

2007 annual results

Presentation of the Group's results

Pierre PASQUIER
Chairman and CEO

Hello and thank you for attending the presentation of Sopra Group's annual results. First of all I shall describe our performance for 2007 and afterwards Dominique Illien, our deputy managing director, will talk to you about our major transformation programmes during 2008. We will then reply to your questions.

I. Performance in 2007

1. Revenue

Sopra's revenue increased by 11.6%.

Organic growth was 9.4% which may be broken down as follows: 7% for management consulting, 10.9% for SSI France, 4.4% for SSI Europe (with widely differing percentages from country to country) and 12% for Axway.

Organic growth during the 4th quarter amounted to 12.8%.

2. Income statement

Revenue just passed the symbolic threshold of one billion euros.

Staff costs have increased by 11.5% over 2006 compared to the 11.6% increase in revenue. We systematically had excess capacity, in other words, we have systematically recruited more staff than we required, in particular in the area of consulting – I shall come back to this point later.

Our operating expenses increased by 7%.

Profit from recurring operations amounted to 90.8 million euros, rising by 9.1% as compared to the 8.4% growth in 2006.

Our acquisition of Actis (a German subsidiary of Atos) for Axway generated 700,000 euros of exceptional costs of integration.

Operating profit increased by 9%. Net financial expense amounted to 9.8 million euros including a two to three million euro provision for foreign exchange differences reflecting the drop in value of the pound sterling at the end of the year. The income tax expense amounted to 25 million euros.

Net profit reached 55.1 million euros, or 5.5% of revenue.

3. Operating profit by division

Management consulting provided 10.3% of operating profit compared to 9.8% in 2006.

Sopra Group's annual operating profit in France amounted to 8.8% of revenue and exceeded 9% for the second half of the year.

Axway achieved operating profit of 10% and Europe, 9.1%. Revenue was below expectations in the UK but this had no impact on our margin which, on the contrary, increased to 7%.

4. Balance sheet

Our net debt amounted to 130 million euros at the end of the year.

5. Equity

Equity rose from 216 million euros to 248.8, including the impact of a 15.5 million euro dividend payment, 4.7 million of stock options, actuarial differences and translation differences.

6. Change in net debt

We began the year with 97.7 million euros of debt and 100 million euros of gross cash flow from operations. During the year, we paid the 38 million in taxes as I had announced, in contrast with 2006 when we paid virtually no tax at all thanks to a tax credit available from the Valoris acquisition. In normal years we would have paid 27 million euros of tax. Given that we did not need to make payments on account in 2006, our cash outflow for tax in 2007 has been higher.

Our working capital requirement increased by 10 million euros, a logical consequence of our growth in revenue.

Our capital expenditure amounted to 13 million euros and interest paid to 7 million.

Free cash flow amounted to 30 million euros.

Changes in scope of consolidation cost us 49 million euros.

The total net change in cash and cash equivalents amounted to 32 million euros, with end of year borrowings of 130 million and a gearing ratio rising from 45 to 52%, which remains very reasonable.

Basic earnings per share amounted to 4.8 euros.

7. Additional information

The Group's revenue is split between fixed price projects (14%), staffing (18%), application outsourcing (30%), in-house application solutions (12%), Axway and Consulting.

Our vertical positioning remains unchanged and the financial, banking and insurance sector is still the Group's main sector. Within Manufacturing we have a preference for the biggest companies. We don't aim to be everywhere but to have a very strong presence with our largest clients (16%). In addition to the services and utilities sector, we have a superb presence in telecommunications which represents 8% for our industry as a whole but 13% for Sopra. Finally, I'm happy to see a percentage point or two per year added to our public sector presence: sooner or later we shall reach 20%.

Our organic growth for each quarter of 2007 amounted to 6%, 9%, 10% and 13%, in other words, we had an increase in organic growth each successive quarter. The trend will not continue indefinitely but is a welcome reflection of our management during 2007 and of the conditions in which we are beginning 2008.

France has accounted for 67% of our revenue and Europe for 30%. Three quarters of our systems integration and consulting revenue originates in France. As for Axway, France now represents much less than half the total at 42%, Europe 36%, the US 20% and Asia 2%. Axway's revenue can also be split 34% for licences, 30% for maintenance and 36% for services. Since 2004, the license revenue has increased by 17, 44 and 11%, a solid growth trend.

Finally, at 31 December 2007 our headcount amounted to 11,320 employees as compared to not quite 10,000 at the end of the previous year.

8. 2007: an excellent year

Overall, 2007 has been a year of high performance in all our business units and over all our service lines, performance which has been consistent for the five regional business units and the four Parisian ones, as well as in Spain and Italy. We had a difficult start to the year as a result of senior management leavers at Orga Consultants and in the UK, but by the middle of the year we put that behind us and our overall performance has remained extremely positive.

Our banking application solutions, human resources and property applications have been very successful. Axway has suffered a little from the American sub-prime situation but I must stress that in the US, Axway does not operate within the financial sector. Its main sectors are the pharmaceutical industry, the automobile industry and supply chain businesses. We nevertheless signed a prestigious contract with Wells Fargo and negotiated with JP Morgan for a very good contract which in the end didn't materialise. But that did not compromise Axway's profit: we had targeted 10% and we achieved 10%.

We also made some local acquisitions.

I would like to stress that over the past few years our excellent results have been achieved as a result of a great deal of anticipation and investment. Last year and the year before, our tangible investment amounted to 12 million euros and probably will reach the same sum again this year. Our intangible investment, expensed as incurred, relates both to HR, operations and offerings, but also early recruitment. This year intangible investments amounted to some 15 million euros, enabling us to anticipate our growth from one year to the next. Our results are there to prove it.

In 2008, we intend to pursue this trend.

II. Review of the 2003-2007 project

2003 was an extremely difficult year, but it was then that we announced our intention of reaching revenue of one billion euros and an operating margin of 8%, which we achieved in 2006. Our positioning in France is strong and we have reinforced our positioning in Europe. Axway has expanded. I've calculated that over this same period Sopra Group's exceptional costs have been limited to 4 million euros (2 million in 2004, 1 million in 2006 and 0.7 million in 2007). I think it's important to take that into account when assessing the Group's performance.

Over the same period, our organic growth has been strong and continuous: 13 %, 10 %, 9 % and 9.4 %. We have also improved our margins: 6.5 %, 7.4 %, 8.4 % and 9.1 %. We have made acquisitions.

Axway's overall growth during this period has amounted to 15%, 37 % and 24 % and 14 %, 16% and 12 % on a like for like basis. Our acquisition of Cyclone Commerce in the US has provided us with a strong position. In Germany, the acquisition of Actis has brought us both products and customers.

From this point of view the period has been a rich one.

So much for the past; let me now say a few words about the market and our priorities for 2008.

Market and priorities for 2008

I. The market in 2008

Our market continues to grow. I don't know if the president of Syntec would confirm my figure of 6 to 7%, but I've become used to explaining that growth in IT expenditure typically outstrips the economy as a whole by two points, despite differences from one service line or vertical market to the next.

I believe our own growth will be underpinned by three factors: technology, outsourcing and business combinations. As for technology, I don't know whether the internet has reached maturity or not, although I don't think so, but in any case the internet has only ever accounted for part of the overall growth.

The market players have an ever increasing tendency to differentiate their business models. We are not all present in the same countries, we don't engage in the same businesses, we haven't made the same strategic choices. These are all factors which tend to complicate analysis and comparison. We've all made our different choices as to service lines and offerings, economic and geographical sectors, and we're simply not directly comparable any longer. In the past, size difference was the main obstacle to comparison but these days even businesses of similar size are no longer really comparable.

II. Sopra Group's business model

We don't engage in BPO and we don't intend to. I believe that in our case it would have been neither useful nor possible. Nor do we want to get involved in infrastructure outsourcing other than, perhaps, by chance and marginally.

We have chosen four businesses: consulting, systems integration, staffing and application management (our main business); in-house application solutions; and Axway.

HR is the main issue for consulting: we need talented people and they must be able to get along with each other.

We intend to continue to cultivate our systems integration, staffing and application management business lines, and to do all that will be required to manage the enterprise transformation. In common with a few other large players, we are capable of offering very complex, fixed-price contracts and continuing to perform them. We can do it in France, India and Romania. We shall continue in this field which currently represents 62% of our revenue.

Our application solutions, which have 20 years of history behind them, are really great for us since there is a growing trend towards licensing, maintenance and other related services. That gives us much more recurring and protected revenue and a better customer presence, than does the context of basic staffing.

Finally, Axway is a pure-play software developer.

For Axway, consulting and application solutions' margins may reasonably be targeted between 10, 12 and 15, or even 16 or 17%, as is indeed already the case for certain contracts. For systems integration and application outsourcing the situation is more complicated but there's no problem at all targeting the same level of margin while at the same time investing – so long as stress is put on anticipation in many areas.

Our strategic choices are clear. Let me stress our strategy to accelerate our development in the public sector and continue to make our choice of industrial groups. We want to remain strong in France while at the same time beginning to reinforce our presence in other countries where we are located. But our domestic market has to remain number one. Finally, Axway must strive to impose a global presence.

Dominique Illien will now comment on our enterprise transformation agenda.

Pursuit of our major transformation programmes

Dominique ILLIEN
Deputy managing director

Thank you and hello to all.

I. Industrialisation

Our industrialisation programme concentrates our investment and mainly covers systems integration and application outsourcing. It is organised in four parts:

- Human resources (to accompany the transformation of our businesses via our project management function);
- Methods, tools, processes and certification (so as to be more productive than our customers);
- Nearshore and offshore production platforms (France, Spain, Romania, Morocco and India);
- Quality control.

“Industrialisation” is a considerable vector for cross-cutting change, without forgetting the importance of R&D for products such as Axway or banking solutions.

II. Offerings, partnerships and major client accounts

Where industrialisation is designed to achieve better technical performance and greater productivity than all our competitors, the purpose of this programme is to increase the value added by our services and to increase our presence within major accounts.

At the level of service offerings, we have provided for considerable investment in standard offerings, ERP applications and high value added services such as CRM, Business Intelligence, etc.

In respect of partnerships, the programme places stress on managing our relationship with the major software developers such as SAP, Oracle and Microsoft, but also on ensuring the consistency of major shared projects.

Finally, Sopra Group is an enterprise with a strong major customer base. Our top customers provide us with 50 million of revenue and our top 10 accounts represent more than 30% of our total revenue. We need to coordinate our presence and make our complete service offering known to all our customers in order to bolster our development and continue improving our organic growth. In return, our customers give us their confidence, as is manifested by the projects we are working on at present, and with the hope of signing contracts in 2008.

III. Banking solutions: a European ambition

Banking solutions represent about 10% of our total revenue. We have attained a critical mass that we have reinforced by acquisitions. Based on a range of bank offerings covering loans, payments, risk management, reporting and retail banking, our ambition is to achieve wider recognition as a software developer and to use our positions of strength, in particular in France, as a springboard for European development. That implies changes to our organisation and the allocation of significant investment and other resources.

We also want to reinforce our present positions by combining the whole range of our services for each major contract and each major account.

IV. Axway: a global project

I'll skip quickly through this slide and just say that 2008 will be used to pursue the plan we have described earlier in the presentation.

V. Consulting: reinforcing our positions

A strong role has been attributed to consulting in order to support Sopra Group's ambition of increasing its added value. In addition to our Orga Consultants brand we have Business Consultants. We have undertaken significant investment in 2007, which we intend to pursue in 2008 both by recruiting in advance of our requirements from a commercial point of view and by recruiting top specialists in ERP or certain other areas. This approach should enable us to accelerate our growth while at the same time improving our added value.

VI. European subsidiaries: amplifying our successes

As regards our systems integration business, our divisions have now been entirely stabilised in all the European countries where we are present. We intend to continue to engage in strong organic growth.

We don't exclude the possibility of making a certain number of acquisitions in order to reinforce our positions in particular in the United Kingdom and Spain. In 2007, we didn't hesitate to do so in Italy where our performance is now excellent.

I'll now pass the floor back to Pierre Pasquier.

An ambitious project for 2010

Pierre PASQUIER
Chairman & CEO

We want to double our revenue in three years, to two billion euros, and we can't achieve that purely by organic growth. We shall need to acquire businesses generating around 400 million euros of revenue. At the same time, we are perfectly capable of maintaining over the coming years the same level of organic growth as in the past.

We also want to reach, as soon as possible, a 10% operating margin, an objective which is not an impossible one given Sopra Group's business model and assuming anticipation and a sustained effort by our teams. We also intend to engage in local acquisitions so long as the companies concerned are within our own business orientations. We do not intend to acquire management consultancy businesses. However, we do intend to continue to recruit in this area. Acquisitions may also be decided because of their complementary fit to our French and European geographical positioning. Finally, we are also searching for a major strategic acquisition.

In 2008, our organic growth will probably outstrip that of the market as a whole, and our results so far do not confirm the prevalent uncertainties about the economic environment. So far, the serious crisis engendered by the financial sector has not been visible in the field, though as Cap Gemini have declared, it makes sense to remain prudent. Nevertheless, growth for 2008 looks as though it should be similar to that recorded in 2007. It is still too early to set a figure for our objective in terms of improving the operating margin.

Now the final table you have before you may raise concerns. Our development has been satisfactory but share prices remain very volatile. However, let us not be naïve: our industry suffers from errors of assessment. In my view, we're probably renewing the errors of the period from 1998 to 2000 but in the opposite direction: at the time, our industry was systematically overvalued while at the moment, it is largely undervalued.

Our presentation is now complete and so we shall be pleased to respond to your questions.

Questions / Answers

From the floor

Do you have a particular interest for Iona? Could you confirm the operating margins for SSI Europe excluding the UK? Finally, do you expect the reform of the tax credit for research activities to be of benefit for Axway and if so, what financial impact are you expecting?

Pierre PASQUIER

I can't give you much of a response as regards Iona. Our impression was that the company was experiencing significant problems and did not merit too much attention. SSI Europe's biggest margin was in Spain, with a double-digit margin, followed by Italy and Switzerland with 7 to 8%. Benelux had a nil margin and the UK 7.1%. Finally, our company has made a limited amount of use of the research tax credit so more favourable conditions would yield a bigger margin.

From the floor

Could you provide more detail on the investments you mentioned when discussing margin for 2008? Does this only relate to Axway?

Pierre PASQUIER

A company like ours must prepare its products two or three years in advance, in particular for fixed price contracts or Application Management business. In the case of Axway, a team of around 700 people strives, with the help of its product managers and R&D function, to develop products that will have lost none of their relevancy two or three years later. I don't expect any change in this area: our approach is a continuous one with the accent on anticipation. We hope, of course, that the growth in Axway's revenue will outstrip the increase in investment expenditure. Moreover, our sales network is already established so increasing volume should provide us with extra margin points as well.

As for banking solutions, our policy of acquisitions is designed to allow us to evolve towards the status of a software developer. At the same time, we remain prudent and our overall approach has not undergone significant change. We simply wish to improve the marketing for our offerings and reinforce our presence in Europe. Our accumulated experience in the field of banking solutions provides us with a very significant base in maintenance and licenses about to be signed.

Sopra Group's main industrial team, comprising 40 experienced engineers, will fuel our revenue for 2008. But as regards those processes which enable us to work on sophisticated contracts with very complex commitments in terms of results, we need to spend 15 to 18 million euros on consulting, offerings and industrialisation. That's the same level as in 2007. The capacity to engage in such investment is the precondition for survival of a company like ours. The partnerships mentioned by Dominique Illien will also help us in this process. For Sopra Group, the concept of partnership is

very important: we cannot function as key partners unless we have a strong position in France, which happens to be the case at present.

From the floor

So any drop in margin could only be the result of a slump in growth?

Pierre PASQUIER

Our margins are dependent on our strategy and on operating management of our business units which must be of the highest quality. Even so, problems may arise as was the case in the UK at the end of 2006 and the beginning of 2007. Observers of the economy currently fear a widespread economic crisis, but for our part we don't yet see any real reason to modify our strategy. Beyond that, all is a matter of performance of our business model.

From the floor

Has the gap between the analysts' consensus and your actual results, which are higher, been a result of prudence on your part following the crisis of the summer of 2007?

Pierre PASQUIER

I don't think we've been particularly prudent and our results are even a little below our forecast. Licensing revenue is always difficult to generate at the end of the year but we didn't undertake any particular initiatives.

From the floor

Could you provide a breakdown by acquisition of your financial investment for 2007? Will certain of your acquisitions be financed using your budget for 2008?

Hervé DECHELETTE

At the beginning of 2008 we acquired CIBF, specialised in banking solutions, and G2i, specialised in systems integration for Airbus in particular. Our other acquisitions were financed in 2007 even if an earnout component is possible in 2008 for 2007, and in 2009 for 2008, in the case of Profit in Spain. But otherwise all payments have been made, in the case of significant amounts.

From the floor

What do you mean by the 12 to 15% increase in offshore and nearshore staff? You said that the level of 12% reflected contracts already signed, so how do you plan to reach 15% in a short space of time?

Pierre PASQUIER

We need offshore staff for our R&D activity, so we are tending systematically to accelerate the trend in this area. Axway's R&D is not yet sufficiently offshore based. We have created a French zone covering Morocco and Spain, because many Spaniards speak French and we have a lot of demand for Morocco. We also have 450 to 500 customer-dedicated staff in India. We have been very successful in this area and it makes sense for us to accelerate the process. An increase of 12% in our offshore staff represents about 1,500 people.

We must succeed in converting our R&D and call-centre activities to offshore status. We also have complex projects which need to be managed. With the exception of Spain, our company is not involved in high volume contracts and in particular this is not the case in France. If such contracts were to materialise, we would need offshore staff of a different type. We have often been criticised for the weakness of our offshore base, which is a necessary component of our business and which we use for example in India on behalf of EADS. But large offshore volumes are simply not a feature of Application Management or fixed price contracts.

From the floor

Organic growth in consulting slowed down during the fourth quarter. Why, and what are your expectations for the first half of 2008?

Pierre PASQUIER

The deceleration was simply a result of the holiday period. In addition, at the beginning of the year a lot of staff left and as a result our management consultancy occupancy rate was particularly high. The fourth quarter figures do not have any major significance.

From the floor

You are planning acquisitions of varying sizes. Will some of them be paid for, if necessary, in shares?

Pierre PASQUIER

That would be difficult given the current share price.

From the floor

May you be envisaging a delisting of Sopra Group?

Pierre PASQUIER

No. We remain attached to a stock market ethos.

From the floor

Perhaps it would be in your interest to accelerate your programme of acquisitions in order to take advantage of the low level of stock market pricing?

Pierre PASQUIER

That is indeed our strategy. Last year, my priority was to organise the management team that is going to take over responsibility for directing Sopra Group and I devoted a lot of time to that. I am delighted that we now have Dominique Illien on board. We have worked a great deal to transform the company internally and we have also engaged in acquisitions as opportunities arose. We now want to become more active in this respect given the reinforcement of our Group management team.

From the floor

What pricing environment do you expect to encounter in 2008? Would you also be so good as to share with us the first results of your pricing negotiations with France Télécom? Might not the current trend towards concentration in the software market incite you to think again about your three year development plan? You might consider that you would find it difficult to reach a critical mass and may envisage a divestment of Axway.

Pierre PASQUIER

I will answer the second part of the question first and then pass the floor to Dominique for the first part of your question.

We have no plans for divestment of Axway, because we believe that we have every chance of reaching critical mass which is of the order of 250 million euros. We are constantly on the lookout for acquisitions for Axway and we have our internal development plan as well. So our overall development plan has not been changed. A number of our competitors disappear each year, absorbed by IBM, but companies like us are a breed apart because we service niche markets. In addition, Axway is a software developer of quality and the company is not for sale.

Dominique ILLIEN

The sensitivity of a group like Sopra Group to the impact of annual pricing negotiations has progressively less and less importance since only 18% of our total revenue is currently affected. In addition, our systems integration and units of measurement are now concentrated on products, the billing for which is less and less based on time spent. In a word, the business is less dependent on short-term fluctuations.

That said, the pricing environment in France definitely remains subject to tension and in this respect the situation at the beginning of 2008 is no different from what it was at the beginning of 2007. In contrast, the context is much more favourable in the United Kingdom. Your question also related to a specific customer and you will understand that we cannot comment on negotiations which are currently underway.

From the floor

What parameters are at your disposal to react to any slowdown in your activity?

Pierre PASQUIER

Our system of governance is very effective because we measure our order book on a weekly basis, as well as reviewing revenue and the associated margins each month. Such observations performed virtually in real time enable us to use the classic levers for managing any progressive slowdown, in particular by reducing our targeted level of recruitment, which is very ambitious for 2008. We certainly need to remain attentive to any major economic trend such as the one that engulfed HP in Grenoble two years ago.

But we have also provided for other useful indicators and we can act on the level of both capital expenditure and overheads. A company like ours would see its margins fall if it could not generate internal growth, but we have never been in such a plight partly because a large part of our revenue is recurring in nature. So, overall we have numerous parameters at our disposal to adjust for any minor or even major drop in our activity. As always, in this respect anticipation and responsiveness are key factors for success.

If you have no more questions, thank you all for attending this meeting.