipped with Computacenter’s Automatic Configuration Engineer (ACE) system, which enables customers’ unique software configurations to be downloaded on to the customers’ PCs at the centre. There is capacity for up to 1,200 systems to be worked on at any one time. It is also equipped to pre-configure and test complete installations (for example, networks of PCs, file servers, peripherals and software) prior to delivery at the customer’s site.

Systems engineering

Technically demanding implementations such as servers, network infrastructure and operating software, e-mail systems, groupware or server migrations require high levels of systems engineering skills.

Computacenter employs over 200 trained and vendor-accredited customer engineers who are able to carry out installation and systems engineering work throughout the UK.

Many of the engineers are assigned to customers’ sites on a longer-term basis.

Project management

The scale of projects has tended to increase. Computacenter is often involved in projects involving hundreds or thousands of individual PCs, sometimes to be installed over a wide geographic area, sometimes in complex environments, such as dealing rooms. Often the timescales are challenging.

In 1997, Computacenter’s project managers directed 170 technical and logistical projects on behalf of customers.

Support

Complementing our customers' internal IT support operations.

Computacenter employs over 360 staff delivering Support services including hardware maintenance, telephone support and training, an 85% increase since the end of 1995.

In early 1996, we opened our new CallCenter in Milton Keynes, which now employs over 60 technical specialists.

Hardware maintenance services

As many of Computacenter's systems are used for business-critical applications, customers need a fast and effective hardware maintenance service.

Our standard maintenance offering is a "Next Day" service. We also offer a range of enhanced maintenance services. For example, "Enhanced Server Support" makes extensive use of remote diagnostics, rapid despatch of parts and on-site repairs by specially trained engineers, many of whom are based permanently on customers' sites.

A significant proportion of the cost of maintenance is covered by manufacturers' warranties. Computacenter has invested in systems to capture these credits efficiently.

Telephone support

Computacenter's CallCenter provides 24 hour support and last year handled over 135,000 calls. The CallCenter provides support on standard software applications and operating systems as well as customer specific applications. Sophisticated fault diagnosis and remote management tools are used to allow support specialists to update customers' systems remotely.

IT training

Training reduces support costs and improves the return on IT investment. In 1997, Computacenter trained over 40,000 delegates in its 12 UK training centres. Bespoke courses are frequently developed for customers as part of large scale roll-out or system migration projects.

Management

Delivering on-site services to over 130,000 desktop users.

Some organisations choose to out-source the whole of their IT function to a third party. In these cases, Computacenter is able to work in partnership with other out-sourcing companies, such as CSC, IBM and EDS, to provide the distributed IT element of a total out-sourcing contract.

However, many organisations do not wish to out-source their entire IT function. They prefer to retain overall responsibility for IT management and strategy and use third party partners to 'out-task' responsibility for certain support functions. Computacenter has established a range of managed services in response to this growing requirement. Our approach is very flexible, with the customer deciding the degree of out-tasking, including taking on the customer's existing personnel, if required.

The managed services operation can turn Computacenter, its staff and resources, into a virtual extension of a company's IT department. The range of available managed services includes all the elements of PRISM described above.

Computacenter has invested in sophisticated tools and methodologies and employs a team of personnel to ensure that expertise is shared between the different managed services sites. New managed services contracts are implemented using the PRIDE project management methodology. By spreading the cost of these developments over its substantial contract base, Computacenter is frequently able to provide more cost-effective solutions than are available to the customer in-house. Computacenter's expertise in this area helps customers both to control their IT costs and improve service levels.

Making a difference

We asked some of our customers to describe the benefits of a partnership with Computacenter.

We were asked to provide a managed maintenance and support service for PCs, associated hardware and applications.

“Managing a fixed network cost effectively is difficult at the best of times. When you have so many mobile units as well it can be one big headache. That’s why it is nice to have a company like Computacenter to take those problems away.”

We were asked to supply training for 320 staff at nine UK locations, in PC familiarity and Microsoft applications, to support the migration to a common operating environment.

“Employees who had never before been comfortable with IT are now achieving substantial productivity gains, and those who were already comfortable have started to expand the ways they use their systems with very positive effects.”

We were asked to support the integration of three existing IT infrastructures and introduction of a distributed computing environment.

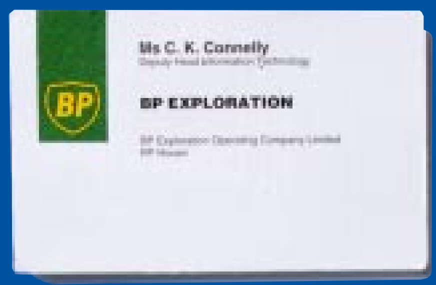
“What stood out about Computacenter was that they took a long term view while helping us with short term problems. We were able to draw on their experience in areas like networking and platform design where they not only gave us tactical assistance, but produced research into long term trends.”

We were asked to provide and support a desktop environment for the UK operations of this leading international insurance company.

“A large number of PC equipment and software manufacturers seem to have a supermarket mentality; they will sell you the kit, and lots of it, but getting any really deep support is extremely difficult. We value the fact that Computacenter has its own dedicated product specialists who bring specific knowledge and expertise to bear on issues and often provide us with better information than the original manufacturers!”

We were asked to develop and implement an e-mail environment for B&Q’s head office and retail estate.

“We got the results we wanted. It has achieved what we set out to achieve. It was delivered inside time and under budget. I am happy that Computacenter is on the case for the next phases, because not only do they help us on this project, they use their intelligence from other work they are doing for us to make sure that we all have a broad perspective.”



We were asked to implement a common operating environment to support the worldwide activities of BP Exploration.

“We were not interested in the nitty gritty of day-to-day problems. From the outset we knew what we wanted delivered and left the ‘How’ to Computacenter, who took on the pivotal role of smoothing the path with IBM, whose hardware we were implementing, and making sure it was delivered on time. In the event it was not only completed inside time but inside budget as well and has given us a platform that allows us to deal with future changes in a co-ordinated fashion, while maintaining a top-quality standard environment.”

Group management and directors

1 2 3 4 5 6

Executive Directors

Philip Hulme, Chairman
(Aged 49)
Philip Hulme graduated from Imperial College London with a first class engineering degree. In 1971 he won a Harkness Fellowship and entered the MBA programme at Harvard Business School. On graduating he joined the Boston Consulting Group, for whom he worked in the United States, South Africa and the UK, rising to Vice President and Director in 1979. He was appointed to head the London office in 1980. In 1981 he founded Computacenter with Peter Ogden, and has worked for the Company on a full-time basis since then.

Mike Norris, Chief Executive
(Aged 36)
Mike Norris graduated with a degree in Computer Science and Mathematics from East Anglia University in 1983. He joined Computacenter in 1984 as a salesman in the City office. In 1986 he was Computacenter's top national account manager. Following appointments as Regional Manager for London operations in 1988 and General Manager of the Systems Division in 1992 with full national sales and marketing responsibilities, he became Chief Executive in December 1994 with responsibility for all day-to-day activities and reporting channels across Computacenter.

Tony Conophy, Finance Director
(Aged 40)
Tony Conophy has been a member of the Institute of Chartered Management Accountants since 1982. He qualified with Semperit (Ireland) Ltd and then worked for five years at Cape Industries PLC group. He joined Computacenter in 1987 as Financial Controller, rising in 1991 to General Manager of Finance. In 1996 he was appointed Finance and Commercial Director of Computacenter (UK) Limited with responsibility for all financial, purchasing and vendor relations activities.

From left to right: 1 Philip Hulme 2 Mike Norris 3 Tony Conophy 4 Andy Chudzik 5 Martin Hellawell 6 Richard Archer 7 Andy Stafford 8 Mike Davies 9 John Joslin 10 Chris New 11 Alan Pottinger 12 Craig Routledge

7 8 9 10 11 12

Senior Management

Computacenter's operating committee is chaired by the Chief Executive, meets regularly and reports to the Board. The members are Mike Norris, Philip Hulme, Tony Conophy and the following members of Computacenter's senior management:

Richard Archer, General Manager, London (Aged 38)
Joined Computacenter in 1991.

Andy Chudzik, General Manager, South of England (Aged 40)
Joined Computacenter in 1988.

Mike Davies, General Manager, Technical Services (Aged 37)
Joined Computacenter in 1992.

Martin Hellawell, General Manager, Corporate Development and Marketing (Aged 33)
Joined ICG in 1990 and Computacenter in 1994.

John Joslin, General Manager, Services and Operations (Aged 33)
Joined Computacenter in 1987.

Chris New, General Manager, Business Development (Aged 39)
Joined Computacenter in 1987.

Alan Pottinger, Company Secretary and Head of Human Resources
(Aged 40)
Joined Computacenter in 1986.

Craig Routledge, General Manager, Managed Services (Aged 40)
Joined Computacenter in 1990.

Andy Stafford, General Manager, IT Services (Aged 34)
Joined Computacenter in 1998.

Non-Executive Directors

Peter Ogden
(Aged 50)
Peter Ogden founded Computacenter with Philip Hulme in 1981. He is Chairman of Computasoft, a director of Omnia Limited, and a non-executive director of the Abbey National and Anglo & Overseas Trust.

Adrian Beecroft
(Aged 51)
Adrian Beecroft has been Chairman of Apax Partners & Co. Ventures Limited since 1990 and has served on the boards of a number of private and public companies.

Rod Richards
(Aged 42)
Rod Richards has been a director of Foreign and Colonial Ventures since 1988, is a non- executive director of PSD Group PLC and has served on the boards of a number of private companies.

Branch locations and international partners

Computacenter branches

For general enquiries contact Computacenter on 0800 617000 or visit our web site at www.computacenter.com

UK

The Glover Pavilion
Aberdeen Science & Technology Park
Balgownie Road, Bridge of Don
ABERDEEN AB22 8GH
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Fax 01224 828191

Aqueous House
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BIRMINGHAM B6 5RQ
Telephone 0121 359 4455
Fax 0121 359 5649

1 Westpoint Court
Great Park Road, Almondsbury
BRISTOL BS12 4PS
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Fax 01454 620803

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Cardiff Business Park, Llanishen
CARDIFF CF1 5GG
Telephone 01222 761331
Fax 01222 747834

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Fax 01293 562251

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Fax 0113 231 1594

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Fax 0171 261 0510

Enterprise House
Waterfront 2000, Waterfront Quays
Salford Quays
MANCHESTER M5 2XW
Telephone 0161 848 8088
Fax 0161 848 9431

1 Thames Valley Park
READING, Berkshire RG6 1PT
Telephone 0118 935 6000
Fax 0118 926 1584

Trevelyan House
7 Church Road
WELWYN GARDEN CITY
Hertfordshire AL8 6NT
Telephone 01707 373707
Fax 01707 373541

ICG Members and Associates

Training

Computacenter provides training services through branch offices and at the following training-only locations:

4th Floor, Broad Street House
55 Old Broad Street
LONDON EC2M 1RX
Telephone 0171 650 5700
Fax 0171 650 5750

Theatre Square, SWINDON
Wiltshire SN1 1QN
Telephone 01793 423000
Fax 01793 421277

France

58 Rue de la Belle Etoile
Z.I. de Paris Nord II
B.P. 50387, 95943 Roissy CDG France
Telephone 00 33 1 48 17 41 00
Fax 00 33 1 48 63 04 72

Germany

Rhein/Main GmbH, Siemenstrasse 21
61352 Bad Homburg, Germany
Telephone 00 49 6172 6740
Fax 00 49 6172 674 100

ICG Worldwide

EMEA
Austria Computer Systemvertrieb
Belgium Systemat & Datarelay
Czech Republic Csc Computer Services
Denmark WM-data BFC
Finland WM-data Faci
France Computacenter France
Germany Computacenter Germany
Greece ABC Group
Hungary Duna Elektronika Kft
Ireland Cara Group
Italy TC Sistema
Luxembourg Systemat & Datareley
Netherlands RAET Systems & Services
Norway WM-data Cimtec
Portugal Prológica
Russia R-Style
South Africa Tac Technologies
Spain Logic Control
Sweden WM-data Owell
Switzerland ALSO
Turkey Tepum
United Arab Emirates Al Bawardi Computers
United Kingdom Computacenter UK

Americas
Argentina Inacom Argentina
Brazil Inacom do Brasil
Canada Inacom Information Systems Ltd
Columbia Inacom de Columbia
Ecuador Inacom de Ecuador
Mexico Inacom de Mexico
Peru Profesional Consulters
USA Inacom
Venezuela Inacom de Venezuela

Asia Pacific
Australia Business Computers of Australia (BCA)
China SECOM
Hong Kong System-Pro
India CMS Computers
Japan JBCC
Malaysia Oriental Data Systems
Singapore JOS Technology

Associate members in Chile, Cyprus, Egypt, Iceland, Indonesia, Israel, Korea, Latvia, New Zealand, Pakistan, Philippines, Poland, Puerto Rico, Romania, Slovakia, Taiwan, Thailand, Vietnam

Finance Director's report

"The culture of the Group is one of empowerment and incentivisation."

Turnover

The Group has an unbroken record of consistent organic growth in turnover and in UK profit before tax. During 1997 the Group achieved another year of high growth, with total Group turnover for the year increasing by 28.5% to £1,133 million compared to £882 million on a comparable annual basis in 1996*. Turnover generated in the UK accounted for 91% of the Group total, with the remainder generated from France and Germany.

Operating profit

Operating profit for the Group rose by 31.1% to £52.3 million from £39.9 million on a comparable annual basis. The increase in the operating margin achieved, from 4.5% in 1996 to 4.6% in 1997, was primarily due to the conversion of an operating loss in France in 1996 to a profit in 1997.

Interest

Net interest charges for the year were £5.2 million compared to £5.7 million on a comparable annual basis. This represents an interest cover of 10 times (1996: 7 times on a comparable annual basis).

Taxation

The Group's effective tax rate for the year is 33.9% compared with 34.5% in 1996 on a comparable annual basis. The improvement in the rate was caused principally by the reduction in the statutory tax rate in the UK to 31% and the use of brought forward tax losses in France.

Dividends

A dividend was paid during the year equal to 3.2p per ordinary share (4.0p gross after adding the tax credit associated with the dividend). It is the Group's policy that dividends will be proposed by the Directors if the Group's operating results, financial condition, investment strategy and other factors permit.

Staff costs

In 1997 increased recruitment to the Group's service divisions reduced sales per employee from £460,000 per person in 1996 to £399,000 per person in 1997. The increased services mix is also evident from the staff costs trend which has increased from 7.6% of turnover in 1996 to 9.2% of turnover in 1997. We expect this trend to continue in the future.

Overseas operations

During the year the Group's French business achieved particularly pleasing growth in turnover and made a positive contribution to Group profits for the first time. Computacenter France currently employs approximately 400 people and achieved a turnover of FF 920 million during the year. This represents annual growth of 48% in French Franc terms.

In June 1997 the Group acquired 75.8% of the ordinary share capital of Bitservice GmbH, a small German company, immediately renaming it Computacenter Beteiligung GmbH.

In addition, the Group has agreed to acquire the remaining 24.2% under an earn-out contract which is contingent on the level of turnover in 1999 and the cumulative earnings before interest and tax achieved between 1 January 1997 and 31 December 1999.

Cash flow

The Group has continued to generate significant cash from operations as set out in the Group cash flow statement. Overall the working capital of the Group increased by £18.1 million, producing operational cash flows of £42.6 million. After interest, tax payments, capital expenditure, acquisitions and dividends the Group had a net cash outflow of £1.9 million. During the year £1.9 million of debt was retired.

Capital expenditure in 1997 included £9.9 million in respect of freehold land and construction costs in connection with the new assembly and configuration plant at Hatfield.

The Group operates complex working capital mechanisms, including incentives to staff, to encourage prompt collection of debts and management of inventory.

Assets employed

At 31 December 1997 Group net assets employed (calculated as net assets plus long term debt) had increased to £74.0 million compared to £53.8 million at 31 December 1996. This was principally due to retained earnings for the year of £25.7 million, offset by the write-off of goodwill on the acquisition of Computacenter Germany of £2.6 million. Pre-tax return on net assets employed for the year was 82%.

Financial management

The culture of the Group is one of empowerment and incentivisation. The Group's customer account management model, which has been refined over many years, ensures that each account manager's goals are congruent with the overall business. A large internal IT development team, which is expensed through the profit and loss account as staff costs, creates the complex systems that measure most attributes of the Group's, and often the individual's, performance. The cumulative effect of these investments is a source of competitive advantage.

Tony Conophy, Finance Director

*The comparative figures used in the Chairman's statement, the Chief Executive's review and the Finance Director's report have been extracted from the statutory accounts of the Group for the period 2 October 1995 to 31 December 1996 in order to provide a meaningful 12 month comparison.

Auditors' report on the summarised accounts

We have examined the summarised accounts of Computacenter Services Group plc set out on pages 28 to 32. In our opinion the summarised accounts have been properly extracted from the Group's statutory accounts for the year ended 31 December 1997.

Ernst & Young
Chartered Accountants
Registered Auditor
Reading
30 March 1998

Important notes

The auditors' report on the statutory accounts for the year ended 31 December 1997 was unqualified and did not contain a statement under sections 237(2) or 237(3) of the Companies Act 1985.

The financial information contained in this section includes the audited consolidated financial statements of Computacenter Services Group plc. However, it does not contain sufficient information to convey a full understanding of the results and state of affairs of the Group. For further information the full Report and Accounts should be consulted.

Directors

Mr P W Hulme (Chairman)
Mr P J Ogden
Mr P A B Beecroft
Mr R L Richards
Mr M J Norris
(appointed 30 March 1998)
Mr F A Conophy
(appointed 30 March 1998)

Secretary

Mr A J Pottinger FCIS

Auditors

Ernst & Young
Apex Plaza
Reading RG1 1YE

Registered Office

Computacenter House
93-101 Blackfriars Road
London SE1 8HW

Registered Number

3110569

Business report

The Directors present their business report and the summarised accounts of the Group for the year ended 31 December 1997.

Principal activities

The Group's principal activities are the design, project management, implementation and support of integrated information technology (IT) systems.

Review of the business

The Group has again enjoyed a year of exceptional growth in turnover and profitability. Turnover for the Group increased by 21.7% to £1,133.5 million from £931.2 million for the 15 month period ended 31 December 1996. Operating profit rose by 29.7% to £52.3 million from £40.3 million for the 15 month period ended 31 December 1996.

UK business

Computacenter Limited has again enjoyed a year of exceptional growth in turnover and profitability. Turnover increased by 21.9% to £1,033.8 million from £848.1 million in 1996 (15 months).

The Company continued to focus on the provision of distributed IT systems and related services to the corporate and public sector marketplace. Increased sales resulted from the acquisition of new customers and also the provision of a wider range of products and services to existing customers. The Company's growth rate was substantially ahead of the market and resulted in increased market share.

A number of trends have driven the growth in the market including continuing reductions in hardware costs, which help customers to cost justify additional investments in IT, and the growing availability of enterprise software applications for client server technology.

Computacenter's extensive range of services, marketed as "PRISM" (Procurement, Requisition, Implementation, Support and Management), together with its continued investment in people, processes and systems, ensured that it was ideally placed to take advantage of these trends.

The increase in profitability was largely in line with the increase in sales. The growth of the Company's service business made a major contribution to profitability.

Over the year, the Company created over 850 new jobs, mostly in its service divisions.

Overseas operations

The Group's French business achieved particularly pleasing growth in turnover and moved into profit after interest. The Group expanded its European operations, acquiring Frankfurt based BitService, a German

PC services company now trading as Computacenter Germany, in order to develop its German operations and provide a service to customers with German support requirements.

The Directors would like to thank all staff for their contribution to the Company's continuing success. We look forward to building upon the Group's unrivalled position within the industry, for the benefit of shareholders, customers and staff, in 1998 and beyond.

Future developments

The Group will continue to invest in people, infrastructure and information systems to improve the quality of service provided to its corporate and public sector clients. Achieving total customer satisfaction through operational excellence remains the corporate goal of the Group.

Results and dividends

The Group's activities resulted in a profit before tax of £47,099,000 (1996 15 months: £34,012,000). The Group profit for the year available to shareholders amounted to £31,087,000 (1996 15 months: £22,466,000). The Directors have paid a dividend during the year of £4,983,000 (1996 15 months: nil).

Directors

The Directors who served during the year ended 31 December 1997 and those appointed subsequent to the year end are listed on page 24.

Creditors payment policy

It is the policy of the Company that each of the businesses should agree appropriate terms and conditions for its transactions with suppliers (ranging from standard written terms to individually negotiated contracts) and that payment should be in accordance with those terms and conditions, provided that the supplier has also complied with them.

Employee share schemes

The Group operates executive share option schemes for the benefit of employees. As at 31 December 1997, options under the schemes to purchase shares of the Company have been granted to certain employees in respect of 25,021,824 (1996: 24,547,388) ordinary shares of 5p each. 1,298,064 ordinary share options were exercised during the year.

Employee involvement

The Group is committed to involve all employees in the performance and development of the Group. Employees are encouraged to discuss with management matters of interest to employees and subjects affecting day-to-day operations of the Group.

Equal opportunities

The Group is committed to a policy of treating all its employees and job applicants equally. No employee or potential employee receives less favourable treatment or consideration on grounds of race, colour, religion, nationality, ethnic origin, sex, disability or marital status or will be disadvantaged by any conditions of employment or the Group's requirements that cannot be justified as necessary on operational grounds. To this end the Group has an Equal Opportunities Policy. This demonstrates the Group's commitment to make full use of the talents and resources of all its employees and to provide a healthy environment which will encourage good and productive working relationships within the organisation.

Charitable donations

The Group has made charitable donations during the year amounting to £98,809 (1996 15 months: £17,618).

Statement of directors' responsibilities in respect of the accounts

As noted on page 24, the summarised accounts presented on pages 28 to 32 have been extracted from the full statutory accounts of the Company and do not give all of the information contained in those accounts.

Company law requires the Directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that the full statutory accounts comply with the above requirements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Ernst & Young have expressed their willingness to continue in office as auditors and a resolution proposing their reappointment will be submitted at the Annual General Meeting.

By order of the board

A J Pottinger, Secretary
30 March 1998

Group profit and loss account

For the year ended 31 December 1997

	1997 £'000	15 months 1996 £'000
Turnover	1,133,523	931,209
Operating costs	(1,081,041)	(891,105)
(Loss)/profit from interests in associated undertakings	(176)	222
Operating profit	52,306	40,326
Other income	1,429	1,554
Interest payable and similar charges	(6,636)	(7,868)
Profit on ordinary activities before taxation	47,099	34,012
Taxation	(15,990)	(11,599)
Profit on ordinary activities after taxation	31,109	22,413
Minority interests – equity	(22)	53
Profit attributable to members of the parent company	31,087	22,466
Dividends – ordinary dividends on equity shares	(4,983)	–
Retained profit for the year	26,104	22,466

Group statement of total recognised gains and losses

For the year ended 31 December 1997

	1997 £'000	15 months 1996 £'000
Profit attributable to members of the parent company for the financial year	31,087	22,466
Exchange difference on retranslation of net assets of associated and subsidiary undertakings	(339)	264
Total recognised gains relating to the year	30,748	22,730

Group balance sheet

At 31 December 1997

	1997 £'000	1996 £'000
Fixed assets		
Tangible assets	30,589	18,019
Investments	3,009	3,326
	33,598	21,345
Current assets		
Stocks	108,245	83,316
Debtors: gross	186,270	161,269
Less non returnable proceeds	(20,549)	(15,070)
	165,721	146,199
Cash at bank and in hand	13,829	17,867
	287,795	247,382
Creditors: amount falling due within one year	(246,602)	(213,545)
Net current assets	41,193	33,837
Total assets less current liabilities	74,791	55,182
Creditors: amounts falling due after more than one year	(43,448)	(46,995)
Provision for liabilities and charges	–	(199)
Total assets less liabilities	31,343	7,988
Capital and reserves		
Called up share capital	7,876	7,811
Share premium account	537	385
Profit and loss account	22,865	(256)
Shareholders' funds – equity	31,278	7,940
Minority interests – equity	65	48
	31,343	7,988

Approved by the board on 30 March 1998

P W Hulme, Chairman

P J Ogden, Director

Company balance sheet

At 31 December 1997

	1997 £'000	1996 £'000
Fixed assets		
Tangible assets	9,858	–
Investments	123,260	116,428
	133,118	116,428
Current assets		
Debtors	185	–
Cash at bank and in hand	248	19
	433	19
Creditors: amounts falling due within one year	(21,536)	(4,683)
Net current liabilities	(21,103)	(4,664)
Total assets less current liabilities	112,015	111,764
Creditors: amounts falling due after more than one year	(47,446)	(48,732)
Total assets less liabilities	64,569	63,032
Capital and reserves		
Called up share capital	7,876	7,811
Share premium account	537	385
Merger reserve	55,990	55,990
Profit and loss account	166	(1,154)
Shareholders' funds – equity	64,569	63,032

Approved by the board on 30 March 1998

P W Hulme, Chairman

P J Ogden, Director

Group statement of cash flows

For the year ended 31 December 1997

	1997 £'000	15 months 1996 £'000
Cash inflow from operating activities	42,625	46,294
Returns on investments and servicing of finance	(4,748)	(6,160)
Taxation		
Corporation tax paid	(11,294)	(5,682)
Capital expenditure and financial investment	(20,787)	(10,646)
Acquisitions and disposals	(2,756)	(46,672)
Equity dividends paid	(4,983)	–
Cash outflow before financing	(1,943)	(22,866)
Financing		
Issue of shares	217	474
(Decrease)/increase in debt	(2,312)	40,259
(Decrease)/increase in cash in the year	(4,038)	17,867

Reconciliation of net cash flow to movement in net debt

	£'000
Net debt at 2 October 1995	–
Increase in cash in the period	17,867
Cash inflow from increase in debt and lease financing	(40,259)
Change in net debt resulting from cash flows	(22,392)
Loans and finance leases acquired with subsidiary	(8,313)
Non cash changes in debt	(44)
Net debt at 31 December 1996	(30,749)
Decrease in cash in the year	(4,038)
Cash outflow from repayment of debt and lease finance	2,312
Non cash changes in debt	(214)
Net debt at 31 December 1997	(32,689)

Designed and produced by Radley Yeldar (London).