MAXIMISING SHAREHOLDER VALUE

Tony Conophy
Group Finance Director

The Group saw a recovering performance in France and an improving Germany provide resilience to the Group result, which was adversely affected by a disappointing UK performance, more so in the first half of the year as we saw revenue growth in the second half of the year. The comparison with 2015 is difficult for both statutory and adjusted[1] profit before tax, due to significant one-off items as disclosed in the prior year, but performance of the business excluding these one-off items showed modest improvement in a year of significant underlying change. The Supply Chain business has had to quickly change focus from Workplace sales to the more complex Networking and Datacenter infrastructure, whilst the German Services business saw a busy period of contract take-on.

A reconciliation between key adjusted[1] and statutory measures is provided on page 46 of this Group Finance Director's Review. Further details are provided in note 4 to the Financial Statements, Segment Information.

REVENUE

Adjusted[1] revenue for the Group grew by 6.3 per cent to £3,245.4 million (2015: £3,054.2 million). On a constant currency[2] basis, turnover decreased by 0.5 per cent, reflecting the weakness of the pound sterling against all currencies, but primarily against the euro. Statutory revenue for the Group, including the results of RDC for January 2015, grew 6.1 per cent from £3,057.6 million to £3,245.4 million.

OPERATING PROFIT

Adjusted[1] operating profit for the Group decreased 1.0 per cent to £86.2 million (2015: £87.1 million). On a constant currency[2] basis, the decrease was 4.9 per cent. The UK Segment saw a disappointing decrease of 21.1 per cent in adjusted[1] operating profit. The German Segment remained a key growth factor for the Group this year, with an increase in adjusted[1] operating profit of 15.4 per cent in constant currency[2] and 29.6 per cent in actual currency[2]. The French Segment returned to profitability, with an adjusted[1] operating profit in constant currency[2] of €3.5 million (2015: €2.2 million loss). The Group's statutory operating profit of £87.5 million was 2.7 per cent higher than the previous year (2015: £85.2 million).

PROFIT BEFORE TAX

Adjusted[1] profit before tax decreased by 0.6 per cent from £86.9 million to £86.4 million, or 4.3 per cent in constant currency[2]. It should be noted that the comparative performance in 2015 benefited from a one-off gain of approximately £3 million, which, as we explained in our 2015 Interim Report, was not expected to repeat in future years. Statutory profit before tax fell 31.3 per cent to £87.1 million (2015: £126.8 million), primarily due to the exceptional gain on disposal of RDC of £42.2 million that occurred in 2015.

"The Group saw a recovering performance in France and an improving Germany provide resilience to the Group result, which was adversely affected by a disappointing UK performance, more so in the first half of the year as we saw revenue growth in the second half of the year."

RECONCILIATION FROM STATUTORY TO ADJUSTED[1] MEASURES FOR THE YEAR ENDED 2016

	Statutory results £'000	Adjustments RDC £'000	CSF interest £'000	Utilisation of deferred tax £'000	Exceptionals and others £'000	Adjusted results £'000
Revenue	**3,245,397**	–	–	–	–	**3,245,397**
Cost of sales	**(2,817,350)**	–	(219)	–	–	**(2,817,569)**
Gross profit	**428,047**	–	(219)	–	–	**427,828**
Administrative expenses	**(341,668)**	–	–	–	–	**(341,668)**
Operating profit:						
Before amortisation of acquired intangibles and exceptional items	**86,379**	–	(219)	–	–	**86,160**
Amortisation of acquired intangibles	**(710)**	–	–	–	710	**–**
Exceptional items	**1,876**	–	–	–	(1,876)	**–**
Operating profit	**87,545**	–	(219)	–	(1,166)	**86,160**
Exceptional loss on disposal of a subsidiary	**(522)**	–	–	–	522	**–**
Finance revenue	**1,629**	–	–	–	–	**1,629**
Finance costs	**(1,579)**	–	219	–	–	**(1,360)**
Profit before tax	**87,073**	–	–	–	(644)	**86,429**
Income tax expense:						
Before exceptional items	**(23,108)**	–	–	2,580	(72)	**(20,600)**
Exceptional items	**(192)**	–	–	–	192	**–**
Profit for the year	**63,773**	–	–	2,580	(524)	**65,829**

RECONCILIATION FROM STATUTORY TO ADJUSTED[1] MEASURES FOR THE YEAR ENDED 2015

	Statutory results £'000	Adjustments RDC £'000	CSF interest £'000	Utilisation of deferred tax £'000	Exceptionals and others £'000	Adjusted results £'000
Revenue	**3,057,615**	(3,448)	–	–	–	**3,054,167**
Cost of sales	**(2,654,468)**	2,773	(340)	–	–	**(2,652,035)**
Gross profit	**403,147**	(675)	(340)	–	–	**402,132**
Administrative expenses	**(315,380)**	355	–	–	–	**(315,025)**
Operating profit:						
Before amortisation of acquired intangibles and exceptional items	**87,767**	(320)	(340)	–	–	**87,107**
Amortisation of acquired intangibles	**(1,553)**	–	–	–	1,553	**–**
Exceptional items	**(1,029)**	–	–	–	1,029	**–**
Operating profit	**85,185**	(320)	(340)	–	2,582	**87,107**
Exceptional gain on disposal of a subsidiary	**42,155**	–	–	–	(42,155)	**–**
Finance revenue	**1,598**	–	–	–	–	**1,598**
Finance costs	**(2,171)**	–	340	–	–	**(1,831)**
Profit before tax	**126,767**	(320)	–	–	(39,573)	**86,874**
Income tax expense:						
Before exceptional items	**(23,605)**	72	–	4,045	(314)	**(19,802)**
Exceptional items	**(52)**	–	–	–	52	**–**
Profit for the year	**103,110**	(248)	–	4,045	(39,835)	**67,072**

PROFIT FOR THE YEAR

The adjusted[1] profit for the year decreased 1.9 per cent to £65.8 million in actual currency[2] (2015: £67.1 million), and by 5.6 per cent in constant currency[2]. The statutory profit for the year decreased by £39.3 million to £63.8 million (2015: £103.1 million).

UNITED KINGDOM

The UK Segment adjusted[1] revenues decreased by 1.1 per cent in 2016, falling to £1,391.7 million (2015: £1,407.4 million).

Adjusted[1] Supply Chain revenues increased 2.8 per cent, with strong growth through the fourth quarter after recovering from a poor start to the year. The Workplace PC market remains depressed but the business has continued to transition its focus through to our Datacenter and Networking business, which finished the year strongly. Our ability to remain agile in the marketplace allows us to respond to our customers' changing priorities.

Adjusted[1] Services revenues decreased 7.6 per cent during 2016. Within this, Managed Services revenue decreased 5.5 per cent, due to the lack of material wins towards the end of 2015 negatively impacting the Contract Base and due to the effect of continued pricing pressure on contract renewals.

Professional Services adjusted[1] revenue decreased 13.7 per cent during 2016. The previous year saw exceptional utilisation levels, with the UK central service engines at maximum capacity due to the volume of large Managed Services contract take-on driving growth. As the number and scope of take-on activities reduced during 2016, the Professional Services business was underutilised and with excess short and medium-term capacity. Resourcing levels have been readjusted through the year through natural attrition and contractor cessation, to enter 2017 more efficiently resourced.

Margin rate in the Supply Chain business came under sustained pressure throughout 2016 and was a leading indicator in the UK's overall performance disappointing against Management expectations. Whilst volumes held up in the fourth quarter and there were some particularly pleasing margin-rich headline deals, the overall progress in this area was disappointing.

Services reduced by 7.6 per cent due to the lack of significant Managed Services wins in 2015 which impacted both Managed Services and Professional Services revenues. The UK continues to operate within a margin range that leads the Group in efficiency of delivery on Managed Services customers and is also near the ceiling of what can be reasonably achieved, whilst delivering a premium customer user experience at a price that creates value. Total adjusted[1] gross profit in the UK has fallen from 15.4 per cent to 14.6 per cent of adjusted[1] revenue, due mainly to declining Supply Chain margins, and the impact of overcapacity due to a lower contribution from the central resource engines.

Adjusted[1] administrative expenses reduced by 0.8 per cent. Increasing salary costs were offset by a reduction in the performance bonus attributable to Management and employees, due to the nature of the local performance. The UK Segment continues to absorb the majority of the Group's investment costs through its Consolidated Income Statement. Where permissible, certain Group Management and Governance costs are recharged to other Group Segments. However, the UK Segment continues to incur the majority of Senior Management and Group Governance costs due to the Group being UK domiciled.

Overall, this resulted in a 21.1 per cent decrease in adjusted[1] operating profit from £59.3 million to £46.8 million. However, it should be noted that the UK's 2015 profit also benefited by £3 million from the unusual timing of contract lifecycles, which was first disclosed in the 2015 Interim Report.

GERMANY

German revenue built on the strong performance of 2015, increasing by 16.1 per cent in actual currency[2] during 2016 to £1,392.2 million (2015: £1,199.6 million). In constant currency[2], revenue increased 3.1 per cent.

Supply Chain revenue growth in 2016 was 1.2 per cent on a constant currency[2] basis and 13.9 per cent in actual currency[2], continuing the momentum seen in 2015. The performance through the middle two quarters of the year gave hope of an even stronger performance, but growth plateaued towards the end of the fourth quarter. Whilst the growth was steady overall, the customer-driven switch away from Workplace solutions towards Security, Networking and Cloud infrastructure created some portfolio volatility. The business managed these changes successfully, to achieve the margin increases expected with the move towards more complex infrastructure sales and achieve an overall contribution increase.

Services revenues were stronger, with 7.2 per cent growth in 2016 on a constant currency[2] basis and an increase of 20.7 per cent in actual currency[2], with both Professional Services and Managed Services delivering strong performances.

The business entered the year focused on renewing a number of critical Managed Services contracts, to refresh the Contract Base. This was largely achieved, with the business simultaneously winning a number of new significant contracts to further extend the Contract Base. The contract wins in 2015 resulted in 14 separate contracts being taken on during 2016, and whilst these were largely successful and all contributed to revenue growth, several contracts experienced cost overruns, which have been incurred in the 2016 results. Furthermore, several contracts that have completed take-on and are in the 'run' operating phase have disappointing levels of margin, albeit in environments with high customer satisfaction. Two of these contracts have had revenue recognition adjustments made in 2016, within operating costs, for future operating losses. Continuing negotiations with these customers present future improvement opportunities. The pipeline remains strong into 2017.

Our Professional Services business was strong throughout the year and continued the momentum seen in the second half of 2015. The number of Managed Services contracts taken on provided volumes for the central engines that were overlaid on the growth in our consulting and project business, driven primarily by building cloud infrastructure environments for our customers.

Given the challenges in managing the change in focus of the Supply Chain business away from Workplace and towards more complex infrastructure, the business was pleased to achieve a substantial increase in margins through the year. Given the strong growth within both Professional Services and Managed Services revenue, and the less than desirable performance of a number of Managed Services contracts, the slight reduction in Services margin was an acceptable performance. There is some disappointment in knowing what could have been achieved without the difficulties certain contracts experienced, which indicates the continuing room for improvement in German Services margin performance. Overall adjusted[1] gross profit margin within the German business increased from 12.3 per cent in 2015 to 12.6 per cent in 2016, with increasing Supply Chain margins being slightly diluted by the Services margin performance.

Administrative expenses increased by 3.4 per cent in constant currency[2] and by 16.5 per cent in actual currency[2], as the business experienced increasing challenges in skilled resource recruitment and higher bonuses paid as a reflection of the overall performance. The German Segment adjusted[1] operating profit increased by 29.6 per cent from £27.4 million to £35.5 million in actual currency[2], which was an increase of 15.4 per cent in constant currency[2].

FRANCE

Revenue in the French Segment increased by 1.7 per cent to £404.7 million (2015: £398.1 million) during 2016 but declined by 9.7 per cent in constant currency[2], due primarily to the continued deliberate contraction of the Supply Chain business. Supply Chain revenue decreased by 11.0 per cent on a constant currency[2] basis and increased by 0.2 per cent in actual currency[2]. Management's strategy over the last three years has been to reposition the Supply Chain business away from low-margin, high working capital intensive activities, and to only serve the Group's core target market of large customers. This strategy is nearly complete and, other factors being constant, we feel we are nearing the bottom of the revenue performance readjustment cycle. After reducing the core portfolio of customers, the business is now concentrating on growing this refocused target market to reduce dependencies on several large customers that are now responsible for significant volumes and margins. Services revenues reduced by 2.6 per cent during 2016 in constant currency[2] and increased by 9.5 per cent in actual currency[2]. Whilst Professional Services volumes continued to decline and further exacerbated the levels of utilisation and over-resourcing in this area, the Managed Services business saw encouraging signs of growth. Several important new contract wins and a more positive pipeline provide some encouragement, albeit tempered by several Managed Services contracts that are up for renewal in 2017 that are critical to the Group overall.

Given the headwinds created by the continued underperformance of the Professional Services business, it was pleasing to see an overall increase in service margins for France. This is being driven by the continued refinement of local execution of key Managed Services contracts. Whilst service margins are still significantly lower than those across the rest of the Group, further improvement is available as the business continues to reduce the cost base associated with the over-capacity in its Professional Services business, as evidenced by the restructure of the sub-scale Field Maintenance business and the alignment of the Professional Services business to the wider Group Operating Model. Gross margins in the Supply Chain business exceeded those of both the UK and Germany, demonstrating the effectiveness of Management's French recovery strategy. Overall gross margin increased from 8.1 per cent to 10.5 per cent.

Administrative expenses increased by 4.5 per cent on a constant currency[2] basis and by 17.5 per cent in actual currency[2]. This increase was driven by non-exceptional restructuring costs alongside increased variable bonus, commission and 'interressement' costs, largely contributing to, or driven by, the increased performance of the business. As indicated in our 2016 Interim Report, an additional cost of £1.1 million in strategic restructuring has been recorded as an exceptional item in 2016.

Overall, the French adjusted[1] operating profit increased from a loss in actual currency[2] of £1.6 million in 2015 to a profit of £2.9 million in 2016, materially improving the overall performance of the Group.

BELGIUM

Revenue increased by 15.7 per cent to £56.8 million (2015: £49.1 million) in actual currency[2] and increased by 2.7 per cent in constant currency[2].

Supply Chain revenue was flat on a constant currency[2] basis and increased by 12.5 per cent in actual currency[2], in an environment of increasing competition and slowing IT spend, due to local economic difficulties.

Services revenue increased by 9.0 per cent on a constant currency[2] basis during 2016, which was an increase of 22.7 per cent in actual currency[2]. In 2015, the business adopted a strategy to renew existing contracts to underpin the Contract Base, albeit at reduced overall ACV reflecting shared contract efficiencies made for these long-term customers. This strategy has been validated, with a number of in-life contract scope extensions increasing the overall volumes seen. The take-on of a significant new customer during 2016, and the win towards the end of the year of another major customer, should sustain growth into 2017.

Overall, Belgium increased its gross profit margin from 12.7 per cent in 2015 to 13.2 per cent in 2016.

Administrative expenses increased 35.6 per cent in constant currency[2] and by 51.2 per cent in actual currency[2], primarily due to continuing costs as the business moved fully onto the Group ERP system and the Group Operating Model that it underpins. These costs include strategic local investments, to provide the scale to fully benefit from leveraging Group expertise.

Overall there has been a 50.0 per cent decrease in adjusted[1] operating profit, from £2.0 million in 2015 to £1.0 million in 2016, which was a 57.1 per cent decrease in constant currency[2].

ADJUSTED[1] REVENUE

	Half 1 £m	Half 2 £m	Total £m
2014	1,435.4	1,627.9	3,063.3
2015	1,438.0	1,616.2	3,054.2
2016	**1,478.2**	**1,767.2**	**3,245.4**
2016/15	2.8%	9.3%	6.3%

ADJUSTED[1] PROFIT BEFORE TAX

	Half 1		Half 2		Total	
	£m	% Revenue	£m	% Revenue	£m	% Revenue
2014	25.6	1.8%	55.5	3.4%	81.1	2.6%
2015	29.1	2.0%	57.8	3.6%	86.9	2.8%
2016	**25.3**	**1.7%**	**61.1**	**3.5%**	**86.4**	**2.7%**
2016/15	(13.1%)		5.7%		(0.6%)	

ADJUSTED[1] REVENUE BY COUNTRY

	2016			2015		
	Half 1 £m	Half 2 £m	Total £m	Half 1 £m	Half 2 £m	Total £m
UK	**652.7**	**739.0**	**1,391.7**	688.7	718.7	1,407.4
Germany	**607.8**	**784.4**	**1,392.2**	535.4	664.2	1,199.6
France	**193.2**	**211.5**	**404.7**	189.8	208.3	398.1
Belgium	**24.5**	**32.3**	**56.8**	24.1	25.0	49.1
Total	**1,478.2**	**1,767.2**	**3,245.4**	1,438.0	1,616.2	3,054.2

ADJUSTED[1] OPERATING PROFIT BY COUNTRY

	2016					
	Half 1		Half 2		Total	
	£m	% Revenue	£m	% Revenue	£m	% Revenue
UK	**14.0**	**2.1%**	**32.8**	**4.4%**	**46.8**	**3.4%**
Germany	**9.5**	**1.6%**	**26.0**	**3.3%**	**35.5**	**2.5%**
France	**0.9**	**0.5%**	**2.0**	**0.9%**	**2.9**	**0.7%**
Belgium	**0.6**	**2.4%**	**0.4**	**1.2%**	**1.0**	**1.8%**
Total	**25.0**	**1.7%**	**61.2**	**3.5%**	**86.2**	**2.7%**

	2015					
	Half 1		Half 2		Total	
	£m	% Revenue	£m	% Revenue	£m	% Revenue
UK	22.9	3.3%	36.4	5.1%	59.3	4.2%
Germany	8.5	1.6%	18.9	2.8%	27.4	2.3%
France	(3.0)	(1.6%)	1.4	0.7%	(1.6)	(0.4%)
Belgium	1.1	4.6%	0.9	3.6%	2.0	4.1%
Total	29.5	2.1%	57.6	3.6%	87.1	2.9%

CUSTOMER-SPECIFIC FINANCING

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 customer-specific financing (CSF) is included within net funds[3] 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.

The Group does not expect a material increase in the level of CSF facilities, partly, as the Group applies a higher cost of finance to these transactions than customers' marginal cost of finance.

NET FINANCE INCOME

Net finance income amounted to £0.1 million on a statutory basis in the year (2015: expense of £0.6 million) and was impacted by a number of one-off items, including historical interest charges of £0.3 million relating to routine tax audits completed in Computacenter Germany.

The comparative 2015 finance charges were impacted by the final interest charges relating to the unwind of the discount on the deferred consideration for the purchase of Damax AG of £0.7 million, which was finalised and agreed in June 2015.

On an adjusted[1] basis, prior to interest on CSF, net finance income was £0.3 million in 2016 (2015: expense of £0.2 million).

TAXATION

The adjusted[1] tax charge on ordinary activities was £20.6 million (2015: £19.8 million), on an adjusted[1] profit before tax of £86.4 million (2015: £86.9 million). The Effective Tax Rate (ETR) was 23.8 per cent (2015: 22.8 per cent). The 2016 ETR is higher than the previous year, primarily due to increasing cash tax in Germany as the historical tax losses readily available for use expire. The ETR is lower than Management's expectations, due to a change in the geographic split of adjusted[1] profit before tax, with France's return to profit being the primary driver.

The statutory tax charge was £23.3 million (2015: £23.7 million) on statutory profit before tax of £87.1 million (2015: £126.8 million). This represents a statutory tax rate of 26.8 per cent (2015: 18.7 per cent). The exceptional gain on the sale of RDC of £42.2 million recorded in the statutory profit before tax for the year ended 31 December 2015 was not subject to taxation and is the major reason for the movement in the statutory tax rate.

The Group's adjusted[1] tax rate continues to benefit from losses utilised on earnings in Germany and also from the reducing corporation tax rate in the UK. As the German tax losses continue to be utilised, the deferred tax asset, previously recognised as an exceptional tax item, is no longer replenishing. The utilisation of the asset impacts the statutory tax rate but is considered to be outside of our adjusted[1] tax measure. In 2016, this impact increased the statutory tax rate by 3.0 per cent.

From 2017 onwards the Group expects an increasing adjusted[1] tax rate, as the impact of the German loss utilisation manifests itself through an increasing cash tax payment. In 2017, the German statutory ETR is expected to increase to circa 28 per cent from circa 26 per cent in 2016, then increase to and settle at circa 32 per cent in 2018, with a direct effect on the Group adjusted[1] ETR. At 2016 levels of profitability, the increase in German cash tax would raise the Group adjusted[1] ETR from 23.8 per cent in 2016 to circa 28 per cent by 2019, without regard to other factors that could influence the Group's adjusted[1] ETR.

The Group Tax Policy was updated during the year and approved by the Audit Committee and the Board. The Group makes every effort to pay all the tax attributable to profits earned in each jurisdiction that it operates in. The Group does not artificially inflate or reduce profits in one jurisdiction to provide a beneficial tax result in another and maintains approved transfer pricing policies and programmes, to meet local compliance requirements, particularly given the implementation of the Group Operating Model. Virtually all of the statutory tax charge in 2016 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 2016, a revised Group Transfer pricing policy was implemented that resulted in a royalty payment charged by Computacenter UK to Computacenter Germany equivalent to one per cent of revenue or £14.2 million. This royalty charge was driven by the Group's Tax Advisors' interpretation of the Organisation for Economic Co-operation and Development (OECD) base erosion and profit shifting requirements and as it is purely tax compliance driven, it is recorded outside of the Segmental results found in note 4 to the Financial Statements, Segment Information.

The table below reconciles the statutory tax charge to the adjusted[1] tax charge for the year ended 31 December 2016.

	2016 £'000	2015 £'000
Statutory tax charge	**23,300**	23,658
Adjustments to exclude:		
Utilisation of German deferred tax assets	**(2,580)**	(4,045)
Tax on amortisation of acquired intangibles	**72**	314
Tax on exceptional items	**(192)**	(52)
RDC	**–**	(71)
Adjusted[1] tax charge	**20,600**	19,804
Statutory ETR	**26.8%**	18.7%
Adjusted[1] ETR	**23.8%**	22.8%

EXCEPTIONAL ITEMS

The gain from net exceptional items in the year was £1.4 million (2015: £41.1 million).

The most significant item within exceptional items during 2016 was the £3.0 million release of historical fair value adjustments made on the 2009 acquisition of becom Informationssysteme GmbH (becom). This followed the final payment of the contingent consideration to the vendor during 2016. For further information, refer to note 6 of the Financial Statements. Due to the materiality and nature of the item, Management decided to classify this one-off gain as exceptional.

As outlined in our 2016 Interim Report, a Line of Business restructure was agreed with Computacenter's business in France. This initiative to reduce the under-utilised resources within our Professional Services arm completed in the second half of 2016, for a cost of £1.0 million. This restructure has seen Computacenter France exit the direct provision of Group Field Maintenance Services. This Line of Business had materially decreased over time, leading to significant resourcing overcapacity. Any residual customer requirement will be sub-contracted to an existing third party provider. Additionally, as also detailed in the 2016 Interim Report, further provisioning to the existing 2014 Social Plan in France of £0.1 million was also required during the period.

During the third quarter, a Group subsidiary domiciled in Luxembourg, Computacenter PSF SA, was disposed of for a net loss of £0.5 million. As the principal item in the year to 31 December 2015 was the gain on the disposal of a Group subsidiary, R.D. Trading Limited (RDC), of £42.2 million, the current year loss on disposal of a subsidiary has also been classified as exceptional.

EARNINGS PER SHARE

Adjusted[1] diluted earnings per share increased slightly from 53.4 pence in 2015 to 54.0 pence in 2016, due to a lower weighted average number of shares. The statutory diluted earnings per share decreased from 82.1 pence in 2015 to 52.3 pence in 2016, primarily driven by the impact of the gain on disposal of RDC in 2015.

	2016	2015
Basic weighted average number of shares (excluding own shares held) (no. '000)	**120,540**	122,948
Effect of dilution:		
Share options	**1,344**	2,655
Diluted weighted average number of shares	**121,884**	125,603
Statutory profit for the year attributable to equity holders of the parent (£'000)	**63,773**	103,110
Basic earnings per share (pence)	**52.9**	83.9
Diluted earnings per share (pence)	**52.3**	82.1
Adjusted[1] profit for the year attributable to equity holders of the parent (£'000) including RDC	**65,829**	67,320
Adjusted[1] basic earnings per share (pence) including RDC	**54.6**	54.8
Adjusted[1] diluted earnings per share (pence) including RDC	**54.0**	53.6
RDC	**–**	248
Adjusted[1] profit for the year attributable to equity holders of the parent (£'000)	**65,829**	67,072
Adjusted[1] basic earnings per share (pence)	**54.6**	54.6
Adjusted[1] diluted earnings per share (pence)	**54.0**	53.4

DIVIDENDS

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 by adjusted[1] diluted earnings per share. In 2016, the cover was 2.4 times (2015: 2.5 times).

The Group remains highly cash generative and net funds[3] continue to build on the Consolidated Balance Sheet. Computacenter's approach to capital management is to ensure that the Group has a robust capital base and to maintain a strong credit rating, whilst aiming to maximise shareholder value. If further funds are not required to be available 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. Dividends are paid from the standalone Balance Sheet of the Parent Company, and as at 31 December 2016, the distributable reserves were approximately £262.5 million (2015: £166.7 million).

The Board is pleased to propose a final dividend of 15.0 pence per share. The interim dividend paid on 14 October 2016 was 7.2 pence per share. Together with the final dividend, this brings the total ordinary dividend for 2016 to 22.2 pence per share, representing a 3.7 per cent increase on the 2015 total dividend per share of 21.4 pence.

Subject to the approval of shareholders at our Annual General Meeting on 4 May 2017, the proposed dividend will be paid on Friday 9 June 2017. The dividend record date is set as Friday 12 May 2017, and the shares will be marked ex-dividend on 11 May 2017.

CAPITAL MANAGEMENT

Details of the Group's capital management policies are included within note 27 to the Financial Statements.

NET FUNDS

Net funds[3] increased from £120.8 million at the end of 2015 to £144.5 million as at 31 December 2016.

The Group had no material borrowings.

The Group saw a reduction in its overall cash generation from operations in 2016, with net cash flow from operating activities of £68.2 million (2015: £94.3 million).

Whilst it is encouraging that the year end cash position was strong, it is clear that we have experienced increased cash volatility due to higher product sales, particularly in the fourth quarter, and have agreed longer credit terms with some new product-based customers. In addition we have seen in the second half of the year an adverse revenue mix changing towards customers with longer credit terms.

Capital expenditure in the year was £22.6 million (2015: £20.6 million), primarily on investments in IT equipment in our business and software tools, to enable us to deliver improved service to our customers, and on the refurbishment of our London office at 100 Blackfriars Road.

Whilst the cash position remains robust, the Group continued to benefit from the extension of an improvement in credit terms with a significant vendor. This was equivalent to £69.1 million as at 31 December 2016, an increase of £21.3 million from 31 December 2015 (£47.8 million). This improvement in credit terms has been in operation since 2009 and whilst the continuation of these terms is not guaranteed and can be withdrawn at any time, the terms are generally available to all material partners of that significant vendor. The amount of benefit at any one time fluctuates as a direct result of the volume of business with that vendor.

CSF decreased in the year from £5.9 million to £3.9 million. CSF remains low compared to historical levels, due to a decision to restrict this form of financing in light of the current credit environment and reduced customer demand.

At 31 December 2016 the Group had interest-bearing trade payables of £13.3 million (2015: nil) where we have taken advantage of supplier extended payment-term credit facilities within the UK. This was a short term position taken to provide additional operational payment flexibility and was closed out immediately after balance sheet date. The interest bearing extended-term payable balances remain classified within trade payables, and are therefore net funds[3] enhancing, at 31 December 2016.

The Group's net funds[3] position takes account of current asset investments of £30 million (2015: £15 million). Net funds[3] excluding CSF increased from £126.7 million to £148.4 million by the end of the year.

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. The purpose of these transactions is 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 remains that it will not 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 financial results of the Group. 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 Financial Statements.

Interest rate risk

The Group finances its operations through a mixture of retained profits, bank borrowings and finance leases and loans for certain customer contracts. The Group's bank borrowings, other facilities and deposits are at floating rates. No interest rate derivative contracts have been entered into.

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 funds[3] position was maintained throughout 2016, and at year end was £148.4 million excluding CSF, and £144.5 million including CSF. Due to strong cash generation over the past three years, the Group is currently in a position where it can finance its requirements from its cash balance, and the Group operates an informal cash pooling arrangement for the majority of Group entities. During 2015, the Group extended an existing specific committed facility of £40.0 million for a three-year term through to February 2018.

The Group has a Board monitored policy in place 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 and France, with smaller operations in Belgium, China, Hungary, India, Malaysia, Mexico, South Africa, Spain, Switzerland and the United States of America.

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. 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 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 increasingly successful in winning international Services contracts, where services are provided in multiple countries.

The Group aims to minimise this 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, the Group eliminates currency exposure for a foreseeable future period on these future cash flows, through forward currency contracts.

In 2016, the Group recognised a gain of £5.3 million (2015: £1.2 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 weakening of sterling, particularly against the euro, positively impacted 2016 adjusted[1] operating profit by circa £3.5 million.

Credit risk

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

GOING CONCERN

As disclosed in the Directors' Report, the Directors have a reasonable expectation that the Group has adequate resources to continue its operations for the foreseeable future. Accordingly they continue to adopt the Going Concern basis in preparing the Consolidated Financial Statements.

Fair balanced and understandable

The UK Corporate Governance Code includes a requirement for the Board to consider whether the Annual Report and Accounts are 'fair, balanced and understandable' and 'provide the information necessary for shareholders to assess the Group's performance, business model and strategy.' Management undertakes a formal process through which it can provide comfort to the Board in making this statement.

Tony Conophy
Group Finance Director

13 March 2017