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DANKA

www.danka.com

1999 Annual Report

Danka at a glance

Danka Business Systems PLC, headquartered in London, England and St. Petersburg, Florida, is one of the world's largest independent suppliers of office imaging equipment and related services, parts and supplies. With operations throughout 30 countries, Danka provides a complete range of products and services, from small copiers to high-volume equipment, fax machines, state-of-the-art digital and color copiers, facilities management and other related document management services. Danka primarily distributes Canon, Kodak, Ricoh and Toshiba products as well as Konica and Minolta in certain markets. Danka also markets private label photocopiers and facsimiles under the Company's Infotec trademark, primarily in the European market. Danka's operations are segmented into three divisions, including Danka Americas, Danka International and Danka Services International, or DSI.

Danka Americas

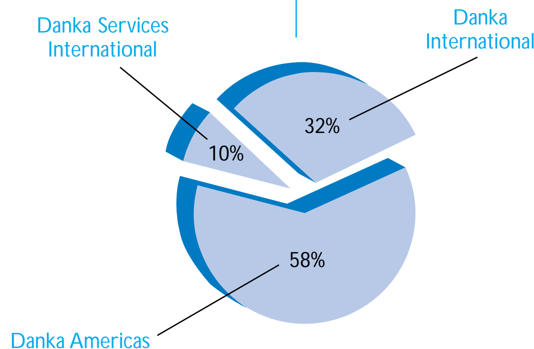
Danka Americas, which represented 58% of Danka's total revenue in fiscal 1999, distributes photocopiers, facsimiles and other related office imaging equipment together with the related parts, supplies and services on a direct basis to retail customers. The geographical areas covered by Danka Americas include the United States, Canada and Latin America. The Company's Omnifax division, which distributes private-label facsimiles and related parts, supplies and services throughout the United States, is also included in the Danka Americas segment. In June 1999, the Company signed a definitive agreement to sell its Omnifax division to Xerox Corporation.

Danka International

Danka International, which represented 32% of Danka's total revenue in fiscal 1999, also distributes photocopiers, facsimiles and other related office imaging equipment. These products, together with the related services, parts and supplies, are marketed primarily on a direct basis to retail customers. Danka International also provides photocopiers, facsimiles and related office imaging equipment on a wholesale basis to independent dealers. Danka International has an extensive sales and service network throughout Europe and additional operations in Australasia.

Danka Services International

Danka Services International, or DSI, is Danka's worldwide document outsourcing business and represented 10% of the Company's total revenue in fiscal 1999. DSI provides a wide range of document management solutions, including the management of central reprographics departments, the placement and maintenance of convenience copiers, print-on-demand operations, document archiving and retrieval services and document management consulting.



to our shareholders

Nineteen ninety-nine was a year of challenging times and significant change for Danka. We ended the year a more focused company, one that is positioned to move forward and capitalize on the opportunities presented by the rapidly changing digital office imaging industry. Danka enters the new year solidly positioned as the second largest independent global provider of office imaging solutions.

With a new management team guiding Danka, we undertook a thorough strategic review of Danka's business portfolio. As a result of this review, we closed underperforming operations, evaluated divestitures, and initiated cost-cutting measures in order to support the Company's long-term growth and development strategy. We recorded significant restructuring and other special charges during the year, major parts of which related to the termination of contractual agreements with Kodak and the implementation of our worldwide cost reduction program. We made substantial progress in the second half of fiscal 1999 and we are highly complimentary of our management team and employees that helped to get us where we are today, positioned for the digital evolution in office imaging.

Financial Results. Danka reported revenue of $2.9 billion in fiscal 1999 compared to revenue of $3.3 billion in fiscal 1998. The net loss for fiscal 1999, excluding restructuring and other special charges, was $118.9 million, or $2.09 per American Depositary Share ("ADS"), compared to fiscal 1998 net earnings of $65.4 million, or $1.13 per ADS on a diluted basis. Including restructuring and other special charges, Danka reported a net loss of $294.8 million in fiscal 1999, or $5.18 per ADS. Restructuring and other special charges totaled $225.5 million in fiscal 1999. This included $67.3 million directly related to the decline in the estimated market value of Kodak branded inventory and the termination of supply and research and development agreements between Danka and Kodak effective December 15, 1998. The charges also included $109.5 million for the impairment of goodwill and other long-lived assets, $7.9 million for other asset write-downs, as well as $40.8 million in costs associated with Danka's worldwide restructuring and cost reduction program.

Achieving Cost Savings. We substantially completed the restructuring of Danka during fiscal 1999. The restructuring began in the third quarter when we announced our worldwide cost reduction program designed with the goal of reducing selling, general and administrative expenses and improving profitability. A key element of the cost reduction program was to bring U.S. expenses in line with anticipated revenue. We have already seen progress in reducing these expenses and expect to generate over $100 million in savings on an annualized basis. Key initiatives of the cost reduction program included the following:

- Closure and consolidation of 60 facilities;
- 1,400 headcount reductions through the streamlining of functions and the elimination of non-core and duplicative positions;
- Other cost cutting initiatives in all areas of selling, general and administration expenses, including reductions in advertising programs and discretionary spending, rationalization of distribution systems and the elimination of non-essential IT projects.

Changes in Kodak Relationship. The acquisition of the Kodak Office Imaging business in December 1996 provided Danka with global scale, service capabilities and product depth necessary to compete as a worldwide supplier in the office imaging market.

More importantly Danka became a major player in the high-end office imaging market, primarily targeted at Fortune 500 companies. However, with this acquisition came contractual agreements with Kodak, committing Danka to over $175.0 million in research and development costs as well as supply agreements that required us to make minimum equipment inventory purchases from Kodak. The result was a burden on our earnings and cash flow, and a significant increase in inventory levels. On December 17, 1998, we announced that these supply and research and development contracts were terminated, reducing the payment obligations to Kodak over the next three to four years by more than $150.0 million.

Kodak continued to provide equipment, parts and supplies to us through short-term contracts that were reviewed monthly. Our relationship changed again on May 10, 1999, when a subsidiary of Heidelberger Druckmaschinen AG (Heidelberg), the world's leading manufacturer of commercial printing systems, acquired Kodak's equipment, toner and developer manufacturing operations. This turn of events was good news for Danka, providing a proven, committed manufacturer of the Kodak equipment we distribute, including the highly acclaimed DigiSource 9110 introduced in the Spring of 1999.

Realignment of Worldwide Product Portfolio. Another very key initiative this year was our focus on vendor relationships and the depth of our worldwide product portfolio. The customer demand to move from an analog environment to a digital office quickly accelerated the digital evolution in office imaging. Without a complete color and digital product portfolio to meet customer demand on a national basis, our retail equipment sales were negatively impacted. Total retail equipment sales fell by 23 percent during fiscal 1999. Through our four key strategic vendor relationships: Canon, Heidelberg, Ricoh and Toshiba, we emerged with a full digital product offering, across all segments. These alliances reinforce Danka's position as one of the leading independent suppliers of color, digital and high-volume equipment worldwide.

Strategic Review of Business Portfolio. One of the most important steps our new executive management team undertook this year was a thorough strategic review of Danka's business portfolio. It was necessary to evaluate our strategic and financial options, including the possible divestiture of assets. In October 1998, we engaged a financial advisor to aid in the sale of certain assets. On June 18, 1999, we announced a definitive agreement to sell Danka's facsimile division, Omnifax, to Xerox Corporation for $45.0 million in cash. We also closed our U.S. wholesale operations effective March 31, 1999, a decision in-line with our strategy to focus on Danka's core, higher margin business.

On May 20, 1999, Danka announced an agreement to sell its outsourcing business, Danka Services International (DSI), to a newly formed company controlled by Schroder Ventures. On June 30, 1999, the agreement to sell DSI was terminated.

Improving Financial Position. During the fiscal year, our bank group worked closely with us to provide the flexibility we needed to implement our restructuring plan. On October 20, 1998, we received a waiver of our obligation to comply with certain financial covenants under our Credit

Agreement through February 28, 1999, which was later extended through August 27, 1999. As a result of the progress of our restructuring efforts, our bank group gave us a further vote of confidence in July 1999 by approving an amendment to our Credit Agreement, which secured our financing through July 31, 2000.

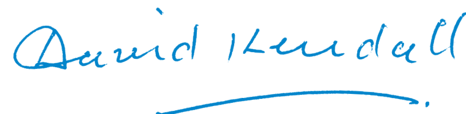
We also worked diligently to reduce inventory levels during the second half of the fiscal year by minimizing purchases and selling existing inventory. As a result, we were pleased to generate operating cash flow for fiscal 1999 of $36.6 million, greatly influenced by a reduction in inventory of nearly $88.0 million, before special charges. Our efforts on cash management in the fourth quarter generated $62.8 million in operating cash flow and over $28.0 million in free cash flow after capital expenditures.

Reinspiring Our Sales Force. With significant challenges behind us and fiscal 2000 ahead of us, our focus has turned once again to top-line revenue improvement. New equipment placements and a stronger recurring revenue stream will be key this new year. The vendor alliances we built in fiscal 1999 and the introduction of new products in color, digital and high-volume are key elements in supporting our strategy. The negative press surrounding Danka's financial situation during the year, which frankly, discouraged both our sales force and customers, also affected our equipment sales. Now, with a full digital product offering and the support of our lenders, we are poised to strengthen Danka's sales force worldwide.

Strengthening Our Board of Directors. In July 1999, Brian L. Merriman was appointed to the Board of Directors and named President and Chief Operating Officer of Danka worldwide. Brian assumed the overall responsibility for the strategy and execution of the sales, service and marketing activity for Danka's global operations. With Brian's vision and more than 30 years of industry experience, we look forward to his contributions as a member of Danka's Board.

Moving Ahead. Given the progress we have made in our restructuring initiatives, our solid digital and color product alliances, and our progress in building a relationship with Heidelberg as our partner in high-volume digital printing/copying systems, Danka is well positioned to move forward and capitalize on the opportunities ahead. Furthermore, with our strong team of senior executives leading and implementing our restructuring plans during fiscal 1999 and their commitment to the future of Danka, we are confident that Danka can return to profitability. We thank all of our employees, customers, suppliers and shareholders for their support in fiscal 1999 and their continued support in the future.

Larry K. Switzer
Chief Executive Officer



David W. Kendall
Chairman

July 14, 1999

board of directors and executive management

Non-Executive Directors

David W. Kendall[1][2][3]

Chairman

David Kendall has served as a non-executive director since 1993. In October 1998 he was appointed to Chairman of the Company. He is also Chairman of Whitecroft plc, Ruberoid PLC, Blagden Industries plc, Celtic Energy Ltd. and Wagon plc and a non-executive director of Gowrings plc.

Keith J. Merrifield[1][2][3]

Keith Merrifield was appointed a non-executive director in January 1997. He previously served as Group Marketing Director and Director of International Operations at Wellcome plc until June 1995. He also currently serves as a director of British Biotech plc and Coats Viyella plc.

J. Ernest Riddle[2][3]

Ernest Riddle was appointed a non-executive director in January 1998. He currently serves as President and Chief Operating Officer of Norrell Services, Inc. He also serves as a trustee of the University of North Carolina and Brevard College.

James F. White, Jr.[1][3]

James White was appointed a non-executive director in 1993. He serves as counsel to the law firm of Shumaker, Loop & Kendrick, Toledo, Ohio and is currently a director of numerous private companies. He was previously an executive director of Checkers Drive-in Restaurants, Inc. and a non-executive director of Arbor Health Care Company.

Executive Directors

Larry K. Switzer

Chief Executive Officer

Brian L. Merriman

President and Chief Operating Officer

[1]Member of the Audit Committee

[2]Member of the Human Resources Committee

[3]Member of the Nominations Committee

Other Executive Officers

Michel Amblard

Senior Vice President and Corporate Controller

David P. Berg

Executive Vice President and General Counsel

L. Jean Berry

Senior Vice President and Corporate Tax Director

Kevin J. Dean

Senior Vice President, Finance
Danka Americas

Paul G. Dumond

Company Secretary

Ugo Giorcelli

Senior Vice President, Finance
Danka International

Martin G. St. Quinton

Chief Executive
Danka International

R. Paul Umberg

Corporate Vice President
Danka U.S. Divisions

F. Mark Wolfinger

Executive Vice President and Chief Financial Officer

review of financials

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Note
The financial information in this section has been prepared under United States Generally Accepted Accounting Principles in U.S. dollars. Financial information prepared under United Kingdom Generally Accepted Accounting Principles in sterling may be obtained by contacting the Company's offices at the addresses shown on the inside back cover.

For the years ended March 31	**1999 $000**	1998 $000	1997 $000	1996 $000	1995 $000
			(Except per ADS data)		
Revenue:					
Retail	**2,676,306**	3,054,167	1,851,766	1,069,593	702,740
Wholesale	**220,914**	268,569	240,531	170,711	99,456
	2,897,220	3,322,736	2,092,297	1,240,304	802,196
Gross Profit:					
Retail	**962,611**	1,168,375	766,592	466,533	306,202
Special charges, retail gross profit	**(57,853)**	(10,000)	—	—	—
Wholesale	**31,653**	50,644	44,061	30,116	17,691
Special charges, wholesale gross profit	**(514)**	—	—	—	—
	935,897	1,209,019	810,653	496,649	323,893
Selling, general and administrative expenses	**979,008**	979,381	641,905	378,407	245,525
Special charges, general and administrative expenses	**16,805**	—	—	—	—
Amortization of intangible assets	**19,714**	21,232	19,386	13,587	6,818
Write-off of goodwill and other long-lived assets	**109,474**	—	—	—	—
Commitment to Kodak under R&D agreements	**53,434**	50,000	12,500	—	—
Restructuring charges	**40,818**	11,000	35,000	8,500	—
(Loss) earnings from operations	**(283,356)**	147,406	101,862	96,155	71,550
Interest expense and other, net	**74,197**	64,214	33,985	21,566	7,742
(Loss) earnings before income taxes	**(357,553)**	83,192	67,877	74,589	63,808
Provision (benefit) for income taxes	**(62,773)**	30,958	25,522	28,241	24,761
(Loss) earnings before extraordinary item	**(294,780)**	52,234	42,355	46,348	39,047
Extraordinary item*	**—**	—	578	1,133	—
Net (loss) earnings	**(294,780)**	52,234	41,777	45,215	39,047
Per ADS Data:					
Basic (loss) earnings per ADS	**$(5.18)**	$0.92	$0.74	$0.91	$0.83
Diluted (loss) earnings per ADS	**$(5.18)**	$0.90	$0.72	$0.88	$0.80
Dividends per ADS	**—**	$0.20	$0.16	$0.13	$0.11
Balance Sheet Data:					
Total assets	**1,905,142**	2,178,941	2,352,704	1,091,556	635,314
Long-term debt, less current maturities	**1,052,415**	858,892	1,059,823	318,262	233,681
Shareholders' equity	**171,164**	480,307	465,731	441,843	206,408

**Extraordinary item in fiscal 1997 and 1996 represents the loss on early extinguishment of debt, net of the related income tax benefit.*

Note: Certain prior year amounts have been reclassified to conform with the current year presentation.

The Company

Danka Business Systems PLC together with its subsidiaries ("Danka" or the "Company") is one of the world's largest independent suppliers of photocopiers, facsimiles and other related office imaging equipment. The Company primarily markets these products and related services, parts and supplies on a direct basis to retail customers. The Company principally distributes Canon, Kodak, Ricoh and Toshiba products. It also distributes Konica and Minolta products in certain markets. In addition, the Company markets private label photocopiers and facsimiles and related supplies on a direct basis under the Company's Infotec trademark. The Company also markets photocopiers, facsimiles, and related parts and supplies on a wholesale basis to independent dealers through its international operations. The Company closed its U.S. wholesale operations effective March 31, 1999. The closure was related to the Company's efforts to restructure its operations and focus on core, higher margin businesses.

The Company also provides worldwide document services through its outsourcing business, Danka Services International ("DSI") which was acquired in December 1996 from Kodak. Services provided by DSI range from on- and off-site document services, including the management of central reprographics departments, the placement and maintenance of convenience copiers, print-on-demand operations and document archiving and retrieval services.

On October 16, 1998, the Company announced the appointment of Wasserstein Perella & Co. ("Wasserstein") as financial advisor to the Company. In conjunction with Wasserstein, the Company began an evaluation of its strategic and financial options, including the possible sale of certain divisions. On May 20, 1999, the Company announced that it signed an agreement to sell DSI to a newly formed company controlled by Schroder Ventures, an international private equity group. On June 30, 1999, the agreement to sell DSI to Schroder Ventures was terminated. The Company was informed by IBM, a customer of DSI, that there was a distinct possibility IBM might choose to exercise its right to terminate its agreement as a customer with DSI, and that this action could occur at any time. As a result of this notice, and after discussions with IBM, Schroder Ventures informed the Company that Schroder Ventures and its lenders declined to close the transaction.

The Company also announced on June 18, 1999, that it signed a definitive agreement to sell its facsimile division, Omnifax, to Xerox Corporation for $45.0 million in cash. Through its Omnifax division, the Company markets private label facsimiles and related parts and supplies on a direct basis under its dex and Omnifax trademarks. The Company expects to complete the sale of Omnifax in the second quarter of fiscal 2000.

The Company's performance in fiscal 1999 was impacted by a number of factors including reduced retail equipment sales, reduced retail service, supplies and rentals revenue, lower retail equipment margins and higher SG&A expenses, primarily in the U.S. See—"Results of Operations" for full discussion.

The lower retail equipment sales were partially affected by the accelerated shift in customer demand from analog to digital products. The Company took several steps in fiscal 1999 to improve its digital product availability to meet the accelerated shift in customer demand. In September 1998, Danka announced a new strategic alliance with Canon that allows the Company to offer the complete line of Canon color copiers to all of its customers throughout North America, Europe and select Latin American countries. In January, the Company received authorization from Canon to offer a full line of digital black and white copiers throughout the U.S. The Company has similar distribution rights regarding Toshiba digital black and white products. Furthermore, the Company introduced its first high-volume digital machine, the DigiSource 9110, in March 1999 at CeBit, an international trade fair in Hanover, Germany and launched worldwide distribution of the product in July. The Company is currently negotiating a long-term supply agreement with Heidelberg for the DigiSource 9110. The DigiSource 9110 was developed by Kodak and is designed and assembled through a joint venture by Heidelberg Digital and Nexpress Solutions.

The Company announced in the third quarter of fiscal 1999 its worldwide cost reduction program with the goal of reducing SG&A and improving profitability. A key element of the cost reduction program is to bring SG&A expenditures of the Company's U.S. division in line with anticipated revenue. The Company took several initiatives during the second half of fiscal 1999 including the elimination of various advertising programs and non-essential IT projects, headcount reductions and the closure of facilities. In January, the Company announced the closure of its Rochester, NY facilities, which resulted in the reduction of 450 positions. The Company announced a total elimination of 1,400 positions related to the worldwide cost reduction program. As of March 31, 1999, over 900 of these positions were eliminated; the remaining eliminations were completed by the end of the first quarter of fiscal 2000. Essential functions including the Company's U.S. National Service Dispatch Call Center and regional sales and service operations were not affected. The Company expects to generate approximately $100.0 million in annualized savings after full implementation of its worldwide cost reduction program.

In December 1998, the Company completed the IT separation from Kodak's computer infrastructure worldwide. The separation from Kodak's systems involved several business processes including financial reporting, invoicing, voice mail and electronic mail support for the Office Imaging business acquired from Kodak in December 1996.

Results of Operations

The following tables set forth for the periods indicated the dollar amounts and percentage of total revenue represented by certain items in the Company's Consolidated Statements of Operations before and after restructuring and other special charges:

After Restructuring and Other Special Charges:

	Years ended March 31		
(In millions)	**1999**	1998	1997
Revenue:			
Retail equipment sales	**$ 755.5**	$ 985.3	$ 699.0
Retail service, supplies and rentals	**1,920.8**	2,068.9	1,152.8
Wholesale	**220.9**	268.5	240.5
Total revenue	**2,897.2**	3,322.7	2,092.3
Cost of revenue	**1,961.3**	2,113.7	1,281.6
Gross profit	**935.9**	1,209.0	810.7
Selling, general and administrative expenses	**995.8**	979.4	641.9
Amortization of intangible assets	**19.7**	21.2	19.4
Write-off of goodwill and other long-lived assets	**109.5**	—	—
Commitment to Kodak under R&D agreements	**53.4**	50.0	12.5
Restructuring charges	**40.8**	11.0	35.0
(Loss) earnings from operations	**(283.3)**	147.4	101.9
Interest expense and other, net	**74.2**	64.2	34.0
(Loss) earnings before income taxes	**(357.5)**	83.2	67.9
Provision (benefit) for income taxes	**(62.7)**	31.0	25.5
(Loss) earnings before extraordinary item	**(294.8)**	52.2	42.4
Extraordinary item	**—**	—	0.6
Net (loss) earnings	**$ (294.8)**	$ 52.2	$ 41.8

	Years ended March 31		
(Percentage of total revenue)	**1999**	1998	1997
Revenue:			
Retail equipment sales	**26.1%**	29.6%	33.4%
Retail service, supplies and rentals	**66.3**	62.3	55.1
Wholesale	**7.6**	8.1	11.5
Total revenue	**100.0**	100.0	100.0
Cost of revenue	**67.7**	63.6	61.3
Gross profit	**32.3**	36.4	38.7
Selling, general and administrative expenses	**34.4**	29.5	30.7
Amortization of intangible assets	**0.7**	0.6	0.9
Write-off of goodwill and other long-lived assets	**3.8**	—	—
Commitment to Kodak under R&D agreements	**1.8**	1.5	0.6
Restructuring charges	**1.4**	0.4	1.6
(Loss) earnings from operations	**(9.8)**	4.4	4.9
Interest expense and other, net	**2.5**	1.9	1.7
(Loss) earnings before income taxes	**(12.3)**	2.5	3.2
Provision (benefit) for income taxes	**(2.1)**	0.9	1.2
(Loss) earnings before extraordinary item	**(10.2)**	1.6	2.0
Extraordinary item	**—**	—	—
Net (loss) earnings	**(10.2)**	1.6	2.0

Before Restructuring and Other Special Charges:

(In millions)	Years ended March 31 **1999**	1998	1997
Revenue:			
Retail equipment sales	**$ 755.5**	$ 985.3	$ 699.0
Retail service, supplies and rentals	**1,920.8**	2,068.9	1,152.8
Wholesale	**220.9**	268.5	240.5
Total revenue	**2,897.2**	3,322.7	2,092.3
Cost of revenue	**1,903.0**	2,103.7	1,281.6
Gross profit	**994.2**	1,219.0	810.7
Selling, general and administrative expenses	**979.0**	979.4	641.9
Amortization of intangible assets	**19.7**	21.2	19.4
Write-off of goodwill and other long-lived assets	**—**	—	—
Commitment to Kodak under R&D agreements	**53.4**	50.0	12.5
Restructuring charges	**—**	—	—
(Loss) earnings from operations	**(57.9)**	168.4	136.9
Interest expense and other, net	**74.2**	64.2	34.0
(Loss) earnings before income taxes	**(132.1)**	104.2	102.9
Provision (benefit) for income taxes	**(13.2)**	38.8	38.7
(Loss) earnings before extraordinary item	**(118.9)**	65.4	64.2
Extraordinary item	**—**	—	—
Net (loss) earnings	**$ (118.9)**	$ 65.4	$ 64.2

(Percentage of total revenue)	Years ended March 31 **1999**	1998	1997
Revenue:			
Retail equipment sales	**26.1%**	29.6%	33.4%
Retail service, supplies and rentals	**66.3**	62.3	55.1
Wholesale	**7.6**	8.1	11.5
Total revenue	**100.0**	100.0	100.0
Cost of revenue	**65.7**	63.3	61.3
Gross profit	**34.3**	36.7	38.7
Selling, general and administrative expenses	**33.8**	29.5	30.7
Amortization of intangible assets	**0.7**	0.6	0.9
Write-off of goodwill and other long-lived assets	**—**	—	—
Commitment to Kodak under R&D agreements	**1.8**	1.5	0.6
Restructuring charges	**—**	—	—
(Loss) earnings from operations	**(2.0)**	5.1	6.5
Interest expense and other, net	**2.5**	1.9	1.6
(Loss) earnings before income taxes	**(4.5)**	3.2	4.9
Provision (benefit) for income taxes	**(0.4)**	1.2	1.8
(Loss) earnings before extraordinary item	**(4.1)**	2.0	3.1
Extraordinary item	**—**	—	—
Net (loss) earnings	**(4.1)**	2.0	3.1

The following tables set forth for the periods indicated the dollar gross profit margin and the percentage for each of the Company's revenue classifications before and after restructuring and other special charges:

After Restructuring and Other Special Charges:

	Years ended March 31		
(In millions)	**1999**	1998	1997
Gross profit:			
Retail equipment sales	**$166.4**	$327.5	$261.6
Retail service, supplies and rentals	**738.4**	830.9	505.0
Wholesale	**31.1**	50.6	44.1

	Years ended March 31		
(As percentage of each revenue classification)	**1999**	1998	1997
Gross profit:			
Retail equipment sales	**22.0%**	33.2%	37.4%
Retail service, supplies and rentals	**38.4**	40.2	43.8
Wholesale	**14.1**	18.9	18.3

Before Restructuring and Other Special Charges:

	Years ended March 31		
(In millions)	**1999**	1998	1997
Gross profit:			
Retail equipment sales	**$197.1**	$337.5	$261.6
Retail service, supplies and rentals	**765.5**	830.9	505.0
Wholesale	**31.6**	50.6	44.1

	Years ended March 31		
(As percentage of each revenue classification)	**1999**	1998	1997
Gross profit:			
Retail equipment sales	**26.1%**	34.2%	37.4%
Retail service, supplies and rentals	**39.9**	40.2	43.8
Wholesale	**14.3**	18.9	18.3

The following comparison analysis for the three years ended March 31, 1999 is based on the Company's results before the effect of restructuring and other special charges. To review the effects of such charges on the Company's operations, refer to the comparative tables on pages 8–10 of this Annual Report.

Revenue: Fiscal 1999 revenue declined 13% to $2.9 billion from $3.3 billion in fiscal 1998, due to lower revenue in all of the Company's segments, retail equipment sales, retail service, supplies and rentals and wholesale revenue. Retail equipment sales and retail service, supplies and rentals revenue were lower in both the U.S. and international markets while the decline in wholesale revenue was primarily due to declining sales in the Company's U.S. wholesale operations. The Company closed its U.S. wholesale operations effective March 31, 1999.

The Company believes the shortfall in retail equipment sales, which declined 23% to $755.5 million, was related to a number of factors. First, equipment sales in the U.S. and international markets were affected in the third and fourth quarters by the negative press regarding the Company's financial situation, which led to some price discounting. Second, the Company's product availability was constrained due to stricter credit terms with suppliers primarily during the third quarter. Similarly, the Company lacked the digital product availability necessary to compete in marketplaces experiencing the accelerated shift to digital products primarily in the U.S. and Australasia. During the second half of the fiscal year, the Company also experienced difficulties in receiving lease financing, resulting in delays and loss of sales in both the North American and international markets. See—"Liquidity and Capital Resources" for discussion on GE Capital agreement and the Company's ability to meet necessary requirements imposed by GE Capital. The International division's equipment sales, primarily in the U.K. and Australasia, were also impacted as a result of competitive pressures from Japanese manufacturers selling directly to customers. The Company took several steps in fiscal 1999 to improve its digital portfolio to meet the accelerated shift in customer demand. In September 1998, the Company entered into an alliance with Canon, allowing the Company to offer the complete line of Canon color copiers to all of its customers throughout North America, Europe and select Latin American countries. In January 1999, the Company received authorization from Canon to offer a full line of digital black and white copiers throughout the U.S. The Company has similar distribution rights regarding Toshiba digital black and white products. Furthermore, the Company introduced its first high-volume digital machine, the DigiSource 9110, in March 1999 and launched worldwide distribution of the product in July.

The Company's retail service, supplies and rentals revenue declined 7% to $1.9 billion in fiscal 1999 from $2.1 billion in fiscal 1998. The decline was primarily due to two factors. First, the continued erosion of the U.S. installed machine base, specifically within the Company's named accounts, resulted in a decline in service and supply revenue. Second, supply sales in the Company's International division weakened due to the competitive pressures from Japanese manufacturers selling directly to customers.

Wholesale revenue declined 18% to $220.9 million in fiscal 1999 from $268.6 million in fiscal 1998. The decline was primarily due to lower sales in the U.S. in both equipment and supplies as result of the Company focusing its efforts on higher profit margin sales. The Company closed its U.S. wholesale division effective March 31, 1999.

Fiscal 1998 revenue increased 59% to $3.3 billion from $2.1 billion in fiscal 1997. The increase primarily resulted from significant contributions from acquisitions, principally the acquisition of Kodak's Office Imaging and outsourcing businesses in December 1996.

The acquisition of Kodak's Office Imaging and outsourcing businesses significantly changed the Company's revenue mix due to the higher percentage of retail service, supplies and rentals generated by the businesses. As a percentage of total revenue, retail equipment and wholesale sales declined as retail service, supplies and rentals increased. Retail service, supplies and rentals revenue increased 79% to $2.1 billion in fiscal 1998 from $1.1 billion in fiscal 1997. The increase was primarily due to the acquisition of Kodak's Office Imaging and outsourcing businesses. Wholesale revenue increased 12% to $268.6 million in fiscal 1998 from $240.5 million in fiscal 1997. The increase was primarily due to stronger supply sales in the U.S.

Approximately 40% of the Company's revenue is generated in countries outside of the United States. As a result of foreign currency fluctuations, the Company's revenue for the fiscal years 1999, 1998 and 1997 was negatively impacted by $16.8 million, $100.0 million and $23.0 million, respectively.

Gross profit: Gross profit declined 18% to $994.2 million in fiscal 1999 from $1.2 billion in fiscal 1998. The gross profit margin as a percentage of total revenue decreased to 34.3% in fiscal 1999 from 36.7% in fiscal 1998. The decline in the Company's combined gross profit margin, before special charges, was primarily due to a lower retail equipment margin. Including the effect of special charges to cost of retail equipment sales, retail service, supplies and rental costs, and wholesale costs of revenue during fiscal 1999 and the $10.0 million provision for the anticipated shortfall in equipment purchases recorded in the third quarter of fiscal 1998, gross profit was $935.9 million in fiscal 1999 compared to $1.2 billion in fiscal 1998. See Note 6 to the consolidated financial statements for discussion.

Gross profit as a percentage of retail equipment sales decreased to 26.1% in fiscal 1999 compared to 34.2% in fiscal 1998. The decline in the retail equipment margin was attributable to several factors, including the write-down of certain of the Company's non-Kodak branded inventory to estimated market value during the third quarter and the Company's efforts to reduce used machine and out-of-the-box inventories during the fiscal year. The net impact of these factors was approximately $25.0 million. See Note 6 to the consolidated financial statements for discussion on other special inventory write-downs affecting Kodak branded equipment. Other factors that affected the Company's retail equipment margin were primarily external market pressures. First, the negative press regarding the Company's financial situation led to price discounting to customers. Second, the impact of competitive pressures on equipment sales has increased in the U.S. and international markets as a result of the accelerated shift to digital products and the direct selling by Japanese manufacturers, the latter occurring more so in the international market. The Company believes that these competitive pressures in the U.S. and International markets will continue. Including the effect of special charges, gross profit as a percentage of retail equipment sales declined to 22.0% for fiscal 1999. See Note 6 to the consolidated financial statements for discussion.

As a percentage of revenue, the gross profit margin on retail service, supplies and rentals, declined 30 basis points to 39.9% in fiscal 1999 compared to 40.2% in fiscal 1998. Excluding DSI, the Company's outsourcing business, which has a lower gross profit margin compared to the Company's core copier business, the retail service, supplies and rentals margin increased to 43.0% in fiscal 1999 compared to 42.4% in fiscal 1998. Including special charges to retail service, supplies and rental costs, the Company reported a gross profit margin of 38.4% in fiscal 1999. See Note 6 to the consolidated financial statements for discussion.

As a percentage of revenue, the gross profit margin on wholesale sales declined to 14.3% in fiscal 1999 from 18.9% in fiscal 1998. The decline is primarily due to competitive pressures in the international and U.S. markets as well as a write-down of the Company's U.S. wholesale inventory to estimated market value. The Company closed its U.S. wholesale operations effective March 31, 1999. In addition, the comparable wholesale margin in fiscal 1998 was particularly strong due to solid private label sales. Including special charges to wholesale costs of revenue for the write-down of inventory, the Company reported a gross profit margin of 14.1% in fiscal 1999. See Note 6 to the consolidated financial statements for discussion.

Fiscal 1998 gross profit increased 50% to $1.2 billion from $810.7 million in fiscal 1997. As a percentage of total revenue, fiscal 1998 gross profit declined to 36.7% from 38.7% in fiscal 1997. The decrease was primarily related to the acquisition of the Office Imaging and outsourcing businesses which have lower individual gross profit margins than the Company's core operations at that time, as well as the Company's push to reduce inventory levels at year-end which impacted the retail equipment margin. The retail equipment margin declined to 34.2% in fiscal 1998 from 37.4% in fiscal 1997. As a percentage of revenue, the gross profit margin on retail service, supplies and rentals, decreased to 40.2% in fiscal 1998 from 43.8% in fiscal 1997 primarily due to the acquisition of the Office Imaging and outsourcing businesses which have lower individual gross profit margins. Excluding DSI, the retail service, supplies and rentals gross profit margin was 42.4% and 45.0% in fiscal 1998 and 1997, respectively. Gross profit as a percentage of wholesale revenue increased 60 basis points to 18.9% in fiscal 1998 from 18.3% in fiscal 1997. The increase was primarily due to stronger margins on the Company's private label sales.

Selling, general and administrative expenses: Selling, general and administrative ("SG&A") expenses remained relatively constant at $979.0 million and $979.4 million in fiscal 1999 and 1998, respectively. A decline in selling expenses primarily due to lower retail equipment sales was offset by higher general and administrative expenses, the majority of which occurred during the second half of fiscal 1999. Primary factors of the increase in general and administrative expenses included increased bad debt expenses, professional

fees related to the Company's restructuring efforts and costs associated with the IT separation from Kodak in December. The net impact of these factors was approximately $15.0 million. During the third quarter of fiscal 1999, the Company implemented a worldwide cost reduction program with the goal of reducing SG&A levels. As a percentage of revenue, total SG&A expenses increased to 33.8% in fiscal 1999 from 29.5% in fiscal 1998. The increase was primarily due to the decline in total revenue. Including the effect of special charges during fiscal 1999, the Company reported total SG&A expenses of $995.8 million. See Note 6 to the consolidated financial statements for discussion.

Fiscal 1998 selling, general and administrative expenses increased 53% to $979.4 million from $641.9 million in fiscal 1997. The increase was primarily related to acquisitions, principally the acquisition of the Office Imaging and outsourcing businesses. As a percentage of total revenue, selling, general and administrative expenses decreased to 29.5% in fiscal 1998 compared to 30.7% in fiscal 1997. The decrease primarily related to the Company's transition to the Market Based Approach during the first quarter of fiscal 1998, which reduced certain duplicative administrative costs through the centralization of various management and administrative functions throughout the Company's core operations in North America.

Amortization of intangible assets: Amortization of intangible assets decreased to $19.7 million for fiscal 1999 compared to $21.2 million for fiscal 1998. In connection with the Company's analysis of operations and restructuring plan announced during the third quarter of fiscal 1999, the Company evaluated its goodwill and other long-lived assets for recoverability. The Company determined that based on changes in the business environment and an analysis of projected cash flows, the carrying amount of certain goodwill and other long-lived assets in the U.S. and Canada would not be recoverable. Accordingly, the resulting analysis necessitated a write-down of $107.9 million during the third quarter, comprised of $89.5 million in the U.S. and $18.4 million in Canada. The estimated fair values of the Company's goodwill and other long-lived assets have been determined by calculating the present value of estimated expected future cash flows using an appropriate discount rate. In the fourth quarter, the Company decided to close its U.S. wholesale division and wrote-off $1.6 million of goodwill. See Note 6 to the consolidated financial statements. In fiscal 1998, amortization of intangible assets increased to $21.2 million from $19.4 million in fiscal 1997. The increase related to acquisitions.

Commitment to Kodak under Research and Development agreements: In connection with the acquisition of the Office Imaging and outsourcing businesses in December 1996, the Company was providing funding to Kodak for ongoing research and development for new electrophotographic equipment. Under the Research and Development agreement, the Company was to pay Kodak a sum of $175.0 million over the period April 1, 1997 through December 31, 2002 (plus an additional $30.0 million if certain milestones were met). Effective December 15, 1998 the Research and Development agreement was terminated. Following the termination of this agreement, the Company and Kodak reached a new agreement under which Kodak was required to finish the development of a digital high-volume copier, the DigiSource 9110. Under this agreement, the Company agreed to pay Kodak amounts totaling approximately $23.0 million. See—"Liquidity and Capital Resources" and Note 12 to the consolidated financial statements. The Company recorded commitments to Kodak under research and development agreements of $53.4 million, $50.0 million and $12.5 million in fiscal 1999, 1998 and 1997, respectively.

Restructuring charges: The Company recorded a $42.7 million pre-tax restructuring charge during fiscal 1999, primarily related to the Company's worldwide cost reduction program announced during the third quarter. Through several key initiatives, it is the Company's goal to reduce SG&A and improve profitability. See Note 6 to the consolidated financial statements. The fiscal 1999 restructuring charge was reduced by $1.9 million for remaining liabilities unused from prior restructuring charges in fiscal 1998 and fiscal 1997 resulting in a net charge of $40.8 million. In fiscal 1998, the Company recorded an $11.0 million pre-tax restructuring charge principally related to the integration of the Office Imaging business. The charge consisted of severance and other employee termination benefits. The Company also recorded a $35.0 million pre-tax restructuring charge in fiscal 1997 related to the acquisition of the Office Imaging business and the transition to the Company's Market Based Approach in North America. The charge consisted of severance and other employee termination benefits, lease settlement costs and the write-off of certain leasehold improvements and other fixed assets.

Earnings (loss) from operations: The Company reported an operating loss of $57.9 million in fiscal 1999 compared to earnings from operations of $168.4 million in fiscal 1998. Earnings from operations were primarily impacted by the decline in revenue, lower combined gross profit and higher SG&A expenses. Including restructuring and other special charges, the Company reported an operating loss of $283.3 million in fiscal 1999 compared to earnings from operations of $147.4 million in fiscal 1998. See Note 6 to the consolidated financial statements for discussion. Fiscal 1998 earnings from operations were 23% higher than fiscal 1997 earnings from operations of $136.9 million, primarily due to an increase in revenue. As a percentage of revenue, fiscal 1998 earnings from operations before restructuring and special charges declined to 5.1% from 6.5% in fiscal 1997. The decline was primarily due to a lower combined gross profit margin and the $50.0 million research and development commitments to Kodak. Including restructuring and other special charges, the Company reported earnings from operations of $147.4 in fiscal 1998 and $101.9 million in fiscal 1997. See Note 6 to the consolidated financial statements.

Interest expense and other, net: Interest expense and other, net increased to $74.2 million in fiscal 1999 compared to $64.2 million

in fiscal 1998 and $34.0 million in fiscal 1997. The increase in fiscal 1999 primarily related to higher levels of borrowings and a higher interest rate during the year. The interest rate increase was due to the amendments to the Company's Credit Agreement effective June 30, 1998 and the waiver fee paid by the Company to its lenders. See—"Liquidity and Capital Resources." The increase in fiscal 1998 was primarily due the borrowings used to fund the acquisition of the Office Imaging and outsourcing businesses.

Income taxes: Including restructuring and other special charges, the Company recorded a tax benefit of $62.7 million in fiscal 1999 compared to income taxes of $31.0 million in fiscal 1998. The tax benefit was due to the loss before income taxes, which resulted from the factors previously discussed. The combined effective income tax rate declined from 37.2% in fiscal 1998 to a tax benefit of 17.6% in fiscal 1999. The reduction in the effective tax rate is the result of non-tax deductible items, primarily the write-off of goodwill and other long-lived assets, valuation allowances established as a result of uncertainties about the ability to utilize net operating loss carry-forwards in certain jurisdictions, principally in the U.K. and Canada, and the pre-tax loss. Excluding the effect of restructuring and other special charges, the Company's effective tax benefit for fiscal 1999 was 10.0%. In fiscal 1997 the Company reported income taxes of $25.5 million and an effective tax rate of 37.6%.

Extraordinary item: In the third quarter of fiscal 1997, the Company recorded an extraordinary loss of $0.6 million related to the early extinguishment of debt, net of an income tax benefit of $0.3 million. The extraordinary charge resulted from the early retirement of the Company's $400.0 million credit facility and consisted primarily of the write-off of unamortized deferred finance costs.

Net (loss) earnings: As a result of the above factors, the Company reported a net loss, before restructuring and other special charges, of $118.9 million in fiscal 1999 compared to net earnings of $65.4 million in fiscal 1998. Including the effect of restructuring and other special charges, the Company reported a net loss of $294.8 million in fiscal 1999 compared to net earnings of $52.2 million in fiscal 1998. See Note 6 to the consolidated financial statements for discussion. Fiscal 1998 net earnings increased 2% from fiscal 1997 net earnings of $64.2 million, before restructuring and other special charges. As a percentage of revenue, net earnings decreased to 2.0% in fiscal 1998 from 3.1% in fiscal 1997 primarily due to the lower gross profit margin, the $50.0 million research and development commitments to Kodak and the higher interest expense.

Exchange Rates

Fluctuations in the exchange rate between the pound sterling and the U.S. dollar affect the dollar equivalent of the pound sterling of the Ordinary Shares of the Company on the London Stock Exchange and, as a result, are likely to affect the market price of the ADSs. The Company operates in over 30 countries worldwide, and therefore, fluctuations in exchange rates between the U.S. dollar and the currencies in each of the countries in which the Company operates, will affect the results of the Company's international operations reported in U.S. dollars and the value of such operations' net assets reported in U.S. dollars. The results of operations, financial condition and competitive position of the Company's business are affected by the relative strength of its currencies in countries where its products are currently sold. The Company's results of operations and financial condition can be adversely affected by fluctuations in foreign currencies and by translations of the financial statements of the Company's foreign subsidiaries from local currencies into U.S. dollars.

Liquidity and Capital Resources

The Company's primary cash requirements are for working capital, servicing its indebtedness and funding capital expenditures. The Company expects to satisfy these requirements with cash generated from operations and borrowings under its credit agreement. The Company also expects to generate cash from the sale of its Omnifax business, which is expected to close in the second quarter of fiscal 2000.

Effective June 15 and July 9, 1999, the Company and its bank lenders entered into amendments to the Company's credit agreement with a consortium of international bank lenders (the "Credit Agreement"). The Credit Agreement has been amended to require minimum levels of adjusted consolidated net worth, cumulative consolidated EBITDA and a ratio of consolidated EBITDA to interest expense, each as defined in the Credit Agreement. The amendments continue the waiver of compliance with the requirements imposed under certain other financial covenants, which were waived by the bank lenders pursuant to waivers granted to the Company in October 1998 and February 1999 after a prior amendment of the covenants effective June 30, 1998. The terms of the prior waivers and the 1998 amendment have been described in the Company's filings with the Securities and Exchange Commission.

Terms of the most recent amendment include an aggregate commitment by the lenders of $995.6 million, effective July 9, 1999. The availability outstanding under the Credit Agreement at July 12, 1999 was approximately $29.0 million. The Company paid a fee of $2.0 million related to the execution of the first amendment to the Credit Agreement and an additional payment equal to $10.0 million is to be paid pursuant to the second amendment on the earliest to occur of: (i) July 31, 2000, (ii) repayment of all amounts due under the Credit Agreement, and (iii) sale of the Company's outsourcing subsidiary, Danka Services International. Payments of approximately $2.4 million, $4.7 million and $9.3 million become due on October 31, 1999, December 31, 1999 and March 31, 2000, respectively, if any amounts remain outstanding under the Credit Agreement at those dates. With respect to the period from July 1, 1999 through September 30, 1999, the Company will be required to pay a fee equating to 0.25% annual interest on the average outstanding loans under the Credit Agreement if the

average outstanding loans exceed $650.0 million. During the period from October 1, 1999 through December 31, 1999 this fee will be increased to equate to 0.75% interest if the average outstanding loans in that period exceed $650.0 million and 0.25% if they do not. Those rates will increase to 1.25% and 0.50%, respectively, during the period from January 1, 2000 to March 31, 2000 and to 1.50% and 0.75%, respectively, during the period from April 1, 2000 through July 31, 2000.

Indebtedness under the Credit Agreement is secured by substantially all of the Company's U.S. assets and the Credit Agreement contains negative and affirmative covenants which place restrictions on Danka regarding the disposition of assets, capital expenditures, additional indebtedness and permitted liens, prohibit the payment of dividends and require the Company to maintain certain financial ratios. The adjustable interest rate on indebtedness under the Credit Agreement is at the option of the Company, 2.0% per annum plus either (i) the applicable Interbank Rate plus a tiered margin based on leverage for periods of one, two, three or six months or (ii) an alternative base rate, consisting of the higher of the lead bank's prime rate or the Federal Funds rate plus 0.5%. The Company is not permitted to make any acquisitions of businesses, except with the approval of the bank lenders and the Company is required to apply 60% of the first $200.0 million of net proceeds of any asset dispositions prior to October 31, 1999 to repayment of amounts due under the Credit Agreement, to so apply 80% of the next $200.0 million of such net proceeds and to so apply 90% of any additional net proceeds to the extent any amounts are outstanding under the Credit Agreement. The Company is required to make such repayments with 80% of such net proceeds received after October 31, 1999 up to the excess of $400.0 million over the aggregate net proceeds received on or before October 31, 1999 and 90% of any additional net proceeds received after October 31, 1999. The lenders commitments under the Credit Agreement will be reduced by the amount of all such repayments.

While the Company is generally prohibited from incurring new indebtedness other than under the Credit Agreement, the Company is permitted to borrow up to $40.0 million at any one time to finance the purchase of high-volume digital copiers and to secure such loans with liens upon the financed equipment.

The lease pursuant to which certain real property used by the Company is leased incorporates covenants from the Credit Agreement and contains certain additional covenants and agreements.

Danka intends to refinance its indebtedness under the Credit Agreement as soon as practical. Danka is currently in discussions with potential sources of refinancing. However, there can be no assurance that such refinancing will be available or be available on terms reasonably satisfactory to the Company.

Since last Autumn, Danka has implemented a number of initiatives, including (i) materially reducing selling, general and administrative expenses, (ii) more effectively managing working capital, including materially reducing inventory, (iii) entering into an agreement to divest the Omnifax business, (iv) restructuring the Company's long-term relationship with Kodak, (v) negotiating to maintain sources of financing for the Company's leasing business, and (vi) other elements of restructuring of Danka's business.

The Company began initiatives related to its restructuring program during the third quarter including the elimination of various marketing programs and non-essential information technology projects. The Company also announced in late January the reduction of 450 positions at its Rochester, NY facilities. Pre-tax restructuring charges incurred in the fiscal third quarter comprise $17.6 million for severance and other employee termination benefits, $19.4 million for facility closures and $3.1 million for the write-down of certain assets to net realizable value. The Company incurred an additional $2.6 million in pre-tax restructuring charges in the fourth quarter. The costs related to severance represent the elimination of approximately 1,400 positions worldwide, over 900 of which were eliminated as of March 31, 1999, including the reductions in Rochester. The remaining eliminations were completed by the end of the first quarter of fiscal 2000. See Note 6 to the consolidated financial statements. Through the full implementation of the Company's worldwide cost reduction program, the Company expects to generate over $100.0 million in annualized cost savings.

As previously announced, on December 17, 1998, certain supply and other agreements that required the Company to make minimum purchases from Kodak in future years and to fund research and development activities were terminated. The Company estimates that the termination of these agreements reduced payment obligations to Kodak during the next three to four years (after taking into account certain other payments that Kodak will no longer make to the Company) by more than $150.0 million. The Company was able to reduce inventory by nearly $88.0 million, before special charges, during fiscal 1999 by minimizing purchases of new equipment and selling existing inventory.

In February 1999, the Company and Kodak entered into an agreement related to the completion of the DigiSource 9110 under which the Company agreed to pay Kodak amounts totaling approximately $23.0 million. The DigiSource 9110 was introduced in March 1999 at CeBit, an international trade fair in Hanover, Germany.

On June 24, 1999, Kodak and the Company reached an agreement providing for mutual release of claims and obligations related to certain agreements previously entered into between Kodak and the Company. In connection with this agreement, liabilities of $10.0 million for the anticipated shortfall in Kodak equipment purchases recorded during the third quarter of fiscal 1998 and

$13.5 million relating to research and development and other accrued costs recorded during the third quarter of fiscal 1999, were reversed during the fourth quarter of fiscal 1999.

Effective May 10, 1999 Kodak sold its equipment, toner and developer manufacturing operations to a subsidiary of Heidelberger Druckmaschnen AG ("Heidelberg"), a German global market leader in printing systems. The Company and Heidelberg are engaged in negotiations with respect to a long-term supply agreement for the Kodak equipment, parts and supplies the Company is currently distributing, as well as an additional agreement with respect to the new high-volume digital machine, the DigiSource 9110. The DigiSource 9110 was developed by Kodak and is designed and assembled through a joint venture by Heidelberg Digital and NexPress Solutions.

The Company has historically financed a substantial portion of its leasing business using various funding sources. One of the largest programs to obtain such funding is one under which General Electric Capital Corporation ("GE Capital") provides funding used by a Master Trust to acquire customer leases from a subsidiary of the Company. On November 12, 1998, GE Capital served a notice making certain assertions and demanding various actions and assurances in connection with this program, including confirmation from the Company's bank lenders that assets transferred to the Master Trust were and would be free and clear of the lenders' liens. The Company has been able to satisfy various requirements imposed by GE Capital, including confirmation by the bank lenders as to the lien status of assets transferred to the Master Trust.

As a result of the Company's ability to meet these various requirements of GE Capital, the Company has continued to finance the majority of its leasing business through GE Capital, including utilizing the Master Trust Agreement noted above. The Company is presently negotiating with GE Capital a lease financing arrangement outside of the Master Trust, which would substantially replicate the economic benefits to the Company of leases funded under the Master Trust. Additionally, the Company continues to obtain financing for leases from other funding sources of leases.

The Company's net cash flow provided by operating activities was $36.6 million, $171.4 million and $192.7 million in fiscal 1999, 1998 and 1997, respectively. Fiscal 1999 operating cash flow was affected by the various factors described above. As mentioned above, excluding special charges, the Company reduced its inventory by nearly $88.0 million during the fiscal year 1999 due to its continued efforts to reduce inventory levels as well as a reduction in the Company's purchasing levels. Operating cash flow was also affected by the Company's reduction in accounts payable, which declined by $135.2 million. In fiscal 1998, operating cash flow was affected by higher inventory levels as a result of the requirements to purchase various levels of equipment pursuant to supply agreements with Kodak which were terminated effective December 15, 1998.

Cash flow used in investing activities was $190.3 million and $75.3 million and $871.6 million for fiscal 1999, 1998 and 1997, respectively. The Company's capital expenditures increased during fiscal 1999, primarily due to the higher levels of spending in the first quarter of the fiscal year. The higher level of investing activity in fiscal 1997 was primarily due to the Company's acquisition of Kodak's Office Imaging and outsourcing businesses in December 1996. The lower level of investing activities in fiscal 1999 was primarily due to the refund of approximately $100.0 million the Company received from Kodak during the second quarter of fiscal 1998 related to the purchase price adjustment provision in the purchase agreement between Kodak and the Company.

Net cash provided by (used in) financing activities was $185.7 million, ($135.2) million and $707.5 million in fiscal 1999, 1998 and 1997, respectively. The increase in cash provided by financing activities in fiscal 1999 was primarily due to the increase in the Company's bank borrowings. The use of cash in fiscal 1998 for financing activities was due to the pay down of total outstanding debt by over $150.0 million. The higher levels of financing activities in fiscal 1997 were primarily due to the acquisition of Kodak's Office Imaging and outsourcing businesses, which was funded with advances under the Credit Agreement.

As of March 31, 1999, the Credit Agreement had an outstanding balance of $488.6 million under the revolving component and $437.9 million under the term loan, incurring interest at a weighted average rate of 7.1% and 6.1% per annum, respectively.

The Company most recently paid a dividend to shareholders on July 28, 1998. The Company is not currently permitted to pay dividends under the Credit Agreement. Any determination to pay cash dividends after the refinancing of the indebtedness outstanding thereunder will be made by the Board of Directors in light of the Company's earnings, financial position, capital requirements, credit agreements and other such factors that the Board of Directors deems relevant.

The Company believes cash flow from internally generated funds, the availability under the most recent amendment to the Credit Agreement and the anticipated proceeds from the sale of Omnifax will be sufficient to support its operations during the next twelve months.

The Internal Revenue Service is conducting an examination of the Company's federal income tax returns for the fiscal years ended March 31, 1996 and 1995. The Company has received various notices of proposed adjustments; the principal adjustment relates to the timing of certain deductions associated with leased equipment financing. While the ultimate result can not be determined with certainty, the Company intends to vigorously contest the proposed adjustments and believes that the ultimate resolution will not have a material adverse impact upon the Company's consolidated results of operations, liquidity or financial position.

Year 2000

Many computer systems, including several used by the Company, could experience problems processing information beyond the Year 1999. As a result, certain computer systems, including the hardware, software and embedded technologies, need to be modified prior to the Year 2000, in order to remain functional. The Company has a Year 2000 Worldwide Program office that has developed an overall Year 2000 plan to address the possible impact of Year 2000 on the processing of date sensitive information by computer systems. The Company's Year 2000 Worldwide Program office is comprised of senior executives, legal counsel, outside advisers, and program managers. The progress of the overall Year 2000 program plan is being monitored and reported to a Worldwide Steering Committee, an Executive Committee and to the Board of Directors on a regular basis.

The Company's Year 2000 plan is addressing its most critical internal systems first and has categorized as "priority" those systems whose failure could cause an extended shutdown of all or part of a business unit, could cause personal injury, or could have a sustained and significant financial impact. These activities encompass identification and assessment of operational systems, including without limitation, business applications, infrastructure hardware and software applications. To prepare for the Year 2000, where appropriate, the Company is performing testing, remediation, and validation of operational systems, and is also testing customer and supplier interfaces with its internal systems as appropriate. At this time, the Company believes its Year 2000 criteria and guidelines outline the processes necessary to ensure comprehensive assessment, remediation, contingency planning and quality control. The Company will also perform comprehensive integration testing and validation of its major operational systems during the last phases of the Year 2000 program.

The Company's Year 2000 program plans for its North American, Latin American and worldwide outsourcing operations contain program administration and a six-phased remediation approach for the Company's Applications and Infrastructure areas. The Company is approximately 55% and 64% complete with the Applications and Infrastructure areas, respectively. The six phases are: 1) Inventory—prioritize comprehensive lists of hardware, software, business processes and embedded technologies with assigned compliance status; 2) Assessment and Analysis—remediation solutions and options are researched, selected and detailed plans with target completion dates are developed by Information Systems ("IS") in conjunction with the affected business units; 3) Remediation Development—includes hardware and software upgrades, vendor and supplier certification and other related changes; 4) Test and Validate—testing, conversion and integration of business applications and systems, including compliance demonstration and user acceptance performed by the affected business units; 5) Deployment—implementation of solutions into the operating environment; and 6) Contingency Planning and Post-Year 2000 Support—the further development and analysis of alternative actions that were initiated in phase one to limit any adverse impact on the Company's operations. The Company's Year 2000 worldwide program office meets regularly to review plan progress, issues and issues resolution. The Company anticipates completion of phases one through five by October 1, 1999 and the completion of phase six contingency plans no later than November 30, 1999. In instances where completion within estimated time frames is not assured, appropriate contingency plans are being developed or are in place.

The Company's International operations Year 2000 program plan contains program administration and a five-phased remediation approach for 19 countries. The five phases are: 1) Inventory—prioritized comprehensive lists of hardware, software, business processes and embedded technologies with assigned compliance status; 2) Assessment and Analysis—remediation solutions and options are researched, selected and detailed plans with target completion dates are developed; 3) Correction—includes hardware and software upgrades, vendor and supplier certification and other related changes; 4) Test and Validate—testing, conversion and integration of business applications and systems, including compliance demonstration, user acceptance, and implementation; and 5) Contingency Planning and Post-Year 2000 Support—the further development and analysis of alternative actions to limit any adverse impact on the Company's operations. The Company's International operations anticipates completion of phases one through four by October 1, 1999 and the completion of phase five contingency plans no later than November 30, 1999. In instances where completion within estimated time frames is not assured, appropriate contingency plans are being developed or are in place.

The Company believes it is on schedule with the target dates and continues to finalize assessment and select remediation options. The remediation options are being developed and validated and, upon approval, are being placed into the production operating environment.

In December 1998, the Company completed the implementation of a new corporate-wide IT infrastructure thereby enabling it to operate independently from Kodak's computer systems. In May 1999, the Company completed the Latin American applications separation, thereby enabling it to operate independently from Kodak's computer systems. The Company believes Canadian application conversions will be complete by September 30, 1999, and the Company has contingency plans in place to address any variations from the applications' conversions schedule.

The Company's Year 2000 plans also include working with its suppliers, vendors and customers to identify and assess any Year 2000 issues associated with products, services or facilities (including non-IT/embedded systems). The Company is currently evaluating its supplier relationships and vendor manufacturing relationships to assess the potential impact on operations if third parties are not successful in having their systems Year 2000 compliant in a timely

manner. Highest priority is being placed on working with critical suppliers, defined by the Company as those suppliers whose failure would have the greatest impact on business operations within a short period of time. The Company has made inquiries of its major suppliers and has received satisfactory responses from all of its critical suppliers. The Company continues to contact secondary suppliers. A worst-case scenario involving a critical supplier of products or services would be the complete shutdown of the supplier and the supplier's resulting inability to provide products or services to the Company in a timely fashion. The Company does not maintain the ability to produce or manufacture third-party products. If the Company believes that a supplier will not be able to continue to provide an adequate level of service, the Company intends to take appropriate actions to minimize the impact of the Year 2000 changeover on its operations.

The Company is also assessing the readiness of its customers to deal with Year 2000 issues that may affect its customers' operations and their ability to order and pay for products. The Company is surveying its major direct customers about their Year 2000 readiness in critical areas of their operations. The results may identify areas that need to be addressed by the customers. The Company's customer base is sufficiently diverse that the Company does not expect that the Year 2000 issues of a few customers will have a significant effect on the Company's business. The Company is also communicating information about its own readiness and the processes used in the Company's Year 2000 program to customers.

The Company is also compiling information about the Year 2000 capability of products to assist customers in identifying and evaluating their Year 2000 issues. The Company continues to obtain product "Year 2000 Readiness Information and/or Statements" from primary suppliers and vendor manufacturers. The Company's Year 2000 website contains links to the Year 2000 websites of the manufacturers of the products. The manufacturers' websites generally contain the manufacturers' analysis of the capability of their products to handle the Year 2000. Where applicable, the Company is developing strategies to support customer migration to a Year 2000 solution. The Company is providing customer support and customer satisfaction services regarding Year 2000 issues, and it is expected that these expenditures will continue through calendar 1999.

The Company is making inquiries of its leased and owned facilities to assess the extent to which facilities are Year 2000 capable. Follow-up activities include additional inquiries for incomplete or nonresponsive replies. Each location relies on local private and governmental suppliers for electricity, water, sewer and other needed services and supplies. Failure of an electricity grid or an uneven supply of power would be a worst-case scenario that would completely shut down the affected facilities. Electrical failure could also shut down airports and other transportation facilities. Since many of the Company's offices engage in similar activities and tasks, certain operations can be expanded to partially make up for capacity unavailable elsewhere during an electrical failure. Although overall capacity would be reduced, it is not expected that the entire business operations would shut down due to the unavailability of one or two facilities.

In January of 1999, an external consulting corporation reviewed the Company's Year 2000 program and the Company continues to review and implement the applicable recommendations. The Company's Year 2000 program assumes the utilization of both internal and external resources and have been undertaken largely with existing personnel. In some instances, consultants have been engaged to provide specific assessment, remediation or other services.

The Company estimates that costs related to the Year 2000 program will approximate $14.3 million. Out of the total program costs the Company estimates that approximately $7.1 million will be allocated to its North American and Latin American operations, approximately $5.2 million to its International operations, and approximately $2.0 million to its worldwide outsourcing business (DSI). The Company estimates that external costs incurred to date are approximately $0.9 million.

The Company believes it is taking reasonable steps to avoid interruption in the business, which may be caused by the Year 2000 changeover. However, program estimates relating to both costs and completion dates are based on current knowledge combined with numerous future assumptions that bear associated risks caused by the Year 2000 changeover, which may potentially position the Company at risk. The Company cannot guarantee that estimates will be achieved and actual results could differ materially from those anticipated. The worst case risks include, but are not limited to, inability to perform financial operations, failure of delivery from leading manufacturers or vendor services, inability to recover from a catastrophic disaster and the possible inability to retain appropriate qualified personnel. These events may result in increased costs caused by the implementation of manual operations, decreased sales related to the inability to deliver products or provide quality products, or the inability to complete the program no later than the estimated date of completion.

Euro

On January 1, 1999, eleven of the fifteen member countries of the European Monetary Union ("EMU") established fixed conversion rates between their existing currencies and one common currency —the Euro. The Euro trades on currency exchanges and may be used in business transactions. Countries in which the Company operates that are converted to the Euro include Austria, Belgium, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain. The Company's operating subsidiaries affected by the Euro conversion established plans before the conversion to address the systems and business issues raised by the Euro currency conversion including information technology systems, the

processes of preparing accounting records, financial instruments and the continuity of contracts. Where necessary, systems are being updated to allow "dual currency" functionality to enable the Company to invoice and be invoiced in either local currencies or the Euro. The conversion to the Euro is also expected to eliminate exchange risks among the EMU countries and reduce the need for forward contracts. Those countries that have not converted to the Euro (e.g., the U.K.) are beginning to prepare for the conversion as well, to enable a switch to the Euro, should the local governments of these countries decide to convert at some later date. All contracts prior to the conversion are still legally enforceable despite the Euro conversion. While there can be no assurances that external factors associated with the conversion will not impact the Company, based upon steps taken to date, the Company anticipates that the Euro conversion will not have a material impact on its financial condition, results of operations or its ability to continue to operate in countries affected by the Euro.

Seasonality

The Company has experienced some seasonality in its business. The Company's European and Canadian operations have historically experienced lower revenue for the three month period ended September 30 due to increased vacation time by Europeans and Canadians during July and August. This has resulted in reduced sales activity and reduced usage of photocopiers, facsimiles and other office imaging equipment during such period.

Special Note Regarding Forward-Looking Statements

Certain statements contained in this Annual Report under "Management's Discussion and Analysis of Financial Condition and Results of Operations," or otherwise made by officers of the Company, including statements related to the Company's ability to meet challenges it faces, the Company's future performance and the Company's outlook for its businesses and respective markets, projections, statements of management's plans or objectives, forecasts of market trends and other matters, are forward-looking statements, and contain information relating to the Company that is based on the beliefs of management as well as assumptions, made by, and information currently available to, management. The words "goal," "anticipate," "expect," "believe" and similar expressions as they relate to the Company or the Company's management, are intended to identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions that could cause actual results to differ materially from those reflected in the forward-looking statements. No assurance can be given that the results in any forward-looking statement will be achieved. For the forward-looking statements, the Company claims the protection of the safe harbor for forward-looking statements provided for in the Private Securities Litigation Act of 1995. Factors that might cause such differences include, but are not limited to (i) failure to obtain one or more waivers or longer term financing beyond the July 31, 2000 waiver period to meet the Company's liquidity needs, whether through failure to perform as described in business plans provided to the Company's lenders or otherwise, (ii) increased competition resulting from other high-volume and digital copier distributors and the discounting of such copiers by competitors, (iii) any inability by the Company to manage and reduce its outstanding debt, meet its working capital needs or otherwise adequately address its liquidity challenges, (iv) any inability by the Company to procure or any inability by the Company to continue to gain access to and successfully distribute new, products, including digital products and high-volume copiers, or to continue to bring current products to the marketplace at competitive costs and prices, (v) any inability by the Company to finalize a long-term supply agreement with Heidelberg, (vi) any inability by the Company to achieve projected cost savings, (vii) the refusal by any vendor to provide equipment, parts and supplies as a result of the Company's financial condition, (viii) any inability by the Company to successfully close facilities without negative impact on the Company's operations, (ix) any inability by the Company to obtain adequate funding for its leasing business, (x) any inability by the Company to bring SG&A expenditures of the Company's U.S. division into line with anticipated sales, (xi) business disruption resulting from Year 2000 issues including unidentified noncompliance of technology, delays or difficulties in implementing new IT infrastructure, delays or difficulties in converting remaining systems and applications, and untimely third party completion of Year 2000 compliance, (xii) any inability by the Company to complete the sale of its Omnifax business, (xiii) the ultimate outcome and impact of the pending class action lawsuit or any other lawsuit, (xiv) any negative impact from the loss of any key upper management personnel, (xv) any negative impact on the Company's financial condition or results of operations caused by the Euro conversion, (xvi) any significant assessment, pursuant to the review by the Internal Revenue Service, (xvii) fluctuations in foreign currencies and (xviii) other risks including those risks identified in any of the Company's other filings with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date they are made. The Company undertakes no obligation and does not intend to update these forward-looking statements to reflect events or circumstances that arise after the date such statements are made. Furthermore, as a matter of policy, the Company does not generally make any specific projections as to future earnings nor does it endorse any projections regarding future performance, which may be made by others outside the Company.

Consolidated Statements of Operations

For the years ended March 31	Note	**1999 $000**	1998 $000 (Except per ADS data)	1997 $000
Revenue:				
Retail equipment sales		**755,485**	985,303	698,996
Retail service, supplies and rentals		**1,920,821**	2,068,864	1,152,770
Wholesale		**220,914**	268,569	240,531
Total revenue		**2,897,220**	3,322,736	2,092,297
Costs and operating expenses:				
Cost of retail equipment sales		**558,370**	647,839	437,387
Special charges, cost of retail equipment sales	6	**30,709**	10,000	—
Retail service, supplies and rental costs		**1,155,325**	1,237,953	647,787
Special charges retail service, supplies and rental costs	6	**27,144**	—	—
Wholesale costs of revenue		**189,261**	217,925	196,470
Special charges, wholesale costs of revenue	6	**514**	—	—
Selling, general and administrative expenses		**979,008**	979,381	641,905
Special charges, general and administrative expenses	6	**16,805**	—	—
Amortization of intangible assets		**19,714**	21,232	19,386
Write-off of goodwill and other long-lived assets	6	**109,474**	—	—
Commitment to Kodak under R&D agreements		**53,434**	50,000	12,500
Restructuring charges	6	**40,818**	11,000	35,000
Total costs and operating expenses		**3,180,576**	3,175,330	1,990,435
(Loss) earnings from operations		**(283,356)**	147,406	101,862
Interest expense and other, net	5	**74,197**	64,214	33,985
(Loss) earnings before income taxes		**(357,553)**	83,192	67,877
Provision (benefit) for income taxes	8	**(62,773)**	30,958	25,522
(Loss) earnings before extraordinary item		**(294,780)**	52,234	42,355
Extraordinary item—loss on early extinguishment of debt, net of income tax benefit		**—**	—	578
Net (loss) earnings		**(294,780)**	52,234	41,777
Basic (loss) earnings per ADS:				
(Loss) earnings before extraordinary item		**$(5.18)**	$0.92	$ 0.75
Extraordinary item		**—**	—	(0.01)
Net (loss) earnings per ADS		**$(5.18)**	$0.92	$ 0.74
Weighted average ADSs		**56,915**	56,799	56,268
Diluted (loss) earnings per ADS:				
(Loss) earnings before extraordinary item		**$(5.18)**	$0.90	$ 0.73
Extraordinary item		**—**	—	(0.01)
Net (loss) earnings per ADS		**$(5.18)**	$0.90	$ 0.72
Weighted average ADSs		**56,915**	57,841	57,725

The accompanying notes are an integral part of these consolidated financial statements.

At March 31	Note	1999 $000	1998 $000
Assets			
Current assets:			
Cash and cash equivalents		**66,095**	34,653
Accounts receivable, net of allowance for doubtful accounts of $61,266 (1998—$30,973)		**571,470**	628,052
Inventories		**356,139**	482,656
Prepaid expenses, deferred income taxes and other current assets		**56,951**	35,414
Assets of business held for sale	2	**62,791**	—
Total current assets		**1,113,446**	1,180,775
Equipment on operating leases, net	3	**264,625**	294,348
Property and equipment, net	4	**92,963**	87,916
Intangible assets:			
Goodwill, net of accumulated amortization of $56,259 (1998—$57,028)	6	**334,964**	478,247
Noncompete agreements, net of accumulated amortization of $8,735 (1998—$11,389)		**2,477**	6,785
Deferred income taxes and other assets	8	**96,667**	130,870
Total assets		**1,905,142**	2,178,941
Liabilities and Shareholders' Equity			
Current liabilities:			
Current maturities of long-term debt and notes payable	5	**89,732**	84,490
Accounts payable		**162,294**	297,464
Accrued expenses and other current liabilities		**333,446**	338,237
Deferred revenue		**51,818**	70,476
Liabilities of business held for sale	2	**17,240**	—
Total current liabilities		**654,530**	790,667
Convertible subordinated notes	5	**200,000**	200,000
Long-term debt and notes payable, less current maturities	5	**852,415**	658,892
Deferred income taxes and other long-term liabilities	8	**27,033**	49,075
Total liabilities		**1,733,978**	1,698,634
Shareholders' equity:			
Ordinary Shares 1.25 pence stated value; 500,000,000 authorized; 228,067,865 issued and outstanding (1998—227,495,865)	11	**4,758**	4,746
Additional paid-in capital		**304,436**	304,197
Retained earnings (deficit)		**(72,815)**	227,917
Accumulated other comprehensive (loss) income		**(65,215)**	(56,553)
Total shareholders' equity		**171,164**	480,307
Commitments and contingencies	12		
Total liabilities and shareholders' equity		**1,905,142**	2,178,941

The accompanying notes are an integral part of these consolidated financial statements.

For the years ended March 31	**1999 $000**	1998 $000	1997 $000
Operating activities			
Net (loss) earnings	**(294,780)**	52,234	41,777
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities:			
Depreciation and amortization	**163,321**	171,273	96,414
Loss on sale of property and equipment and equipment on operating leases	**13,968**	2,306	1,039
Proceeds from sale of equipment on operating leases	**33,289**	35,087	12,505
Restructuring and other special charges	**225,464**	21,000	35,000
Extraordinary item	**—**	—	927
Changes in assets and liabilities, net of effects from the purchase of subsidiaries and the assets and liabilities of business held for sale:			
Accounts receivable	**27,672**	(4,153)	50,806
Inventories	**94,943**	4,706	(65,204)
Prepaid expenses, deferred income taxes and other current assets	**(44,051)**	2,992	(16,215)
Deferred income taxes and other noncurrent assets	**7,718**	(5,544)	(5,837)
Accounts payable	**(136,702)**	(28,521)	77,093
Accrued expenses and other current liabilities	**(12,783)**	(114,185)	(25,544)
Deferred revenue	**(7,847)**	2,149	(11,160)
Deferred income taxes and other long-term liabilities	**(33,648)**	32,047	1,053
Net cash provided by operating activities	**36,564**	171,391	192,654
Investing activities			
Capital expenditures	**(191,054)**	(189,133)	(92,747)
Proceeds from sale of property and equipment	**2,913**	10,034	16,890
Purchase of subsidiaries, net and proceeds from settlement of fiscal year 1997 acquisition	**(1,919)**	106,558	(794,672)
Payment for purchase of noncompete agreements	**(280)**	(2,758)	(1,058)
Net cash used in investing activities	**(190,340)**	(75,299)	(871,587)
Financing activities			
Net (payments) borrowings under line of credit agreements	**196,433**	(120,512)	734,057
Principal payments on debt	**(4,983)**	(6,650)	(19,670)
Proceeds from stock options exercised	**251**	2,586	2,131
Dividends	**(5,952)**	(10,623)	(9,015)
Net cash provided by (used in) financing activities	**185,749**	(135,199)	707,503
Effect of exchange rates	**(531)**	(115)	7,088
Net (decrease) increase in cash and cash equivalents	**31,442**	(39,222)	35,658
Cash and cash equivalents, beginning of period	**34,653**	73,875	38,217
Cash and cash equivalents, end of period	**66,095**	34,653	73,875
Supplemental disclosures			
Cash flow information:			
Interest paid	**76,288**	58,992	26,739
Income taxes paid	**10,902**	13,064	13,980
Non-cash flow information:			
Notes payable issued for purchase of subsidiaries	**—**	—	288

The accompanying notes are an integral part of these consolidated financial statements.

	Ordinary shares $000	Additional paid-in capital $000	Retained earnings (deficit) $000	Accumulated other comprehensive (loss) income $000	Total $000
Balances at March 31, 1996	4,585	297,378	148,501	(8,621)	441,843
Net earnings	—	—	41,777	—	41,777
Currency translation adjustment	—	—	—	(18,311)	(18,311)
Comprehensive income					23,466
Dividends	—	—	(9,015)	—	(9,015)
Distributions to former shareholders of pooled companies	—	—	(324)	—	(324)
Shares issued under employee option plans	14	2,117	—	—	2,131
Shares issued for acquisitions	135	2,128	5,367	—	7,630
Balances at March 31, 1997	4,734	301,623	186,306	(26,932)	465,731
Net earnings	—	—	52,234	—	52,234
Currency translation adjustment	—	—	—	(29,621)	(29,621)
Comprehensive income					22,613
Dividends	—	—	(10,623)	—	(10,623)
Shares issued under employee option plans	12	2,574	—	—	2,586
Balances at March 31, 1998	4,746	304,197	227,917	(56,553)	480,307
Net loss	—	—	(294,780)	—	(294,780)
Currency translation adjustment	—	—	—	(8,662)	(8,662)
Comprehensive loss					(303,442)
Dividends	—	—	(5,952)	—	(5,952)
Shares issued under employee option plans	12	239	—	—	251
Balances at March 31, 1999	**4,758**	**304,436**	**(72,815)**	**(65,215)**	**171,164**

The accompanying notes are an integral part of these consolidated financial statements.

1. Summary of Significant Accounting Policies

(a) Basis of preparation: The financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles. The principal accounting policies are set forth below.

(b) Basis of consolidation: The consolidated financial statements include the accounts of Danka Business Systems PLC and its wholly owned subsidiaries (the "Company"). The Company's principal operating subsidiaries are located in North America, Europe, Australasia, and Latin America, and are principally engaged in the retail and wholesale distribution and service of photocopiers and facsimile equipment and outsourcing of document imaging solutions. All significant intercompany balances and transactions have been eliminated in consolidation.

(c) Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at year end and the reported amounts of revenues and expenses during the reporting period. Certain significant estimates are disclosed throughout this report. Actual results could differ from these estimates.

(d) Revenue recognition: Equipment sales are recognized at the time of customer acceptance, or in the case of equipment sales financed by third party leasing companies, at the time of acceptance by the leasing company and the customer. Supply sales to customers are recognized at the time of shipment, or in the case of service contracts which include supplies, upon usage by the customer.

Operating lease income is recognized as earned over the lease term, and maintenance contract service revenues are recognized ratably over the term of the underlying maintenance contract. Revenue from outsourcing contracts is recognized as earned over the contract term. Deferred revenue consists of unearned maintenance contract revenue that is recognized using the straight-line method over the life of the related contract, generally twelve months.

(e) Property and equipment: Property and equipment are stated at cost. Depreciation and amortization is provided using the straight-line method over the assets' estimated economic lives. Expenditures for additions, major renewals or betterments are capitalized and expenditures for repairs and maintenance are charged to earnings as incurred. When property and equipment are retired or otherwise disposed of, the cost thereof and the applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is reflected in earnings.

(f) Inventories: Inventories consist of photocopiers, facsimile equipment, other automated office equipment, and related parts and supplies, and are stated at the lower of cost (specific cost for equipment and first-in, first-out method for supplies and parts) or market.

(g) Long-lived assets: The carrying value of long-lived assets to be held and used, including goodwill and other intangible assets is evaluated for recoverability whenever adverse effects or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments are recognized if future undiscounted cash flows and earnings from operations are not expected to be sufficient to recover goodwill and other long-lived assets. The carrying amounts are then reduced by the estimated shortfall of the discounted cash flows. For the year ended March 31, 1999, the Company wrote-off $109.5 million of goodwill and other long-lived assets primarily due to impairment (See Note 6). Goodwill, which represents the excess of purchase price over fair value of net assets acquired, is amortized over thirty years on a straight-line basis. Noncompete agreements are amortized over the lives of the agreements, generally three to seven years on a straight-line basis.

Deferred financing costs incurred in connection with the issuance of the Convertible Subordinated Notes and other financings are charged as interest expense over the term of the related debt, and are included in other noncurrent assets.

(h) Foreign currencies: Foreign currency transactions are converted at the rate of exchange on the date of the transaction or translated at the year end rate in the case of transactions not then finalized. Assets and liabilities in currencies other than U.S. dollars are translated into U.S. dollars at the exchange rate in effect at the balance sheet date. Revenues and expenses are translated using the average rate of exchange for the period. Exchange differences arising in consolidation are recorded in shareholders' equity.

(i) Cash and cash equivalents: Cash and cash equivalents consist of cash on hand and commercial paper with original maturities of three months or less.

(j) Income taxes: Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(k) Earnings per share: In 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earnings per Share." Statement No. 128 requires the dual presentation of basic and diluted earnings per share ("EPS") for complex capital structures on the Consolidated Statement of Earnings. Basic EPS is computed by dividing net earnings (loss) by the weighted average number of shares outstanding for the period. Diluted EPS reflects the potential dilution from the exercise of stock options or the conversion of securities into stock. Earnings per American Depositary Share ("ADS") are based on the current ratio of four Ordinary Shares to one ADS.

(l) Concentrations of risk: Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and trade receivables. The

Company's cash and cash equivalents are placed with high credit quality financial institutions, and are invested in short-term maturity, highly rated corporate and government debt securities. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer base, and their dispersion across many different industries and geographical areas. As of March 31, 1999, the Company had no significant concentrations of credit risk. A substantial portion of the Company's revenue is derived from the sale of photocopiers and facsimile equipment. The Company's business is dependent upon close relationships with its vendors and its ability to purchase products from these vendors on competitive terms. The Company purchases products from a number of different vendors. For the year ended March 31, 1999, the Company's purchases of Kodak branded equipment represented the highest of any vendor and approximated 27% of total equipment purchases. Effective December 15, 1998, certain supply agreements that required the Company to make minimum purchases from Kodak were terminated. Effective May 10, 1999, Kodak sold its equipment, toner and developer manufacturing operations to Heidelberger Druckmaschnen AG ("Heidelberg"), a German global market leader in printing systems. The Company and Heidelberg are engaged in negotiations with respect to a long-term supply agreement for the Kodak equipment, parts and supplies the Company is currently distributing, as well as an additional agreement with respect to the new high-volume digital machine, the DigiSource 9110.

(m) Financial instruments: The Company enters into foreign exchange forward and option contracts to manage its exposure to fluctuations in foreign currency exchange rates. Gains and losses that hedge specific currency commitments are deferred and recognized in net earnings in the period in which the transaction is consummated. Premiums paid on option contracts that hedge specific currency commitments are amortized over the term of the option.

(n) Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation.

(o) Advertising costs: The Company expenses advertising costs as incurred, except production costs which are expensed the first time the advertising takes place.

(p) New accounting standards: In 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is effective for the first quarter of the fiscal years beginning after June 15, 1999. Statement No. 133 establishes accounting and reporting requirements for derivative instruments and hedging activities, and modifies disclosures previously required under other accounting standards. Implementation of Statement No. 133 may be complex. The Company does not expect the adoption of Statement No. 133 to have a material impact on its results of operations.

2. Business Held for Sale

On October 16, 1998, the Company engaged the investment banking firm of Wasserstein, Perella & Co. ("Wasserstein") to aid in the examination of its businesses and advise the Company concerning a restructuring of its operations. During the third quarter of fiscal 1999, Wasserstein was authorized to market certain of the Company's divisions and operating units to pay down debt and raise funds for operation of the remaining businesses.

The Company announced on June 18, 1999 that it signed a definitive agreement to sells its facsimile division, Omnifax, to Xerox Corporation for a cash consideration of $45.0 million, which approximates the value of the business' net assets. The Company does not expect to record a material gain or loss on the sale of Omnifax. The Company expects to complete the sale of Omnifax during the second quarter of fiscal 2000. The assets and liabilities of Omnifax at March 31, 1999 totaled $62.8 million and $17.2 million, respectively, and consisted primarily of property and equipment, accounts receivable, inventories, accounts payable and accrued expenses. These amounts are included in the accompanying consolidated balance sheet as assets and liabilities of business held for sale as of March 31, 1999. The revenue, costs and operating expenses of Omnifax for the years ended March 31, 1999 and 1998 are as follows:

	1999 $000	1998 $000	1997 $000
Total revenue	**111,008**	126,299	118,287
Costs of revenue	**62,206**	71,741	70,967
Selling, general and administrative expenses	**34,301**	37,539	37,073
Amortization of intangible assets	**664**	934	606
Total costs and operating expenses	**97,171**	110,214	108,646
Earnings from operations	**13,837**	16,085	9,641

The Company also announced on May 20, 1999, that it signed an agreement to sell a 90% interest in its outsourcing business, Danka Services International ("DSI") to a newly formed company controlled by Schroder Ventures, an international private equity group. On June 30, 1999, the agreement to sell DSI to Schroder Ventures was terminated. The Company was informed by IBM, a customer of DSI, that there was a distinct possibility IBM might choose to exercise its right to terminate its agreement as a customer with DSI, and that this action could occur at any time. As a result of this notice, and after discussions with IBM, Schroder Ventures informed the Company that Schroder Ventures and its lenders declined to close the transaction.

3. Equipment on Operating Leases, net

Included in equipment on operating leases is equipment used to generate rental revenue in the Company's core business and service revenue in the Company's outsourcing business. Substantially all of the Company's operating leases are cancelable. Equipment on operating leases is depreciated over three to five years assuming a salvage value ranging from zero to ten percent and consists of the following at March 31, 1999 and 1998:

	1999 $000	1998 $000
Equipment on operating leases	**401,008**	441,906
Equipment used in outsourcing business	**110,413**	71,770
Less accumulated depreciation	**(246,796)**	(219,328)
Equipment on operating leases, net	**264,625**	294,348

Depreciation expense for the years ended March 31, 1999, 1998 and 1997 approximated $112,426,000, $109,896,000, and $59,985,000, respectively.

4. Property and Equipment, net

Property and equipment, along with their useful lives, consist of the following at March 31, 1999 and 1998:

	1999 $000	1998 $000	Average useful life in years
Buildings	**3,504**	4,460	31
Office furniture, equipment and leasehold improvements	**169,017**	137,193	3-10
Transportation equipment	**10,547**	13,925	5-15
Land	**1,635**	1,644	—
Total cost	**184,703**	157,222	
Less accumulated depreciation and amortization	**(91,740)**	(69,306)	
Property and equipment, net	**92,963**	87,916	

Depreciation expense for the years ended March 31, 1999, 1998 and 1997 approximated $31,181,000, $40,145,000, and $17,043,000, respectively.

5. Debt

Debt consists of the following at March 31, 1999 and 1998:

	1999 $000	1998 $000
Revolving line of credit (limited to $560.0 million) interest at IBOR plus an applicable margin or the agent bank's reference rate (currently averaging 7.1%), matures December 2002	**488,612**	231,521
Term loan (limited to $475.0 million) interest at IBOR plus an applicable margin or the agent bank's reference rate (currently averaging 6.1%), matures December 2002	**437,932**	479,902
6.75% Convertible Subordinated Notes due April 2002	**200,000**	200,000
Various notes payable bearing interest from prime to 12.0%, maturing principally over the next 5 years	**15,603**	31,959
Total long-term debt and notes payable	**1,142,147**	943,382
Less current maturities of long-term debt and notes payable	**(89,732)**	(84,490)
Long-term debt and notes payable, less current maturities	**1,052,415**	858,892

The Company has a multicurrency credit agreement (totaling $1.035 billion as of March 31, 1999), which consists of a term loan and revolving line of credit (the "Credit Agreement"), with a consortium of international banks. The Credit Agreement, which is secured by substantially all of the Company's U.S. assets, matures in December 2002, requires scheduled payments of interest throughout the term of the loan, and the maintenance of certain financial ratios. Additionally, the term loan requires quarterly principal payments.
On October 20, 1998 the Company obtained a waiver of its obligations to comply with certain financial covenants and the consequences of failing to comply with such covenants under its Credit Agreement for a period from September 30, 1998 through February 28, 1999. On February 26, 1999, the Company obtained an extension on the waiver through August 27, 1999. Effective June 15 and July 9, 1999, the Company and its bank lenders entered into amendments to its Credit Agreement. Terms of the most recent amendment include an aggregate commitment by the bank lenders of $995.6 million. The Credit Agreement has been amended to require minimum levels of adjusted consolidated net worth, cumulative consolidated EBITDA and a ratio of consolidated EBITDA to interest expense. Compliance with certain other financial covenants has been waived until July 31, 2000. The Company paid a fee of $2.0 million related to the execution of the first amendment to the Credit Agreement and an additional payment equal to $10.0 million is to be paid pursuant to the second amendment on the earliest to occur of (i) July 31, 2000, (ii) repayment of all amounts due under the Credit Agreement, and (iii) sale of the Company's outsourcing subsidiary, Danka Services International. Payments of approximately $2.4 million, $4.7 million and $9.3 million become due on October 31, 1999, December 31, 1999 and March 31, 2000, respectively, if any amounts remain outstanding under the Credit Agreement at those dates. The Company is not permitted to make any acquisitions of businesses, except with the approval of the bank lenders and the Company is required to apply 60% of the first $200.0 million of net proceeds of any asset dispositions prior to October 31, 1999 to repayment of amounts due under the Credit Agreement, to so apply 80% of the next $200.0 million of such net proceeds and to so apply 90% of any additional net proceeds to the extent any amounts are outstanding under the Credit Agreement. The Company is required to make such repayments with 80% of such net proceeds received after October 31, 1999 up to the excess of $400.0 million over the aggregate net proceeds received on or before October 31, 1999 and 90% of any additional net proceeds received after October 31, 1999. The lenders' commitments under the Credit Agreement will be reduced by the amount of all such repayments. The Company believes cash flow from internally generated funds, the availability under the most recent amendment to the Credit Agreement and the anticipated proceeds from the sale of Omnifax will be sufficient to support its operations during the next twelve months.

In March 1995, the Company issued $200.0 million of 6.75% Convertible Subordinated Notes (the "Notes") at par, in a private placement offering, due April 2002. The Notes are currently convertible into the Company's ADSs at a conversion rate of $29.125 per ADS, or into the Company's Ordinary Shares at a conversion rate of $7.281 per Ordinary Share (equivalent to approximately 34.335 ADSs or 137.339 Ordinary Shares for each $1,000 principal amount of Notes). Interest is payable semi-annually on April 1 and October 1. The Notes are not subject to sinking fund provisions.

Aggregate annual maturities of debt at March 31, 1999, are as follows:

Year ending March 31	$000
2000	89,732
2001	102,647
2002	151,448
2003	797,568
2004	257
Thereafter	495
	1,142,147

6. Restructuring and Other Special Charges

Fiscal 1999: The Company recorded certain restructuring and other special charges during the third and fourth quarters of the fiscal year ended March 31, 1999. The restructuring charges were for headcount reductions, the elimination of excess facilities, the write-off of goodwill and other long-lived assets, as well as the write-down of assets which have been impacted as a result of the termination of certain agreements between the Company and Kodak. The Company also initiated its worldwide cost reduction program during the third quarter of fiscal 1999.

A summary of the restructuring and other special pre-tax charges is as follows:

Pre-Tax Restructuring Charge (1):

	Expense $000	Cash outlays $000	Other non-cash changes $000	Reserve at March 31, 1999 (7) $000
Severance	19,820	(5,701)	—	14,119
Future lease obligations on facility closures	19,790	(2,071)	—	17,719
Write-off of leasehold improvements on facility closures	3,084	—	(3,084)	—
Total restructuring charges	42,694	(7,772)	(3,084)	31,838

As noted below under fiscal 1998 and 1997 restructuring charges, unutilized accruals of $l.9 million were adjusted during the third quarter of fiscal 1999 and reflected in the current year pre-tax restructuring charge of $42.7 million, resulting in a net charge of $40.8 million.

Other Special Pre-Tax Charges:

	Expense $000	Cash outlays $000	Other non-cash changes $000	Reserve at March 31, 1999 (7) $000
Special charges to cost of retail equipment (2):				
Kodak equipment valuations	39,559	—	(39,559)	—
Adjustment to the accrued shortfall in Kodak equipment purchases	(10,000)	—	10,000	—
Write-off of other assets	l,150	—	(1,150)	—
Total	30,709	—	(30,709)	—
Special charges to cost of retail service, supplies and rentals (3):				
Write-off of terminated Kodak agreements	23,991	—	(23,991)	—
Write-off of other assets	3,153	—	(3,153)	—
Total	27,144	—	(27,144)	—
Special charges to wholesale costs of revenue (4):				
Inventory write-off related to closure of U.S. wholesale operations	514	—	514	—
Special charges to selling, general and administrative expenses (5):				
Write-off of terminated Kodak agreements	13,750	—	(13,750)	—
Write-off of other assets	3,055	—	(3,055)	—
Total	16,805	—	(16,805)	—
FAS 121 impairment of long-lived assets (6)	109,474	—	(109,474)	—
Total other special charges	184,646	—	(184,646)	—
Restructuring and other special charges	227,340	(7,772)	(187,730)	31,838
Less unutilized reserves from prior charges	(1,876)	—	—	(l,876)
Restructuring and other special charges, net	225,464	(7,772)	(187,730)	29,962

(1) *The Company's worldwide cost reduction program was initiated during the third quarter of fiscal 1999 with the goal of reducing SG&A and improving profitability. In connection with this program, the Company recorded pre-tax restructuring charges of $40.1 million and $2.6 million during the third and fourth quarters of fiscal 1999, respectively. The restructuring charges included $19.8 million in costs related to severance, representing the reduction of approximately 1,400 positions worldwide. As of March 31, 1999, the Company had eliminated over 900 of these positions. The remaining eliminations were completed by the end of the first quarter of fiscal 2000. Cash outlays related to the workforce reductions during fiscal 1999 totaled $5.7 million. Generally, severance is paid out to individuals over a period of time rather than one lump sum payment. The restructuring charges were also comprised of $19.8 million for future lease obligations on 60 facility closures. Cash outlays related to the lease obligations on these closed facilities during fiscal 1999 totaled $2.1 million. The remaining lease obligations are expected to continue beyond the year 2001. In addition, the restructuring charges included $3.1 million for the write-off of leasehold improvements on the aforementioned facility closures.*

(2) *Special charges to cost of retail equipment sales primarily consisted of $39.6 million to reflect the decline in the estimated market value of the Company's Kodak branded inventory as well as additional amounts related to the termination of certain agreements between the Company and Kodak. See (3) below for the note on termination of agreements. This charge was reduced by an adjustment of the $10.0 million provision recorded in December 1997 for the anticipated shortfall in Kodak equipment purchases. See Note 12 and fiscal 1998 discussion below.*

(3) *Special charges to cost of retail service, supplies and rentals primarily consisted of $24.0 million for the write-off of terminated Supply Agreements between the Company and Kodak. See Note 12. On December 17, 1998, the Company announced the termination of its Research and Development Agreement with Kodak, as well as the termination of certain Supply and other agreements that required the Company to make minimum purchases of equipment from Kodak.*

(4) *Special charges to wholesale costs of revenue consisted of $0.5 million for the write-off of inventory related to the closure of the Company's U.S. wholesale operations effective March 31, 1999.*

(5) *Special charges to general and administrative expenses primarily consisted of $13.7 million related to the write-off of certain terminated agreements between the Company and Kodak.*

(6) *In connection with the Company's analysis of operations and restructuring plan, the Company evaluated its goodwill and other long-lived assets for recoverability. The Company determined that based on changes in the business environment and an analysis of projected cash flows, the carrying amount of certain goodwill and other long-lived assets in the U.S. and Canada, would not be recoverable. Accordingly, the resulting analysis necessitated a write-down of $107.9 million during the third quarter of fiscal 1999, which was comprised of $89.5 million in the U.S. and $18.4 million in Canada. The Company also wrote-off an additional $1.6 million of goodwill during the fourth quarter of fiscal 1999 related to the closure of the Company's U.S. wholesale division.*

(7) *The remaining reserves at March 31, 1999 are included in accrued expenses and other liabilities on the accompanying consolidated balance sheet as of March 31, 1999.*

Fiscal 1998: In December 1997, the Company recorded an $11.0 million pre-tax restructuring charge, related to the integration of the Office Imaging division acquired from Kodak with Danka's existing sales and service network. The restructuring charge principally consisted of severance and other employee termination benefits and resulted in the separation of over 1,000 employees worldwide. At December 31, 1998, approximately $0.6 million remained in accrued liabilities for these separations which was reversed in the third quarter of fiscal 1999 and is included in the net $40.8 million restructuring charge in the accompanying statement of operations for the twelve months ended March 31, 1999.

The Company also recorded a $10.0 million special charge to the cost of retail equipment sales for the anticipated shortfall in equipment purchases related to the Supply agreements between Kodak and the Company. Refer to item (3) above for discussion on Kodak Supply agreements. This charge was reversed in the fourth quarter of fiscal 1999 and included in the net $30.7 million special charge to the cost of retail equipment sales.

Fiscal 1997: In December 1996, the Company recorded a $35.0 million pre-tax restructuring charge, related to the integration of the Office Imaging division acquired from Kodak and the related transition to the Company's Market Based Approach in North America. At December 31, 1998, approximately $6.3 million remained in accrued liabilities, primarily for the closure of duplicate facilities. Of this balance, $5.0 million will be utilized for the remaining lease obligations related to such closures. The remaining $1.3 million in accrued liabilities was adjusted in the third quarter of fiscal 1999 and included in the net $40.8 million restructuring charge in the accompanying statement of operations for the twelve months ended March 31, 1999. As of March 31, 1999, the remaining reserve related to these lease obligations totaled $4.8 million.

7. Segment Reporting

In June 1997, the Financial Accounting Standards Board issued Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Company adopted SFAS No. 131 in its fiscal year 1999. Operating segments are defined as components of an enterprise in which separate financial information is available and evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. The Company identified such segments based on both management responsibility and geographical location.

The Company's reportable operating segments include Danka Americas, Danka International and Danka Services International ("DSI"). Danka Americas distributes photocopiers, facsimiles and other related office imaging equipment together with the related parts, supplies and services on a direct basis to retail customers. The geographical areas covered by Danka Americas include the United States, Canada and Latin America. The Company's Omnifax business, which distributes private-label facsimiles and related parts, supplies and services throughout the United States is also included in the Danka Americas segment. See Note 2 for discussion on sale of the Omnifax business. Danka International also distributes photocopiers, facsimiles and other related office imaging equipment. These products, together with the related services, parts and supplies, are marketed primarily on a direct basis to retail customers. Danka International also provides photocopiers, facsimiles and related office imaging equipment on a wholesale basis to independent dealers. Danka International has an extensive sales and service network throughout Europe and additional operations in Australasia. DSI is the Company's worldwide document outsourcing business, which provides a wide range of document management solutions, including the management of central reprographics departments, the placement and maintenance of convenience copiers, print-on-demand operations and document archiving and retrieval services and document management consulting.

The Company measures segment performance as earnings from operations, which is defined as earnings before interest expense and other, net, income taxes and extraordinary items as shown on the Company's consolidated statements of operations. Other items are shown for purposes of reconciling to the Company's total consolidated amounts as shown in the following table for the three years ended March 31, 1999:

Year ending March 31	Danka Americas $000	Danka International $000	Danka Services International $000	Other $000	Consolidated Total $000
1999					
Total revenue	**1,680,925**	**938,233**	**278,062**	**—**	**2,897,720**
Depreciation and amortization	**81,001**	**47,403**	**31,432**	**3,485**	**163,321**
(Loss) earnings from operations before restructuring and other special charges	**(37,129)**	**21,093**	**24,805**	**(66,661)**	**(57,892)**
Restructuring and other special charges				**225,464**	**225,464**
Interest expense & other, net				**74,197**	**74,197**
Provision (benefit) for income taxes				**(62,773)**	**(62,773)**
Net (loss) earnings					**(294,780)**
Total assets	**933,883**	**696,654**	**134,013**	**140,592**	**1,905,142**
Capital expenditures	**102,189**	**49,312**	**38,643**	**910**	**191,054**
1998					
Total revenue	2,029,449	1,043,327	249,960	—	3,322,736
Depreciation and amortization	100,949	43,264	23,366	3,694	171,273
(Loss) earnings from operations before restructuring and other special charges	115,044	94,904	27,322	(68,864)	168,406
Restructuring and other special charges				21,000	21,000
Interest expense & other, net				64,214	64,214
Provision for income taxes				30,958	30,958
Net (loss) earnings					52,234
Total assets	1,237,149	776,400	128,715	36,677	2,178,941
Capital expenditures	108,702	50,055	29,666	710	189,133
1997					
Total revenue	1,424,033	612,163	56,101	—	2,092,297
Depreciation and amortization	61,233	25,612	5,042	4,527	96,414
(Loss) earnings from operations before restructuring and other special charges	108,992	41,633	4,388	(18,151)	136,862
Restructuring and other special charges				35,000	35,000
Interest expense & other, net				33,985	33,985
Provision for income taxes				25,522	25,522
Net (loss) earnings before extraordinary item					42,355
Total assets	1,394,519	824,401	117,794	15,990	2,352,704
Capital expenditures	65,848	17,891	7,416	1,592	92,747

The following table indicates the relative amounts of revenue for the three years ended March 31, 1999 and the long-lived assets at the respective year ends of the Company by geographic area:

	1999		1998		1997	
	Revenue $000	**Long-lived assets (1)(2) $000**	Revenue $000	Long-lived assets (1) $000	Revenue (3) $000	Long-lived assets (1) $000
United States	**1,719,066**	**380,956**	2,019,403	486,258	1,368,351	443,172
Europe						
Germany	**159,231**	**53,860**	158,196	63,010	98,046	53,763
Netherlands	**166,332**	**45,004**	182,301	61,978	108,531	55,491
United Kingdom	**256,934**	**98,725**	309,350	78,520	137,913	67,352
Other	**363,291**	**82,344**	375,848	82,831	211,065	148,541
Total Europe	**945,788**	**279,932**	1,025,695	286,339	555,555	325,147
Other foreign countries	**232,366**	**69,080**	277,638	94,700	168,391	99,880
Total	**2,897,220**	**729,969**	3,322,736	867,297	2,092,297	868,199

(1) Long-lived assets are defined as equipment on operating leases, property and equipment, goodwill and noncompete agreements, all of which are net of the related depreciation and amortization.

(2) Fiscal 1999 includes long-lived assets of business held for sale which total $30.2 million.

(3) The acquisition of Kodak's Office Imaging and outsourcing businesses was completed in December 1996. Therefore, fiscal 1997 revenue only includes three months of the acquired businesses.

8. *Income Taxes*

The provision for income taxes for the three years ended March 31, 1999 was allocated as follows:

	1999 $000	1998 $000	1997 $000
(Benefit) provision for income taxes before extraordinary item	**(62,773)**	30,958	25,522
Tax benefit from extra-ordinary loss on early extinguishment of debt	**—**	—	(349)
Total (benefit) provision for income taxes	**(62,773)**	30,958	25,173

The (benefit) provision for income taxes before the extraordinary item for the three years ended March 31, 1999 was as follows:

	1999 $000	1998 $000	1997 $000
U.S. income tax			
Current	**(923)**	6,785	(4,848)
Deferred	**(62,433)**	2,192	7,438
Total U.S. tax (benefit) provision	**(63,356)**	8,977	2,590
Europe income tax			
Current	**7,874**	24,180	20,298
Deferred	**(8,120)**	(5,086)	40
Total Europe tax (benefit) provision	**(246)**	19,094	20,338
Other international income tax			
Current	**3,380**	4,912	3,059
Deferred	**(2,551)**	(2,025)	(465)
Total other international tax provision	**829**	2,887	2,594
Total (benefit) provision for income taxes before extra-ordinary item	**(62,773)**	30,958	25,522

A reconciliation of the U.K. statutory corporate rate to the effective rate is as follows:

	1999 $000	1998 $000	1997 $000
Tax (benefit) charge at standard U.K. rate	**(110,841)**	25,798	22,399
(Losses) profits taxed at other than standard U.K. rate and changes in valuation allowances	**49,559**	1,567	(2,962)
Permanent differences	**(1,491)**	3,593	6,085
(Benefit) provision for income taxes before extraordinary item	**(62,773)**	30,958	25,522

The tax at standard U.K. rate was 31% in fiscal 1999 and 1998 and 33% in fiscal 1997.

The tax effects of temporary differences that comprise the elements of deferred tax at March 31, 1999 and 1998 are as follows:

	1999 $000	1998 $000
Deferred tax assets:		
Accrued expenses not deducted for tax purposes	**5,160**	5,679
Reserves for inventory and accounts receivable not deducted for tax purposes	**17,120**	21,458
Restructuring charges not deducted for tax purposes	**35,798**	1,461
Inventory costs capitalized for tax purposes	**4,522**	6,330
Tax loss carryforwards	**171,324**	40,807
Tax credit carryforwards	**6,733**	9,859
Depreciation	**6,134**	—
Other	**—**	317
Total gross deferred tax assets	**246,791**	85,911
Valuation allowance	**(85,266)**	(14,744)
Net deferred tax assets	**161,525**	71,167
Deferred tax liabilities:		
Leases	**(113,455)**	(78,196)
Depreciation	**—**	(18,920)
Other	**(914)**	—
Total gross deferred tax liabilities	**(114,369)**	(97,116)
Net deferred tax asset (liability)	**47,156**	(25,949)

At March 31, 1999, the Company has net operating loss carryforwards relating to U.S. operations of approximately $327,547,000 of which $45,402,000 will expire if not used by March 31, 2012, $107,232,000 if not used by March 31, 2013 and $174,913,000 if not used by March 31, 2019. The Company also has a research and development credit of $2,588,000, relating to U.S. operations, which will expire if not used by March 31, 2013. The Company has an alternative minimum tax credit carryforward of $4,145,000, also relating to U.S. operations, which is available indefinitely. The Company has foreign net operating loss carryforwards of approximately $245,701,000 with varying expiration dates. Significant amounts of these losses are offset by valuation allowances reflecting the lack of certainty as to realization. The net change in the total valuation allowance for the years ended March 31, 1999, 1998 and 1997 was $70,522,000, $4,085,000 and ($1,306,000), respectively.

9. Employee Benefits

Substantially all of the U.S. employees are entitled to participate in the Company's Profit Sharing Plan (the "Plan") established under Section 401(k) of the U.S. Internal Revenue Code. Employees are eligible to contribute voluntarily to the Plan after 90 days of employment. At its discretion, the Company may contribute 100% of the first 3% and 50% of the next 3% of the employee contribution. Employees are always vested in their contributed balance and become fully vested in the Company's contributions after four years of service. Effective February 1, 1999, the Company suspended its matching contribution to the Plan in an action to conserve cash. The expenses related to contributions to the Plan for the years ended March 31, 1999, 1998 and 1997 were approximately $12,650,000, $15,116,000, and $3,968,000, respectively.

Most non-U.S. employees participate in defined contribution plans with varying vesting and contribution provisions. The expenses related to these contributions for the years ended March 31, 1999 and 1998 were approximately $6,553,000 and $6,032,000, respectively.

In connection with the acquisition of the Office Imaging and outsourcing businesses, the Company acquired certain pension obligations of non-U.S. employees from Kodak. At March 31, 1999 the recorded liability for these pension obligations was $9.7 million.

The Company has a Supplemental Executive Retirement Plan ("SERP") which provides additional income for certain of its U.S. executives upon retirement. Contributions to the SERP are at the discretion of the Company, and were $333,700, $177,500 and $435,500, respectively, for the years ended March 31, 1999, 1998 and 1997.

10. Earnings per Share

A reconciliation of the numerators and denominators of the basic and diluted earnings (loss) per ADS computations follows:

	1999			1998			1997		
	Income (numerator)	**Shares (denominator)**	**Per-Share amount**	Income (numerator)	Shares (denominator)	Per-Share amount	Income (numerator)	Shares (denominator)	Per-Share amount
				(In thousands except per share amounts)					
Net (loss) earnings	**$(294,780)**			$52,234			$41,777		
Basic (loss) earnings per ADS:									
Income available to shareholders	**(294,780)**	**56,915**	**$(5.18)**	52,234	56,799	$0.92	41,777	56,268	$0.74
Effect of Dilutive Securities:									
Stock options		**—**			1,042			1,457	
Diluted (loss) earnings per ADS:									
Income available to shareholders plus assumed conversion	**$(294,780)**	**56,915**	**$(5.18)**	$52,234	57,841	$0.90	$41,777	57,725	$0.72

The effect of the Company's $200.0 million of Convertible Subordinated Notes are not included in the computation of diluted earnings per ADS for the three years ended March 31, 1999 since they are anti-dilutive. For the year ended March 31, 1999, basic and diluted per share amounts are equal due to the net loss incurred by the Company.

11. Share Option Plans

The Company's current share option plan (1996 Share Option Plan) authorizes the granting of both incentive and non-incentive share options for an aggregate of 22,500,000 Ordinary Shares (5,625,000 ADS equivalents). The option balance outstanding at March 31, 1999 also includes options issued pursuant to a plan that preceded the 1996 Share Option Plan. There are no shares available for issue under this plan. Under both plans, options are and were granted at prices not less than market value on the date of grant and the maximum term of an option may not exceed ten years. Share options under the 1996 Share Option Plan generally become vested in three equal tranches over three years beginning on the first anniversary of the date of grant. At March 31, 1999, a total of 4,120,152 options were vested under these plans, with exercise prices ranging from 43.17 to 592.00 pence per share.

The Company also established The Danka Employees' Trust Fund (the "Employees' Trust") to be used in conjunction with The Danka 1996 Share Option Plan. The Employees' Trust may subscribe for shares in the Company, which the Company has granted in the form of share options, or it may purchase the shares on the open market. The Employees' Trust will transfer shares to the employee upon exercise of their options. No shares were acquired by the Company for the year ended March 31, 1999 and 1998.

Transactions during the three years ended March 31, 1999 were as follows:

	Number of Ordinary Shares	Exercise price in pence
Balance outstanding at March 31, 1996	6,598,104	12.50-699.00
Granted	3,868,294	359.67-780.00
Exercised	(764,802)	12.50-439.67
Canceled	(271,500)	286.00-459.00
Balance outstanding at March 31, 1997	9,430,096	26.13-780.00
Granted	8,780,405	217.92-762.50
Exercised	(668,816)	41.00-439.67
Canceled	(872,600)	307.00-730.00
Balance outstanding at March 31, 1998	16,669,085	26.13-780.00
Granted	14,014,417	80.75-301.00
Exercised	(572,000)	26.13
Canceled	(5,497,213)	101.50-780.00
Balance outstanding at March 31, 1999	**24,614,289**	**43.17-762.50**

Information with respect to share options outstanding at March 31, 1999 is as follows:

Price range in pence	Number of Ordinary Shares	Weighted average contractual life
43.17- 74.25	2,822,400	3.3 years
80.75-127.50	12,801,000	9.7 years
215.66-378.67	6,017,648	8.4 years
445.00-762.50	2,973,241	7.8 years
	24,614,289	

The Company accounts for these Plans under APB Opinion No. 25, under which no compensation cost has been recognized. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." Had compensation cost for these Plans been determined consistent with Statement No. 123, the Company's net earnings and net earnings per ADS would have been reduced to the following unaudited pro forma amounts:

	1999 $000	1998 $000	1997 $000
	(Except per ADS data)		
Net (loss) earnings			
As reported	**(294,780)**	52,234	41,777
Pro forma	**(299,105)**	36,869	34,903
Basic net (loss) earnings per ADS			
As reported	**$(5.18)**	$0.92	$0.74
Pro forma	**$(5.26)**	$0.65	$0.62
Diluted net (loss) earnings per ADS			
As reported	**$(5.18)**	$0.90	$0.72
Pro forma	**$(5.26)**	$0.64	$0.60

The fair value of each option grant is estimated using the Black-Scholes option pricing model. The following assumptions were used in determining the fair value of each option grant for each of the fiscal years ended March 31:

	1999	1998	1997
Dividend yield	**0%**	.51%	.42%
Expected volatility	**164.0%**	139.0%	113.7%
Risk-free interest rate	**4.6%–5.7%**	5.8%–6.7%	5.3%–7.0%
Expected life	**5 years**	5 years	5 years

The effects of applying Statement No. 123 in this pro forma disclosure are not indicative of future amounts.

12. Commitments, Contingencies and Related Party Transactions

Leases: The Company is obligated under various noncancelable operating leases for its office facilities, office equipment and vehicles. Future noncancelable lease commitments as of March 31, 1999, are as follows:

Year ending March 31	$000
2000	113,772
2001	59,571
2002	43,575
2003	29,897
2004	18,948
Thereafter	41,072

Rental expense for fiscal years ended March 31, 1999, 1998 and 1997 was approximately $109,582,000, $84,482,000, and $53,509,000, respectively.

Kodak Commitments: In connection with the acquisition of the Office Imaging and outsourcing businesses, Kodak and the Company entered into certain supply and other agreements which required the Company to make minimum equipment purchases from Kodak in future years and to fund research and development activities. For the year ended March 31, 1998 the Company recorded a provision of $10.0 million for the anticipated shortfall in equipment purchases relating to various supply agreements. In addition, the research and development agreement required the Company to contribute a total of $175.0 million (plus an additional $30.0 million upon the achievement of identified milestones) to Kodak for the development of new electrophotographic products. Effective December 15, 1998, the Company and Kodak terminated these agreements. During the fourth quarter of fiscal 1999, the Company and Kodak reached a new research and development agreement relating to the completed development of a digital high-volume copier, under which the Company agreed to pay approximately $23.0 million. The new machine was introduced in March 1999 at CeBit, an international trade fair in Hanover, Germany. On June 24, 1999, Kodak and the Company reached an agreement providing for mutual release of claims and obligations related to certain agreements previously entered into between Kodak and the Company. In connection with this agreement, liabilities of $10.0 million for the anticipated shortfall in Kodak equipment purchases recorded during the third quarter of fiscal 1998 and $13.5 million relating to research and development and other accrued costs recorded during the third quarter of fiscal 1999 were reversed during the fourth quarter of fiscal 1999.

Lease Commitments: Danka Holding Company ("DHC"), a U.S. subsidiary of the Company, entered into an operating lease agreement (the "Agreement"), which expires on December 2002. The Agreement provides for DHC to lease certain real property in the U.S. The Agreement generally provides for DHC to pay property taxes, maintenance, insurance, and certain other operating costs of the leased properties. The leases covered by the Agreement provide for a residual guarantee by DHC at the end of the initial lease term, which has not been included in the table of future noncancelable lease commitments. The Agreement also includes purchase and renewal options at fair market values. DHC has the right to exercise a purchase option on the properties at the end of the lease term, or the properties can be sold to third parties. DHC expects the fair market value of the properties, subject to the purchase option or sale to third parties, to substantially reduce or eliminate DHC's payment under the residual value guarantee. DHC is obligated to pay the difference between the maximum amount of the residual guarantee and the fair market value at the termination of each lease under the Agreement. The maximum residual guarantee was approximately $42.6 million at March 31, 1999.

Related Party Transactions: The Company remains contingently liable for the repayment of $485,000 of Industrial Revenue Bonds used to finance the construction of its corporate office in St. Petersburg, Florida. The obligation was assumed by a company controlled by the former Chief Executive when it acquired the corporate office building. The Company leases its corporate office and three other offices owned by companies in which the former Chief Executive has a significant interest. For the years ended March 31, 1999, 1998 and 1997, Danka was charged $721,000, $756,000, and $748,000, respectively, for rent due under these leases. The leases expire at various dates, with the last lease expiring in December 2003. In addition, for the year ended March 31, 1999, the Company paid approximately $2.1 million to a real estate services company whose former president is related to the former Chief Executive.

Litigation: Following the Company's December 16, 1997 announcement regarding the expected shortfall in revenue and earnings for the third fiscal quarter of 1998 and the 1998 fiscal year, purported class action lawsuits were filed in federal court in Florida against the Company, former directors and former officers, alleging violations of the federal securities laws. The lawsuits were consolidated and a consolidated class action complaint was filed in June 1998. The Company filed its motion to dismiss the complaint on or about July 29, 1998 and all briefs have been submitted to the court. The Company has not received a ruling from the court on its motion. The case is in the early stages and while it is impossible to predict the outcome or impact of such litigation, management believes this litigation is without merit and intends to vigorously defend the lawsuits.

As previously disclosed, the Company was a defendant in a purported lawsuit brought by the Company's former Chief Executive and Director asserting claims of breach of contract and fraud for Danka's refusal to pay certain sums alleged due under his employment agreement. The settlement of this case, which occurred during the first quarter of fiscal 2000, did not have a material impact on the Company's operations.

In February 1999, the Company was served with a complaint alleging that in December 1997, the plaintiffs attempted to sell approximately 1,000,000 restricted ADSs at approximately $35.00 per share and that the Company and its attorneys wrongfully refused and/or unreasonably delayed in registering the transfer of the plaintiffs' restricted shares. The complaint further states that the plaintiffs were unable to complete the sale of shares and were later forced to sell the shares in February 1998 at approximately $17.00 per share. The plaintiffs are attempting to recover the difference from the Company and its attorneys. The Company recently filed its motion to dismiss the complaint. This case is in the early stages and while the outcome of such litigation is impossible to predict, management believes this litigation is without merit and intends to vigorously defend the lawsuit.

The Company is subject to other legal proceedings and claims which arise in the ordinary course of its business. Management believes that the resolution of the above matters will not have a material adverse effect upon the Company's financial position, results of operations or liquidity.

Internal Revenue Service: The Internal Revenue Service is conducting an examination of the Company's federal income tax returns for the fiscal years ended March 31, 1996 and 1995. The Company has received various notices of proposed adjustments; the principal adjustment relates to the timing of certain deductions associated with leased equipment financing. While the ultimate result can not be determined with certainty, the Company intends to vigorously contest the proposed adjustments and believes that the ultimate resolution will not have a material adverse effect upon the Company's consolidated results of operations, liquidity or financial position.

13. Acquisitions

Effective December 31, 1996, the Company acquired from Eastman Kodak Company ("Kodak"), the net assets of Kodak's Office Imaging division and the stock of Kodak's outsourcing businesses. The acquisition was accounted for as a purchase for which the Company paid cash of $688.0 million. In September 1997, the Company received a cash refund of approximately $100.0 million from Kodak related to the purchase price adjustment provision in the asset purchase agreement. Based upon the final allocations of the purchase price, the Company recorded approximately $53.0 million of goodwill.

The Company did not make any material acquisitions for the years ended March 31, 1999 and 1998.

14. Financial Instruments

Fair Value of Financial Instruments: At March 31, 1999, the carrying values of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and other notes payable approximated fair value due to the short-term maturities of these assets and liabilities. The estimated fair market value of the Company's $200.0 million 6.75% Convertible Subordinated Notes at March 31, 1999 was approximately $103.0 million, based on the quoted market price of the Notes. The estimated fair market value at March 31, 1999 of the Company's Credit Agreement approximated the carrying amount of the debt, due to the short-term maturities of the individual components of debt.

Foreign Currency Instruments: From time to time, the Company enters into forward and option contracts to manage its exposure to fluctuations in foreign currency exchange rates on specific transactions. Foreign exchange forward contracts are legal agreements between two parties to purchase and sell a foreign currency, for a price specified at the contract date. The fair value of foreign exchange forward contracts is estimated by obtaining quotes for futures contracts with similar terms, adjusted where necessary for maturity differences. To hedge its foreign currency exposure, the Company also purchases foreign exchange options which permit, but do not require, the Company to exchange foreign currencies at a future date with another party at a contracted exchange rate. The fair value of foreign exchange options is estimated using active exchange quotations. At March 31, 1999, there were no outstanding forward contracts or option contracts to buy or sell foreign currency. For the year ended March 31, 1999, gains and losses realized on forward contracts and option contracts were not material.

Under the Company's Credit Agreement, it is required to enter into arrangements that provide protection from the volatility of variable interest rates for a portion of the outstanding principal balance on the Credit Agreement. To fulfill this obligation, the Company has utilized interest rate swap agreements to eliminate the impact of interest rate changes on certain variable rate principal balances outstanding under the Credit Agreement. At March 31, 1999, the Company had interest rate swap agreements with four financial institutions, effectively converting variable rate principal balances to fixed rates for periods of two to three years. At March 31, 1999, the Company maintained interest rate swaps on principal/notional amounts of DEM65.1 million ($36.0 million), NLG93.6 million ($45.9 million), FRF166.9 million ($27.5 million), and U.S.$100.0 million, with weighted average fixed rates of approximately 5.2%.

The Company's financial instruments involve, to varying degrees, elements of exchange risk in excess of the amounts which would be recognized in the consolidated balance sheet. Exposure to foreign currency contracts results from fluctuations in currency rates during the periods in which the contracts are outstanding. Additionally, these contracts contain an element of credit risk to the extent of nonperformance by the counterparties. The Company minimizes such risk by limiting the counterparties to a group of major international banks, and does not expect to record any losses as a result of nonperformance by these counterparties.

15. Quarterly Financial Data (unaudited)

The following table presents selected quarterly financial data for the periods indicated:

	June 30 $000	September 30 $000	December 31 $000	March 31 $000
		(Except per ADS data)		
Fiscal 1999				
Revenue	765,399	733,844	723,874	674,103
Gross profit	279,071	249,722	145,684 *(a)*	261,420 *(c)*
Net earnings (loss)	5,011	(13,355)	(274,009) *(b)*	(12,427) *(d)*
Net earnings (loss) per ADS (diluted)	$0.09	$(0.23)	$(4.82) *(b)*	$(0.22) *(d)*
Fiscal 1998				
Revenue	834,088	814,763	834,226	839,659
Gross profit	309,162	299,028	297,358	303,471
Net earnings (loss)	18,466	19,725	(373) *(e)*	14,416
Net earnings (loss) per ADS (diluted)	$0.32	$ 0.34	$(0.01) *(e)*	$ 0.25

(a) Includes the effect of $73.2 million in special charges to the cost of revenue.

(b) Includes the effect of $236.2 million in restructuring and other special charges.

(c) Includes the net credit of $14.8 million in special charges and credits to the cost of revenue.

(d) Includes the net credit of $10.7 million in restructuring and other special charges and credits.

(e) Includes the effect of $21.0 million in restructuring and other special charges.

Independent Auditor's Report

To the Members of Danka Business Systems PLC

We have audited the consolidated balance sheets of Danka Business Systems PLC and subsidiaries as of March 31, 1999 and 1998, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended March 31, 1999. These consolidated financial statements are the responsibility of the group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United Kingdom and the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned consolidated financial statements present fairly in all material respects the financial position of Danka Business Systems PLC and subsidiaries as of March 31, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 1999 in conformity with generally accepted accounting principles in the United States.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London, England

July 14, 1999

Corporate Information

ADS Depositary
Bank of New York
ADS Division
101 Barclay Street,
New York, NY 10286

ADSs are traded on The Nasdaq Stock Market under the symbol "DANKY".

Registrars
Computershare Services PLC
PO Box 82 Caxton House
Redcliffe Way
Bristol BS99 7YA

Ordinary Shares are traded on the London Stock Exchange under the symbol "DNK.L".

Registered Office
Danka Business Systems PLC
Masters House
107 Hammersmith Road
London W14 0QH
0171-603-1515

North American Headquarters
Danka Business Systems PLC
11201 Danka Circle North
St. Petersburg, FL 33716
(727) 576-6003

Company Secretary
Paul G. Dumond

Company Registered Number
1101386

Auditors
KPMG Audit Plc
8 Salisbury Square
London EC4Y 8BB

Equal Employment Opportunity
Danka Business Systems PLC provides equal employment opportunities to all employees and applicants for employment regardless of race, color, sex, age, religion, national origin, handicap/disability, or veteran status. All decisions concerning personnel activities and actions will be consistent with the Company's written Affirmative Action Program. All inquiries should be directed to the Corporate Human Resources Department.

Other Published Information
Quarterly reports on Form 10-Q and the Form 10-K Annual Report filed with the U.S. Securities and Exchange Commission are available upon written request to Danka's Investor Relations department in St. Petersburg, Florida or by calling Danka's Investor Relations request line at (727) 579-2885.

Additional information about Danka and its products can be obtained by visiting our World Wide Web site at: http://www.danka.com.

Market Prices of ADSs and Ordinary Shares

The following table sets forth the high and low sale price per American Depositary Share ("ADS") as reported by the Nasdaq National Market® and the high and low middle market quotations (which represent an average of bid and offered prices in pence) for the Ordinary Shares as reported on the London Stock Exchange Official List. Each ADS represents four Ordinary Shares.

	U.S. Dollars per ADS		Pence per Ordinary Share	
	High	Low	High	Low
Fiscal Year 1999:				
Quarter ended June 30, 1998	$23.75	$11.50	344p	189p
Quarter ended September 30, 1998	12.88	5.75	194	85
Quarter ended December 31, 1998	6.88	1.75	92	29
Quarter ended March 31, 1999	6.00	4.13	88	63
Fiscal Year 1998:				
Quarter ended June 30, 1997	$43.63	$26.50	648p	425p
Quarter ended September 30, 1997	51.31	37.00	788	558
Quarter ended December 31, 1997	47.00	12.38	713	215
Quarter ended March 31, 1998	21.13	15.25	322	239

As of March 31, 1999, 45,264,719 ADSs were held of record by 4,700 registered holders and 47,008,990 Ordinary Shares were held of record by 4,361 registered holders. Since some of the ADSs and Ordinary Shares are held by nominees, the number of holders may not be representative of the number of beneficial owners. The Company most recently paid a dividend to shareholders on July 28, 1998. The Company is not currently permitted to pay dividends under the Credit Agreement. Any determination to pay cash dividends after the refinancing of the indebtedness outstanding thereunder will be made by the Board of Directors in light of the Company's earnings, financial position, capital requirements, credit agreements and other such factors as the Board of Directors deems relevant.

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D a n k a

Masters House
107 Hammersmith Road
London W14 0QH
0171-603-1515

11201 Danka Circle North
St. Petersburg, Florida 33716
(727) 576-6003

Danka Business Systems PLC