Preliminary Results - Part 1

March 11, 2008

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COMPUTACENTER PLC

Preliminary Results Announcement

Computacenter plc, the European IT infrastructure services provider, today announces preliminary results for the twelve months ended 31 December 2007.

FINANCIAL HIGHLIGHTS

Financial performance

- Group revenues up 4.8% to £2.38 billion (2006: £2.27 billion)
- Adjusted* profit before tax up 12.3% to £42.7 million (2006: £38.0 million)
- Adjusted* diluted earnings per share up 34.1% to 18.5p (2006: 13.8p)
- Final dividend of 5.5p per share, total dividend 8.0p (2006: 7.5p)
- Net borrowings before customer-specific financing of £16.2 million (2006: net funds of £29.4 million)

Statutory performance

- Profit before tax up 27.7% to £42.1 million (2006: £32.9 million)
- Diluted earnings per share up 67.0% to 18.2p (2006: 10.9p)
- Net borrowings of £79.8 million (2006: net funds of £10.8 million)

OPERATING HIGHLIGHTS

- First Group revenue growth since 2003
- UK business enters 2008 with a record contract base and a strong pipeline of new business across market sectors
- Best ever performance from Computacenter Germany since acquisition with growth across both product and services
- Significant progress achieved in France driven by key management initiatives

Mike Norris, Chief Executive of Computacenter plc, commented:

"Computacenter made encouraging progress across the Group in 2007. The strong performance in the UK in the second half of the 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."

* Adjusted for exceptional items and amortisation of acquired intangibles.

For further information, please contact:

Computacenter plc.
Mike Norris, Chief Executive 01707 631 601
Tessa Freeman, Investor Relations 01707 631 514
www.computacenter.com

Tulchan Communications 020 7353 4200
Stephen Malthouse
www.tulchangroup.com

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BUSINESS REVIEW

Executive summary

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 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.

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 company'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 costs on customer-specific financing.

Operating statement

Group strategic performance

In 2007, Computacenter made further progress in each of the five strategic initiatives aimed at ensuring long-term earnings growth.

Accelerating the growth of our contractual services businesses

Our contract base, comprising contract terms typically of five years, is our most predictable source of revenue and profit. Excluding acquisitions, the Group's contract base grew a pleasing 15% year on year at constant exchange rates, with particularly strong UK growth in the second half of the year resulting in a full recovery from that operation's contract losses of 2006. A number of high-value long-term contracts were secured, including a new Group contract with BT, under which Computacenter takes responsibility for fulfilment, support and related services for BT's 112,000 global desktops across 54 countries. This is the largest services contract negotiated by Computacenter to date.

Broadening the range and depth of our services activities

Across the Group, we endeavoured to enhance our capability in those areas which command higher margins and where specialist expertise is in high demand. In particular, Computacenter sought to extend its capability and its market penetration in the enterprise service areas of networking and datacentre hosting and support. To that end, two significant developments in 2007 were the acquisition of Digica, a datacentre hosting and support company, and Allnet, a network integration and cabling company. Together, these acquisitions have added £23 million to the Group's contract base.

Extending our presence in growth markets, and in particular the medium-sized business segment.

At the smaller-scale end of our client base, our push into the growing mid-market continued, particularly in the UK, where we invested an additional £4 million through the 2007 income statement, mainly in recruitment of new sales staff. We are gradually building a presence in this market, with approximately 1,000 new customers trading with us in 2007, and look forward to the return on this investment in coming years. In addition, our investment in the growing market for datacentre services yielded a number of important new managed services contracts and led to increased utilisation of our professional services staff, lowering operating costs.

Improving the efficiency of our operations by deploying shared services facilities across our customer base.

We continued to focus on reducing operational costs and improving customer service through the more effective use of shared resources and tools for service delivery. In the UK we have established the Shared Services Factory (SSF), a standard set of tools, facilities and processes that ensures we deliver services that consistently meet customer requirements at low cost. One component of the SSF is our new purpose-built International Service Centre in Barcelona. Progress is being made with similar shared resource initiatives in Germany.

Improving our competitiveness by reducing the cost of sale in our product supply business.

We continued to implement improved business controls relating to product purchasing and supply and to invest in our e-commerce systems in order to streamline the supply business and reduce operating costs.

UK

UK revenues grew by 5.9% to £1.36 billion (2006: £1.28 billion), driven by strong sales in the datacentre services arena and an improvement in product revenues. Adjusted* operating profit declined 11.6% to £33.1 million (2006: £37.4 million), partly due to the 2006 contract losses previously reported and the renegotiation of our relationship with BT.

Services revenues, excluding the effect of acquisitions, declined 3.5%, with professional services growth partially compensating for a decline in contractual revenues. However, a strong H2 recovery in the UK services contract base resulted in a small contract base increase for the year as a whole, which translates to an 8.5% increase in the year when taking account of product supply embedded within services contracts. We therefore enter 2008 with a business

pipeline that more than compensates for the losses of 2006.

During the year, we began to see the results of our strategic initiative aimed at greater use of shared service facilities, tools and processes. Customers are increasingly choosing to broaden their relationship with Computacenter due to our ability to make cost and service commitments based on the use of repeatable processes and embedded best practice. Our investment in this area led to us achieving BSI certified accreditation to the ISO/IEC20000 standard for our centralised Service Desks, including the integrated operations of our Digica acquisition.

This shared services approach helped secure a number of managed services contracts. These include a five-year contract with Marks and Spencer worth approximately £19 million in service revenues and covering product supply and software licensing, the management of all infrastructure moves and changes, desktop and server support, managed security, asset management and technology disposals.

We enjoyed particular success in datacentre services. The strong performance in this area reported in the first half continued through the rest of the year and was a key driver of a 19% year-on-year increase, excluding the effect of acquisitions, in professional services revenues. Our server virtualisation and consolidation solutions were in particular demand due to the benefits of reduced costs and increased manageability, as well as related environmental benefits, which include a significantly reduced power consumption and carbon footprint. Indeed we won a Supplier Innovation Award from BT for our work on virtualising and consolidating a number of their UK datacentres, through which we cut their power consumption by 5,000KW and their carbon footprint by 85%, as well as reducing their operational expenditure considerably.

In the managed datacentre segment we saw some recovery following a disappointing start to the year. Our managed datacentre and hosting business, Digica, acquired in January, performed well in H2, with revenue growth of 11.1% over H1 and an improved operating profit ahead of expectations.

Our datacentre services were in particular demand in the financial services and telecoms sectors. An important technology solutions win was with Norwich Union, where we worked with the customer to consolidate and virtualise its environment at two datacentres, as well as deploying a new server operating system and hardware. The project has helped simplify IT management and reduce server provisioning time from six weeks to less than one. We also secured a contract with a major financial organisation for a UNIX server architecture redesign and infrastructure replacement, enabling the customer to expedite its deployment of new customer products and so reduce time to market.

The acquisition of Allnet in April, a leading provider of network integration and structured cabling services, has doubled the size of our business in this sector and we believe will enable us to win increased market share in the high-growth areas of converged IP based networks and unified communications projects.

The success of our continuing investment in our software services business led to 18.7% software revenue growth. In particular, we captured an increased share of the high value Microsoft licensing market, with our UK market share reaching a record 9%. A significant win was with a major bank, for which we will be providing managed procurement and software licence management services. Looking forward, we expect to see further growth and increased return from our software business.

Growth in technology solutions projects was a significant driver of related product sales, where we saw 4.0% growth in sales of networking, server and storage technology. Sales of personal systems remained broadly flat.

There were indications of customers turning away from purchasing direct from vendors in favour of vendor-independent services and solutions providers such as ourselves. Whilst we welcome this as beneficial to organisations looking for long-term value and service flexibility from their IT partner, it is still too

early to say whether this indicates a long-term trend.

Our continuing success in implementing improved business controls relating to product purchasing and supply contributed towards an increase in product gross margins from end-user sales. We also continued to lower the cost of sale through use of a lighter-touch sales model for product-only clients, enabled through our deployment of improved e-commerce systems.

Significant product supply wins include technology benchmarking and desktop supply for Leeds City Council, which also includes disposals management via RDC. In addition, we secured a nationwide technology refresh contract with construction company Morgan Sindall, covering supply, asseting, configuration and installation services.

Our remarketing and recycling arm, RDC, had a good year with a strong finish. Increased business interest in environmental services contributed towards a three-fold growth in profits, driven by a 22% increase in service revenues and 36% growth in remarketing revenues.

Continuing the trend of recent years, our UK trade distribution arm, CCD, which operates in a particularly competitive market, saw sales decline 6.7%. However our focus on margin generation continues to bear fruit, leading to an increase in gross profit.

The UK business enters 2008 with a record services contract base and a strong pipeline of new business. This provides a firm foundation on which to build revenue and profit growth in 2008 and beyond.

Germany

Computacenter Germany enjoyed strong growth, with revenues increasing 8.2% to £708.6 million (2006: £654.7 million). More significantly, adjusted* operating profit grew markedly to £10.4 million (2006: £2.6 million), albeit aided by a substantial reduction in the losses from the two shared datacentre services contracts. This is, by some distance, the best profit performance since Computacenter acquired the CompuNet business from GE at the beginning of 2003.

Revenue growth was across the German business. Services revenues increased by 13.1% and product revenues by 5.8%. This meant our business mix was broadly unchanged, with around 35% of our revenues coming from services, and 65% from products.

Growth came from the return on the significant investment we have made in services and solutions over the last few years, particularly on developing our managed services and consulting businesses. Our managed services contract base grew by 22.8% in local currency, including contracts with embedded product supply, and our professional services revenues grew 9.5%, resulting in a very pleasing 39.7% revenue growth over just two years. Networking and datacentre growth also helped boost product sales through the related supply of servers and other enterprise products.

In addition, we are seeing the benefits of a significant restructure of our sales organisation, which has led to a more diversified customer base and enabled us to grow business in the medium-sized enterprise sector.

An upturn in the German IT market, driven by general economic factors, further helped financial performance. In addition, we benefited from a customer trend away from contracting out comprehensive outsourcing deals to large enterprise service providers and towards the kind of selective managed services contracts in which we specialise.

Growth was achieved with no significant impact on indirect expenses, enabling the additional volumes and margins to contribute directly to profit. This was aided by the implementation of new cost control mechanisms during 2006.

We are increasingly recognised in the German services market, with IDC listing us as one of the country's top ten IT services providers. Significant wins

included a three-year contract with BMW Group for the supply and maintenance of all network equipment in Germany and a datacentre outsourcing contract with Immobilienscout 24, which operates Germany's largest Internet real estate marketplace. We also secured a four-year managed services contract with leading chemicals manufacturer Solvay, in which we take responsibility for managing the company's desktops and Wintel servers, as well as providing helpdesk services across Germany, Austria and Switzerland.

Service margins continued to be under pressure and we began a number of initiatives in the first half to improve this area. As a result, we saw significant margin improvement towards the end of 2007 and expect these initiatives to bear further fruit in years to come.

Our product business enjoyed growth in all areas in 2007. Performance was particularly strong in our security products business, which grew 23.7% and reflected organisations' increased concern over data security. Other major contributors to sales growth were our unified communications and networking activities.

Sales of personal systems increased by 14.2%, reversing a longstanding trend of revenue decline in this segment, which was largely attributable to continuing unit price deterioration.

A notable success was the award of a three-year contract for the supply of desktop, laptop and PDA equipment, with management of installations, moves and changes, to healthcare services provider B.Braun.

Our remarketing and recycling arm, RDC, enjoyed sales growth and another profitable year in Germany, with two major wins from 2006 making a significant contribution to remarketing margins. The relocation of RDC's new sales and service delivery team at the German Operations Centre at Kerpen is expected to help grow RDC business in existing Computacenter accounts.

We expect the economic situation in Germany to support further growth in 2008 and are confident that the business is well placed to make further contributions to Group profits in years to come.

France

2007 saw a fundamental improvement in the performance of our French business. Operating loss reduced 73.0% to £1.8 million (2006: loss of £6.5 million prior to exceptional charges of £5.0 million). This was despite a revenue decline of 7.0% to £285.7 million (2006: £307.3 million), due largely to a challenging product market. This dramatic improvement was brought about by a number of key management initiatives.

In order to address the issues of a highly competitive product marketplace and a 15% average price decline in product prices, we adopted a more commercially innovative and selective approach to the provisioning of hardware. This was supported by the introduction of a new reward scheme for our sales force at the start of the year and by a new focus on the growth of our regional business. The result was improved gross profit in the product business, despite the anticipated 8.8% fall in product revenues.

A similarly selective approach in our services business, together with a sharpened focus on quality of service and customer satisfaction, yielded a 7.1% improvement in services revenues and a substantial 24.1% increase in gross profit.

The continuing success of our maintenance services also contributed to the improved financial performance. Our maintenance business recorded a 19% increase in revenue and a substantial increase in gross profit, despite an overall French market for these services that shows zero growth.

The cost of running the business was again managed down, with operating costs falling by 4.2%.

The second half of 2007 saw Computacenter France record a profit for the first time since 2001. Significant renewals included a five-year extension of our global hardware and maintenance service for a leading medical services company, a four-year renewal of our third largest managed services contract with a major pharmeceuticals company and a four-year extension of our product supply contract with the CEA, the French Government's Atomic Research Authority.

New customer wins include a four-year product supply and maintenance contract with the Paris Mayor's office, Marie de Paris, worth £17 million, and a three-year contract to provide most of the Northern French hospitals, Groupement Inter-Hospitalier du Nord, with services including product specification, installation, helpdesk and support worth up to £24 million.

2007 represents a step change in the performance of our French operation. Whilst much remains to be done, particularly in broadening the customer base, we have an opportunity to build on this progress in 2008 and beyond.

Benelux

Our Benelux operation recorded a reduced operating loss of £44,000 (2006: loss of £191,000). The small loss was principally due to increased investment in the Luxembourg sales organisation.

Product supply activities recorded an improved performance, both from traditional volume business as well as new enterprise solutions business. The profit contribution from managed services also grew significantly on the back of high IT resource demand, particularly in Belgium.

Major wins included enterprise solutions projects at CMI, Pioneer Europe, and BDO Atrio in Belgium as well as a unified communications project at Luxpet in Luxembourg.

*Operating profit is adjusted for exceptional items and amortisation of acquired intangibles and is stated after charging costs on customer-specific financing

Adjusted operating profit

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. The table below shows the reconciliation between statutory and adjusted operating profit by geographical segment for 2007 and 2006:

	UK	Germany	France	Benelux	Total
	£'000	£'000	£'000	£'000	£'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

Consolidated income statement
For the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Revenue	3	2,379,141	2,269,903
Cost of sales		(2,053,333)	(1,974,437)
Gross profit		325,808	295,466
Distribution costs		(18,344)	(19,075)
Administrative expenses		(263,750)	(242,773)
Operating profit:			
Before amortisation of acquired intangibles and exceptional items		43,714	33,618
Amortisation of acquired intangibles		(613)	(46)
Operating profit before exceptional items		43,101	33,572
Impairment of non-current assets		-	(2,606)
Redundancy costs		-	(2,425)
Operating profit		43,101	28,541
Finance revenue		3,910	6,677
Finance costs		(4,952)	(2,289)
Profit before tax:			
Before amortisation of acquired intangibles and exceptional items		42,672	38,006
Amortisation of acquired intangibles		(613)	(46)
Profit before tax before exceptional items		42,059	37,960
Impairment of non-current assets		-	(2,606)
Redundancy costs		-	(2,425)
Profit before tax		42,059	32,929
Income tax expense	4	(13,161)	(13,994)
Profit for the year		28,898	18,935
Attributable to:			
Equity holders of the parent		28,888	18,927
Minority interests		10	8
		28,898	18,935
Earnings per share	5		
- basic for profit for the year		18.5p	11.0p
- diluted for profit for the year		18.2p	10.9p

Consolidated balance sheet
As at 31 December 2007

	Note	2007 £'000	2006 £'000
Non-current assets			

	Note		
Property, plant and equipment		116,444	84,874
Intangible assets		45,185	9,945
Deferred income tax asset		8,190	6,166
		169,819	100,985
Current assets			
Inventories		110,535	94,586
Trade and other receivables		454,155	427,319
Prepayments		27,936	28,729
Accrued income		33,445	21,706
Forward currency contracts		-	111
Cash and short-term deposits	7	29,211	77,882
		655,282	650,333
Total assets		825,101	751,318
Current liabilities			
Trade and other payables		336,971	315,846
Deferred income		74,686	77,714
Financial liabilities		74,363	55,736
Forward currency contracts		369	-
Income tax payable		7,899	8,394
Provisions		2,180	2,132
		496,468	459,822
Non-current liabilities			
Financial liabilities		34,652	11,362
Provisions		12,225	12,839
Other non-current liabilities		1,685	917
Deferred income tax liabilities		1,875	1,249
		50,437	26,367
Total liabilities		546,905	486,189
Net assets		278,196	265,129
Capital and reserves			
Issued capital		9,504	9,571
Share premium		2,890	2,247
Capital redemption reserve		74,627	74,542
Own shares held		(11,380)	(2,503)
Foreign currency translation reserve		1,507	(2,455)
Retained earnings		201,035	183,700
Shareholders' equity		278,183	265,102
Minority interest		13	27
Total equity		278,196	265,129

Approved by the Board on 10 March 2008

MJ Norris Chief Executive

FA Conophy Finance Director

Consolidated statement of changes in equity
For the year ended 31 December 2007

	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 2006	9,505	74,680	100	(2,503)	(1,757)	250,630	330,655	19	330,674
Exchange differences on retranslation of foreign operations	-	-	-	-	(698)	-	(698)	-	(698)
Net expenses recognised directly in equity	-	-	-	-	(698)	-	(698)	-	(698)
Profit for the year	-	-	-	-	-	18,927	18,927	8	18,935
Total recognised income and expenses for the year	-	-	-	-	(698)	18,927	18,229	8	18,237
Cost of share-based payment	-	-	-	-	-	1,411	1,411	-	1,411
Exercise of options	66	2,317	-	-	-	-	2,383	-	2,383
Bonus issue	74,442	(74,442)	-	-	-	-	-	-	-
Expenses on bonus issue	-	(308)	-	-	-	-	(308)	-	(308)
Share redemption	(74,442)	-	74,442	-	-	(73,886)	(73,886)	-	(73,886)
Expenses on share redemption	-	-	-	-	-	(56)	(56)	-	(56)
Equity dividends	-	-	-	-	-	(13,326)	(13,326)	-	(13,326)
	66	(72,433)	74,442	-	(698)	(66,930)	(65,553)	8	(65,545)
At 31 December 2006	9,571	2,247	74,542	(2,503)	(2,455)	183,700	265,102	27	265,129

More to follow, for following part double-click [nRN1K7912P]