Interim Results - Part 1

August 28, 2008

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Computacenter PLC

28 August 2008

COMPUTACENTER PLC

Interim Results Announcement

Computacenter plc, the European IT infrastructure services provider, today announces interim results for the six months ended 30 June 2008.

FINANCIAL HIGHLIGHTS

* Group revenues increased 7.8% to £1.25 billion (2007: £1.16 billion)
* Profit before tax declined 14.2% to £11.0 million (2007: £12.8 million)
* Diluted earnings per share increased 10.6% to 5.2p (2007: 4.7p), due to the impact of share repurchases and a reduced tax rate
* Interim dividend increased 8.0% to2.7p per share (2007: 2.5p)
* Net debt before customer-specific financing ('CSF') of £29.7 million (2007: net debtof£16.5 million)
* Net debt after CSF of £95.9 million (2007: net debt of £53.4 million)

OPERATING HIGHLIGHTS

* Positive Q2 followed a weak first six weeks of the year in UK and France
* Strongest UK organic revenue growth for a number of years led by Software, Technology Solutions and sales to the medium-sized business sector
* Further operating loss reduction in France, driven by good services growth and increased product margins
* Continued improvement in German performance, driven partly by progress in our shift towards higher-margin services

Mike Norris, Chief Executive of Computacenter plc, commented:

"After a challenging start to the year we are encouraged by the sales performance we recorded in the first half which is a continuation of the upward trend re-established in 2007.

"Although uncertainty remains in the marketplace there is a continuing need for customers to invest in information technology to improve their competitiveness. The investments we have been making to improve our services capabilities and the cost effectiveness of our sales operations position us well in a more difficult economic climate.

"While much remains to be done, management is confident of achieving its current expectations assuming no material deterioration in market conditions."

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Computacenter's half-yearly financial report is available to view and download at www.computacenter.com/investor. High resolution images are available for the media to view and download free of charge from www.computacenter.com/press.

Interim Management Report

Executive summary

Computacenter's sales performance in the first half of 2008 was encouraging, despite the more difficult economic climate. Helped somewhat by the strength of the Euro, overall Group revenues grew 7.8% to £1.25 billion (2007: £1.16 billion), which represents an increase of 1.4% at constant currency. This continues the upward trend in revenues re-established in 2007 and reflects the strongest organic growth rate in the UK for a number of years.

As we anticipated, we saw a decline in Group profit before tax. The actual reduction was 14.2% to £11.0 million (2007: £12.8 million), due partly to a particularly difficult start to the year in the UK and also to an increase of £0.4 million in the interest charge resulting from £20.8 million expenditure on share repurchases since 1 July 2007. The decline was also attributable to the significant investments we continue to make, in line with our strategic priorities, to enhance our services capability and build our position in the mid-market. However, both UK and France profit performance improved in the second quarter, recording figures ahead of Q2 2007. German earnings were consistently above last year throughout the first half.

Despite the decline in first half profits, the Group is pleased to announce an increase in diluted earnings per share (EPS) of 10.6% to 5.2p (H1 2007: 4.7p), as a result of a reduced number of shares in issue and a lower tax charge.

The balance sheet remains strong, with net borrowings prior to customer-specific financing ('CSF') of £29.7 million (2007 H1: £16.5 million) at the period end. This was after the expenditure of £20.8 million since 1 July 2007 on the purchase of our own shares in the market. Good cash generation in the period meant that, excluding the buybacks and CSF, our net debt position would have improved by £7.6 million.

We are pleased to announce the payment of an increased interim dividend of 2.7p per share (2007: 2.5p) to be paid on 16 October 2008 to shareholders on the register as at 19 September 2008. This is consistent with our policy of seeking to keep the interim dividend at a level equal to one-third of the preceding year's total dividend.

On 1 July 2008 Greg Lock was appointed as non-executive Chairman, following the resignation of Ron Sandler in February. Greg has been the Chairman at Kofax plc, the intelligence capture and exchange solution provider, previously Dicom Group plc, since March 2007. He is a Non-Executive Director of private technology companies Liberata plc and Target Group and has more than 38 years experience in the software and computer services industry.

We are encouraged by the Group's improved performance in the second quarter. Although there is much uncertainty in the marketplace, there is a continuing need for customers to invest in information technology to improve their competitiveness. To answer that need, Computacenter has made significant investments in the past three years in solutions and processes designed specifically to improve the cost-effectiveness and efficiency of our customers' IT infrastructures. We believe these investments, together with our continuing investment in the medium-sized business sector, position us well in a more difficult economic climate.

While much remains to be done, management is confident of achieving its current expectations assuming no material deterioration in market conditions.

Operating review

UK

UK performance recovered after a challenging first six weeks to deliver a revenue increase of 5.5% to £708.1 million (H1 2007: £671.2 million), largely as a result of strong sales growth in our software and consulting/integration activities and in sales to the medium-sized business sector. Adjusted* operating profit declined 21.2% to £8.9 million (H1 2007: £11.3 million), mainly due to the poor start to the year, continued significant investment in our services capability and the resourcing of our sales operation targeting medium-sized businesses. In addition, the merging of our Managed Services and Digica operations, together with a number of smaller cost-cutting initiatives, resulted in an unusually high restructuring cost to the UK business, adversely affecting operating profit in H1 2008 by some £1.0 million.

The success of the integration and consulting services provided by our Technology Solutions business was again a strong feature of UK performance. Growth was particularly strong in the datacentre and storage marketplace, especially for the delivery of technology efficiency projects that help clients reduce operating costs (such as power), improve environmental efficiency and reduce the time to deploy new business applications. As a result, professional services revenues increased by 19.4%. This also helped drive product volumes, as

we were increasingly successful in attaching technology supply to these projects.

At the desktop we were successful in winning business with a number of organisations looking to standardise and unify their messaging and collaboration systems. The cost certainty and benefits of our standardised approach to large scale migration programmes, developed through our Shared Services Factory, were important factors in our recent win at the supermarket chain Morrisons. In addition, as Microsoft Office 2007 and Vista begin to build momentum among corporate clients, a major pharmaceutical customer chose us to implement one of the first significant deployments of Microsoft's Vista in the UK.

UK performance also benefited from the continuing success of our software business, which helps customers reduce cost and complexity through better licence management. Software revenues increased 34.8% and Computacenter continued to grow its share of the Microsoft licensing market, with our UK market share increasing from 8% to 11% in the twelve month period to June 2008. Significant software wins include Cadbury plc, for which we are providing Microsoft licensing services to help the company reduce costs following the recent demerger of its US drinks arm. For the future, we are making progress in developing a lighter touch sales model for our software business, which we believe will enable us to target smaller businesses more effectively.

A key objective of Computacenter is to extend our presence in those sectors that represent the greatest opportunities for market share growth. To that end, we continued to build momentum in the mid-market business sector, achieving 12.0% year on year revenue growth. Whilst the trend is encouraging, this result falls below our plan for this business, which has yet to fully justify our investment.

We saw growing interest in our outsourcing offerings. This was the result of an increasing number of organisations looking to gain cost-efficiencies from their infrastructure through partial, rather than whole IT department, outsourcing. In order to lower costs, remove internal duplication and streamline our offerings we integrated the core operational activities of the Managed Services and Digica business units under a single management structure. This also enables the combined business to offer a stronger, broader set of managed services, covering the management of business critical applications and complete IT infrastructures.

A significant number of new outsourcing contracts were signed in H1, although these contracts are not expected to be fully revenue-generating until the second half of the year.

Wins include the provision of a managed service, including desktop and datacentre support, to 3,000 users at Bentley Motors Limited and the renewal of our existing managed service agreement with Agility, which now includes global desktop support across the UK, Ireland and North America from our offshore facility in Cape Town. Similarly, we have extended our existing managed service with BAA, signing a five-year deal which provides a complete package of end-user services to 13,500 staff across 19 UK sites.

We also had success with support services such as maintenance, installations and disaster recovery. Our renewals in these areas remain high and we secured some important new contract revenue, with particular success in the mid-market. We saw significant contract extensions with Savvis, Speedy Hire and a substantial multi-year renewal with a major North American investment bank. We also secured a two-year contract with Hampshire Police, comprising product supply and refresh, together with support and maintenance of the entire IT estate and end-of-life disposals.

Key product wins include a desktop and laptop refresh for a leading food producer, where we were able to deliver substantial savings to the organisation through our vendor relationships and approach to commercial management. A desire to deliver a more cost-effective service to users and, ultimately, local tax payers, was also a key criterion in Telford and Wrekin Council's decision to contract us for the management of its entire supply and logistics process, including asseting, configuration and disposals.

Our remarketing and recycling arm, RDC, continued to perform well, recording 27.8% revenue growth as customers increasingly sought to address their concerns over environmental disposal, recycling and data security for their end-of-life equipment.

Our UK trade distribution arm, CCD, continues to suffer from a challenging and highly price-competitive market and saw revenue reduce 11.7%.

Germany

After achieving 8.2% full-year sales growth in 2007, revenue for the first six months of 2008 increased by 11.5% to £379.8 million (H1 2007: £340.7 million). However this represents a 3.0% decline in local currency, attributable in part to the non-renewal of a large low-margin PC fulfilment contract. An increasingly competitive market impacted the products business in particular, which declined 7.7% in local currency. However this was partly offset by 6.1% sales growth in services, accelerating the change of business mix over the past few years towards higher-margin offerings.

Nevertheless the positive trend in profit performance continued, with adjusted* operating profits improving 5.0% in local currency, which translates to an increase of 20.8% to £4.1 million.

As in the UK, the continued services growth came largely from our datacentre and networking solutions business, which is benefiting from our ongoing investment in managed services and technology solutions. At the same time, our enhanced reputation in the outsourcing market is delivering a robust pipeline of managed service opportunities for this year and next, a number of which have closed positively since the end of the period.

Service margins again improved significantly as we continued to standardise service delivery and enhance our outsourcing capability. We expect this trend to continue for the rest of 2008.

The product volume decline in H1 2008 was largely driven by a fall in expenditure on 'Wintel' servers by a significant, but small, number of our larger accounts. However large enterprise server and storage sales remained strong, as did sales of software.

Despite the slowdown in product volumes, overall product margin percentage levels were unchanged on the previous year, due to a continuing move towards higher-end, higher margin technology.

Significant wins in the period include a managed desktop services contract with SAP, covering 30,000 users across 31 sites and including the transfer of 28 employees to Computacenter. We also secured a network operations contract for Daimler Financial Services Germany, including technology supply and service provision, and a further two-year desktop services contract with the State Capital of Dusseldorf's local government, covering 12,500 IT seats across the region's administrative offices and schools.

France

We continued to see a steady improvement in the performance of our French business. Operating loss reduced by 8.6% to £1.9 million (H1 2007: loss of £2.1 million) after a better second quarter helped compensate for a slow start to the year. A product market that remains highly challenging contributed to a revenue decline of 5.3% in local currency, although this figure hides an increase in maintenance and managed services revenues of 26.6%.

However, due to beneficial currency movements, reported revenue increased 8.8% to £147.2 million (H1 2007: £135.3 million).

As with 2007, the margin improvement was from across the business. Initiatives such as our more commercially selective approach to the provisioning of hardware, a new focus on regional business, and more effective sales incentives helped achieve further growth in product margins, while a similar selective approach to services and our continuing efforts towards improving customer satisfaction achieved the same result in services. The continuing success of our maintenance services also made a significant improvement to our revenue and profit performance.

The outlook is encouraging due to a number of significant wins. These include managed services and technology solutions contracts with EDF, involving the roll-out of a Windows Vista environment to 75,000 users. We also won the supply of 28,000 PCs and peripherals to the Ministere De L'Economie et des Finances and a two-year supply chain services contract with one of France's leading banks, including server supply, integration and installation. For a company in the retail sector we have been contracted to replace a Windows server infrastructure across 116 stores, including a virtualisation solution. It is important to note that future performance will be contingent to some extent on our success in securing the renewal of our contract with the French Army, our largest French customer, which expires at the end of Q1 2009.

In addition, H1 2008 saw us renew supply contracts with France Telecom and Brico Depot and we extended the scope of our managed service with Sanofi Pasteur in Lyon.

We continue to invest for sales growth while carefully managing costs. We believe that this approach, together with our focus on new opportunities arising

from a sustained new business generation programme and increased sales investment, leaves us well placed to continue the positive trend in business performance through the rest of this year.

Benelux

Our Belgium and Netherlands business showed a small profit of £69,000 (H1 2007: loss of £16,000) on the back of broadly unchanged revenues. Key wins include a procurement contract at UCB, an IP Telephony project at Truvo Corporate and an Enterprise Storage solution implementation at Spadel.

Our small Luxembourg operation showed a slightly increased loss of £137,000 (H1 2007: £95,000), despite improved revenues of £2.1 million (H1 2007: £1.5 million). Key wins include a unified IP Communications project at Luxpet, and a System Monitoring project at Namsa.

Group risk statement

The principal risks to our business for the next six months remain as set out on page 20 of our 2007 Report and Accounts. The Group is addressing these principal strategic risks and, more specifically, mitigating the risks of potential further economic slowdown and further product price erosion. It does this through a combination of helping clients remove cost and risk from their IT expenditure, a continuing focus on those sectors that offer the greatest opportunities for market share growth, and strengthened internal cost control. In addition, we are addressing the market trend towards shorter term engagements and quantified cost savings by enhancing our ability to deliver higher margin, higher value service offerings to a widening customer base. We continue to address the risk of deteriorating vendor terms through our ongoing focus on expanding our vendor independent product portfolio.

* Adjusted operating profit is stated after charging costs on customer-specific financing.

Consolidated income statement
For the six months ended 30 June 2008

	Unaudited six months ended 30 June 2008	Unaudited six months ended 30 June 2007	Year ended 31 Dec 2007
	£'000	£'000	£'000
Revenue	1,250,260	1,160,333	2,379,141
Cost of sales	(1,080,722)	(1,006,183)	(2,053,333)
Gross profit	169,538	154,150	325,808
Distribution costs	(10,578)	(9,267)	(18,344)
Administrative expenses	(146,258)	(131,819)	(263,750)
Operating profit:			
Before amortisation of acquired intangibles	12,702	13,064	43,714
Amortisation of acquired intangibles	(268)	(240)	(613)
Operating profit	12,434	12,824	43,101
Finance revenue	1,502	2,157	3,910
Finance costs	(2,946)	(2,166)	(4,952)
Profit before tax:			
Before amortisation of acquired intangibles	11,258	13,055	42,672
Amortisation of acquired intangibles	(268)	(240)	(613)
Profit before tax	10,990	12,815	42,059
Income tax expense	(3,068)	(5,319)	(13,161)
Profit for the period	7,922	7,496	28,898
Attributable to:			
Equity holders of the parent	7,922	7,496	28,888
Minority interests	-	-	10
	7,922	7,496	28,898
Earnings per share			
- basic for profit for the period	5.3p	4.8p	18.5p
- diluted for profit for the period	5.2p	4.7p	18.2p

Consolidated balance sheet
As at 30 June 2008

	Unaudited six months ended 30 June 2008	Unaudited six months ended 30 June 2007	Year ended 31 Dec 2007
	£'000	£'000	£'000
Non-current assets			
Property, plant and equipment	114,407	102,116	116,444
Intangible assets	46,156	44,762	45,185
Deferred income tax asset	8,577	8,238	8,190
	169,140	155,116	169,819
Current assets			
Inventories	94,665	92,011	110,535
Trade and other receivables	477,082	410,222	454,155
Prepayments	51,648	41,369	27,936
Accrued income	44,028	24,764	33,445
Forward currency contracts	-	167	-
Cash and short-term deposits	37,113	47,352	29,211
	704,536	615,885	655,282
Total assets	873,676	771,001	825,101
Current liabilities			
Trade and other payables	350,867	306,919	336,971
Deferred income	92,713	71,428	74,686
Financial liabilities	87,355	81,189	74,363
Forward currency contracts	59	-	369
Income tax payable	5,521	7,278	7,899
Provisions	2,133	2,166	2,180
	538,648	468,980	496,468
Non-current liabilities			
Financial liabilities	45,699	20,511	34,652
Provisions	12,143	11,653	12,225
Other non-current liabilities	1,355	731	1,685
Deferred income tax liabilities	1,818	2,486	1,875
	61,015	35,381	50,437
Total liabilities	599,663	504,361	546,905
Net assets	274,013	266,640	278,196
Capital and reserves			
Issued capital	9,181	9,585	9,504
Share premium	2,890	2,776	2,890
Capital redemption reserve	74,950	74,542	74,627
Own shares held	(11,273)	(2,503)	(11,380)
Foreign currency translation reserve	5,393	(2,381)	1,507
Retained earnings	192,859	184,594	201,035
Shareholders' equity	274,000	266,613	278,183
Minority interest	13	27	13
Total equity	274,013	266,640	278,196

Approved by the Board on 27 August 2008

MJ Norris, Chief Executive   FA Conophy, Finance Director

Consolidated statement of changes in equity

	Attributable to equity holders of the parent								
	Issued capital	Share premium	Capital redemption reserve	Own shares held	Foreign currency translation reserve	Retained earnings	Total	Minority interest	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2007	9,571	2,247	74,542	(2,503)	(2,455)	183,700	265,102	27	265,129
Exchange differences on retranslation of foreign operations	-	-	-	-	74	-	74	-	74
Net income recognised directly in equity	-	-	-	-	74	-	74	-	74
Profit for the period	-	-	-	-	-	7,496	7,496	-	7,496
Total recognised income for the period	-	-	-	-	74	7,496	7,570	-	7,570
Cost of share-based payment	-	-	-	-	-	1,269	1,269	-	1,269
Exercise of options	14	529	-	-	-	-	543	-	543
Equity dividends	-	-	-	-	-	(7,871)	(7,871)	-	(7,871)
	14	529	-	-	74	894	1,511	-	1,511
At 30 June 2007	9,585	2,776	74,542	(2,503)	(2,381)	184,594	266,613	27	266,640
Exchange differences on retranslation of foreign operations	-	-	-	-	3,888	-	3,888	-	3,888
Net income recognised directly in equity	-	-	-	-	3,888	-	3,888	-	3,888
Profit for the period	-	-	-	-	-	21,392	21,392	10	21,402
Total recognised income for the period	-	-	-	-	3,888	21,392	25,280	10	25,290
Cost of share-based payment	-	-	-	-	-	1,390	1,390	-	1,390
Exercise of options	4	114	-	49	-	-	167	-	167
Purchase of own shares	-	-	-	(11,332)	-	-	(11,332)	-	(11,332)
Cancellation of own shares	(85)	-	85	2,406	-	(2,406)	-	-	-
Equity dividends	-	-	-	-	-	(3,935)	(3,935)	-	(3,935)
Acquisition of minority interests	-	-	-	-	-	-	-	(24)	(24)
	(81)	114	85	(8,877)	3,888	16,441	11,570	(14)	11,556
At 1 January 2008	9,504	2,890	74,627	(11,380)	1,507	201,035	278,183	13	278,196
Exchange differences on retranslation of foreign operations	-	-	-	-	3,886	-	3,886	-	3,886
Net income recognised directly in equity	-	-	-	-	3,886	-	3,886	-	3,886
Profit for the period	-	-	-	-	-	7,922	7,922	-	7,922
Total recognised income for the period	-	-	-	-	3,886	7,922	11,808	-	11,808
Cost of share-based payment	-	-	-	-	-	1,573	1,573	-	1,573
Purchase of own shares	-	-	-	(9,501)	-	-	(9,501)	-	(9,501)

Cancellation of own shares	(323)	-	323	9,608	-	(9,608)	-	-	-
Equity dividends	-	-	-	-	-	(8,063)	(8,063)	-	(8,063)
	(323)	-	323	107	3,886	(8,176)	(4,183)	-	(4,183)
At 30 June 2008	9,181	2,890	74,950	(11,273)	5,393	192,859	274,000	13	274,013

Consolidated cash flow statement
For the six months ended 30 June 2008

	Unaudited six months ended 30 June 2008	Unaudited six months ended 30 June 2007	Year ended 31 Dec 2007
	£'000	£'000	£'000
Operating activities			
Operating profit	12,434	12,824	43,101
Adjustments to reconcile Group operating profit to net cash inflows from operating activities			
Depreciation	17,514	11,124	27,130
Amortisation	2,145	1,648	3,633
Share-based payment	1,573	1,269	2,659
Loss on disposal of property, plant and equipment	273	60	190
(Profit)/loss on disposal of intangible assets	(23)	36	-
Decrease/(increase) in inventories	19,954	4,897	(8,724)
(Increase)/decrease in trade and other receivables	(42,235)	16,234	(1,470)
Increase/(decrease) in trade and other payables	16,447	(36,233)	(19,976)
Currency and other adjustments	2,090	(72)	(218)
Cash generated from operations	30,172	11,787	46,325
Income taxes paid	(5,527)	(6,345)	(13,853)
Net cash flow from operating activities	24,645	5,442	32,472