



## Computacenter - Final Results 2018

March 12, 2019

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Computacenter PLC

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Computacenter plc

Final results for the year ended 31 December 2018

Computacenter plc ("Computacenter" or the "Group"), the independent provider of IT infrastructure and services that enables users and their business, today announces audited results for the year ended 31 December 2018.

Financial Highlights	2018	2017	Percentage Change Increase/ (Decrease)
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### Financial Performance

Revenue (£ million)	4,352.63	793.414.7	
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Adjusted <sup>1</sup> profit before tax (£ million)	118.2	106.2	11.3
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Adjusted <sup>1</sup> diluted earnings per share (pence)	75.7	65.1	16.3
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Dividend per share (pence)	30.3	26.1	16.1
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Statutory profit before tax (£ million)	108.1	111.7	(3.2)
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Statutory diluted earnings per share (pence)	70.1	66.5	5.4
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#### Cash Position

Cash and cash equivalents	200.4	206.6	(3.0)
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Net Fund <sup>3</sup> (£ million)	57.3	191.2	(70.0)
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Net cash flow from operating activities (£ million)	115.2	106.1	8.6
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#### Revenue Performance by Sector

Services revenue (£ million)	1,175.0	1,157.2	17.5
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Supply Chain revenue (£ million)	3,177.6	2,636.2	541.5
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#### Reconciliation between Adjusted<sup>1</sup> and Statutory Performance

Adjusted <sup>1</sup> profit before tax (£ million)	118.2	106.2	
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#### Exceptional and other adjusting items:

Costs related to acquisition (£ million)		(5.7)	-
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Release of provision for onerous German contracts (£ million)-	1.4
Gain on disposal of an investment property (£ million)	- 4.3
Amortisation of acquired intangibles (£ million)	(4.4) (0.2)
Statutory profit before tax (£ million)	108.1111.7

#### Operational Highlights:

- The Group's total revenues grew £559 million during the year, £540 million in constant currency<sup>2</sup>, to exceed £4 billion for the first time. FusionStorm joined the Group, contributing £3.0 million of adjusted<sup>1</sup> operating profit to the Group through the last three months of 2018;
- Germany delivered another record performance with revenue growth of 8.3 per cent leading to a 14.5 per cent increase in adjusted<sup>1</sup> operating profit, both on a constant currency<sup>2</sup> basis. The German business opened a new Integration Center to address the growth in the Technology Sourcing;
- The UK saw excellent revenue growth of 9.7 per cent, leading to an increase in adjusted<sup>1</sup> operating profit of 12.0 per cent; and
- Adjusted<sup>1</sup> operating profit in France rose 27.0 per cent on a constant currency<sup>2</sup> basis due to strong Technology Sourcing margins. Revenues were down by 4.1 per cent on a constant currency<sup>2</sup> basis due to the loss of a low margin Managed Services contract.

Mike Norris, Chief Executive of Computacenter plc, commented:

'2018 was a record year in revenue, adjusted<sup>1</sup> operating profit and adjusted<sup>1</sup> diluted earnings per share for the Group. We have also laid foundations for further growth in the years ahead.

We have invested in the physical infrastructure that enables our Technology Sourcing, increased our Services capability and expanded our geographical footprint through acquisitions. In addition, we reduced the number of shares in circulation by 6.97 per cent, through a Return of Value Tender Offer of £100 million. Even after these substantial investments, Computacenter finished the year with a strong balance sheet and a cash surplus, which underpins our confidence in the future.

Specifically, while the Technology Sourcing success of last year creates a difficult comparison in 2019, particularly in the first half, lower Services margins in 2018 give us a significant opportunity to improve. We also expect a profit contribution from our acquired business in the USA.

As we look out further into the future, we remain enthusiastic about our customers' desire to enhance the digital experience, grow their network capacity, modernise their infrastructure and enhance their competitiveness, by investing in technology.

<sup>1</sup> Adjusted operating profit or loss, adjusted profit or loss before tax, adjusted tax, adjusted profit or loss for the year, adjusted earnings per share and adjusted diluted earnings per share are, as appropriate, each stated before: exceptional and other adjusting items including gain or loss on business disposals, gain or loss on disposal of investment properties, gains or losses related to material acquisitions, amortisation of acquired intangibles, utilisation of deferred tax assets (where initial recognition was as an exceptional item or a fair value adjustment on acquisition), and the related tax effect of these exceptional and other adjusting items, as Management do not consider these items when reviewing the underlying performance of the Segment or the Group as a whole. Additionally, adjusted gross profit or loss and adjusted operating profit or loss includes the interest paid on customer-specific financing (CSF) which Management considers to be a cost of sale. A reconciliation between key adjusted and statutory measures is provided within the Group Finance Director's review included within this announcement. Further detail is provided within note 4 to the summary financial information included within this announcement.

<sup>2</sup> We evaluate the long-term performance and trends within our strategic key performance indicators (KPIs) on a constant currency basis. Further, the performance of the Group and its overseas segments are shown, where indicated, in constant currency. The constant currency presentation, which is a non-GAAP measure, excludes the impact of fluctuations in foreign currency exchange rates. We believe providing constant currency information gives valuable supplemental detail regarding our results of operations, consistent with how we evaluate our performance. We calculate constant currency percentages by converting our prior-year local currency financial results using the current year average exchange rates and comparing these recalculated amounts to our current year results or by presenting the results in the equivalent local currency amounts. Wherever the performance of the Group, or its overseas segments, are presented in constant currency, the equivalent prior-year measure is also presented in actual currency using the exchange rates prevailing at the time. Financial Highlights, as shown at the beginning of this announcement, and statutory measures, are provided in actual currency.

<sup>3</sup> Net funds includes cash and cash equivalents, CSF, other short or other long-term borrowings and current asset investments.

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#### DISCLAIMER - FORWARD LOOKING STATEMENTS

This announcement includes statements that are, or may be deemed to be, 'forward-looking statements'. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms 'anticipates', 'believes', 'estimates', 'expects', 'intends', 'may', 'plans', 'projects', 'should' or 'will', or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this announcement and include, but are not limited to, statements regarding the Groups' intentions, beliefs or current expectations concerning, amongst other things, results of operations, prospects, growth, strategies and expectations of its respective businesses.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance and the actual results of the Group's operations and the

development of the markets and the industry in which they operate or are likely to operate and their respective operations may differ materially from those described in, or suggested by, the forward-looking statements contained in this announcement. In addition, even if the results of operations and the development of the markets and the industry in which the Group operates are consistent with the forward-looking statements contained in this announcement, those results or developments may not be indicative of results or developments in subsequent periods. A number of factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, those risks in the risk factor section of the 2017 Computacenter Annual Report and Accounts, as well as general economic and business conditions, industry trends, competition, changes in regulation, currency fluctuations or advancements in research and development.

Forward-looking statements speak only as of the date of this announcement and may and often do, differ materially from actual results. Any forward-looking statements in this announcement reflect the Group's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Group's operations, results of operations and growth strategy.

Neither Computacenter plc nor any of its subsidiaries undertakes any obligation to update the forward-looking statements to reflect actual results or any change in events, conditions or assumptions or other factors unless otherwise required by applicable law or regulation.

#### Chairman's statement

2018 was a record year for Computacenter but we are far from realising our full potential. Revenues, adjusted<sup>1</sup> profits and operating cash flow were very strong, but more importantly we continued to invest in our customer relationships, employees and offerings.

We were pleased to return £100 million of cash to shareholders and were given the ultimate accolade of the 'Boring Award' by trade publication TechMarketView, in recognition of 10 consecutive years of growth in adjusted<sup>1</sup> earnings per share.

Of great significance was our acquisition activity during the year. Two years ago we launched direct operations in the United States of America, with the intention of proving our capability to support customers before committing more investment. 2019 will see the integration of FusionStorm, enabling us to deliver our full range of customer offerings: Source, Transform and Manage. This is a significant move for us and we welcome our new colleagues and customers to Computacenter.

On a personal note I say goodbye to you all, after 11 years as Chairman - the best job I have ever had! It is time for me to hand over to Peter Ryan, who has been on our Board for a year. I am confident in his personality, experience and expertise, and I look forward to watching how our investments deliver continuous improvement in results.

I am pleased with our progress in the years I have been here, but I cannot say that I am completely satisfied. Whilst there is still much to be done, I am confident that our people's commitment to helping our customers be more efficient and competitive will reflect in our future progress. I thank them for all they have achieved and for making my time with the Company so enjoyable.

I wish all of our employees, customers, partners and shareholders fulfilment in their future plans and relationships with Computacenter.

Greg Lock

Chairman

11 March 2019

## Our performance in 2018

### Financial performance

A record year saw the Group surpass £4 billion of revenue for the first time, having only passed the £3 billion mark in 2013. The Group's revenues increased by 14.7 per cent, or £559.2 million, to £4,352.6 million (2017: £3,793.4 million) and were 14.2 per cent higher in constant currency<sup>2</sup>.

The Group made a statutory profit before tax of £108.1 million, a decrease of 3.2 per cent (2017: £111.7 million). The Group's adjusted<sup>1</sup> profit before tax increased by 11.3 per cent to £118.2 million (2017: £106.2 million) and by 11.3 per cent in constant currency<sup>2</sup>.

The difference between statutory profit before tax and adjusted<sup>1</sup> profit before tax relates to the Group's reported net loss of £10.1 million (2017: net gain of £5.5 million primarily from disposal of investment property) from exceptional and other adjusting items principally related to the acquisition of FusionStorm.

Notwithstanding the decrease in the Group's statutory profitability, statutory diluted earnings per share increased by 5.4 per cent to 70.1 pence for the period (2017: 66.5 pence), influenced, in part by the Return of Value Tender Offer. Adjusted<sup>1</sup> diluted earnings per share, the Group's primary measure, increased by 16.3 per cent to 75.7 pence (2017: 65.1 pence) during the year.

The full year of trading to 31 December 2018 showed considerable progress in Computacenter's adjusted<sup>1</sup> profitability and even further progress in adjusted<sup>1</sup> earnings per share, following the Return of Value Tender Offer completed in February 2018.

The result has benefited from £270.9 million of revenues, and £2.7 million of adjusted<sup>1</sup> profit before tax, resulting from the acquisitions made in the second half of the year. All figures reported throughout this announcement include the results of the acquired entities.

Following a record breaking first half of the year, the second half improved on it, and the challenging prior year comparative, in both revenue and adjusted<sup>1</sup> profitability. The improvement for the year as a whole was driven by the Technology Sourcing business, with strong top line growth in both the UK and Germany and improved margins in France and Germany.

As noted in our Pre-Close Trading Update on 23 January 2019, the results were marginally ahead of the Board's expectation, as upgraded within the 12 July 2018 Trading Update and confirmed both in the Interim Results and the Q3 Trading Update on 31 October 2018. The results are therefore materially above the Board's expectations held at the start of 2018.

### Technology Sourcing performance

Technology Sourcing is the new name for the Business Line previously referred to as Supply Chain. Our Technology Sourcing and lifecycle management services are fundamental parts of our offering for our customers. Reselling leading manufacturers' hardware and software products enables us to 'Source' technology solutions for customers and underpins our Professional Services transformation solutions. Most customers require a comprehensive solution, combining our services with the systems they need to meet their IT and business objectives. Our ability to integrate vendor technology seamlessly into our solutions for customers is therefore critical.

The Group's Technology Sourcing revenue increased by 20.5 per cent to £3,177.6 million (2017: £2,636.2 million) and by 19.9 per cent in constant currency<sup>2</sup>.

A strong performance in the first half set the platform for a pleasing full year result in the UK Technology Sourcing business. The UK business has seen increased Software volumes which have diluted the Technology Sourcing margin performance, resulting in overall flat margins and contribution growth that is significantly lagging the strong increase in revenue within the UK.

The Technology Sourcing business in Germany saw significant growth during the year, following on from two years of extraordinary growth. Technology Sourcing underpinned the Group's performance for the year, with continued success in the Public Sector and from a hyper-scale Data Center customer. With growth across other sectors and portfolios more in line with expectations, overall growth could reduce if the Public Sector business returns to more normal patterns of growth or if volumes reduce for this Data Center customer. Late in the year, we opened a new Integration Center in Kerpen, near Cologne, which will increase our capacity to grow the business and meet customer demand. The transition to this new facility was seamless, with the old facility, which was at maximum capacity, now decommissioned.

French Technology Sourcing revenues declined by 3.6 per cent in constant currency<sup>2</sup> but achieved better margins through a favourable product mix with less software. French Technology Sourcing margins improved further from the already Group-leading position in the prior period, driven by this change in product mix towards Data Center products. One key Public Sector account saw reduced volumes, due to an extensive rebid process that resulted in us retaining the account once again. We expect volumes on this key account to return to a normal pattern throughout 2019, albeit at reduced margins initially.

Overall, Group Technology Sourcing margins grew by 29 basis points during the year, when compared to the prior year.

#### Services performance

The Group's Services revenue increased by 1.5 per cent to £1,175.0 million (2017: £1,157.2 million) and by 1.1 per cent in constant currency<sup>2</sup>. Within this, Group Professional Services revenue increased by 0.8 per cent to £321.9 million (2017: £319.2 million), and by 0.3 per cent in constant currency<sup>2</sup>, whilst Group Managed Services revenue increased by 1.8 per cent to £853.1 million (2017: £838.0 million), and by 1.5 per cent in constant currency<sup>2</sup>.

UK Services revenue reduced during 2018, with a flat Managed Services result and materially lower Professional Services revenues. Professional Services faced a difficult comparative against 2017, with the prior period including one engagement that provided significant revenue and most of the growth in that year. This contract was completed successfully in 2017 and the extraordinary volumes achieved were not replaced in 2018. The forward order book for 2019 is starting to rebuild and we expect an improved performance in this area, building in the second half of 2019, from what was a challenging result that has reduced UK and, consequentially, overall Group Services revenue. Several Transformation projects during the year experienced material cost overspends, which constrained Services margins. These projects are now complete and behind us, again setting up 2019 for an improved performance in this area. The Managed Services business saw the Contract Base decline despite renewing and extending key contracts. Whilst renewals are always pleasing, as they validate the long-term commitment to customer value and satisfaction, in order to grow, the focus remains on winning tenders for new business. Managed Services margin performance was pleasing, with improvements across the portfolio apart from significant overspend on one new Public Sector contract, which has weighed on the overall result. A significant adjustment for estimated losses over the remaining lifetime of this difficult contract was booked in the year, within cost of sales.

The German Services business continued to drive the Group's Services performance. Demand for our Professional Services business remained strong throughout the year, after a weak first quarter. Professional Services resources continue to be deployed to assist with technical challenges on difficult Managed Services contracts. This, along with the now critical shortage of appropriately skilled resource in the marketplace, has constrained Professional Services growth somewhat. In light of these challenges, the growth is pleasing. The Managed Services business saw steady growth from prior period contract wins which were implemented in 2018. Germany has a number of contracts, including more recent wins, that continue to underperform against expectations, which is the lone source of disappointment in an otherwise fantastic year for the business. Services margins have reduced, as cost overruns and further adjustments for loss provisions on these difficult contracts offset the Professional Services performance and the rest of the Managed Services portfolio, which continues to perform well.

Our French Services business successfully negotiated a year made difficult by the loss of a significant Services contract at the end of 2017 and the renewal, at reduced revenues and margins, of three other significant Managed Services contracts. This important, but low margin contract loss, and margin reduction were anticipated heading into 2018 and overall, given the uncertainty, the business is pleased to have come through this period of change. We will continue to focus on service improvements, automation and pre-agreed cost optimisations, to lift margins over the lifetime of the contract extensions. The focus for 2019 is to continue to broaden the customer base and to renew the Group's largest Managed Services contract.

Overall, Group Services margins declined by 104 basis points during the year, when compared to the prior year.

## Outlook

2018 was a record year in revenue, adjusted<sup>1</sup> operating profit and adjusted<sup>1</sup> diluted earnings per share for the Group. We have also laid foundations for further growth in the years ahead.

We have invested in the physical infrastructure that enables our Technology Sourcing, increased our Services capability and expanded our geographical footprint through acquisitions. In addition, we reduced the number of shares in circulation by 6.97 per cent, through a Return of Value Tender Offer of £100 million. Even after these substantial investments, Computacenter finished the year with a strong balance sheet and a cash surplus, which underpins our confidence in the future.

Specifically, while the Technology Sourcing success of last year creates a difficult comparison in 2019, particularly in the first half, lower Services margins in 2018 give us a significant opportunity to improve. We also expect a profit contribution from our acquired business in the USA.

As we look out further into the future, we remain enthusiastic about our customers' desire to enhance the digital experience, grow their network capacity, modernise their infrastructure and enhance their competitiveness, by investing in technology.

## United Kingdom

### Financial performance

Revenues in the UK business increased by 9.7 per cent to £1,605.8 million (2017: £1,463.4 million).

The UK performance was driven by Technology Sourcing, with strong revenue growth remaining ahead of the market.

Our Managed Services revenue was flat in the face of continual customer pressure to reduce costs, meaning any additional work contracted in 2018 ensured we prevented any decline in this annuity orientated service line.

Professional Services revenues were down along with isolated profitability challenges on a small number of engagements also impacting the return. Whilst it was a very difficult comparison against the prior year, the result in this area was still disappointing.

Margins in the UK declined 73 basis points with total adjusted<sup>1</sup> gross profit falling from 13.4 per cent to 12.7 per cent of revenues. The change in product mix towards Software suppressed Technology Sourcing margins which were flat compared to 2017. Professional Services margins suffered due to three significantly challenged Professional Services engagements coupled with utilisation challenges. This more than offset strong margin gains, excluding one difficult contract, within Managed Services which resulted from a mix of contract service extensions, better execution and additional project activity.

Adjusted<sup>1</sup> gross profit grew by 3.7 per cent to £203.5 million (2017: £196.2 million). Administrative expenses increased by 0.8 per cent to £145.8 million (2017: £144.7 million), with a continued focus on cost control offsetting increasing variable remuneration. This resulted in adjusted<sup>1</sup> operating profit growing by 12.0 per cent to £57.7 million (2017: £51.5 million).

With some notable new customers, a continued momentum in our Technology Sourcing business and a more favourable comparative in our Services business we are on course to deliver in line with our expectations for 2019.

#### Technology Sourcing performance

Technology Sourcing revenue increased by 17.1 per cent to £1,155.6 million (2017: £986.7 million).

The Technology Sourcing business had an extremely strong performance in the first half of 2018 across all industry sectors and a second half where growth declined against a difficult comparison. We continued to benefit from significant investment by our customers, as they continue to digitise their operations and modernise their infrastructure and seek to enhance their employee engagement.

We also experienced increasing utilisation of our financing solutions, enabling our customers to continue their investment in line with their budget plans. We expect this trend to continue which gives us confidence for the full year and beyond.

The UK business has a higher percentage of lower margin sales, particularly in Software and Workplace, than our German and French businesses and continues to lag these other segments in Technology Sourcing margins. Overall Software revenues grew by 139 per cent in the year and increased the share from 18 per cent to 24 per cent of Technology Sourcing revenue in 2018. Technology Sourcing margins were flat with an increase of 3 basis points compared to the prior year, with the move towards lower margin Software continuing to suppress this metric. The opportunity to increase underlying margin return remains the focus of Management in the UK with small basis point increases translating to significant increases in overall adjusted<sup>1</sup> profitability.

#### Services performance

Services revenue declined by 5.6 per cent to £450.2 million (2017: £476.7 million). This resulted from a decline in Professional Services of 17.8 per cent to £116.4 million (2017: £141.6 million) and a flat performance from Managed Services which declined by 0.4 per cent to £333.8 million (2017: £335.1 million). Services margins declined by 41 basis points.

The overall Services performance was disappointing but the contrast in performance between the two components of Services was stark.

Professional Services had a challenging year. The comparison against 2017 was difficult where one contract in the prior year ensured high levels of utilisation and was largely responsible for the increase in revenues of 21.2 per cent seen against 2016. With this contract completed in 2017, the business was unsuccessful in replacing the volume of work during 2018 leading to utilisation impacts, particularly in the Workplace Service Line. Compounding this has been several other material customer engagements, that have now been delivered, that underperformed in terms of margin achieved as costs incurred to complete the engagements were in excess of what was originally envisaged. Our focus, once again, was to support and deliver the engagements for our customers even in the face of individual engagement cost pressures.

During 2018, we did not see the Professional Services growth that we were expecting and the challenged engagements significantly impacted Services profitability. We do expect improvement later in 2019 in Professional Services both in year and in the pipeline forward order book, with a greater focus on our transformation services, particularly driven by the need for our customers to migrate their workplace environments to the latest Windows platform.

Managed Services saw another busy year for successful contract extensions and renewals. This reflects the quality of service and long-term commitment to our customers. As reported last year, customers continue to bring renewal discussions forward, prior to the end of their initial term. Renewing contracts can put pressure on both revenue and margins within those contracts. During 2018, a multinational customer that had decided to insource, as reported last year, removed the service desk element of the contract, but we retained the end user support resulting in no material contribution change.

The continued focus on the successful initiatives undertaken over the past two years to drive operational efficiency in the Managed Services business has ensured that margins have been enhanced and we continue to focus on our end-to-end delivery leveraging Group capability and geographic global coverage.

Whilst new customers continued to be added to our customer base during the year, the high Managed Services renewals rate reflected our strong capabilities and offerings. Whilst the contract wins were pleasing, we are yet to be satisfied with our growth rate in this area and as a result we continue to review and adapt our approach and organisational structure across the business to align end-to-end sales and services management and delivery.

In Managed Services we will continue to focus on innovation in design and delivery and to ensure we deliver best practices to our customers to drive their IT strategy and cost management.

## Germany

### Financial performance

Total revenue increased by 8.3 per cent to €2,115.7 million (2017: €1,954.2 million) and by 9.2 per cent in reported pound sterling equivalents<sup>2</sup>.

The German business performed well in 2018 and ended the year ahead of our expectations. Top line growth was strong and, for the first time, the German business exceeded €2 billion of revenue. Ongoing demand for infrastructure replacements, refreshes and implementing new technologies drove Computacenter's growth in Germany, based on the investments required by customers' digitisation efforts. We are pleased with the increase in the number of customers who contribute more than £1 million of margin and the performance of the existing customer base.

The good performance in 2018 was again driven by a strong Technology Sourcing business, where we achieved strong growth and improved margins. In our target market of large and international companies, Computacenter is very well positioned as the number one provider for Cloud, Networking and Security infrastructure. We have also seen good performance in our Workplace business, benefiting from Windows 10 projects and ongoing demand for collaboration infrastructure.

Services growth was satisfactory but could have been stronger. The lack of available resources across the German employment market remains a growth inhibitor, especially in our Professional Services business. Nevertheless, we achieved strong growth in this area. We saw a different picture in our Managed Services business, where we experienced limited top-line growth and a decline in margins. These challenges will drive us to implement more nearshore and offshore activities in the future.

Margins in Germany decreased by 18 basis points, with adjusted<sup>1</sup> gross profit decreasing from 12.5 per cent to 12.3 per cent of revenues. Adjusted<sup>1</sup> gross profit grew by 6.9 per cent to €261.4 million (2017: €244.6 million) and by 7.6 per cent in reported pound sterling equivalents<sup>2</sup>.

Administrative expenses increased by 4.0 per cent to €185.8 million (2017: €178.6 million), and by 5.0 per cent in reported pound sterling equivalents<sup>2</sup>. The cost increase was in line with our expectations. We have invested in areas where we need new talent and special skills to support future growth. Indirect cost growth remains tightly controlled. We have improved operational processes and controls around cash management and achieved good results, especially at the year-end.

Adjusted<sup>1</sup> operating profit for the German business increased by 14.5 per cent to €75.6 million (2017: €66.0 million) and by 14.6 per cent in reported pound sterling equivalents<sup>2</sup>. 2018 was pleasing from a financial performance perspective. Bottom-line results benefited from strong top-line growth in Technology Sourcing and Professional Services. The outcome for the year could have been stronger if we had been able to perform better on a handful of difficult contracts in our Managed Services portfolio.

Although market conditions are weakening and there are some uncertainties related to the German economy and the political environment in the European Union, there is still a good chance for further growth in the upcoming year. Computacenter's Technology Sourcing business in Germany might be affected by declining demand for new Cloud infrastructure from one of our major customers. Technology Sourcing growth may therefore be more difficult in 2019. We expect to have strong Professional Services growth and should see significant improvements on Services margins in our Managed Services business as we turnaround the performance of our difficult contracts. Whilst renewal activities will be our focus, we have identified some strategic opportunities in our existing customer base, to create Contract Base growth.

#### Technology Sourcing performance

Technology Sourcing revenue grew by 9.9 per cent to €1,502.9 million (2017: €1,367.7 million) and by 10.8 per cent in reported pound sterling equivalents<sup>2</sup>.

After an excellent Technology Sourcing performance in both 2016 and 2017, the business again performed well in 2018 and was the major driver of the strong overall performance.

Cloud, Security and Networking are still the areas of strong customer demand. We saw exceptional growth in the Data Center market, with broad customer investments in private and hybrid cloud infrastructures. We also benefited from one hyperscale customer, where we expanded the cloud infrastructure for their software platform. From a vertical perspective, we have seen ongoing demand and strong investments from Public Sector customers, especially to renew, build and extend government-owned cloud and networking infrastructures. After a delay to approving the Federal Government budgets, we saw a much stronger second half of the year in the Public Sector. Other industries such as automotive and production also significantly invested in additional infrastructure, to support new business models and digitisation efforts. We also achieved good growth in our Workplace business. After two years of lower growth rates, we saw the first impact of Windows 10 migrations and the related infrastructure refreshes. Our Industrie 4.0 initiative delivered good results, generating new business in the production areas of customers we already do business with in the traditional office environment.

We successfully opened our new Integration Center based in Kerpen. The facility is approximately 30,000m<sup>2</sup>, giving us more space and flexibility for the future, especially in the area of complex Data Center integration projects with 'Rack and Roll' requirements. The move into the new facility in November went well, without any impact on the important year-end business. The associated office building on the same site for 650 people is still on schedule and will be officially opened on 4 April 2019.

Technology Sourcing margins continued to strengthen as the product mix moved to high value elements and increased by 74 basis points over last year.

#### Services performance

Services revenue grew by 4.5 per cent to €612.8 million (2017: €586.5 million) and by 5.5 per cent in reported pound sterling equivalents<sup>2</sup>. This included Professional Services growth of 8.9 per cent to €188.2 million (2017: €172.8 million), an increase of 10.0 per cent in reported pound sterling equivalents<sup>2</sup>, and Managed Services growth of 2.6 per cent to €424.6 million (2017: €413.7 million), an increase of 3.6 per cent in reported pound sterling equivalents<sup>2</sup>.

Whilst Services revenue growth was in line with expectations for the year, bottom line performance was impacted by additional costs in Managed Services, to stabilise and resolve technical challenges in new contracts. In addition, we suffered from the overall resource shortage in the German employment market. Higher attrition rates resulted in additional recruiting efforts and larger

salary increases which has impacted the overall Services cost base. Some of these additional costs have been covered by price increases, however, it will take some time to recover the cost base, especially in our Managed Services business where we have long-term commitments.

In our Professional Services business, the year started a little weaker than planned but we saw increasing demands from customers in nearly all technology areas, over the rest of the year. The outcome for the year was strong, with near double-digit top-line growth and improved margins. We have seen increasing demand for Windows 10 proof of concepts, migrations and rollouts. This should drive further business throughout 2019. In addition, cloud infrastructure builds and network refreshes continue to generate strong Professional Services demand. Public Sector investment continues to produce good opportunities for the future and some great new wins of long-term framework contracts. We are still benefiting from our infrastructure consultancy practice, where we get excellent feedback from customers regarding skills and capabilities.

Our Managed Services business is the larger part of our Services portfolio but it is not growing as quickly as the Professional Services business. We have successfully renewed some of our existing major contracts but we also lost two contracts. However, we also won two new material contracts and, with a relatively stable maintenance business, we were able to grow our Contract Base by 6.1 per cent. Managed Services margins were materially impacted by Entry Into Service and Transformation cost overruns for two deals won in 2017 and implemented this year. During 2018, we undertook some initiatives across our Managed Services business to stabilise operations and drive effectiveness. This has generated some additional costs we had not expected at the beginning of the year. Overall, the Managed Services margin is still below the level we should achieve, due to the financial underperformance of these challenging contracts. We should see major improvements in the upcoming years, given the investments we have made in 2018. Overall, the Services margin was 214 basis points lower than last year.

France

#### Financial performance

Total revenue decreased by 4.1 per cent to €557.4 million (2017: €581.3 million). In reported pound sterling equivalents<sup>2</sup>, total revenue was down 3.3 per cent.

The French business completed the restructuring of its customer portfolio during 2018, which leaves it with a stable base of large customers within its target customer set. Total revenue decreased because of the loss of a very large software contract in the Public Sector, which generated very low margins. Whilst the loss of the contract is disappointing, it is not that impactful in terms of adjusted<sup>1</sup> profitability. We are pleased with the other highlights in Technology Sourcing in 2018, having developed our business offerings and signed new customers who are sourcing higher-margin products. The Services business was challenged by a quiet first half in Professional Services, the loss of a large contract with a utility customer, noted last year and year-on-year price reductions on our three largest Managed Services contracts, as a result of renewal negotiations. New Managed Services contracts signed in 2018 did not contribute for a full 12 months and therefore did not offset the overall revenue reduction on the renewed contracts. The number of Managed Services contract wins gives us confidence that we can continue to develop our footprint in the French market.

After a very good 2017, we expected that our 2018 performance would be challenging, primarily because of renewals of several of our largest customer contracts. We are proud to have renewed them all in 2018. At the same time, our strategy of focusing on large accounts is performing well, with many new customer wins in the Private Sector. We completely reorganised our sales force by industry within the Private Sector and focused on the execution of very large framework contracts within the Public Sector. As a result, we refreshed 30 per cent of our Sales Specialist positions, to fit with our revised go-to-market propositions.

We will continue to focus on large organisations, helping their IT decision makers to enable users with advanced support and guidance and supporting their businesses by delivering outstanding infrastructure services and solutions. In this context, our alignment with our Group propositions and service capabilities remains key. To enforce this alignment and support further growth, we have signed off an investment plan for 2019 to increase significantly our resources in operations. To support talent development and attraction, we launched the Computacenter University to recruit, train and certify new resources, ready to support our growth in the Workplace and Data Center spaces. We are extending our Managed Services capabilities by opening a new Service Center location in France, in mid-2019, to increase our capacity and resilience for Service Desk operations.

The transition to Arnaud Lepinois as the new Managing Director has been completed and the new management team is now in place to execute the plan.

Margins in France increased by 80 basis points, with adjusted<sup>1</sup> gross profit increasing from 10.5 per cent to 11.3 per cent of revenues.

Overall adjusted<sup>1</sup> gross profit grew by 3.3 per cent to €62.9 million (2017: €60.9 million) and by 4.1 per cent in reported pound sterling equivalents<sup>2</sup>.

Management has continued to focus on cost control within the French business, which has seen an increase in administrative expenses of only 0.5 per cent to €54.9 million (2017: €54.6 million), and of 1.5 per cent in reported pound sterling equivalents<sup>2</sup>.

Adjusted<sup>1</sup> operating profit for the French business increased by 27.0 per cent to €8.0 million (2017: €6.3 million), and by 26.8 per cent in reported pound sterling equivalents<sup>2</sup>.

#### Technology Sourcing performance

Technology Sourcing revenue decreased by 3.6 per cent to €444.9 million (2017: €461.6 million) and by 2.8 per cent in reported pound sterling equivalents<sup>2</sup>.

In 2018, we lost a very high revenue and low-margin software contract in the Public Sector. Private Sector revenue grew strongly and included new wins in our target customer set, which is a pleasing affirmation of our strategy to broaden the customer base. We will continue to drive growth by securing our market share in the Public Sector and striving for ambitious growth in strategic Private Sector accounts. During the year, we renewed our most important Technology Sourcing framework contract. Revenues declined whilst the contract was being renewed, as volumes naturally fell, but margins were not impacted. As we head into 2019, we see the volumes once again increasing, albeit on tighter margins in the short term.

Having achieved a real improvement in Technology Sourcing margin during 2017, to lead the Group, we were pleased to again see an increase in our margin. This was mainly due to a reduction in low-margin contracts and a change in the business mix towards higher value, higher margin products. Improving our business mix towards Data Center, Networking and Security was our priority and we made good progress in 2018, with revenue growth in Data Center and Security, compared to a decrease in Workplace. Overall, Technology Sourcing margins increased by 102 basis points.

#### Services performance

Services revenue declined by 6.0 per cent to €112.5 million (2017: €119.7 million) and by 5.1 per cent in reported pound sterling equivalents<sup>2</sup>. Professional Services increased by 3.4 per cent to €21.4 million (2017: €20.7 million), which was an increase of 4.4 per cent in reported pound sterling equivalents<sup>2</sup>. Managed Services declined by 8.0 per cent to €91.1 million (2017: €99.0 million), a decrease of 7.0 per cent in reported pound sterling equivalents<sup>2</sup>.

The Managed Services performance was as expected given the loss of a contract with a utility customer at the end of 2017 and the price reductions on our three largest Managed Services contracts, due to anticipated service improvements, automation, volume reduction and pre-agreed cost optimisations.

We implemented two new contracts in 2018 and recently won two others that are currently in the Entry Into Service phase.

This has helped maintain stability within our Managed Services Contract Base, which was up 4.7 per cent at the end of the year compared to the previous year. We will again have to deal with large renewals in 2019 but the mid-term pipeline is encouraging,

and we believe our Contract Base will continue the growth seen this year.

Although activity remains relatively low, our Professional Services business made pleasing progress and has strong growth ambitions for 2019. We are confident we can achieve this, as we have further refined our target customer base, improved vendor partnerships and defined a clear portfolio of solutions around End User, Data & Analytics, Cloud & Data Center, Networking and Security. Several projects signed at the end of 2018 will support the growth in 2019.

Services margins were flat, increasing by one basis point over last year. Services margins were under significant pressure in our Managed Services business, due to the contract renewals. Professional Services margins were constrained by a difficult international project that ended in December.

## International

The International segment comprises a number of trading entities and offshore Global Service Desk delivery locations. The trading entities include: Computacenter USA, which provides local services to the American subsidiaries of a number of large Western European Group customers; FusionStorm, the US-based IT solutions provider acquired on 30 September 2018; Computacenter Switzerland, which mainly provides services to the Swiss subsidiaries of our global customers as well as some local customers; Computacenter Belgium; and Computacenter Netherlands, which was formerly known as Misco Solutions B.V. and was acquired by the Group on 1 September 2018.

These trading entities are complemented by the offshore Global Service Desk entities in Spain, Malaysia, India, South Africa, Hungary, Poland, China and Mexico, which have limited external revenues.

FusionStorm and the Swiss, Belgian and Dutch entities have in-country sales organisations, which enable us to sell to local customers.

## Financial performance

Revenues in the International business increased by 261.3 per cent to £380.8 million (2017: £105.4 million) and by 264.8 per cent in constant currency<sup>2</sup>.

Adjusted<sup>1</sup> gross profit increased by 83.2 per cent to £57.9 million (2017: £31.6 million), and by 85.0 per cent in constant currency<sup>2</sup>.

Administrative expenses increased by 102.2 per cent to £45.5 million (2017: £22.5 million) and by 104.0 per cent in constant currency<sup>2</sup>.

Overall adjusted<sup>1</sup> operating profit increased by 36.3 per cent to £12.4 million (2017: £9.1 million) and by 37.8 per cent in constant currency<sup>2</sup>.

The result has been driven by £270.9 million of revenues, and £2.7 million of adjusted<sup>1</sup> profit before tax, resulting from the acquisitions made in the second half of the year. All figures reported throughout this announcement include the results of the acquired entities.

## Technology Sourcing Performance

Technology Sourcing revenue increased by 584.1 per cent to £297.6 million (2017: £43.5 million) and by 579.5 per cent in constant currency<sup>2</sup>.

Following the acquisitions, FusionStorm added £237.8 million and Computacenter Netherlands added £16.8 million to Technology Sourcing revenues in 2018.

#### Services performance

Services revenue increased by 34.4 per cent to £83.2 million (2017: £61.9 million) and by 37.3 per cent in constant currency<sup>2</sup>.

Professional Services revenue increased by 145.1 per cent in both actual and constant currency<sup>2</sup>, to £20.1 million (2017: £8.2million). Managed Services revenue increased by 17.5 per cent to £63.1 million (2017: £53.7 million), an increase of 20.4 per cent in constant currency<sup>2</sup>.

Following the acquisitions, FusionStorm added £8.2 million of Professional Services revenues during 2018, whilst Computacenter Netherlands added £8.1 million of Managed Services revenues.

#### Rest of Europe

The European trading entities within International operate under an internal management structure called Rest of Europe.

Our Swiss operations continue to perform well and saw pleasing growth in both revenues and adjusted<sup>1</sup> operating profitability in 2018, with increases of 16.0 per cent and 22.3 per cent respectively, both in constant currency<sup>2</sup>. The acquisition of cITius in January 2017 has expanded the range of services that the Swiss business can offer and increased our ability to bid for opportunities within our customer base. Additionally, the take-on of a large international Managed Services contract across the Group has increased local revenue.

Our Belgian operations experienced a slight fall in revenue of 1.6 per cent in constant currency<sup>2</sup>, and an increase in adjusted<sup>1</sup> operating profit of 13.7 per cent in constant currency<sup>2</sup>. Our Services business revenues were down slightly. Expanding the Managed Services Contract Base remains a key focus for Management, to drive Services revenue growth in line with our plans. Our Technology Sourcing business was flat and the Intel chip shortage had a negative effect on end of year revenues within our Workplace line of business. In the second half, we were able to build an improved pipeline for more complex infrastructure and networking opportunities. We successfully closed some of these towards the end of 2018 and we hope to identify further opportunities in 2019.

On 1 September 2018, we acquired Misco Solutions B.V. The business is a value-added reseller and solutions provider to the Public and Private sectors, based in Amstelveen and Bodegraven, the Netherlands. We are excited to enter this new territory, as the Netherlands is an adjacent European market for us and we look forward to building long-term relationships with local customers. Our direct local presence in the Netherlands will also enhance our support to a number of Computacenter's largest international clients, for whom this is a key location.

We have rebranded the business to Computacenter Netherlands and focused on integration into the Group. Whilst the business made a small loss during the first four months of operation, we are confident that we will improve the performance to be more like our similar Belgian operation over time.

Our 2019 challenges for the Rest of Europe grouping are focused on further integration of tools and processes in the Netherlands. We also look forward to expanding both our customer base and capabilities in Switzerland. The focus in Belgium will be to grow our sales capacity and Managed Services pipeline.

We continue to review opportunities to extend our Western European footprint, by entering into adjacent territories or by increasing our capabilities in existing locations by adding complementary activities within either our Services or Technology Sourcing businesses.

#### Computacenter USA & FusionStorm

Computacenter USA provides local services to the American subsidiaries of a number of large Western European Group customers. FusionStorm is a value-added reseller of hardware and software solutions, which we acquired on 1 October 2018. These trading entities are complemented by the Service Center entity in Mexico, which has limited external revenues. On top of their operational delivery capabilities, the US and FusionStorm entities have in-country sales organisations, which enable us to engage with local customers, and we have begun the integration of these teams with effect from 1 January 2019, as part of our larger integration efforts.

Computacenter USA is a services business which provides Managed Services to the US subsidiaries of our Western European headquartered customers. For the third consecutive year, a large Group customer extended its services scope into the Americas region which reflects the increasing demand for global service support. In addition, we continued to invest in our nearshore Service Center location in Mexico City which, since going live in 2016, has exceeded service level and financial performance targets.

The FusionStorm business exceeded the Services and Technology Sourcing growth targets we set as part of the acquisition process. The Services growth was driven primarily by hyperscale customer rollouts of data center and networking infrastructure projects plus an increase in its expert services business. Following the acquisition, the fourth quarter saw the two highest revenue months of configured solution shipments from our Integration Center in Newark, CA, in the heart of Silicon Valley. December was particularly notable, as it was a record month which more than doubled the monthly average Integration Center volumes seen in the prior 12 months.

As we move into 2019, we see a number of opportunities to enhance the acquired business and to leverage revenue synergies between the new and existing American operations. We will open a new Integration Center in California, tripling the capacity of the existing facility and leveraging Group knowledge on logistics, most recently employed on the new Kerpen Integration Center. We will also begin to pursue opportunities to deliver Technology Sourcing solutions into existing US Services customers, a number of whom have already enquired about this capability. We will look to provide Technology Sourcing solutions to other Western European customers for whom we do not currently transact any business in the USA. Early in 2019, we closed our first deal of this nature with one of the world's leading betting and gaming companies which is expanding its US operations.

#### Group Finance Director's review

The strength of Technology Sourcing continues to drive the Group's performance. The Group result was underpinned by an improving performance in France, another strong result in Germany and recovering UK revenues.

Germany again significantly exceeded our expectations from what was a very good comparative in 2017. This was well supported by strong Technology Sourcing growth in both the UK and France as customers invest in new technology, in particular in Security, Networking and Digitalisation. Overall, Professional Services revenue across the Group was weaker than expected, mainly due to a decline in the UK, following strong growth in 2017. Demand for our Professional Services resources in Germany has continued to outstrip our capacity to service new customers and assist with difficult Managed Services business take-ons. Managed Services growth was flat overall, although a significant reduction in France offset pleasing growth in Germany and a flat performance in the UK. Several difficult contracts in the UK and Germany reduced the expected margin.

Across all Segments and revenue lines, growth has been driven by the continued performance of key existing customer accounts, rather than the addition of material new customers.

A reconciliation between key adjusted<sup>1</sup> and statutory measures is provided within this Group Finance Director's review. Further details are provided in note 4 to the summary financial information within this announcement, segment information.

#### Profit before tax

The Group's statutory profit before tax decreased by 3.2 per cent to £108.1 million (2017: £111.7 million). Adjusted<sup>1</sup> profit before tax increased by 11.3 per cent to £118.2 million (2017: £106.2 million) and by the same amount in constant currency<sup>2</sup>.

The difference between statutory profit before tax and adjusted<sup>1</sup> profit before tax primarily relates to the Group's reported net loss of £10.1 million (2017: net gain of £5.5 million) from exceptional and other adjusting items, primarily as a result of the acquisition of FusionStorm on 30 September 2018.

#### Reconciliation from statutory to adjusted<sup>1</sup> measures for the year ended 2018

	Adjustments					Exceptionals and others	Adjusted <sup>1</sup> results
	Statutory results	CSF interest	Amortisation of acquired intangibles	Utilisation of deferred tax	Adjusted <sup>1</sup> results		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	4,352,570	-	-	-	-	-	4,352,570
Cost of sales	(3,804,019)	(293)	-	-	-	-	(3,804,312)
Gross profit	548,551	(293)	-	-	-	-	548,258
Administrative expenses	(439,183)	-	4,451	-	5,240	-	(429,492)
Operating profit	109,368	(293)	4,451	-	5,240	-	118,766
Finance income	1,250	-	-	-	-	-	1,250
Finance costs	(2,490)	293	-	-	417	-	(1,780)
Profit before tax	108,128	-	4,451	-	5,657	-	118,236
Income tax expense	(27,199)	-	(1,169)	1,933	(4,444)	-	(30,879)
Profit for the year	80,929	-	3,282	1,933	1,213	-	87,357

Reconciliation from statutory to adjusted<sup>1</sup> measures for the year ended 2017

	Adjustments					
	Statutory results	CSF interest	Amortisation of acquired intangibles	Utilisation of deferred tax	Exceptionals and others	Adjusted <sup>1</sup> results
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	3,793,371	-	-	-	-	3,793,371
Cost of sales	(3,297,142)	(159)	-	-	-	(3,297,301)
Gross profit	496,229	(159)	-	-	-	496,070
Administrative expenses	(389,437)	-	225	-	(1,371)	(390,583)
Operating profit	106,792	(159)	225	-	(1,371)	105,487
Gain on disposal of an investment property	4,320	-	-	-	(4,320)	-
Finance income	1,521	-	-	-	-	1,521
Finance costs	(938)	159	-	-	-	(779)
Profit before tax	111,695	-	225	-	(5,691)	106,229
Income tax expense	(30,381)	-	(31)	3,457	351	(26,604)
Profit for the year	81,314	-	194	3,457	(5,340)	79,625

Revenue

	Half 1	Half 2	Total
	£m	£m	£m

2016	1,478.2	1,767.2	3,245.4
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	Half 1	Half 2	Total
	£m	£m	£m
2017	1,700.32	093.13	1,793.4
2018	2,008.92	343.74	2,352.6
2018/17	18.1%	12.0%	14.7%

#### Adjusted<sup>1</sup> profit before tax

	Half 1		Half 2		Total	
	£m	% Revenue	£m	% Revenue	£m	% Revenue
2016	25.3	1.7%	61.1	3.5%	86.4	2.7%
2017	41.9	2.5%	64.3	3.1%	106.2	2.8%
2018	52.1	2.6%	66.1	2.8%	118.2	2.7%
2018/17	24.3%		2.8%		11.3%	

#### Revenue by Segment

	2018			2017		
	Half 1 £m	Half 2 £m	Total £m	Half 1 £m	Half 2 £m	Total £m
UK	858.1	747.7	1,605.8	662.8	800.7	1,463.4
Germany	866.0	1,006.71	1,872.7	760.3	954.4	1,714.7
France	230.7	262.6	493.3	228.6	281.3	509.9
International	54.1	326.7	380.8	48.6	56.8	105.4
Total	2,008.92	343.74	2,352.6	1,700.32	093.13	1,793.4

#### Adjusted<sup>1</sup> operating profit by Segment

## 2018

	Half 1		Half 2		Total	
	£m	% Revenue	£m	% Revenue	£m	% Revenue
UK	25.8	3.0%	31.9	4.3%	57.7	3.6%
Germany	32.2	3.7%	34.7	3.4%	66.8	3.6%
France	2.1	0.9%	5.0	1.9%	7.1	1.4%
International	3.4	6.3%	9.0	2.8%	12.4	3.3%
Central Corporate Costs	(11.4)		(13.8)		(25.2)	
Total	52.1	2.6%	66.7	2.8%	118.8	2.7%

## 2017

	Half 1		Half 2		Total	
	£m	% Revenue	£m	% Revenue	£m	% Revenue
UK	21.4	3.2%	30.1	3.8%	51.5	3.5%
Germany	20.7	2.7%	37.6	3.9%	58.3	3.4%
France	1.5	0.7%	4.1	1.5%	5.6	1.1%
International	5.0	10.3%	4.1	7.2%	9.1	8.6%
Central Corporate Costs	(7.2)		(11.8)		(19.0)	
Total	41.4	2.4%	64.1	3.1%	105.5	2.8%

## Profit for the year

The statutory profit for the year decreased by 0.5 per cent to £80.9 million (2017: £81.3 million). The adjusted<sup>1</sup> profit for the year increased by 9.8 per cent to £87.4 million (2017: £79.6 million) and by 9.9 per cent in constant currency<sup>2</sup>.

## Net finance income

Net finance cost in the year amounted to £1.2 million on a statutory basis (2017: income of £0.6 million). The charge includes £0.5 million relating to interest on the £100 million facility drawn down for the FusionStorm acquisition and £0.3 million for the unwind of

the discount on the deferred consideration for the purchase of TeamUltra (2017: cost of £0.1 million). It also includes exceptional interest costs relating to the unwind of the discount on the deferred consideration for the purchase of FusionStorm of £0.4 million and CSF interest of £0.3 million (2017: £0.2 million), both of which are excluded on an adjusted<sup>1</sup> basis.

On an adjusted<sup>1</sup> basis, the net finance cost was £0.5 million in 2018 (2017: income of £0.7 million).

## Taxation

The statutory tax charge was £27.2 million (2017: £30.4 million) on statutory profit before tax of £108.1 million (2017: £111.7 million). This represents a statutory tax rate of 25.2 per cent (2017: 27.2 per cent). The Group's adjusted<sup>1</sup> tax rate has benefited from the historical tax losses in Germany, which were fully utilised during the year. The utilisation of the asset of £1.9 million (2017: £3.5 million) has impacted the statutory tax rate but is considered to be outside of our adjusted<sup>1</sup> tax measure. In 2018, this impact increased the statutory tax rate by 1.8 per cent (2017: 3.1 per cent).

In 2018, a credit of £1.4 million arising from the tax benefit on the FusionStorm exceptional acquisition costs has been recognised as tax on exceptional items. In 2017, a tax charge of £0.4 million was recorded as tax on exceptional items, relating to the release of the remaining German onerous contract provisions. A further tax credit of £3.1 million was recorded due to post-acquisition activity in FusionStorm, related to the transaction, which has resulted in a material in-year tax benefit. This activity included settlement of phantom stock awards, deal bonus and change of control payments which were settled by the vendor, out of the consideration paid, via post-acquisition capital contributions to FusionStorm. As this credit was related to the acquisition and not operational activity within FusionStorm, is of a one-off nature and material to the overall tax result, we have classified this as an exceptional tax item. Further, this tax benefit is larger than the adjusted<sup>1</sup> profit before tax of £2.9 million achieved by FusionStorm since the acquisition.

The tax credit related to the amortisation of acquired intangibles was £1.2 million (2017: £0.03 million). The significant increase relates to the £4.2 million of amortisation of acquired intangible assets charged against the assets recognised as a result of the FusionStorm acquisition. As the amortisation is recognised outside of our adjusted<sup>1</sup> profitability, the tax benefit on the amortisation is also only recognised in the statutory tax charge.

The adjusted<sup>1</sup> tax charge on ordinary activities was £30.9 million (2017: £26.6 million), on an adjusted<sup>1</sup> profit before tax of £118.2 million (2017: £106.2 million). The effective tax rate (ETR) was therefore 26.1 per cent (2017: 25.0 per cent) on an adjusted<sup>1</sup> basis. The 2018 ETR was higher than the previous year primarily due to the increasing cash tax in Germany, as the historical tax losses readily available for use have now been fully utilised. The ETR, excluding the impact of FusionStorm, is within the range that we indicated during the year at 26.5 per cent (H1 2018: 27.1 per cent).

The increasing adjusted<sup>1</sup> tax rate in 2018 in Germany, as the last of the readily available losses have been utilised, has had a direct effect on the Group adjusted<sup>1</sup> ETR. At 2018 levels of profitability, the increase in German cash tax would raise the Group adjusted<sup>1</sup> ETR from 26.1 per cent in 2018 to 27.8 per cent in 2019, without regard to other factors that could influence the Group's adjusted<sup>1</sup> ETR. Factors that could also increase the Group's adjusted<sup>1</sup> ETR in 2019 include the increasing reweighting of the geographic split of adjusted<sup>1</sup> profit before tax from the UK to Germany, where tax rates are substantially higher.

The Group Tax Policy was reviewed during the year and approved by the Audit Committee and the Board, with no material changes from the prior year. We make every effort to pay all the tax attributable to profits earned in each jurisdiction that we operate in. We do not artificially inflate or reduce profits in one jurisdiction to provide a beneficial tax result in another and maintain approved transfer pricing policies and programmes, to meet local compliance requirements. Virtually all of the statutory tax charge in 2018 was incurred in either the UK or German tax jurisdictions. Computacenter will recognise provisions and accruals in respect of tax where there is a degree of estimation and uncertainty, including where it relates to transfer pricing, such that a balance cannot fully be determined until accepted by the relevant tax authorities. There are no material tax risks across the Group. For 2018, the revised Group Transfer Pricing policy, implemented in 2016, resulted in a royalty payment charged by Computacenter UK to Computacenter Germany equivalent to one per cent of revenue or £19.5 million (2017: £17.4 million). This royalty charge was driven by our tax advisors' interpretation of the Organisation for Economic Co-operation and Development (OECD) base erosion and profit shifting requirements. The royalty charge is recorded outside the Segmental results found in note 4 to the summary financial information within this announcement, segment information, which analyses Segmental results down to

adjusted<sup>1</sup> operating profit.

The table below reconciles the statutory tax charge to the adjusted<sup>1</sup> tax charge for the year ended 31 December 2018.

	2018	2017
	£'000	£'000
Statutory tax charge	27,199	30,381
Adjustments to exclude:		
Utilisation of German deferred tax assets	(1,933)	(3,457)
Exceptional tax items	3,091	-
Tax on amortisation of acquired intangibles	1,169	31
Tax on exceptional items	1,353	(351)
Adjusted <sup>1</sup> tax charge	30,879	26,604
Statutory ETR	25.2%	27.2%
Adjusted <sup>1</sup> ETR	26.1%	25.0%

#### Exceptional and other adjusting items

The net loss from exceptional and other adjusting items in the year was £6.4 million (2017: gain of £1.7 million). Excluding the tax items noted above which resulted in a statutory gain of £3.7 million (2017: loss of £3.8 million), the profit before tax impact was a net loss from exceptional and other adjusting items of £10.1 million (2017: gain of £5.5 million).

An exceptional loss during the year of £5.2 million resulted from costs directly relating to the acquisition of FusionStorm. These costs include a severance payment for the FusionStorm Chief Executive Officer, agreed as part of the acquisition, advisor fees and a finder's fee that was paid on completion of the transaction. These costs are non-operational in nature, material in size and unlikely to recur and have therefore been classified as outside our adjusted<sup>1</sup> results. A further £0.4 million relating to the unwinding of the discount on the deferred consideration for the purchase of FusionStorm has been removed from the adjusted<sup>1</sup> net finance expense and classified as exceptional interest costs. The amortisation of acquired intangible assets was £4.5 million (2017: £0.2 million), with the increase due to the amortisation of the intangibles acquired as part of the FusionStorm acquisition. We have continued to exclude the effect of amortisation of acquired intangible assets in calculating our adjusted<sup>1</sup> results. Amortisation of intangible assets is non-cash, and is significantly affected by the timing and size of our acquisitions, which distorts the understanding of our Group and Segmental operating results.

The gain in 2017 resulted from the disposal of an investment property in Braintree, Essex, and the release of the remaining provisions for the last two onerous contracts in Germany. The £4.3 million gain on disposal, net of disposal costs, was classified as exceptional due to the size and non-operational nature of the transaction. The release of the remaining onerous contract provisions resulted in an exceptional gain of £1.4 million, as these provisions, originally booked as exceptional items, were no longer required.

## Earnings per share

Adjusted<sup>1</sup> diluted earnings per share increased from 65.1 pence in 2017 to 75.7 pence in 2018, due to the increased earnings generated by the business and a lower diluted weighted average number of shares, as a result of the Tender Offer buyback of ordinary shares completed in February 2018. The statutory diluted earnings per share increased from 66.5 pence in 2017 to 70.1 pence in 2018.

	2018	2017
Basic weighted average number of shares (excluding own shares held) (no.'000)	113,409	120,766
Effect of dilution:		
Share options	1,984	1,471
Diluted weighted average number of shares	115,393	122,237
Statutory profit for the year attributable to equity holders of the parent (£'000)	80,929	81,314
Basic earnings per share (pence)	71.4	67.3
Diluted earnings per share (pence)	70.1	66.5
Adjusted <sup>1</sup> profit for the year attributable to equity holders of the parent (£'000)	87,357	79,625
Adjusted <sup>1</sup> basic earnings per share (pence)	77.0	65.9
Adjusted <sup>1</sup> diluted earnings per share (pence)	75.7	65.1

## Net funds

Cash and cash equivalents decreased from £206.6 million at the end of 2017 to £204.4 million as at 31 December 2018. During the year the Company completed a buyback of ordinary shares, by way of Tender Offer, for £100 million.

The Group saw an increase in its overall cash generation from operations in 2018, with record net cash flow from operating activities of £115.2 million (2017: £106.1 million). This continues our story of cash generation seen over recent years, with the year-end cash position again very strong. Working capital trends continued to affect cash volatility at the year-end. Higher fourth-quarter product sales and an increase in early customer payments, ahead of the associated payment for product. The Group days payables outstanding are marginally higher than the Group days sales outstanding and therefore when sales are high we tend to have a lower working capital requirement overall.

Net funds<sup>3</sup> decreased from £191.2 million at the end of 2017 to £57.3 million as at 31 December 2018.

The Group had two specific facilities at the end of the year and no other material borrowings. The Group drew down a £100 million facility on 1 October 2018 to complete the acquisition of FusionStorm. This facility is over a three-year term. The Group also had the specific facility for the build and purchase of our new German headquarters and Integration Center in Kerpen which was £31.4 million (2017: £10.7 million) as at 31 December 2018. The Integration Center opened in November 2018 and is fully operational. The office facility is due to open in March 2019, which will conclude the project.

Capital expenditure in the year was £51.4 million (2017: £40.1 million) and was primarily the investment in our German headquarters, additional SAP licence spend and other investments in IT equipment and software tools, to enable us to deliver improved service to our customers.

The Group continued to appropriately manage its cash and working capital positions using standard mechanisms, to ensure that cash levels remained within expectations throughout 2018. The Group had no debt factoring at the end of the year outside the normal course of business.

In certain circumstances, the Group enters into customer contracts that are financed by leases or loans. The leases are secured only on the assets that they finance. Whilst the outstanding balance of CSF is included within net funds<sup>3</sup> for statutory reporting purposes, this balance is offset by contracted future receipts from customers. Computacenter retains the credit risk on these customers and ensures that credit risk is only taken on customers with a strong credit rating. CSF increased in the year from £4.7 million to £8.9 million, all within Germany. CSF remains low compared to historical levels, due to reduced customer demand in light of the current credit environment. However, we are seeing increasing use on a deal-by-deal basis. Currently we apply a higher cost of finance to these transactions than customers' marginal cost of finance to discourage this activity.

There were no interest-bearing trade payables as at 31 December 2018 (2017: nil). The Group's net funds<sup>3</sup> position contains no current asset investments (2017: nil).

#### Trade Creditor arrangements

Computacenter has a strong covenant and enjoys a favourable credit rating from IT vendors and suppliers. Some suppliers provide credit directly on their own credit risk, whereas some suppliers decide to sell the debt to banks which offer to purchase the receivables and manage collection. The credit terms offered by suppliers are typically between 30 and 60 days, whether provided directly or when sold to a third party finance provider. In the latter case the cost of the free trade credit period is paid by the relevant supplier as part of the overall package of terms provided by suppliers to Computacenter and our competitors. The finance providers offer extended credit terms at relatively low interest rates, however, these rates are always higher than the rate at which we deposit and therefore we do not currently avail of this facility.

#### Dividends

The Group remains highly cash generative and net funds<sup>3</sup> continue to regenerate on the Consolidated Balance Sheet, following the share buyback and the acquisition of FusionStorm. Computacenter's approach to capital management is to ensure that the Group has a robust capital base and maintains a strong credit rating, whilst aiming to maximise shareholder value. If further funds are not required for investment within the business, either for fixed assets or working capital support, and the distributable reserves are available in the Parent Company, we will aim to return the additional cash to investors through one-off returns of value, as we did in February 2018. Dividends are paid from the standalone Balance Sheet of the Parent Company and, as at 31 December 2018, the distributable reserves were approximately £184.4 million (2017: £298.9 million).

The Board is pleased to propose a final dividend of 21.6 pence per share. The interim dividend paid on 12 October 2018 was 8.7 pence per share. Together with the final dividend, this brings the total ordinary dividend for 2018 to 30.3 pence per share, representing a 16.1 per cent increase on the 2017 total dividend per share of 26.1 pence. The Board has consistently applied the Company's dividend policy, which states that the total dividend paid will result in a dividend cover of 2 to 2.5 times based on adjusted<sup>1</sup> diluted earnings per share. In 2018, the cover was 2.5 times (2017: 2.5 times).

Subject to the approval of shareholders at our Annual General Meeting on 16 May 2019, the proposed dividend will be paid on Friday 28 June 2019. The dividend record date is set as Friday 31 May 2019 and the shares will be marked ex-dividend on

Thursday 30 May 2019.

## Implementation of, and transition to, IFRS 15 Revenue Recognition

### Basis of preparation

The Group has adopted IFRS 15 from 1 January 2018, which has resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The standard provides a single model for measuring and recognising revenue arising from contracts with customers. It supersedes all existing revenue requirements in IFRS. Under IFRS 15, revenue is recognised when customers obtain control of goods or services and so are able to direct the use, and obtain the benefits, of those goods or services.

Importantly, and in accordance with the modified retrospective transition approach, the comparative results for the year ended 31 December 2017 have not been restated under the accounting policies adopted as a result of transition to IFRS 15. Under the transition approach adopted, the retrospective cumulative impact of IFRS 15 has been recognised within the opening balance of retained earnings as at 1 January 2018. The overall net impact of all adjustments was a credit to retained earnings of £6.5 million as at 1 January 2018.

An analysis of the impact of transition is presented in note 2 to the summary financial information within this announcement and is summarised below:

### Implementation journey

Beginning in 2016, we performed a detailed analysis of the impact of IFRS 15 on our business. The preliminary analysis identified various areas in which adjustments may be required to revenue and cost recognition and in the related procedures and processes. As we moved through the project our conclusions on the implementation of IFRS 15 evolved, which we documented in our Annual and Interim Report and Accounts over the period from 31 December 2016 to 31 December 2017.

The most significant of these was expected to be that some of our Technology Sourcing revenue, which has previously been presented gross, will be presented net under IFRS 15 as 'agency' revenue due to the change in the primary indicators used to assess the 'agent/principal' presentation of revenue, from the previous standard to IFRS 15. We thought at the time, after assessing the changes in the standard against our general contractual terms and conditions, that this change was likely to impact our Software sales and certain Resold Services, which contributed £337 million and £298 million to the Group's gross revenue in 2016 respectively. Our preliminary assessment made in 2016 was based upon our general contractual terms and conditions. Following this process, we concluded that there was a finely balanced judgement which would result in a change in presentation of our Technology Sourcing Software revenues and, potentially, certain Resold Service revenues to 'agency' revenue on a net basis compared to the current presentation as gross 'principal' revenue.

As our IFRS 15 project continued through 2017, the judgements held under the previous standard were reviewed again. Following further evaluation, including detailed analysis of how terms and conditions are applied in practice, the weighting applied to the agent/principal indicators and evaluation of emerging practice, we updated our findings and concluded that, whilst this remains a finely balanced judgement, no change to the presentation of those revenue streams is required on transition to IFRS 15. Revenue for these items have continued to be presented gross from 1 January 2018, when this assessment will form part of the critical judgements for the Group.

Under IAS 11, certain costs, such as allocated overheads, were allowed to be taken into account when considering what constitutes 'unavoidable' costs of a contract, affecting whether the contract is considered to be onerous. From 1 January 2018 onwards, IAS 11 was no longer applicable and onerous contracts need to be considered under IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets'. At the date of publication of our 2017 Interim Report, we believed that IAS 37 did not allow for the inclusion of overheads as 'unavoidable' costs when considering if a contract is onerous. We thus concluded that our approach would need to change from 1 January 2018. Subsequent to the publication of our 2017 Interim Report, we became aware of an agenda decision published by the IFRS Interpretations Committee outlining that the current wording of IAS 37 allows for two interpretations of what can constitute 'unavoidable' costs when determining whether a contract is onerous. One of the acceptable interpretations noted by the Committee is in line with our current practice, which is to consider costs such as overhead allocations as 'unavoidable'. The matter has been put on the agenda for future discussion at the IFRS Interpretations Committee, with a view

to drafting clarifications to IAS 37. Until there is clarity on this matter, we have concluded that our current approach remains acceptable. As a result, we did not change our method for the assessment of onerous contracts upon transition to IFRS 15.

#### Impact of transition

Following the implementation project, where we reviewed all revenue streams as part of our IFRS 15 impact assessment, we identified the following principal areas which have been affected on adoption of IFRS 15.

Adjustments were required in relation to:

- Certain costs, such as win fees (a form of commission) and fulfilment cost (referred to by the Group as Entry into Service), which are capitalised and spread over the life of the contract, as opposed to being expensed as incurred, as was the case under the previous policy. This resulted in an increase to retained earnings of £7.6 million as at 1 January 2018, with the corresponding entry to Prepayments. The tax impact of this adjustment is a debit to equity of £1.4 million and a corresponding increase in deferred tax liabilities as at 1 January 2018. The net impact on retained earnings as at 1 January 2018 is £6.2 million.
- Certain elements of Managed Services contracts, for example those relating to Entry into Service, are not treated as separate performance obligations under the new policy. Under the new policy, these services are treated as part of the ongoing performance obligations in the contract. This means the revenues and costs associated with Entry into Service are recognised over the life of the contracts with customers, rather than being recognised as incurred as was the case historically. This resulted in an increase to retained earnings of £0.5 million as at 1 January 2018, with the corresponding entry to Prepayment. The tax impact of this adjustment is a debit to equity of £0.1 million and a corresponding increase in deferred tax liabilities as at 1 January 2018. The net impact on retained earnings as at 1 January 2018 is £0.4 million.

The specific performance obligations and invoicing conditions in our Managed Services contracts are typically related to the number of calls, interventions or users that we manage and therefore these contracts typically generate variable revenues over time and have not been impacted by the implementation of IFRS 15.

As noted above, IFRS 15 has been adopted using the modified retrospective approach, therefore comparative amounts have not been restated. For comparability purposes, tables giving the impact of the adoption of the new standard on the Consolidated Balance Sheet and Consolidated Income Statement for the year ended 31 December 2018 show what the results would have been had they been prepared under the previous accounting policies. These tables are within note 2 to the summary financial information included within this announcement.

#### Agent vs Principal

Since the finalisation of the revised Group revenue recognition accounting policies and adoption of IFRS 15 on 1 January 2018, a new line of business has emerged within our Technology Sourcing business. Typically, vendors and customers approach us with an opportunity where the vendor is taking the contract and performance risks, sets the selling price and uses Computacenter as a pass-through agent in the channel, to transact the deal for a set fee. To date these have been primarily large software deals where there is no ongoing obligation of service on us following the transaction. We have no say in the pricing or selection of the product and are merely standing in the sales channel between the vendor and customer, for the pre-determined fee. Based on the facts and circumstances of each deal, we assess how the terms and conditions of the deal are applied in practice against our revenue recognition policies, by reviewing the weighting applied to the agent/principal indicators. As a result, we have classified several of these deals as agency, concluding that the fee received should be booked as net revenue. The total value of these deals during the year, on an agency basis, was £3.1 million.

#### Segmental reporting structure changes

During the first half of the year, Management reviewed the way it reported segmental performance to the Board and the Chief Executive Officer, who is the Group's Chief Operating Decision Maker ('CODM'), to determine whether it could improve the transparency and understandability of the trading performance of its core Group Operating Model geographies. As a result of this analysis, the Board has adopted a new segmental reporting structure from the period ended 30 June 2018 and year ended 31 December 2018.

In accordance with IFRS 8 Operating Segments, the Group has identified four revised operating Segments:

- UK;
- Germany;
- France; and
- International.

As the location of the Group's headquarters, the UK entity has also borne an increasing share of corporate costs since the rollout of the Group Operating Model from 2013.

Certain expenses such as those for the Board itself and related public company costs, Group Executive members not aligned to a specific geographic trading entity and the cost of centrally funded strategic corporate initiatives that benefit the whole Group, are not allocated to individual segments because they are not directly attributable to any single segment. Accordingly, these expenses are disclosed as a separate column, 'Central Corporate Costs', within the segmental note.

Under the previous segmental reporting structure, the UK Segment included a number of other operating entities, primarily international Global Service Desk locations. Whilst these entities have limited external revenues, and a cost recovery model that suggests better than breakeven margins to ensure compliance with transfer pricing regulations, this generated unnecessary complexity when presenting the UK results to the Board and the CODM, with the growth in the number and scale of these other operating entities blurring the underlying performance of the core geography over time. The revised UK Segment now only comprises the trading performance of Computacenter UK. The German Segment has been revised to remove the independently run Computacenter Switzerland operation, including ciTius, which has been transferred to the International Segment, leaving the German country trading operations standing alone.

The new International Segment replaces the Belgian Segment and includes the Belgium, Switzerland, FusionStorm, Computacenter USA and TeamUltra trading operations, along with the international Global Service Desk locations in South Africa, Spain, Hungary, Mexico, Malaysia, Poland, India and China. The International Segment has been created to reflect the Group's ambitions to continue to expand its worldwide footprint. This includes expanding trading operations into new geographic locations, both within our Western European heartland and beyond, and the need to continue to identify talent-rich offshore locations, to ensure that we can remain both cost and resource competitive in the Services marketplace.

The French Segment remains unchanged from that reported at 31 December 2017.

This new segmental reporting structure is the basis on which internal reports are provided to the Chief Executive Officer, as the CODM, for assessing performance and determining the allocation of resources within the Group.

Segmental performance is measured based on external revenues, adjusted<sup>1</sup> gross profit, adjusted<sup>1</sup> operating profit and adjusted<sup>1</sup> profit before tax.

The change in segmental reporting has no impact on reported Group numbers.

Further information on this segmental restatement can be found in note 4 to the summary financial information within this announcement where, to enable comparisons with prior period performance, historical segment information for the year ended 31 December 2017 has been restated in accordance with the revised segmental reporting structure. All discussion within this announcement on segmental results reflects this revised structure, the reclassification of Central Corporate Costs and the resultant prior period restatements.

## Central corporate costs

As noted above within Segmental Reporting Structure Changes, certain expenses such as those for the Board itself, and related public company costs, Group Executive members not aligned to a specific geographic trading entity, and the cost of centrally funded strategic corporate initiatives that benefit the whole Group, are not specifically allocated to individual segments because they are not directly attributable to any single segment.

Accordingly, these expenses are disclosed as a separate column, 'Central Corporate Costs', within the segmental note. These costs are borne within the Computacenter (UK) Limited legal entity and have been removed for segmental reporting and performance analysis but form part of the overall Group administrative expenses.

During the period, total Central Corporate Costs were £25.2 million, an increase of 32.6 per cent (2017: £19.0 million). Within this:

- Board expenses and related public company costs were £3.2 million (2017: £3.7 million);
- costs associated with Group Executive members not aligned to a specific geographic trading entity were £4.3 million (2017: £4.3 million);
- share-based payment charges associated with the Group Executive members identified above, including the Group Executive Directors, were £2.7 million (2017: £2.6 million); and
- strategic corporate initiatives increased from £8.4 million in 2017 to £15.0 million in 2018, primarily due to increased spend on projects designed to increase capability, enhance productivity or strengthen systems which underpin the Group.

## Financial instruments

The Group's financial instruments comprise borrowings, cash and liquid resources, and various items that arise directly from its operations.

The Group enters into hedging transactions, principally forward exchange contracts or currency swaps, to manage currency risks arising from the Group's operations and its sources of finance. As the Group continues to expand its global reach and benefit from lower cost operations in geographies such as South Africa, it has entered into forward exchange contracts to help manage cost increases due to currency movements. The Group's policy is not to undertake speculative trading in financial instruments. The main risks arising from the Group's financial instruments are interest rate, liquidity and foreign currency risks. The overall financial instruments strategy is to manage these risks in order to minimise their impact on the Group's financial results. The policies for managing each of these risks are set out below. Further disclosures in line with the requirements of IFRS 7 are included in the Consolidated Financial Statements.

### Interest rate risk

The Group finances its operations through a mixture of retained profits, bank borrowings, finance leases and loans for certain customer contracts. The Group's general bank borrowings, other facilities and deposits are at floating rates. No interest rate derivative contracts have been entered into. The Group's specific borrowing facility for the purchase of FusionStorm, and the undrawn committed facility of £60 million, are at floating rates, however the borrowing facility for the new operational headquarters in Germany is at a fixed rate.

### Liquidity risk

The Group's policy is to ensure that it has sufficient funding and facilities in place to meet any foreseeable peak in borrowing requirements. The Group's positive net cash and cash equivalents position was maintained throughout 2018, and at the year end was £200.4 million, with net funds<sup>3</sup> of £57.3 million after including the Group's two specific borrowing facilities and CSF. Due to strong cash generation over the past three years, the Group can currently finance its operational requirements from its cash balance, and it operates an informal cash pooling arrangement for the majority of Group entities. During 2015, we extended an existing specific committed facility of £40.0 million for a three-year term through to February 2018. In January 2018, we extended the facility to £60.0 million for a further three years. The Group has never had to draw on this committed facility.

The Group has a Board-monitored policy to manage its counterparty risk. This ensures that cash is placed on deposit across a range of reputable banking institutions. CSF facilities are committed.

#### Foreign currency risk

The Group operates primarily in the United Kingdom, Germany, France and the United States of America, with smaller operations in Belgium, China, Hungary, India, Malaysia, Mexico, the Netherlands, Poland, South Africa, Spain and Switzerland.

The Group uses an informal cash pooling facility to ensure that its operations outside the UK are adequately funded, where principal receipts and payments are denominated in euros and US dollars. For those countries within the Eurozone, the level of non-euro denominated sales is small and, if material, the Group's policy is to eliminate currency exposure through forward currency contracts. For our US operations, most transactions are denominated in US dollars. For the UK, the majority of sales and purchases are denominated in sterling and any material trading exposures are eliminated through forward currency contracts.

The Group has been successful in winning international Services contracts, where Services are provided in multiple countries.

We aim to minimise currency exposure by invoicing the customer in the same currency in which the costs are incurred. For certain contracts, the Group's committed contract costs are not denominated in the same currency as its sales. In such circumstances, for example where contract costs are denominated in South African rand, we eliminate currency exposure for a foreseeable period on these future cash flows, through forward currency contracts.

In 2018, the Group recognised a loss of £3.2 million (2017: gain of £0.2 million) through other comprehensive income in relation to the changes in fair value of related forward currency contracts, where the cash flow hedges relating to firm commitments were assessed to be highly effective.

The Group reports its results in pounds sterling. The ongoing weakness in the value of sterling against most currencies during 2018, in particular the euro, continued to benefit our revenues and profitability as a result of the conversion of our foreign earnings. However, the exchange rates seen in 2018 are not materially dissimilar to those seen in 2017. The impact of restating 2018 at 2017 exchange rates would be an increase of approximately £18.8 million in 2017 revenue and no change in 2017 adjusted<sup>1</sup> profit before tax.

#### Credit risk

The Group principally manages credit risk through customer credit limits. The credit limit is set for each customer based on its creditworthiness, assessed by using credit rating agencies, and the anticipated levels of business activity. These limits are determined when the customer account is first setup and are regularly monitored thereafter.

There are no significant concentrations of credit risk within the Group. The Group's major customer, disclosed in note 4 to the summary financial information within this announcement, consists of entities under the control of the UK Government. The maximum credit risk exposure relating to financial assets is represented by their carrying value as at the balance sheet date.

#### Results of the Tender Offer

On 23 January 2018, the Company published details of the timing and structure of a Return of Value by way of a shareholder circular (the 'Circular'). On 13 February 2018, the Company announced the results of the Tender Offer set out in the Circular, which closed on 9 February 2018.

A total of 8,546,861 ordinary shares were purchased at a price per Ordinary Share of 1,170 pence, for a total cost of £99,998,273.70. The Company holds the ordinary shares purchased pursuant to the Tender Offer in treasury. This represented approximately 6.97 per cent of the issued share capital of the Company as at 31 December 2017. Proceeds payable to the

Company's shareholders for the certificated ordinary shares purchased under the Tender Offer were despatched by 19 February 2018 in the form of a cheque. CREST account holders had their CREST accounts credited on 14 February 2018.

Further details are available at the Company's website, [investors.computacenter.com](http://investors.computacenter.com), and in the 2017 Annual Report and Accounts. Capitalised terms used in this section have the same meaning as ascribed to them in the Circular.

#### Planning for the United Kingdom exiting the European Union

Computacenter's target clients are large corporate customers and large government departments. We operate in four principal geographies, the UK, Germany, France and the USA. This allows us to manage European Union (EU) requirements from our EU locations and we have a long history of trading with the subsidiaries of large global Western European headquartered organisations, in many diverse locations across the world. Therefore, the concept of exporting to and importing from multiple countries with the related systems requirements is already functioning across the business.

There remains, even at this late stage, considerable uncertainty around the exact nature and timing of the UK's exit from the EU, which makes it difficult to develop specific plans for the various potential outcomes. However, we established a Committee for Planning for the United Kingdom exiting the European Union (the 'Committee') in 2017, to consider the key risks and changes that may be required.

This Committee is led by the Group Finance Director and includes senior staff from the key areas that may be affected including:

- Finance, including Group Tax & Treasury and Group Commercial Finance;
- Group Human Resources, for employment and related matters;
- Group Legal & Contracting, including intellectual property, data protection and supplier contracting;
- Group Information Services, including IT systems, location of IT infrastructure and location of data; and
- Group Technology Sourcing, including Export/Import, Supply Chain Services, Commercial Operations, Vendor Relations and the potential impact of Waste Electrical and Electronic Equipment (WEEE).

The Committee meets regularly to review papers submitted by the subject matter experts and monitors an action list, to identify ways to minimise the impact of this change. The Committee monitors negotiation developments, actively considers the possible impacts of the United Kingdom's departure from the EU on our business and plans for changes to our processes and procedures that may be required. The Committee, through its members, liaises with our customers and our IT product and service partners, and is supported in its work by specialist external advisors. The Committee has issued a series of briefing notes and FAQs to customer-facing employees, so they can respond to customer queries. The minutes of the meetings and the subject-matter papers are reviewed at the Group Risk Committee and updates have been provided to both the Audit Committee and the Board.

#### Initial position and preparation

We are committed to operating our business and serving our customers in a way that properly manages and mitigates the effects of the UK leaving the EU. We will continue to work with our customers and partners to deliver leading IT infrastructure products and services before, during and after the UK's departure from the EU, including any period of transition.

While Computacenter advocates barrier-free trade in products, services and data between the UK and the EU, there remains considerable uncertainty about what form the UK's departure from the EU will take and, therefore, the changes to trade arrangements that will occur. This makes it difficult to take specific action and communicate specific plans. Computacenter believes however, that it is well placed to deal effectively with any likely eventuality. The Company, led by the Committee, has taken a number of preparatory steps and assessed what we currently consider could be the main impacts on the Company of exiting the EU and our initial views on managing those impacts, so as to cause minimal disruption to our customers.

Due to the already global nature of Computacenter's business, its in-house logistics and service capabilities in the UK, Germany,

France, Belgium and the Netherlands, and its placement in the IT infrastructure industry, the Committee does not currently consider that we will be materially impacted by the UK's departure from the EU. All the same, the Committee is paying particular attention to our IT product supply business, where products routinely cross between continental Europe and the UK, and our IT services business, where data can flow across borders, especially within the EU.

### Technology Sourcing

Computacenter does not manufacture products, and instead sources and resells products manufactured by leading information technology companies worldwide. We have over 30 years of IT product supply experience and routinely trade with manufacturers, distributors and customers located both inside and outside the EU.

Any trade barriers created as a result of the UK's departure from the EU have the potential to increase cross-border supply complexity and cause delivery delays. We have been in regular dialogue with our suppliers to understand their strategies to deal with these, and to put in place appropriate mitigation strategies to reduce the risk to us and our customers. Additionally, we have been closely examining the countries of origin and destination of the deliveries we make to customers from each Integration Center. The vast majority of current customer Technology Sourcing product supply is transacted on a country to country basis. There are some instances where our UK business ships to Germany and our German business ships to the UK. This is primarily due to local customer ordering requirements. We have established a process where EU27 requirements of our UK customers will be shipped from Germany and vice versa.

While the precise outcome of the UK's departure from the EU is not yet clear, we are confident the imposition of new trade barriers will not require Computacenter to develop fundamentally new Technology Sourcing systems and processes. We are confident that adapting existing systems and processes to cope with an additional non-EU trading country, along with our multi-national logistics facilities and our experience of international trade, will mean that we are well positioned in this regard. In anticipation of a new customs regime following the UK's departure from the EU, and to mitigate the risk of delays from a potential EU hard border, we have applied for the Authorised Economic Operator (AEO) certification that should facilitate smoother customs clearance.

### Data transfer regulation

By incorporating the EU Commission approved Standard Contractual Clauses, the Group has built data transfer adequacy into its intra-Group agreements, to which all of its relevant UK and EU legal entities are party. In this regard, the Company establishes appropriate safeguards for the purposes of General Data Protection Regulation Article 46, when transferring personal data to third countries not considered adequate by EU data protection standards. Computacenter has a strong desire for both the UK and EU governments to agree an adequacy agreement on data protection, to ensure the continued smooth transfer of data post the UK's departure from the EU.

### People

Whilst we do not employ a significant number of EU27 citizens in the UK or UK citizens in the EU, and all indications suggest that the UK government and the EU have agreed that EU citizens living and working in the UK will be able to carry on doing so with undiminished rights after the UK's departure from the EU, there is still uncertainty. We will continue to closely support employees throughout the process of the UK's departure from the EU, including helping them to be fully aware of the applicable status/registration processes as they become known.

### Opportunities

We are not alone in our sector in facing these challenges. A number of our European competitors have strong presences within the EU and sell from this base into the UK. Equally, a number of our global competitors have their European headquarters in the UK and address the EU market from there. Once the details of the UK's departure from EU are known, we will work with our major vendors to address any concerns they may have about end-customers currently serviced by other resellers with single country operations or those stranded on either side of the UK-EU border.

It is likely that there will be additional investment required in IT systems to manage the transition. Whilst this will be a cost to us, it will also be an opportunity, as our customers, in some cases, may need to increase investment in a similar manner.

## Wider economic impact

There is significant uncertainty in relation to the UK's departure from the EU and the impact that this can have on business confidence and investment plans and therefore the marketplaces in which we operate. Whilst the UK's departure from the EU is frequently seen as only a risk or a negative event, it may also create new opportunities and we remain well positioned to support our customers whatever the outcome.

## Going Concern

The Directors have, after due consideration, a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of 12 months from the date of approval of the Consolidated Financial Statements. Thus, they continue to adopt the going concern basis of accounting in preparing the Consolidated Financial Statements.

## Fair, balanced and understandable

The UK Corporate Governance Code requires the Board to consider whether the Annual Report and Accounts, taken as a whole, are 'fair, balanced and understandable' and 'provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.'

Management undertakes a formal process through which it can provide comfort to the Board in making this statement.

MJ Norris

Chief Executive Officer

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Group Finance Director

## Consolidated Income Statement

For the year ended 31 December 2018

	2018	2017
	Note£'000	£'000
Revenue	4 4,352,570	3,793,371
Cost of sales	(3,804,019)	(3,297,142)
Gross profit	548,551	496,229
Administrative expenses	(439,183)	(389,437)
Operating profit	109,368	106,792

	2018	2017
	Note	
	£'000	£'000
Gain on disposal of an investment property <sup>5</sup>	-	4,320
Finance revenue	1,250	1,521
Finance costs	(2,490)	(938)
Profit before tax	108,128	111,695
Income tax expense	6 (27,199)	(30,381)
Profit for the year	80,929	81,314
Attributable to:		
Equity holders of the Parent	80,931	81,314
Non-controlling interests	(2)	-
Profit for the year	80,929	81,314
Earnings per share:		
- basic	7 71.4p	67.3p
- diluted	7 70.1p	66.5p

#### Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	2018	2017
	£'000	£'000
Profit for the year	80,929	81,314

2018 2017  
 £'000 £'000

Items that may be reclassified to Consolidated Income Statement:

(Loss)/gain arising on cash flow hedge	(3,231)217
Income tax effect	490 (37)
	(2,741)180
Exchange differences on translation of foreign operations	7,828 4,994
	5,087 5,174

Items not to be reclassified to Consolidated Income Statement:

Remeasurement of defined benefit plan	(1,000)(668)
Other comprehensive income for the year, net of tax	4,087 4,506

Total comprehensive income for the year 85,016 85,820

Attributable to:

Equity holders of the Parent	85,013 85,820
Non-controlling interests	3 -
	85,016 85,820

Consolidated Balance Sheet

As at 31 December 2018

2018 2017  
 Note£'000 £'000

Non-current assets

Property, plant and equipment	106,267	77,904
Intangible assets	184,613	80,335

	2018	2017
	Note£'000	£'000
Investment in associate	57	56
Deferred income tax asset	6d 9,587	9,063
Prepayments	3,524	-
	304,048	167,358
<b>Current assets</b>		
Inventories	99,524	69,289
Trade and other receivables	1,180,394	835,446
Prepayments	69,320	59,679
Accrued income	101,899	102,922
Forward currency contracts	3,851	8,209
Cash and short-term deposits	200,442	206,605
	1,655,430	1,282,150
<b>Total assets</b>	<b>1,959,478</b>	<b>1,449,508</b>
<b>Current liabilities</b>		
Trade and other payables	1,142,628	791,980
Deferred income	143,080	113,875
Financial liabilities	10,640	3,755
Forward currency contracts	612	1,196
Income tax payable	42,184	28,422
Provisions	11,990	1,681
	1,351,134	940,909
<b>Non-current liabilities</b>		

	2018	2017
	Note	
	£'000	£'000
Financial liabilities	132,522	11,663
Provisions	15,041	7,599
Deferred income tax liabilities	6d 13,009	477
	160,572	19,739
Total liabilities	1,511,706	960,648
Net assets	447,772	488,860
Capital and reserves		
Issued capital	9,270	9,299
Share premium	3,942	3,913
Capital redemption reserve	74,957	74,957
Own shares held	(113,474)	(11,360)
Translation and hedging reserves	32,941	27,859
Retained earnings	440,119	384,178
Shareholders' equity	447,755	488,846
Non-controlling interests	17	14
Total equity	447,772	488,860

Approved by the Board on 11 March 2019.

MJ Norris  
Chief Executive Officer

FA Conophy  
Group Finance Director

For the year ended 31 December 2018

Attributable to equity holders of the Parent

	Issued share capital	Share premium	Capital redemption reserve	Own shares held	Translation and hedging reserves	Retained earnings	Total	Non- controlling interests	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2018	9,299	3,913	74,957	(11,360)	27,859	384,178	488,846	14	488,860
Restatement - Implementation of IFRS 15	-	-	-	-	-	6,547	6,547	-	6,547
At 1 January 2018 - restated	9,299	3,913	74,957	(11,360)	27,859	390,725	495,393	14	495,407
Profit for the year	-	-	-	-	-	80,931	80,931	(2)	80,929
Other comprehensive income	-	-	-	-	5,082	(1,000)	4,082	5	4,087
Total comprehensive income	-	-	-	-	5,082	79,931	85,013	3	85,016
Cost of share-based payments	-	-	-	-	-	6,425	6,425	-	6,425
Tax on share-based payments	-	-	-	-	-	2,706	2,706	-	2,706
Exercise of options	-	-	-	11,158	-	(7,592)	3,566	-	3,566
Purchase of own shares	-	-	-	(13,274)	-	-	(13,274)	-	(13,274)
Return of Value (RoV)	-	-	-	(99,998)	-	-	(99,998)	-	(99,998)
Expenses relating to RoV	-	-	-	-	-	(1,196)	(1,196)	-	(1,196)
Cancellation of deferred shares	(29)	29	-	-	-	-	-	-	-
Equity dividends	-	-	-	-	-	(30,880)	(30,880)	-	(30,880)
At 31 December 2018	9,270	3,942	74,957	(113,474)	32,941	440,119	447,755	17	447,772
At 1 January 2017	9,299	3,913	74,957	(12,115)	22,685	329,214	427,953	14	427,967

Attributable to equity holders of the Parent

	Issued share capital	Share premium	Capital redemption reserve	Own shares held	Translation and hedging reserves	Retained earnings	Total	Non- controlling interests	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Profit for the year	-	-	-	-	-	81,314	81,314	-	81,314
Other comprehensive income	-	-	-	-	5,174	(668)	4,506	-	4,506
Total comprehensive income	-	-	-	-	5,174	80,646	85,820	-	85,820
Cost of share-based payments	-	-	-	-	-	6,200	6,200	-	6,200
Tax on share-based payments	-	-	-	-	-	1,619	1,619	-	1,619
Exercise of options	-	-	-	9,613	-	(6,389)	3,224	-	3,224
Purchase of own shares	-	-	-	(8,858)	-	-	(8,858)	-	(8,858)
Equity dividends	-	-	-	-	-	(27,112)	(27,112)	-	(27,112)
At 31 December 2017	9,299	3,913	74,957	(11,360)	27,859	384,178	488,846	14	488,860

Consolidated Cash Flow Statement

For the year ended 31 December 2018

	2018 Note £'000	2017 £'000
Operating activities		
Profit before taxation	108,128	111,695
Net finance cost/(income)	1,240	(583)
Depreciation of property, plant and equipment	19,380	16,384
Amortisation of intangible assets	15,428	12,237
Depreciation of investment property	-	91

	2018	2017
	Note	£'000
	£'000	£'000
Share-based payments		6,425,620
Gain on disposal of an investment property	-	(4,320)
Loss/(gain) on disposal of intangibles		164(688)
Loss/(gain) on disposal of property, plant and equipment	177	(535)
Net cash flow from inventories		(28,887) (23,583)
Net cash flow from trade and other receivables (including contract assets)		(274,968) (94,718)
Net cash flow from trade and other payables (including contract liabilities)		285,361 99,004
Net cash flow from provisions	5,865	281
Other adjustments	726	(477)
Cash generated from operations	139,039	120,988
Income taxes paid		(23,821) (14,881)
Net cash flow from operating activities	115,218	106,107
Investing activities		
Interest received		1,250 1,521
Acquisition of subsidiaries, net of cash acquired		(55,970) (7,376)
Purchases of property, plant and equipment		(45,442) (30,439)
Purchases of intangible assets		(5,935) (9,618)
Proceeds from disposal of property, plant and equipment	146	915
Decrease in current asset investments	-	30,000
Proceeds from disposal of an investment property	-	14,450
Proceeds from disposal of intangible assets	-	1,381
Net cash flow from investing activities	(105,951)	834

	2018	2017
	Note	£'000
	£'000	£'000
Financing activities		
Interest paid		(2,490) (938)
Dividends paid to equity shareholders of the Parent		(30,880) (27,112)
Return of Value (RoV)		(99,998) -
Expenses on RoV		(1,196) -
Proceeds from share issues		3,566 3,224
Purchase of own shares		(13,274) (8,858)
Repayment of capital element of finance leases		(803) (1,676)
Repayment of loans		(1,119) (632)
New borrowings - finance leases	5,125	3,162
New borrowings - bank loan	124,065	10,591
Net cash flow from financing activities	(17,004)	(22,239)
(Decrease)/increase in cash and cash equivalents	(7,737)	84,702
Effect of exchange rates on cash and cash equivalents	1,580	3,221
Cash and cash equivalents at the beginning of the year	8 206,599	118,676
Cash and cash equivalents at the year end	8 200,442	206,599

#### 1 Authorisation of Consolidated Financial Statements and statement of compliance with IFRS

The Consolidated Financial Statements of Computacenter plc (Parent Company or the Company) and its subsidiaries (the Group) for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Directors on 11 March 2019. The Consolidated Balance Sheet was signed on behalf of the Board by MJ Norris and FA Conophy. Computacenter plc is a limited company incorporated and domiciled in England whose shares are publicly traded.

The Group's Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to the Consolidated Financial Statements of the Group for the year ended 31 December 2018 and applied in accordance with the Companies Act 2006.

## 2 Summary of significant accounting policies

The accounting policies adopted are consistent with those of the previous financial year as disclosed in the 2017 Annual Report and Accounts except that the Group has had to change its accounting policies and make material retrospective adjustments as a result of adopting IFRS 15 'Revenue from Contracts with Customers' ('IFRS 15'). The impact of the adoption of IFRS 15 are disclosed below.

The Group has adopted IFRS 15 from 1 January 2018 which has resulted in changes in accounting policies and adjustments to the amounts recognised in the Financial Statements. In accordance with the transition provisions in IFRS 15, the Group has adopted the new rules using the modified retrospective approach, meaning that the cumulative effect of applying the new accounting policies has been recognised as an adjustment in equity as at 1 January 2018. The overall net impact of all adjustments was a credit to retained earnings of £6.5 million as at 1 January 2018.

Adjustments were required in relation to:

- Certain costs, such as win fees (a form of commission) and fulfilment cost are capitalised and spread over the life of the contract, as opposed to being expensed as incurred as was the case under the previous policy. This resulted in an increase to retained earnings of £7.6 million as at 1 January 2018, with the corresponding entry to Prepayment. The tax impact of this adjustment is a debit to equity of £1.4 million and a corresponding increase in deferred tax liabilities as at 1 January 2018. The net impact on retained earnings as at 1 January 2018 is £6.2 million. This change in accounting policy resulted in a recognition of a net cost in FY2018 of £1.2 million with a corresponding credit to tax for the year, as presented in the table below. As at 31 December 2018, the win fee balance was £6.2 million.

- Certain elements of Managed Services contracts, for example those relating to Entry into Service, are not treated as separate performance obligations under the new policy. Under the new policy, these services are treated as part of the ongoing performance obligations in the contract. This means the revenues and costs associated with Entry into Service are recognised over the life of the contracts with customers rather than being recognised as incurred as was the case historically. This resulted in an increase to retained earnings of £0.5 million as at 1 January 2018, with the corresponding entry to Prepayment. The tax impact of this adjustment is a debit to equity of £0.1 million and a corresponding increase in deferred tax liabilities as at 1 January 2018. The net impact on retained earnings as at 1 January 2018 is £0.4 million. This change in accounting policy resulted in a reduction in revenue of £4.5 million and cost of sales of £4.8 million and in a recognition of a net cost in FY2018 of £0.3 million with a corresponding credit to tax for the year, as presented in the table below. As at 31 December 2018, the fulfilment cost balance was £0.3 million.

IFRS 15 has been adopted using the modified retrospective approach, therefore comparative amounts have not been restated. For comparability purposes, the following table gives the impact of the adoption of the new standard on the Consolidated Balance Sheet and Consolidated Income Statement for the year ended 31 December 2018 by showing what the results would have been had they been prepared under the previous accounting policies.

### Consolidated Income Statement

	2018 as reported		Results without adoption of IFRS 15
	£'000	Adjustments £'000	£'000
Revenue	4,352,570	(4,454)	4,348,116
Cost of sales	(3,804,019)	4,756	(3,799,263)
Gross profit	548,551	302	548,853

	2018 as reported		Results without adoption of
	£'000	Adjustments	IFRS 15 £'000£'000
Administrative expenses	(439,183)	1,216	(437,967)
Operating profit	109,368	1,518	110,886
Gain on disposal of an investment property -		-	-
Finance revenue	1,250	-	1,250
Finance costs	(2,490)	-	(2,490)
Profit before tax	108,128	1,518	109,646
Income tax expense	(27,199)	(424)	(27,623)
Profit for the year	80,929	1,094	82,023
Earnings per share:			
- basic	71.4	0.9	72.3
- diluted	70.1	0.9	71.0
Total comprehensive income for the year	85,016	1,094	86,110

#### Consolidated Balance Sheet

	2018 as reported		Results without adoption of
	£'000	Adjustments	IFRS 15 £'000£'000
Non-current assets			
Prepayments	3,524	(3,524)	-
Others	300,524	-	300,524
	304,048	(3,524)	300,524
Current assets			

	2018 as reported		Results without adoption of
	£'000	Adjustments	IFRS 15 £'000£'000
Prepayments	69,320	(2,720)	66,600
Others	1,586,110	-	1,586,110
	1,655,430	(2,720)	1,652,710
Total assets	1,959,478	(6,244)	1,953,234
Current liabilities			
Others	1,351,134	-	1,351,134
	1,351,134	-	1,351,134
Non-current liabilities			
Deferred income tax liabilities	13,009	(791)	12,218
Others	147,563	-	147,563
	160,572	(791)	159,781
Total liabilities	1,511,706	(791)	1,510,915
Net assets	447,772	(5,453)	442,319
Capital and reserves			
Retained earnings	433,572	1,094	434,666
Opening balance adjustment to retained earnings	6,547	(6,547)	-
Others	7,653	-	7,653
Total equity	447,772	(5,453)	442,319

#### Consolidated Cash Flow Statement

	2018 as reported		Results without adoption of
	£'000	Adjustments	IFRS 15 £'000£'000
Profit before taxation	108,128	1,518	109,646

	2018 as reported		Results without adoption of
	£'000	Adjustments	IFRS 15 £'000£'000
Adjustments for non-cash operating items	42,617	(424)	42,193
Net cash flow from trade and other receivables	(274,968)	(1,094)	(276,062)
Others	239,441	-	239,441
Net cash flow from operating activities	115,218	-	115,218
Net cash flow from investing activities	(105,951)	-	(105,951)
Net cash flow from financing activities	(17,004)	-	(17,004)
(Decrease)/increase in cash and cash equivalents	(7,737)	-	(7,737)
Effect of exchange rates on cash and cash equivalents	1,580	-	1,580
Cash and cash equivalents at the beginning of the year	206,599	-	206,599
Cash and cash equivalents at the year end	200,442	-	200,442

#### IFRS 9 - Financial Instruments ('IFRS 9')

IFRS 9 is effective for accounting periods beginning on or after 1 January 2018. IFRS 9 replaces the classification and measurement models for financial instruments in IAS 39. The Group has assessed its balance sheet assets in accordance with the new classification requirements. There has been no change in the measurement for any of the Group's financial assets or liabilities.

In addition, IFRS 9 introduces an 'expected loss' model for the assessment of impairment of financial assets. The 'incurred loss' model under IAS 39 required the Group to recognise impairment losses when there was objective evidence that an asset was impaired. Under the expected loss model, impairment losses are recorded if there is an expectation of credit losses, even in the absence of a default event. However, as permitted by IFRS 9, the Group applies the 'simplified approach' to trade receivable balances. Due to general quality and short-term nature of the trade receivables, there is no significant impact on introduction of the 'simplified approach'.

The Group applies the hedge accounting requirements under IFRS 9 and its hedging activities are discussed in note 23 of the 2017 Annual Report and Accounts with movements on hedging reserves disclosed on Consolidated Statement of Changes in Equity. The Group's existing hedging arrangements have been assessed as compliant with IFRS 9. The adoption of IFRS 9 from 1 January 2018 does not have a material impact on the Group's reported results.

The following table presents the Group's financial instruments, showing their original measurement category under IAS 39 and new measurement categories under IFRS 9, as at 1 January 2018. There has been no measurement change to any of the financial instruments upon adoption of IFRS 9.

Financial instrument	IAS 39 classification	IFRS 9 classification
Financial assets		
Cash and cash equivalents	Loan and receivable	Amortised cost
Current asset investments	Fair value through Consolidated Income Statement	Fair value through Consolidated Income Statement
Trade receivables	Loan and receivable	Fair value through Consolidated Statement of Comprehensive Income - debt instrument
Other receivables	Loan and receivable	Amortised cost
Derivatives used in designated hedge relationships	Fair value - hedging instrument	Fair value - hedging instrument
Derivatives not in designated hedge relationships	Fair value through Consolidated Income Statement	Fair value through Consolidated Income Statement
Financial liabilities		
Trade and other payables	Amortised cost	Amortised cost
Borrowings	Amortised cost	Amortised cost
Derivatives used in designated hedge relationships	Fair value - hedging instrument	Fair value - hedging instrument
Derivatives not in designated hedge relationships	Fair value through Consolidated Income Statement	Fair value through Consolidated Income Statement

#### Impairment

There has been no material adjustment required on transition to IFRS 9 to the loss allowance against financial assets.

Effective for the year ending 31 December 2019

#### IFRS 16 Leases (IFRS 16)

IFRS 16 will be effective for the accounting period beginning 1 January 2019. The new standard will require that the Group's leased assets are recorded as 'right of use assets' in the balance sheet within Property, plant and equipment with a corresponding lease liability which is based on the present value of the future payments required under each lease.

The Group intends to use the simplified approach to transition, and to utilise various practical expedients in the standard, such as not recognising lease liabilities for leases under 12 months in duration or for leases on assets with a value of under £5,000. In addition, the Group intends to use the practical expedient available and, within its transition adjustment, only consider contracts previously identified as including leases.

The Group intends to take the option to measure the right of use asset at transition at the value of the lease liability, therefore there was no impact on the net asset position of the Group at transition date. The Group's leases primarily relate to office buildings, warehouses and vehicles. As previously noted, the impact of IFRS 16 on the Consolidated Financial Statements will be material.

The existing operating lease expense currently recorded in cost of sales and administrative expenses will be replaced by a depreciation charge which will be presented in cost of sales and administrative expenses and a separate financing expense, which will be recorded in interest expense. For leases previously classified as operating leases, the profile of total expenses recognised over the course of a lease will change and will no longer be on a straight-line basis but rather will be front-loaded to the earlier periods of the lease. This is because the finance expense element will be higher in the earlier periods and reduce as the lease liability is paid down over time.

Net cash flows will not be impacted by the new standard, however, the lease payments will no longer all be presented as operating cash outflows in the Consolidated Cash Flow Statement but rather will be presented as financing cash outflows, split between interest payments and repayment of lease liabilities. This means that cash flows from operating activities will increase but cash flows from financing activities will decrease.

The Group does not currently intend to alter its approach as to whether assets should be leased or bought going forward.

The substantial majority of the Group's operating lease commitments (some £146.5 million on an undiscounted basis) will be brought onto the Consolidated Balance Sheet and amortised and depreciated separately.

## 2.1. Basis of preparation

The summary financial information set out above does not constitute the Group's statutory Consolidated Financial Statements for the years ended 31 December 2018 or 2017. Statutory Consolidated Financial Statements for the Group for the year ended 31 December 2017, prepared in accordance with adopted IFRS, have been delivered to the Registrar of Companies and those for 2018 will be delivered in due course. The auditors have reported on those accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of any emphasis without qualifying their opinion and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

The summary financial information for the year ended 31 December 2018 has been prepared by the directors based upon the results and position that are reflected in the Consolidated Financial Statements of the Group.

The Consolidated Financial Statements are prepared on the historical cost basis other than derivative financial instruments, which are stated at fair value.

The Consolidated Financial Statements are presented in pounds sterling (£) and all values are rounded to the nearest thousand (£'000) except when otherwise indicated.

## 2.2. Basis of consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Parent Company and its subsidiaries as at 31 December each year. The Financial Statements of subsidiaries are prepared for the same reporting year as the Parent Company, using existing GAAP in each country of operation. Adjustments are made on consolidation for differences that may exist between the respective local GAAPs and IFRS.

All intra-group balances, transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are consolidated from the date on which the Group obtains control and cease to be consolidated from the date on which the Group no longer retains control. Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries that is not held by the Group and is presented separately within equity in the Consolidated Balance Sheet, separately from Parent shareholders equity.

### 2.2.1. Foreign currency translation

The Group's presentation currency is pounds sterling. Each entity in the Group determines its own functional currency and items included in the Financial Statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the Consolidated Balance Sheet date. All differences are taken to the Consolidated Income Statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction.

The functional currencies of the material overseas subsidiaries are euro (€), US dollar (US\$), South African rand (ZAR) and Swiss franc (CHF). As at the reporting date, the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the balance sheet date and their Consolidated Income Statements are translated at the average exchange rates for the year. Exchange differences arising on the retranslation are recognised in the Consolidated Statement of Comprehensive Income. On disposal of a foreign entity, the deferred cumulative amount recognised in the Consolidated Statement of Comprehensive Income relating to that particular foreign operation is recognised in the Consolidated Income Statement.

### 2.3. Revenue

Revenue is recognised to the extent of the amount which is expected to be received from customers as consideration for the transfer of goods and services to the customer.

In multi-element contracts with customers where more than one good (Technology Sourcing) or service (Professional Services and Managed Services) is provided to the customer, analysis is performed to determine whether the separate promises are distinct performance obligations within the context of the contract. To the extent that this is the case, the transaction price is allocated between the distinct performance obligations based upon relative standalone selling prices. The revenue is then assessed for recognition purposes based upon the nature of the activity and the terms and conditions of the associated customer contract relating to that specific distinct performance obligation.

The following specific recognition criteria must also be met before revenue is recognised:

#### 2.3.1. Technology Sourcing

The Group supplies hardware and software (together as 'goods') to customers that is sourced from and delivered by a number of suppliers.

Technology Sourcing revenue is recognised at a point in time, when control of the goods have passed to the customer, usually on dispatch. Payment for the goods is generally received on industry standard payment terms.

#### 2.3.2 Professional Services

The Group provides skilled professionals to customers either on a 'resource on demand' basis or operating within a project framework.

For those contracts which are 'resource on demand', where the revenue is billed on a timesheet basis, revenue is recognised based on monthly invoiced amounts as this corresponds to the service delivered to the customer and the satisfaction of the company's performance obligations. For contracts operating within a project framework, revenue is recognised based on the transaction price with reference to the costs incurred as a proportion of the total estimated costs (percentage of completion basis) of the contract. Under either basis, Professional Services revenue is recognised over time.

If the total estimated costs and revenues of a contract cannot be reliably estimated, revenue is recognised only to the extent that costs have been incurred and where the Group has an enforceable right to payment as work is being performed.

A provision for forecast excess costs over forecasted revenue is made as soon as a loss is foreseen (see note 2.13.1 to the summary financial information within this announcement for further detail).

Unbilled Professional Services revenue is classified as a contract asset and is included within accrued income in the Consolidated Balance Sheet. Unearned Professional Services revenue is classified as a contract liability and is included within deferred income in the Consolidated Balance Sheet. Payment for the services, which are invoiced monthly, are generally on industry standard payment terms.

### 2.3.3 Managed Services

The Group sells maintenance, support and management of customers' IT infrastructures and operations.

Managed Services revenue is recognised over time, throughout the term of the contract, as services are delivered. The specific performance obligations and invoicing conditions in our Managed Services contracts are typically related to the number of calls, interventions or users that we manage and therefore the customer simultaneously receives and consumes the benefits of the services as they are performed. Revenue is recognised based on monthly invoiced amounts as this corresponds to the service delivered to the customer and the satisfaction of the company's performance obligations.

Unbilled Managed Services revenue is classified as a contract asset and is included within accrued income in the Consolidated Balance Sheet. Unearned Managed Services revenue is classified as a contract liability and is included within deferred income in the Consolidated Balance Sheet. Amounts invoiced relating to more than one year are deferred and recognised over the relevant period. Payment for the services is generally on industry standard payment terms.

If the total estimated costs and revenues of a contract cannot be reliably estimated, revenue is recognised only to the extent that costs have been incurred and where the Group has an enforceable right to payment as work is being performed. A provision for forecast excess costs over forecasted revenue is made as soon as a loss is foreseen (see note 2.13.1 to the summary financial information within this announcement for further detail). On occasion, the Group may have a limited number of Managed Services contracts where revenue is recognised on a percentage of completion basis, which is determined by reference to the costs incurred as a proportion of the total estimated costs of the contract (see note 3.1.1 to the summary financial information within this announcement for further detail).

### Costs of obtaining and fulfilling revenue contracts

The Group operates in a highly competitive environment and is frequently involved in contract bids with multiple competitors, with the outcome usually unknown until the contract is awarded and signed.

When accounting for costs associated with obtaining and fulfilling customer contracts, the Group first considers whether these costs fit within a specific IFRS standard or policy. Any costs associated with obtaining or fulfilling revenue contracts which do not fall into the scope of other IFRS standards or policies are considered under IFRS 15. All such costs are expensed as incurred other than the two types of costs noted below:

1. Win fees - The Group pays 'win fees' to certain employees as bonuses for successfully obtaining customer contracts. As these are incremental costs of obtaining a customer contract, they are capitalised along with any associated payroll tax expense to the extent they are expected to be recovered. These balances are presented within Prepayments in the Consolidated Balance Sheet. The win fee balance that will be realised after more than 12 months is disclosed as non-current.

2. Fulfilment costs - The Group often incurs costs upfront relating to the initial set-up phase of outsourcing contract, which the Group refers to as Entry Into Service. These costs do not relate to a distinct performance obligation in the contract, but rather are accounted for as fulfilment costs under IFRS 15 as they are directly related to the future performance on the contract. They are therefore capitalised to the extent that they are expected to be recovered. These balances are presented within Prepayments in the Consolidated Balance Sheet.

Both win fees and Entry Into Service costs are amortised on a straight-line basis over the contract term, as this is materially equivalent to the pattern of transfer of services to the customer over the contract term. The amortisation charges on win fees and Entry Into Service costs are recognised in the Consolidated Income Statement within administration expenses and cost of sales, respectively.

Any bid costs incurred by the Group's Central Bid Management Engines are not capitalised or charged to the contract, but instead directly charged to selling, general and administrative expenses as they are incurred. These costs associated with bids are not separately identifiable nor can they be measured reliably as the Group's internal bid team's work across multiple bids at any one time.

#### 2.3.4. Finance income

Income is recognised as interest accrues.

#### 2.3.5. Operating lease income

Rental income arising from operating leases is accounted for on a straight-line basis over the lease term.

#### 2.4. Exceptional items

The Group presents, those material items of income and expense as exceptional items which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better elements of financial performance in the year, so as to facilitate comparison with prior years and to assess better trends in financial performance.

#### 2.5. Adjusted<sup>1</sup> measures

The Group uses a number of non-Generally Accepted Accounting Practice (non-GAAP) financial measures in addition to those reported in accordance with IFRS. The Directors believe that these non-GAAP measures, listed below, are important when assessing the underlying financial and operating performance of the Group.

These non-GAAP measures comprise of:

Adjusted operating profit or loss, adjusted profit or loss before tax, adjusted tax, adjusted profit or loss for the year, adjusted earnings per share and adjusted diluted earnings per share are, as appropriate, each stated before: exceptional and other adjusting items including gain or loss on business disposals, gain or loss on disposal of investment properties, gains or losses related to material acquisitions, amortisation of acquired intangibles, utilisation of deferred tax assets (where initial recognition was as an exceptional item or a fair value adjustment on acquisition), and the related tax effect of these exceptional and other adjusting items, as Management do not consider these items when reviewing the underlying performance of the Segment or the

Group as a whole. Additionally, adjusted gross profit or loss and adjusted operating profit or loss includes the interest paid on customer-specific financing (CSF) which Management considers to be a cost of sale.

A reconciliation between key adjusted and statutory measures is provided on within the Group Finance Director's review contained within this announcement, which details the impact of exceptional and other adjusted items when comparing to the non-GAAP financial measures in addition to those reported in accordance with IFRS. Further detail is also provided within note 4 to the summary financial information included within this announcement.

## 2.6. Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. Where an asset does not have independent cash flows, the recoverable amount is assessed for the cash generating unit (CGU) to which it belongs. Certain other corporate assets are unable to be allocated against specific CGUs. These assets are tested across an aggregation of CGUs that utilise the asset. The recoverable amount is the higher of the fair value less costs to sell and the value-in-use of the asset or CGU. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the Consolidated Income Statement in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. As the Group has no assets carried at revalued amounts, such reversal is recognised in the Consolidated Income Statement.

## 2.7. Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation, down to residual value, is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- freehold buildings: 25-50 years
- short leasehold improvements: shorter of seven years and period to expiry of lease
- fixtures and fittings
- o head office: 5-15 years
- o other: shorter of seven years and period to expiry of lease
- office machinery and computer hardware: 2-15 years
- motor vehicles: three years.

Freehold land is not depreciated. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Consolidated Income Statement in the year the item is derecognised.

## 2.8. Leases

Assets held under finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the Consolidated Income Statement on a straight-line basis over the lease term.

## 2.9. Investment property

Investment property is defined as land and/or buildings held by the Group to earn rental income or for capital appreciation or both, rather than for sale in the ordinary course of business or for use in the supply of goods or services or for administrative purposes. The Group recognises any part of an owned (or leased under a finance lease) property that is leased to third parties as investment property, unless it represents an insignificant portion of the property.

Investment property is measured initially at cost including transaction costs. Subsequent to initial recognition, the Group elects to measure investment property at cost less accumulated depreciation and accumulated impairment losses, if any (i.e. applying the same accounting policies (including useful lives) as for property, plant and equipment). The fair values reflect the market conditions as at the balance sheet date.

## 2.10. Intangible assets

### 2.10.1. Software and software licences

Software and software licences include computer software that is not integral to a related item of hardware. These assets are stated at cost less accumulated amortisation and any impairment in value. Amortisation is calculated on a straight-line basis over the estimated useful life of the asset. Currently software is amortised over four years.

The carrying values of software and software licences are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

### 2.10.2. Software under development

Costs that are incurred and that can be specifically attributed to the development phase of management information systems for internal use are capitalised and amortised over their useful life, once the asset becomes available for use.

### 2.10.3. Other intangible assets

Intangible assets acquired as part of a business combination are carried initially at fair value. Following initial recognition intangible assets are carried at cost less accumulated amortisation and any impairment in value. Intangible assets with a finite life have no residual value and are amortised on a straight-line basis over their expected useful lives with charges included in administrative expenses as follows:

- order back log: three months
- existing customer contracts: five years
- existing customer relationships: 10-15 years

· tools and technology: seven years.

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

#### 2.10.4. Goodwill

Business combinations are accounted for under IFRS 3 Business Combinations using the acquisition method. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised in the Consolidated Balance Sheet as goodwill and is not amortised. Any goodwill arising on the acquisition of equity accounted entities is included within the cost of those entities.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill is allocated to the related CGU monitored by Management, usually at business Segment level or statutory Company level as the case may be. Where the recoverable amount of the CGU is less than its carrying amount, including goodwill, an impairment loss is recognised in the Consolidated Income Statement.

#### 2.11. Inventories

Inventories are carried at the lower of weighted average cost and net realisable value after making allowance for any obsolete or slow-moving items. Costs include those incurred in bringing each product to its present location and condition, on a First-In, First-Out basis.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

#### 2.12. Financial assets

Financial assets are recognised at their fair value, which initially equates to the sum of the consideration given and the directly attributable transaction costs associated with the investment. Subsequently, the financial assets are measured at either amortised cost or fair value depending on their classification under IFRS 9. The Group currently holds only debt instruments. The classification of these debt instruments depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

##### 2.12.1. Trade and other receivables

Trade receivables, which generally have 30 to 90-day credit terms, are initially recognised and carried at their original invoice amount less an allowance for any uncollectable amounts. The Group sometimes uses debt factoring to managing liquidity and, as a result, the business model for Trade receivables is that they are held for the collection of contractual cashflows, which are solely payments of principal and interest, and for selling. As a result, IFRS 9 requires that, subsequent to initial recognition, they are measured at fair value through other comprehensive income (except for the recognition of impairment gains and losses and foreign exchange gains and losses, which are recognised in profit or loss). Given the short lives of the trade receivables, there are generally no material fair value movements between initial recognition and the derecognition of the receivable.

The Group assesses for doubtful debts (impairment) using the expected credit losses model as required by IFRS 9. For trade receivables, the Group applies the simplified approach which requires expected lifetime losses to be recognised from the initial recognition of the receivables.

### 2.12.2. Current asset investments

Current asset investments comprise deposits held for a term of greater than three months from the date of deposit and which are not available to the Group on demand. The business model for current asset investments is that they are held for the collection of contractual cashflows, which are not solely payments of principal and interest. As a result, subsequent to initial measurement, current asset investments are measured at fair value with fair value movements recognised in profit and loss.

### 2.12.3. Cash and cash equivalents

Cash and short-term deposits in the Consolidated Balance Sheet comprise cash at bank and in hand, and short-term deposits with an original maturity of three months or less. Cash is held for the collection of contractual cashflows which are solely payments of principal and interest and therefore is measured at amortised cost subsequent to initial recognition.

For the purpose of the Consolidated Cash Flow Statement, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

## 2.13. Financial liabilities

Financial liabilities are initially recognised at their fair value and, in the case of loans and borrowings, net of directly attributable transaction costs. The subsequent measurement of financial liabilities is at amortised cost, unless otherwise described below:

### 2.13.1. Provisions (excluding Restructuring provision)

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

#### Customer contract provisions

A provision for forecast excess costs over forecasted revenue is made as soon as a loss is foreseen.

Management continually monitor the financial performance of contracts, and where there are indicators that a contract could result in a negative margin, the future financial performance of that contract will be reviewed in detail. If, after further financial analysis, the full financial consequence of the contract can be reliably estimated, and it is determined that the contract is potentially loss-making, then the best estimate of the losses expected to be incurred until the end of the contract will be provided for (see note 3.1.1 to the summary financial information within this announcement for further detail).

The Group applies IAS 37 in its assessment of whether contracts are considered onerous and in subsequently estimating the provision. An agenda decision published by the IFRS Interpretations Committee outlined that the current wording of IAS 37 allows for two interpretations of what can constitute 'unavoidable' costs when determining whether a contract is onerous. One of the acceptable interpretations noted by the Committee is in line with our current practice, which is to consider costs such as overhead allocations as 'unavoidable'. The matter has been put on the agenda for future discussion at the IFRS Interpretations Committee, with a view to drafting clarifications to IAS 37. Until there is clarity on this matter, we have concluded that our current approach, that considers total estimated costs (i.e. directly attributable variable costs and fixed allocated costs) as included in the assessment of whether the contract is onerous or not and in the measurement of the provision, remains appropriate.

### 2.13.2. Restructuring provisions

The Group recognises a 'restructuring' provision when there is a programme planned and controlled by Management that changes materially the scope of the business or the manner in which it is conducted.

Further to the Group's general provision recognition policy, a restructuring provision is only considered when the Group has a detailed formal plan for the restructuring identifying, as a minimum; the business or part of the business concerned; the principal locations affected; the location, function and approximate number of employees who will be compensated for terminating their services; the expenditures that will be undertaken and when the plan will be implemented.

The Group will only recognise a specific restructuring provision once a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

The Group only includes incremental costs associated directly with the restructuring within the restructuring provisions such as employee termination benefits and consulting fees. The Group specifically excludes from recognition in a restructuring provision any costs associated with ongoing activities such as the costs of training or relocating staff that are redeployed within the business rather than retrenched and costs for employees who continue to be employed in ongoing operations, regardless of the status of these operations post restructure.

### 2.13.3. Pensions and other post-employment benefits

The Group operates a defined contribution pension scheme available to all UK employees. Contributions are recognised as an expense in the Consolidated Income Statement as they become payable in accordance with the rules of the scheme. There are no material pension schemes within the Group's overseas operations.

The Group has an obligation to make a one-off payment to French employees upon retirement, the Indemnités de Fin de Carrière (IFC).

French employment law requires that a company pays employees a one-time contribution when, and only when, the employee leaves the Company for retirement at the mandatory age. This is a legal requirement for all businesses who incur the obligation upon departure, due to retirement, of an employee.

Typically the retirement benefit is based on length of service of the employee and his or her salary at retirement. The amount is set via a legal minimum but the retirement premiums can be improved by the collective agreement or employment contract in some cases. In Computacenter France, the payment is based on accrued service and ranges from one month of salary after five years of service to 9.4 months of salary after 47 years of service.

If the employee leaves voluntarily at any point before retirement, all liability is extinguished and any accrued service is not transferred to any new employment.

Management continues to account for this obligation according to IAS 19 (revised).

### 2.14. Derecognition of financial assets and liabilities

#### Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without

material delay to a third party under a 'pass-through' arrangement; or

· the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

## Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

### 2.15. Derivative financial instruments and hedge accounting

The Group uses foreign currency forward contracts to hedge its foreign currency risks associated with foreign currency fluctuations affecting cash flows from forecasted transactions and unrecognised firm commitments.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of both the hedging instrument and, the hedged item or transaction and then the economic relationship between the two, including whether the hedging instrument is expected to offset changes in cashflow of the hedged item. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows. The Group designates the full change in the fair value of the forward contract (including forward points) as the hedging instrument. Forward contracts are initially recognised at fair value on the date that the contract is entered into and are subsequently remeasured at fair value at each reporting date. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. Forward contracts are recorded as assets when the fair value is positive and as liabilities when the fair value is negative.

For the purposes of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, a highly probable forecast transaction, or the foreign currency risk in an unrecognised firm commitment.

Cash flow hedges that meet the criteria for hedge accounting are accounted for as follows: the effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the Consolidated Income Statement in administrative expenses.

Amounts recognised within other comprehensive income are transferred to the Consolidated Income Statement, within administrative expenses, when the hedged transaction affects the Consolidated Income Statement, such as when the hedged financial expense is recognised.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the Consolidated Income Statement within administrative expenses. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, any cumulative gain or loss previously recognised within Consolidated Other Comprehensive Income remains within Consolidated Other Comprehensive Income until after the forecast transaction or firm commitment affects the Consolidated Income Statement.

Any other gains or losses arising from changes in fair value on forward contracts are taken directly to administrative expenses in the Consolidated Income Statement.

### 2.16. Taxation

#### 2.16.1. Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or

paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

#### 2.16.2. Deferred tax

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or from an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, carried forward tax credits or tax losses, can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted, or substantively enacted, at the balance sheet date.

Income tax is charged or credited directly to the statement of comprehensive income if it relates to items that are credited or charged to the statement of comprehensive income. Otherwise, income tax is recognised in the Consolidated Income Statement.

#### 2.17. Share-based payment transactions

Employees (including Executive Directors) of the Group can receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

The cost of equity-settled transactions with employees is measured by reference to the fair value of the award at the date at which they are granted. The fair value is determined by utilising an appropriate valuation model. In valuing equity-settled transactions, no account is taken of any performance conditions as none of the conditions set are market-related.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date, until the vesting date, reflects the extent to which the vesting period has expired and the Directors' best estimate of the number of equity instruments that will ultimately vest. The Consolidated Income Statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period. As the schemes do not include any market-related performance conditions, no expense is recognised for awards that do not ultimately vest.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (see note 7 to the summary financial information within this announcement).

The Group has an employee share trust for the granting of non-transferable options to Executive Directors and senior management. Shares in the Group held by the employee share trust are treated as investment in own shares and are recorded at cost as a deduction from equity.

#### 2.18. Fair value measurement

The Group measures certain financial instruments at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

## 2.19. Own shares held

Computacenter plc shares held by the Group are classified in shareholders' equity as 'own shares held' and are recognised at cost. Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from sale and the original cost being taken to reserves. No gain or loss is recognised in the performance statements on the purchase, sale, issue or cancellation of equity shares.

## 3 Critical accounting estimates and judgements

The preparation of the Consolidated Financial Statements requires Management to exercise judgement in applying the Group's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making these critical judgements and estimates, actual outcomes could be different.

During the year, Management set aside time to consider the critical accounting estimates and judgements for the Group. This process included reviewing the last reporting period's disclosures, the key judgements required on the implementation of forthcoming standards such as IFRS 16 and the current period's challenging accounting issues. Where Management deemed an area of accounting to be no longer a critical estimate or judgement, an explanation for this decision is found in the relevant accounting notes to the Consolidated Financial Statements.

### 3.1. Critical estimates

Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the year in which the estimates are revised and in any future years affected. The areas involving significant risk resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

#### 3.1.1. Services revenue recognition and contract provisions

##### Percentage of completion revenue recognition

On occasion, the Group accounts for certain Services contracts using the percentage of completion method, recognising revenue by reference to the stage of completion of the contract which is determined by actual costs incurred as a proportion of total forecast contract costs. This method places considerable importance on accurate estimates of the extent of progress towards completion of the contract and may involve estimates on the scope of services required for fulfilling the contractually defined obligations. These significant estimates include total contract costs, total contract revenues, contract risks, including technical risks, and other assumptions. Under the percentage of completion method, the changes in these estimates and assumptions may lead to an increase or decrease in revenue recognised at the balance sheet date with the in-year revenue recognition appropriately adjusted as required. When the outcome of the contract cannot be estimated reliably, revenue is recognised only to the extent that expenses incurred are eligible to be recovered. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration.

The key judgements are the extent to which revenue should be recognised and also, where total contract costs are not covered by total contract revenue, the extent to which an adjustment is required.

Additionally, where contracts are renegotiated mid-life, Management will consider when to make a revenue adjustment.

#### Contract provisions

During the year, Management held a number of 'difficult' contracts under review that were considered to be performing below expectation. The number of contracts under review fluctuated during the year between seven and 12 (2017: seven and 12). Each contract was subject to a detailed review to consider the reasons behind the lower than anticipated performance and the potential accounting impacts related effect on revenue recognition estimates and contract provisions.

For a limited number of these 'difficult' contracts, where there was no immediate operational or commercial remedy for the performance, a range of possible outcomes for the estimate of the total contract costs and total contract revenues was considered to determine whether a provision is required and, if so, the best estimate of the provision.

The revenue recognised in the year from these contracts under review was approximately £30.1 million (2017: £53.6 million). The range of potential scenarios considered by management in respect of these specific contracts resulted in a reduction in margins, recognised in 2018 of £13.6 million (2017: £4.0 million), in the year. At 31 December 2018, based on Management's best estimate, there was a provision of £16.4 million (2017: £8.2 million) against future losses with the total costs to complete on these contracts estimated at £76.9 million (2017: £48.0 million).

The key judgements are determining which contracts are considered 'difficult' and estimating the provision from the range of possible outcomes.

### 3.2. Critical judgements

Judgements made by Management in the process of applying the Group's accounting policies, that have the most significant effect on the amounts recognised in the Consolidated Financial Statements, are as follows:

#### 3.2.1. Exceptional items

Exceptional items remain a core focus of Management with the recent Alternative Performance Measure regulations providing further guidance in this area.

Management is required to exercise its judgement in the classification of certain items as exceptional and outside of the Group's adjusted<sup>1</sup> results. The overall goal of Management is to present the Group's underlying performance without distortion from one-off or non-trading events regardless of whether they be favourable or unfavourable to the underlying result.

To achieve this, Management have considered the materiality, infrequency and nature of the various items classified as exceptional this year against the requirements and guidance provided by IAS 1, our Group accounting policies and the recent regulatory interpretations and guidance.

In reaching their conclusions, Management consider not only the effect on the overall underlying Group performance but also where an item is critical in understanding the performance of its component Segments which is of relevance to investors and analysts when assessing the Group result and its future prospects as a whole.

Further details of the individual exceptional items, and the reasons for their disclosure treatment, are set out in note 5 to the summary financial information within this announcement.

### 3.2.2. Technology Sourcing principal vs agent recognition

Management is required to exercise its judgement in the classification of certain revenue contracts for Technology Sourcing revenue recognition on either an agent or principal basis.

Because the identification of the principal in a contract is not always clear, Management will make a determination by evaluating the nature of our promise to our customer as to whether it is a performance obligation to provide the specified goods or services ourselves, in that we are the principal, or to arrange for those goods or services to be provided by the other party, where we are the agent. We determine whether we are a principal or an agent for each specified good or service promised to the customer by evaluating the nature of our promise to the customer against a non-exhaustive list of indicators that a performance obligation could involve an agency relationship:

- Evaluating who controls each specified good or service before that good or service is transferred to the customer;
- The vendor retains primary responsibility for fulfilling the sale;
- We take no inventory risk before or after the goods have been ordered, during shipping or on return;
- We do not have discretion to establish pricing for the vendor's goods limiting the benefit we can receive from the sale of those goods;
- Our consideration is in the form of a, usually predetermined, commission.

Management continues to monitor the primary indicators used to assess the 'agent/principal' presentation of our Software and certain Resold Services revenue against our general contractual terms and conditions including detailed analysis of how terms and conditions are applied in practice, the weighting applied to the agent/principal indicators and evaluation of emerging practice. Management has concluded that whilst this remains a finely balanced judgement, no change to the presentation of our Software and certain Resold Services revenues, which contributed £704 million and £278 million to the Group's revenue in 2018 respectively, is required and revenue for these items will continue to be presented gross where the underlying facts and circumstances remain the same. Management continue to monitor the emergence of new methods of transacting business within the traditional vendor to reseller channel.

A new line of business has recently emerged within our Technology Sourcing business where vendors and customers typically approach us with an opportunity where the vendor is taking the contract and performance risks and sets the selling price, using Computacenter as a pass-through agent in the channel to transact the deal for a set fee. To date, these have been primarily large software deals where there is no ongoing obligation of service on us following the transaction. We have no say in the pricing or selection of the product and are merely standing in the sales channel between the vendor and customer for the predetermined fee. Management review the facts and circumstances of these types of deals, case by case, with regards to its specific terms and conditions against the Group's accounting policy to determine whether our performance obligation is to provide the good or service itself, where we are acting as the principal in the deal, or to arrange for another party to provide the good or service, where we are acting as an agent. Based on the facts and circumstances of each deal we have classified several of these deals as agency concluding that the fee received should be booked as net revenue. Such agency deals contributed £3.1 million to revenue during the year.

### 3.3. Change in critical estimates and critical judgements

During the year, Management reassessed the critical estimates and critical judgements and resolved that no change was needed from last year in critical estimates and critical judgements except for the addition of 3.2.2 above.

## 4 Segment information

During the first half of the year, Management reviewed the way it reported segmental performance to the Board and the Chief Executive Officer, who is the Group's Chief Operating Decision Maker ('CODM'), to determine whether it could improve the transparency and understandability of the trading performance of its core Group Operating Model geographies. As a result of this analysis, the Board has decided to adopt a new segmental reporting structure from the period ended 30 June 2018.

In accordance with IFRS 8 Operating Segments, the Group has identified four revised operating Segments:

- UK;
- Germany;
- France; and
- International.

As the location of the Group's headquarters, the UK entity has also borne an increasing share of corporate costs since the rollout of the Group Operating Model from 2013. Certain expenses such as those for the Board itself, and related public company costs, Group Executive members not aligned to a specific geographic trading entity and the cost of centrally funded strategic corporate initiatives that benefit the whole Group, are not allocated to individual Segments because they are not directly attributable to any single Segment. Accordingly, these expenses are disclosed as a separate column, 'Central Corporate Costs', within the segmental note.

Under the previous segmental reporting structure, the UK Segment included a number of other operating entities, primarily international Global Service Desk locations. Whilst these entities have limited external revenues, and a cost recovery model that suggests better than breakeven margins to ensure compliance with transfer pricing regulations, this generated unnecessary complexity when presenting the UK results to the Board and the CODM, with the growth in the number and scale of these other operating entities blurring the underlying performance of the core geography over time. The revised UK Segment now only comprises the trading performance of Computacenter UK.

The German Segment has been revised to remove the independently run Computacenter Switzerland operation, including ciTius, which has been transferred to the International Segment, leaving the German country trading operations standing alone.

The new International Segment replaces the Belgian Segment and includes the Belgium, Switzerland, USA, FusionStorm, Netherlands and TeamUltra trading operations, along with the international Global Service Desk locations in South Africa, Spain, Hungary, Mexico, Poland, Malaysia, India and China. The International Segment has been created to reflect the Group's ambitions to continue to expand its worldwide footprint. This includes expanding trading operations into new geographic locations, both within our Western European heartland and beyond, and the need to continue to identify talent-rich offshore locations, to ensure that we can remain both cost and resource competitive in the Services marketplace.

The French Segment remains unchanged from that reported at 31 December 2017.

This new segmental reporting structure is the basis on which internal reports are provided to the Chief Executive Officer, as the CODM, for assessing performance and determining the allocation of resources within the Group.

Segmental performance is measured based on external revenues, adjusted<sup>1</sup> gross profit, adjusted<sup>1</sup> operating profit and adjusted<sup>1</sup> profit before tax. The change in segment reporting has no impact on reported Group numbers.

To enable comparisons with prior year performance, historical segment information for the year ended 31 December 2017 is restated in accordance with the revised segmental reporting structure. All discussion within this announcement on segmental results reflects this revised structure, the reclassification of Central Corporate Costs and the resultant prior year restatements.

Segmental performance for the years ended 31 December 2018 and 31 December 2017 were as follows:

Year ended 31 December 2018

	UK	Germany	France	International	Central Corporate Costs	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Revenue</b>						
Technology Sourcing revenue	1,155,608	1,330,616	393,769	297,588	-	3,177,581
<b>Services revenue</b>						
Professional Services revenue	116,440	166,471	18,914	20,090	-	321,915
Managed Services revenue	333,829	375,591	80,568	63,086	-	853,074
Total Services revenue	450,269	542,062	99,482	83,176	-	1,174,989
Total revenue	1,605,877	1,872,678	493,251	380,764	-	4,352,570
<b>Results</b>						
Adjusted <sup>1</sup> gross profit	203,507	231,191	55,655	57,905	-	548,258
Adjusted <sup>1</sup> administrative expenses	(145,856)	(164,332)	(48,601)	(45,515)	(25,188)	(429,492)
Adjusted <sup>1</sup> operating profit/(loss)	57,651	66,859	7,054	12,390	(25,188)	118,766
Adjusted <sup>1</sup> net interest	141	45	(162)	(554)	-	(530)
Adjusted <sup>1</sup> profit/(loss) before tax	57,792	66,904	6,892	11,836	(25,188)	118,236
<b>Exceptional items:</b>						
- interest cost relating to acquisition of a subsidiary						(417)
- costs relating to acquisition of a subsidiary						(5,240)
- gain on disposal of an investment property						-
Total exceptional items						(5,657)
Amortisation of acquired intangibles						(4,451)
Statutory profit before tax						108,128

The reconciliation for adjusted<sup>1</sup> operating profit to statutory operating profit as disclosed in the Consolidated Income Statement is as follows:

Year ended 31 December 2018

	Total £'000
Adjusted <sup>1</sup> operating profit	118,766
Add back interest on CSF	293
Amortisation of acquired intangibles	(4,451)
Exceptional items	(5,240)
Statutory operating profit	109,368

	UK £'000	Germany £'000	France £'000	International £'000	Central Corporate Costs £'000	Total £'000
Other segment information						
Property, plant and equipment	41,532	250,558	5,612	8,565	-	106,267
Investment property	-	-	-	-	-	-
Intangible assets	21,057	18,444	148	144,964	-	184,613
Capital expenditure:						
Property, plant and equipment	12,079	30,408	867	2,088	-	45,442
Software	4,870	730	166	169	-	5,935
Depreciation of property, plant and equipment	7,893	7,287	1,630	2,570	-	19,380
Depreciation of investment property	-	-	-	-	-	-
Amortisation of software	9,449	1,275	50	203	-	10,977

	UK	Germany	France	International	Central Corporate Costs	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Share-based payments	5,035	1,334	56	-	-	6,425

Year ended 31 December 2017 - restated

	UK	Germany	France	International	Central Corporate Costs	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Revenue</b>						
Technology Sourcing revenue	986,677	1,200,871	405,139	43,507	-	2,636,194
<b>Services revenue</b>						
Professional Services revenue	141,507	151,306	18,120	8,223	-	319,156
Managed Services revenue	335,145	362,481	86,684	53,711	-	838,021
Total Services revenue	476,652	513,787	104,804	61,934	-	1,157,177
Total revenue	1,463,329	1,714,658	509,943	105,441	-	3,793,371

#### Results

Adjusted <sup>1</sup> gross profit	196,170	214,743	53,539	31,618	-	496,070
Adjusted <sup>1</sup> administrative expenses	(144,632)	(156,489)	(47,931)	(22,530)	(19,001)	(390,583)
Adjusted <sup>1</sup> operating profit/(loss)	51,538	58,254	5,608	9,088	(19,001)	105,487
Adjusted <sup>1</sup> net interest	607	472	(193)	(144)	-	742
Adjusted <sup>1</sup> profit before tax	52,145	58,726	5,415	8,944	(19,001)	106,229

#### Exceptional items:

- onerous contracts provision for future losses 1,371

Total exceptional items 1,371

	UK	Germany	France	International	Central Corporate Costs	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Gain on disposal of an investment property						4,320
Amortisation of acquired intangibles						(225)
Statutory profit before tax						111,695

The reconciliation for adjusted<sup>1</sup> operating profit to statutory operating profit as disclosed in the Consolidated Income Statement is as follows:

Year ended 31 December 2017

	Total
	£'000
Adjusted <sup>1</sup> operating profit	105,487
Add back interest on CSF	159
Amortisation of acquired intangibles	(225)
Exceptional items	1,371
Statutory operating profit	106,792

	UK	Germany	France	International	Central Corporate Costs	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Other segment information						
Property, plant and equipment	37,404	26,849	6,262	7,389	-	77,904
Investment property	-	-	-	-	-	-
Intangible assets	25,645	18,850	28	35,812	-	80,335

	UK	Germany	France	International	Central Corporate Costs	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Capital expenditure:						
Property, plant and equipment	8,976	18,432	960	2,071	-	30,439
Software	8,460	1,109	9	40	-	9,618
Depreciation of property, plant and equipment	6,097	6,426	1,736	2,125	-	16,384
Depreciation of investment property	-	-	-	91	-	91
Amortisation of software	10,873	1,088	21	255	-	12,237
Share-based payments	5,068	1,211	(79)	-	-	6,200

#### Information about major customers

Included in revenues arising from the UK Segment are revenues of approximately £277 million (2017: £288 million) which arose from sales to the Group's largest customer. For the purpose of this disclosure, a single customer is considered to be a group of entities known to be under common control. This customer consists of entities under control of the UK Government.

#### Contract balances

The following table provides the information about receivables, contract assets and contract liabilities from contracts with customers.

	31 December 2018	1 January 2018*
	Note £'000	£'000
Contract assets, which are included in 'trade and other receivables'	1,180,394	835,446
Contract assets, which are included in 'prepayments'	6,451	7,926
Contract assets, which are included in 'accrued income'	101,899	102,922
Contract liabilities, which are included in 'deferred income'	143,080	113,875

\*the balances in this column are subsequent to adjustments recorded on implementation of IFRS 15 on 1 January 2018.

## Significant changes in contract assets and liabilities

Contract assets are balances due from customers under long-term contracts as work is performed and therefore a contract asset is recognised over the period in which the performance obligation is fulfilled. This represents the Group's right to consideration for the services transferred to date. Amounts are generally reclassified to contract receivables when these have been certified or invoiced to a customer.

Revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period was £79.3 million. Revenue recognised in the reporting period from performance obligations satisfied or partially satisfied in previous periods was £ nil. Partially satisfied performance obligations continue to incur revenue and costs in the period.

## Remaining performance obligations (Work in hand)

Contracts which have remaining performance obligations as at 31 December 2018 are set out in the table below. The table below discloses the aggregate transaction price relating to those unsatisfied or partially unsatisfied performance obligations, excluding both (a) amounts relating to contracts for which revenue is recognised as invoiced and (b) amounts relating to contracts where the expected duration of the ongoing performance obligation is one year or less. As permitted under the transitional provisions in IFRS 15, the transaction price allocated to remaining performance obligations as of 31 December 2017 is not disclosed.

	FY2019	FY2020	FY2021	FY2022	FY2023 and beyond	Total
	£m	£m	£m	£m	£m	£m
Managed Services	613	323	216	146	48	1,346

The average duration of contracts is between one to five years, however some contracts will vary from these typical lengths. Revenue is typically earned over these varying timeframes, however more of the revenue noted above is expected to be earned in the short term.

## 5 Exceptional items

	2018	2017
	£'000	£'000
Operating profit		
Onerous contracts	-	1,371
Costs relating to acquisition of a subsidiary	(5,240)	-
	(5,240)	1,371
Interest cost relating to acquisition of a subsidiary	(417)	-
Gain on disposal of an investment property	-	4,320

	2018	2017
	£'000	£'000
(Loss)/gain on exceptional items before taxation	(5,657)	5,691
Income tax		
Tax on onerous contracts included in operating profit-	(351)	
Tax on exceptional items	1,353	-
Tax relating to acquisition of a subsidiary	3,091	-
(Loss)/gain on exceptional items after taxation	(1,213)	5,340

2018: Included within the current year are the following exceptional items:

- An exceptional loss during the year of £5.2 million resulted from costs directly relating to the acquisition of FusionStorm. These costs include a severance payment for the FusionStorm Chief Executive Officer, agreed as part of the acquisition, advisor fees and a finder's fee that was paid on completion of the transaction. These costs are non-operational in nature, material in size and unlikely to recur and have therefore been classified as outside our adjusted<sup>1</sup> results. A further £0.4 million relating to the unwinding of the discount on the deferred consideration for the purchase of FusionStorm has been removed from the adjusted<sup>1</sup> net finance expense and classified as exceptional interest costs.
- A credit of £1.4 million arising from the tax benefit on the FusionStorm exceptional acquisition costs has been recognised as tax on the above exceptional items. A further tax credit of £3.1 million was recorded due to post-acquisition activity in FusionStorm, related to the transaction, which has resulted in a material in-year tax benefit. This activity included settlement of phantom stock awards, deal bonus and change of control payments which were settled by the vendor, out of the consideration paid, via post-acquisition capital contributions to FusionStorm. As this credit was related to the acquisition and not operational activity within FusionStorm, is of a one-off nature and material to the overall tax result, it was classified this as an exceptional tax item.

2017: Included within the prior year are the following exceptional items:

- The remaining provisions for the last two onerous contracts in Germany were released, for an exceptional gain of £1.4 million. These provisions were originally booked in 2013 and the contracts have now returned to profitability, so the provisions are no longer required. As these provisions were booked as exceptional items, this release has also been classified as such.
- The disposal of an investment property in Braintree, Essex, was completed on 26 May 2017 for £14.5 million. This property was associated with a former subsidiary of the Group, R.D. Trading Limited, which was itself sold in February 2015. Due to the size and non-operational nature of the transaction, the £4.3 million gain on disposal, net of £0.2 million disposal costs, has been classified as exceptional.

## 6 Income tax

### a) Tax on profit from ordinary activities

2018	2017
£'000	£'000

	2018	2017
	£'000	£'000
Tax charged in the Consolidated Income Statement		
Current income tax		
UK corporation tax	12,528	11,995
Foreign tax		
- operating results before exceptional items	20,942	14,661
- exceptional items	(4,444)	351
Total foreign tax	16,498	15,012
Adjustments in respect of prior years	148	-
Total current income tax	29,174	27,007

#### Deferred tax

##### Operating results before exceptional items:

- origination and reversal of temporary differences	(1,830)	3,374
- adjustments in respect of prior years	(145)	-
Total deferred tax	(1,975)	3,374

Tax charge in the Consolidated Income Statement 27,199 30,381

#### b) Reconciliation of the total tax charge

	2018	2017
	£'000	£'000
Accounting profit before income tax	108,128	111,695

	2018	2017
	£'000	£'000
At the UK standard rate of corporation tax of 19 per cent (2017: 19.25 per cent)	20,544	21,501
Expenses not deductible for tax purposes	987	675
Non-deductible element of share-based payment charge	589	1,297
Adjustments in respect of current income tax of previous years	(384)	(58)
Effect of different tax rates of subsidiaries operating in other jurisdictions	6,736	7,050
Other differences	(334)	(683)
Overseas tax not based on earnings	1,390	1,526
Tax effect of income not taxable in determining taxable profit	(2,427)	(832)
Deferred tax not recognised on current year losses	98	(95)
At effective income tax rate of 25.2 per cent (2017: 27.2 per cent)	27,199	30,381

#### c) Tax losses

Deferred tax assets of £4.2 million (2017: £2.7 million) have been recognised in respect of losses carried forward.

In addition, at 31 December 2018, there were unused tax losses across the Group of £152.6 million (2017: £152.0 million) for which no deferred tax asset has been recognised. Of these losses, £40.1 million (2017: £40.9 million) arise in Germany and £112.5 million (2017: £111.1 million) arise in France. A significant proportion of the losses arising in Germany have been generated in statutory entities that no longer have significant levels of trade. The remaining unrecognised tax losses relate to other loss-making overseas subsidiaries.

#### d) Deferred tax

Deferred income tax at 31 December relates to the following:

	Consolidated Balance Sheet		Consolidated Income Statement and other comprehensive income	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Deferred income tax liabilities				

	Consolidated Balance Sheet		Consolidated Income Statement and other comprehensive income	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Revaluations of foreign exchange contracts to fair value	738	1,293	(555)	194
Amortisation of intangibles	16,727	506	(1,196)	(49)
Gross deferred income tax liabilities	17,465	1,799		
Deferred income tax assets				
Relief on share option gains	4,868	2,868	(2,000)	(1,072)
Other temporary differences	4,887	4,192	(277)	1,164
Revaluations of foreign exchange contracts to fair value	121	659	119	(157)
Losses available for offset against future taxable income	4,167	2,666	1,934	3,294
Gross deferred income tax assets	14,043	10,385		
Deferred income tax charge			(1,975)	3,374
Net deferred income tax assets	(3,422)	8,586		
Disclosed on the Consolidated Balance Sheet				
Deferred income tax assets	9,587	9,063		
Deferred income tax liabilities	(13,009)	(477)		
Net deferred income tax (liabilities)/assets	(3,422)	8,586		

At 31 December 2018, there was no recognised or unrecognised deferred income tax liability (2017: £nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries as the Group expects that future remittances of earnings from its overseas subsidiaries will continue to be covered by relevant dividend exemptions. Where, following the departure of the UK from the European Union, the Group's European subsidiaries unremitted earnings are no longer covered by a dividend exemption, appropriate mitigating steps are envisaged that would eliminate the incidence of withholding tax.

e) Impact of rate change

The main rate of UK Corporation tax is 19 per cent from 1 April 2017 and will be reduced to 17 per cent from 1 April 2020, as enacted in the Finance Act 2015. The deferred tax in these Consolidated Financial Statements reflects this.

7 Earnings per share

Earnings per share amounts are calculated by dividing profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year (excluding own shares held).

To calculate diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential shares. Share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year are considered to be dilutive potential shares.

2018 2017  
 £'000 £'000

Profit attributable to equity holders of the Parent 80,929 81,314

2018 2017  
 £'000 £'000

Basic weighted average number of shares (excluding own shares held) 113,409 120,766

Effect of dilution:

Share options 1,984 1,471

Diluted weighted average number of shares 115,393 122,237

2018 2017  
 pence pence

Basic earnings per share 71.4 67.3

Diluted earnings per share 70.1 66.5

8 Analysis of changes in net funds

At	Cash flows	Non-cash	Exchange	At
1 January	in year	flow	differences	31 December
2018	£'000	£'000	£'000	2018

	£'000			£'000	
Cash and short-term deposits	206,605	(7,743)	-	1,580	200,442
Bank overdraft	(6)	6	-	-	-
Cash and cash equivalents	206,599	(7,737)	-	1,580	200,442
Bank loans	(10,667)	(122,946)	-	(621)	(134,234)
Net funds excluding CSF	195,932	(130,683)	-	959	66,208
CSF leases	(4,745)	(4,322)	433	(294)	(8,928)
Total CSF	(4,745)	(4,322)	433	(294)	(8,928)
Net funds	191,187	(135,005)	433	665	57,280

	At 1 January 2017 £'000		Cash flows in year £'000	Non-cash flow £'000	Exchange differences £'000	At 31 December 2017 £'000
Cash and short-term deposits	118,676	84,708	-	-	3,221	206,605
Bank overdraft	-	(6)	-	-	-	(6)
Cash and cash equivalents	118,676	84,702	-	-	3,221	206,599
Current asset investments	30,000	(30,000)	-	-	-	-
Bank loans	(294)	(10,297)	-	-	(76)	(10,667)
Net funds excluding CSF	148,382	44,405	-	-	3,145	195,932
CSF leases	(3,477)	(1,486)	366	(148)	(148)	(4,745)
Customer-specific other loans	(413)	338	-	75	-	-
Total CSF	(3,890)	(1,148)	366	(73)	(73)	(4,745)
Net funds	144,492	43,257	366	3,072	3,072	191,187

9 Related party transactions

During the year the Group entered into transactions, in the ordinary course of business, with related parties. Transactions entered into are as described below:

Biomni provides the Computacenter e-procurement system used by many of Computacenter's major customers. An annual fee has been agreed on a commercial basis for use of the software for each installation. Both PJ Ogden and PW Hulme are Directors of and have a material interest in Biomni Limited.

Triage Services Limited mainly provides IT hardware repair services to many of Computacenter's customers. MJ Norris is a Director of and has a material interest in Triage Services Limited.

The table below provides the total amount of transactions that have been entered into with related parties for the relevant financial year:

	Sales	Purchases	
	to related parties	from related parties	Amounts owed to related parties
	£'000	£'000	£'000
Biomni Limited	23	838	-

Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's-length transactions. Outstanding balances at the year end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables. The Group has not recognised any provision for doubtful debts relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel (including Directors)

The Board of Directors is identified as the Group's key management personnel. A summary of the compensation of key management personnel is provided below:

	2018	2017
	£'000	£'000
Short-term employee benefits	1,791	1,842
Social security costs	433	383
Share-based payment transactions	1,367	1,563
Pension costs	65	51

2018 2017

£'000£'000

Total compensation paid to key management personnel 3,656,839

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