

Presentation of results for the half year ended 30 June 2008

Pierre Pasquier
Chairman and Chief Executive Officer, Sopra Group

I wish to thank you all for attending this presentation of Sopra Group's half-year results. As was the case at our last meeting, my presentation will focus first on our financial results before turning to a discussion of our strategy. Dominique Illien will offer his comments on our operations, demonstrating through our client references – our major contract wins during the half year – the wisdom of the strategy we are pursuing.

.I First half 2008 results

.1 Revenue

We had a good first half, in which we posted total growth of 13.7%, with organic growth of 12.3%, thus achieving a performance in H1 outpacing that of Q1. The half year was one day longer than the previous year, with a positive impact on the comparison. The overall growth trend is that of the half year.

In management consulting, we achieved an increase of about 8% in both H1 and Q1. France posted organic growth of 15.6%. This represents Sopra Group's core business in project management, accounting for 60%, or nearly two-thirds, of our revenue. We have thus achieved very strong growth. Already robust last year, the pace of growth has increased.

In Europe, growth was 6.6%. This result reflects the combination of Spain, where growth slackened slightly although it still managed to maintain nearly double-digit momentum, a return to growth in the United Kingdom, and moderate growth in Belgium, Switzerland and Italy. Axway posted growth of 8.2%.

.2 Income statement

Let us now look at the income statement: 549.6 million euros compared to 483 million euros for the same period last year. Staff costs, for employees and contractors taken together, increased by 12.7%, while revenue grew by more than 13%. However, this reflects half-yearly performance. We achieved this performance through a combination of organic growth and recruitment.

Operating expenses were 92.9 million euros, while depreciation, amortisation, provisions and impairment together amounted to 8 million euros. Profit from recurring operations is the same for us as operating profit, a 7.4% margin. In this regard, I think our performance is rather unusual for the sector: there were no exceptional income or expense items. Last year, the net amount of exceptional items was 700 thousand euros.

The net borrowing cost was 4 million euros. The true cost of debt is the cost of borrowing money. The tax charge, which amounted to 11.8 million euros, has returned to normal levels. Net profit

therefore amounted to 24.7 million euros, representing an improvement in performance over the previous year, when it was 21.1 million euros.

.3 Operating profit by division

As is generally the case, Consulting had a good half year, achieving a margin of 10.1%. France climbed one-tenth of a percentage point, to 8.1%. Results in Europe improved slightly, as did those for Axway, despite the shortfall of several million licences in France and Europe. France saw better performance than anticipated for the most part, as did the United States and the United Kingdom. Operating profit was the same in absolute terms and is thus in keeping with our objectives.

.4 Balance sheet

Now to the balance sheet: on the one side, we have goodwill, fixed assets and other assets and liabilities; on the other side, equity and net debt.

.5 Equity

How did equity move during the period? We started the period at 248.8 million euros. From this we subtract dividends, which amounted to 19.3 million euros. We then arrive at the net profit for the period attributable to the Group, followed by the options exercised, as well as share-related expenses and translation differences, which are negative since they are charged to equity. As you are certainly aware, the pound and the dollar saw considerable movement during the period, thus a charge of 9 million euros must be taken to equity, so the total at the end of the period was 246 million euros.

.6 Change in net debt

Change in net debt: we started the period at 130 million euros. Net cash from operating activities before changes in working capital was 42 million euros. Here you have the translation differences, which reduce this figure slightly. Tax paid was 10 million euros. We saw quite a significant rise in working capital requirements during the period, but this is to be expected. Working capital requirements were 12.8 million euros, resulting in net cash from operating activities of 19 million.

Investing activities: these include investments in equipment and fixed assets, for a total of 6 million euros. Interest paid during the period was 4.2 million euros. Free cash flow was 8.7 million. Changes in the scope of consolidation amounted to a negative impact of 15 million euros. Changes in the scope of consolidation mainly involved the acquisition of CIBF, a company with banking software, earn-outs paid on profits generated in Spain and several restatements.

We observe a rise in the amount paid out for dividends. The net change for the period was negative 25 million, resulting in net debt at the end of the period of 156.6 million euros.

.7 Financial ratios

Here are the financial ratios. Net earnings per share rose to 2.12 euros, from 1.84 for the year-earlier period. The gearing ratio was 64% at 30 June 2008. It was 67% for the first half of 2007 and had dropped to 52% at the end of the year.

.8 Positions in segments and vertical markets

For my presentation of our market positions, I will be using the slides from March of this year, as the situation has not changed. It is important to see the big picture. Although my presentation only relates to our results for the half-year period, you will notice that the proportion of licences – which arrive during the second half of the year – tends to alter the percentages.

We have Consulting at 11% of revenue. We would like to bring this up to 15%. Fixed-price systems integration projects amount to 14% of revenue, staffing 18% and application management 30%. This is the core business. Next, we have our proprietary application solutions in banking, human resources and real estate at 12% of revenue, as well as those developed by Axway, which account for 15%.

Our verticals have not changed much either.

- Banking and insurance are at 24% and 6%, for a total of 30% of revenue.
- Manufacturing is at 16%; its decline is due to the fact that we are now focusing on major accounts. This means that although we have fewer clients, we enjoy a more significant presence at these clients.
- Services and utilities also include transportation and major accounts such as La Poste's mail services, Air France and the RATP, among others.
- The market share of telecoms for our businesses is 8%.
- The last segment for Sopra Group is the public sector, which accounts for 16%. We would like to see this rise to 20% and I think we will be able to achieve this.
- Retail accounts for 6%.

.9 Axway: Revenue analysis

Now I would like to present a breakdown of Axway's revenue by region and type of offering. By region and prior to the acquisition of Tumbleweed – which has yet to be completed, so I won't discuss it here – France accounted for 42%, Europe excluding France 36%, the United States 20% and Asia 2%.

In terms of offerings, the revenue breakdown is 34% licences, 30% maintenance and 36% services. This is the first-half analysis for Axway, which is expected to retain this revenue breakdown on the whole.

.10 Change in the Group's total workforce

When I look now at our total workforce, we numbered 12,110 employees at 30 June 2008. This net figure reflects a large number of new hires and many departures. In France, we recruited 1,100 individuals and 600 left us. We thus have a considerable increase in our workforce in France, which is a significant achievement. Staff turnover in France was 7.5% – actually almost 8% – which is rather high. But to understand this turnover, we need to be able to distinguish between the turnover we undergo and the turnover we appreciate.

Our assessment of the situation at present is fairly positive. The turnover as it stands is just about what we wanted. Outside France, and especially in Spain, staff turnover was a lot higher (around 20%) and intentionally so. In India, the turnover was 10%, which is acceptable for a half-year period in this country.

There you have most of the elements behind these figures. A moment ago, I gave you the figures for France. Overall, I believe that 1,800 individuals were recruited. You can work it out yourselves... As there were also external acquisitions, we had a net increase in the workforce of 500 to 600 people.

.II Comments and outlook

I will be using precisely the same transparencies as in March.

.1 Market overview in 2008

It is still a growth market. A recent article, referring to a study by the Gartner Group, describes the market as robust. Growth is expected to extend beyond the end of the decade. This was published in *Les Echos* on August 19th, with references providing the reasons for this growth: technology adoption cycle, outsourcing, and sector concentration. However, none of these commentators, not even the revered Gartner Group, can be certain of what the future will bring. All the same, our own opinion, and that of Syntec – Jean Mounet is here to attest to that – has always been that we are in a growth market (6%, 8% or 10%, depending on the optimism of each observer).

.2 Sopra Group's business model

To be sure, each IT services provider has made its own choices. The sector's business lines have evolved; when you add BPO or infrastructure to traditional IT activities, you change the nature of the business. Software developers have also seen changes in their model: they have increasingly acquired the status of vendors, thus adopting a more industrialised approach.

Each of us has analysed our own situation in terms of business lines, offerings, industry segments and geographic positioning and has built a business model. These business models are no longer very similar.

Personally, I do not believe that we have arrived at a stage of definitive consolidation. I really do not see the market this way. I note the arrival on the scene of a certain number of new companies, new products and new markets. The trend in favour of consolidation is stronger among software

developers. Consolidation exists at the larger companies – there are many examples, but it has been the case for the last ten years, and it continues all the same. It is a constant.

.3 Confirmation of our strategic decisions

Our choices include – as I have said already – consulting and all aspects of project management. And in relation to these choices, the key factor is to be able to provide a quality deliverable while turning a profit. Our choices also include our application solutions and Axway.

Consulting offers the potential for margins of between 12% and 15%. We have achieved this quite often. For the application solutions and Axway, our target margin is between 12% and 15%. We have often achieved this for our application solutions. With regard to systems integration, it all depends to a great extent on the production environment, the management of human resources and whether or not you are a leading player among major clients. A dispersed organisation is not the optimal approach.

Among our verticals, as I have already mentioned, we would like to do better in the public sector. For the utilities, our order intake is satisfactory, so we can say that the situation looks good. Among the large manufacturing groups where we are already present, we need to expand this presence. Clearly, we need to maintain our positions in the financial sector.

In terms of regions, we need to reinforce our positioning in France. This was our original focus and remains our core business. It is here that we can compete without taking any special precautions, where we are as eligible as any of the other larger players in the sector. In addition to strategic or targeted acquisitions, we actively pursue partnerships. And I should add that we also need to reinforce our presence in other European countries.

Axway is a state-of-the-art offering. The acquisition of Tumbleweed, if it comes to fruition, would put Axway's revenue in the United States on nearly the same footing as that generated in Europe, perhaps not exactly the same level, but in any event a revenue figure greater than that achieved in France. This acquisition would make Axway a genuine worldwide player.

So these are our choices.

Before handing over to Dominique, I remind you that he presented six key priorities last year. We will not be discussing all of them today. On the other hand, he will be focusing on our industrial strategy and our major contract wins.

.4 Industrial strategy and commercial successes

Dominique Illien

We made the most progress in manufacturing and we would like to link this to growth. Major contract wins have already been announced in the press, so as financial analysts you can understand the reasons for this growth and the validity of our business model.

First, I'll give you a reminder of our industrial strategy. Industrial strategy is more than just offshore, which is not an end in itself but a necessary component of our offering. I will deal with all the other aspects of the industrial approach later on.

Offshore personnel currently account for around 10% of the total workforce. The goal for end-2009 is 15 %, eventually stabilising at 20% of the total workforce, in a model where we continue to grow in the two main countries generating offshore business, France and the UK. By that, we mean growth in revenue but also in local personnel, at the same time as offshore staffing levels rise.

Secondly, a comment about activities which are eligible for offshore production. Here we are talking about the main areas of systems integration, i.e. major projects. Testing is a very industrial activity, which is increasingly identified as a separate business, but also staffing, particularly in the case of specific developments (scientific-technical activities: embedded technologies, IT close to the product). Application management is an important component, since it is long term and requires an industrial approach. We need to place increasing emphasis on R&D, whether our own or that of our clients. Lastly, the questions of industrialisation concern not just our systems integration activity but also the solutions and products activities. I would even go so far as to say that industrialisation originated in solutions and products, since the rationale has been there for some time, well before systems integration projects.

Industrial strategy also includes other very important components: infrastructures, which provide us with uniform production centres everywhere. Efforts have been made in methods, tools and processes – we have devoted tens of thousands of days to training, invested heavily to update our methodology and set up central support teams that are independent of the well-equipped local teams. All this is to ensure this transformation.

One of the most significant changes brought about in 2008 – in addition to the regular flow – was the introduction of the One Project concept. For international projects comprising both offshore and onshore elements, the idea is to avoid two sub-projects competing with each other for approval, which is not only time-consuming but creates internal bureaucracy and opposition. It's a question of managing to make people work in a linear manner throughout the entire project lifespan. Numerous training programs to improve methods and communications, and not least project leadership, are organized in such cases.

We should also say that the application of industrial strategy is materialised by service platforms. This is the case in the main countries of systems integration and product development, which is France, the UK and Spain, with eight platforms in France, one in the UK mainly devoted to testing, and two in Spain. These platforms serve the local market only. As regards offshore bases, India serves the French and UK markets. Spain and Morocco serve the French market with production taking place in French. There is R&D in Romania and, when the Tumbleweed acquisition is completed, there will also be an R&D platform in Bulgaria which will enter the Axway environment. In this area, our offering is very broad-ranging.

India is the most important of our numerous development locations. As we have already mentioned, offshore is not an end in itself: we are not an Indian player and do not market offshore services as such. We adjust these platforms according to the needs of our major European clients, our core business. If staff numbers are converted into percentages, the long-term target is around 20% of staff offshore.

One of Sopra's characteristics is that we have managed to partner with competitors in the UK, France and Spain for major systems integration projects. Axway has adopted a similar approach in a number of projects enabling it to integrate its products. Every time our proposals contain an offshore component and the offshore requirements exceed our capacity, we form ties with Indian players. We did this in the first half with the Indian company, Mindtree (10,000 employees) and Wipro. We were able to find the resources, methods and contacts to link up with these competitors.

.5 Why clients choose us

If clients place their trust in us, allowing us to generate growth rates well above those of our competitors and the market in the first half of 2008, and which may well continue into the second half of 2008 and 2009, it is because we are very close to them. We were among the first to undertake application management projects and offshore operations with them.

Our clients know that Sopra's industrial approach is not just sales talk. It's real, with very large projects and large-scale outsourcing operations. Our clients apply very strict processes to test our industrial approach and the credibility of our offering. Our credibility in terms of industrial strategy and offshore is founded upon several years' experience in this area. Lastly, our quality level has been proven, despite the distance created by the complexity of these international projects.

.6 Major commercial successes reflect the pertinence of Sopra Group's strategy

.a ArcelorMittal

Among the major commercial successes that marked the first half of 2008, we should first mention the ArcelorMittal project, which has been showcased in the press. We partnered with the Indian firm Mindtree as co-contractor with respect to the client. We retain access to the client. In short, the offshore activity is shared between Sopra and Mindtree: it is not the exclusive preserve of our Indian partner. From the perspective of ArcelorMittal, it is a massive, highly rigorous project covering the outsourcing of its development and quantitative maintenance in Europe.

Sopra Group was selected because it was a strong historic player. We were the first ones to handle Application Management and carried out a first offshore experience with ArcelorMittal. Our client was therefore able to test the entire approach. We beat major Indian competitors and major US IT services firms to win the contract.

.b Capita (United Kingdom)

The second example is that of Capita, a major BPO company based in the United Kingdom. Capita is very familiar with offshore, as it produces a large portion of its services offshore. Its IT development has been performed for a long time by Indian players. From a volume point of view, the project concerns the redesign of a portion of Capita's banking applications used to produce BPO services for major banks. It will take place over more than 18 months and we're only in the initial phase.

Sopra was selected by Capita after months of tests with our French and British teams. Matthew Trimming, who is here today, led all of our proposals for our UK teams, convincing the client by putting together the best of our skills both in the United Kingdom and in France and India. This test phase was very long, but it gave us the edge we needed to beat the Indian firms.

.c EADS

We had already mentioned our projects with EADS and Airbus. With regard to Airbus, we are working on the renewal of its major three-year contracts, which represent several hundred employees. An offshore component is in the pipeline. As part of these first renewals, we are up against Indian players and major world-class IT services firms. We passed the test of the first renewals with flying colours. We also won a contract for another EADS division, Eurocopter, for the upgrade of a version of SAP. Once again we were competing with the Indians.

The testing component of these migration contracts is becoming increasingly important. With EADS, testing and the capacity to carry out offshore projects in testing gave us the credibility we needed to win. We should note that even if we were referenced at EADS, we did not have any direct contacts at Eurocopter.

.d France Télécom (Billing Orange UK)

A more recent success story relates to France Télécom, which launched a global harmonisation programme and the restructuring of its client billing applications. The project relates to the UK component.

Once again, it is a longstanding project involving several thousand man days. We are in the initial stages, which are part of a much longer harmonisation process.

Sopra Group won the competitive tender procedure on the strength of its capacity to get all of its teams based in France, the United Kingdom and offshore to work together. We were also judged based on our capacity to produce in both French and English, and on the skills that we have built up with France Télécom in BRM. BRM is Oracle's Telecom billing tool. Once again, the consultation took place – in a very strong competitive environment – against major European IT services firms.

.e SFR

Our project with SFR comprised three components in the first half of the year.

The first of these was announced to you at the beginning of the year: the construction of a new system of offerings and services, a very big contract.

The second one, Project Orient, took shape at the end of the first half, involves Application Management. Once again it is a significant-sized project that is part of a harmonisation and rationalisation approach adopted by the client SFR. We should note that it had several service providers in this area. We had numerous exchanges in order to determine whether offshore was a solution or whether we should work instead in the French provinces, thereby minimising migration costs. We concluded with our client that the most favourable solution was to work in the French provinces. The project was led in large part by Christophe de Tapol, here with us today, who heads up Sopra's telecoms activities.

Once again, we were in competition with the major European IT service providers.

Finally, the third component, known as sourcing, is currently in progress. We will communicate about this in the second half of the year. It relates to the extension of SFR's rationalisation process.

These commercial successes therefore feed through to Sopra Group's growth and allow us, in the systems integration component representing 62% of our revenue, to position ourselves as a market leader. We do this thanks to a highly developed industrial component, by a very close alignment to clients' needs, by nearshore and offshore, whenever necessary. However I should remind you that industrialisation adds more value than offshore.

We could mention a series of other wins, relating to smaller contracts such as ERP overhauls at Thales, La Poste Courrier or a division of Total. We could talk to you about other major application management contracts, notably in insurance and banking – particularly BNP Paribas. These successes underscore our industrial strategy and we continue to make significant investments in this area.

.III Conclusion

Pierre Pasquier

What is Sopra Group's project? As we have tried to show you, the savoir-faire, knowledge of clients' projects and proximity is a winning formula. Indeed, the companies that entrust us with their projects verify out in the field that we have the capacity to carry them out.

.1 An ambitious project for 2010

.a Double revenue in three years

Our ambition is to double our revenue over three years to between 1.5 and 2 billion euros.

There's a big difference between 1.5 and 2 billion euros, which can make some people feel a bit nervous. I indicated recently in an interview that if we made an acquisition we'd have to be able to finance it. When I was asked about the financing method, I mentioned the possibility of financing by dilution, which provoked a large number of reactions among analysts. I was asked if I had thrown my usual sense of caution to the wind! The answer is no, I have not. I think that an acquisition is necessary to reach the revenue figure of 2 billion euros in revenue. But would we do it if it led to big a dilution? No we would not. We will carry out this acquisition if it is consistent with our strategy, if we have the resources and if we can maintain our independence.

Last year, we carried out several small acquisitions. We are currently working on the Tumbleweed project and are optimistic: we expect it to be completed shortly. By then, from my point of view, we will have done everything necessary for Axway to get on with its life, driven by organic growth, with an attractive offering and a nice package.

We therefore remain committed to this project.

.b Rapidly reach a 10% operating margin

We want to reach this objective of a 10% operating margin whatever it takes, as quickly as possible. If events prove favourable, things can move quickly. If markets continue to be doubtful, if there are crises, Sopra will be affected just like everyone else. In any case, this objective is entirely feasible, and rapidly.

Our other ambitions are as follows:

To make the Axway project succeed;

To carry out local acquisitions;

To identify a large-scale strategic acquisition, assuming that this makes sense and does not compromise the future of Sopra Group.

.2 Outlook for 2008

The outlook for 2008 is simple; it has not changed: organic growth higher than the market and an improvement in our operating margin.

We have now finished our presentation and you are welcome to ask any questions.

Questions – Answers

Question

I have three questions.

First, please could we come back to the growth trend that you expect in Spain in the second half of the year?

Secondly, what was the contribution of the vertical applications to the operating margin of SSI France in the first half?

Thirdly, with regard to Axway, you ultimately reiterated the annual objective, after a first half that may be a little lower than your forecasts. What makes you hope that the trend for the second half will be better than H1? Do you have projects in the pipeline?

Pierre Pasquier

With regard to your first question, the Spanish economy is in trouble. Sopra's position over there isn't bad. In the field, we succeeded in maintaining growth which, without matching our usual 15% growth rates, has reached 10%. We believe that end-of-year growth will fall off a bit, but will remain substantially positive. Our work in the field consists of keeping our clients and conquering new ones. The Spanish market will decrease, but we should bear in mind that the 15% per annum organic growth in Spain was a little high. Sopra is certainly one of the companies that is holding up best to the crisis in Spain. For the year as a whole, we think that we can maintain growth of between 7 and 10%.

With regard to your question about vertical solutions, relating to real estate, HR and banks, contribution to margin is lower than what we would have liked. But we think that we can rekindle the old flames of growth... Indeed, we missed out on some licence business and some was postponed.

Finally, a word on our optimism regarding Axway: I should say first of all that Axway's business is not a long, quiet river. Every month it has to reproduce a series of licence sales. In fact, we were 1 or 2 million euros short in licence revenue. On the other hand, one was signed, but it is not possible to recognise it before October. And we are still in the running for another one. It's just a whisker away. I don't have any particular data on the basis of which we can predict whether the second half of the year will be better or not as good. As ever, the second half is important for licences. As ever, investment decisions may be taken or deferred. In any event, Axway is fundamentally in good shape. And there again, quarterly movements are not easy to analyse.

Are there any other questions?

Question

My question deals with the inevitable question of the economy. Do you think that the current growth drivers will be sufficient to offset the economic slowdown, which is taking a stronger hold in Europe?

Pierre Pasquier

I think so. Our profession generally escapes economic slowdowns. This has proved to be the case pretty often. Today, the slowdown may even be very favourable for a company such as ours. Why? Because a slowdown entails cost-cutting decisions which lead to outsourcing. Our competitive advantages are obvious: we know the companies, we have been out there for a very long time, we have gained our clients' confidence and they don't like to take risks. Thus, in a period of economic slowdown, we can increase our growth.

Moreover, in the context of an economic slowdown, transformations need to be made. Now I don't believe that companies can cut corners in their investments to make savings in their information systems. In the era of globalisation, making savings on your information system just isn't a viable option.

We are not yet at the stage of an ultra-violent economic slowdown with a recession, leading everyone to grind to a halt. Until now our profession has not seen this economic slowdown taking the form of a recession. Moreover, the article in *Les Echos* carried numerous references to the Gartner Group, according to which growth drivers are still very powerful. The most recent statement indicated that "this is ultimately a cycle which will extend into the next decade". Can we still talk about a cycle lasting for 10 or 15 years? It's more like a huge transformation period.

However, if the entire western world slides into recession then we'll all be in the same boat.

Question

As far as the consolidation of the sector is concerned, haven't you noted any acceleration?

Pierre Pasquier

Consolidation exists, as exemplified by major transactions such as HP-EDS or Logica-Unilog. At the same time, the world of software developers has three or four industry giants such as IBM or Oracle who are looking to buy, which pushes prices up. In parallel with this, companies that are less well known are developing.

Sopra's strategy consists of always increasing quality, developing a local presence, as well as what we need for offshore so that we can gain our client's confidence. Some of the contracts that we've presented here were won based on these criteria. All of the clients that visited our premises in Noida came back impressed. When we take them to visit our premises in Madrid, I can assure you that it is professional. This is a real industrial site and the clients assess projects on a case-by-case basis.

Question

What levers do you plan to pull to reach your objective of a 10% operating margin? Assuming economic conditions comparable to those of the first half, at what level do you estimate your future operating margin?

Pierre Pasquier

We need to be prudent as far as estimates are concerned. What levers will we pull? The very steady continuation of HR-related work, industrialisation and the success in high added-value offerings, in which the margin effects are significant (Consulting, our own offerings, Axway) will contribute to margin leverage.

All service companies operate in a world in which one division may not be developing as well as the others, either for historical reasons, or because of problems with the manager's performance, even if we don't talk about that too much. For our part, year in year out, we made the necessary modifications and fixes in every division, although this does not mean that we have systematically changed management. But possibilities for significant improvement remain.

Next, it is important not to focus only on the very short term. This is why we are deploying considerable R&D efforts. If we absolutely wanted to get to a margin of 9.5%, we could easily get there by reducing our R&D efforts. However, we have to trade off between the production of results, the underlying trend and the long term.

Question

What are the utilisation rates for Consulting?

Pierre Pasquier

They are excellent. For us, the problem is not utilisation rates but recruitment.

Question

What are your objectives for the second half in this domain?

Pierre Pasquier

We mainly recruit junior-level staff. Our skills pyramid needs to be rebuilt every year with juniors. Engineers are not immune to the aging process and you get a good project manager after six or seven years.

When you have to recruit experts or leaders in a certain technology, two difficulties emerge: you have to find them, but also keep them. It is difficult to find them because they don't want to leave their current position. Moreover, once they have been recruited, they need to appreciate the Company, its values and the way it operates.

Despite these difficulties, we have achieved some commendable successes in the business consulting process that we have set up. The ideal way to pave the way for the future involves developing internal promotion, finding tomorrow's specialists among today's semi-specialists. It goes without saying that human relations and HR aspects are essential for the future. You cannot replace one team by another without consequences.

Question

Your workforce grew by close to 700 in the first half of 2008. How many employees will the Group have at the end of the year following the acquisitions for example?

Pierre Pasquier

We don't have any acquisitions in my sights right now. In all probability we will see a small increase of about 200 or 300. In September, there are traditionally a lot of new joiners. That's when students graduate and when work placements finish.

Question

Please could you give us an update on the status of Sopra's position in the United Kingdom, drawing the distinction between changes expected in the public and the private sectors? What would have been your SSI margin in France if applications had been in line with your expectations?

Pierre Pasquier

I don't know.

Question

Also, how do you plan to meet your objectives of 15% in Consulting and 20% in the public sector? Finally, can you communicate your main clients and how your revenue with them is evolving?

Pierre Pasquier

You asked a lot of questions and I can't reply to all of them. As far as the United Kingdom is concerned, I'll let Dominique reply to that.

Dominique Illien

In the United Kingdom, the main growth driver in the first half of 2008 was the public sector. We experienced a significant slowdown in our small private sector client base. The big private clientele remains a source of major contracts, which will give us a high level of growth continuity in the second half of the year.

So for the year as a whole, growth will be satisfactory. Our internal growth will be significantly higher than that of the major players in this market. The UK market is estimated at 2 or 3% and for the year as a whole, we will reach about 8%.

Pierre Pasquier

The second question related to what would have been our operating margin if we hadn't been a little bit lower than we should have been. I can't answer you I'm afraid. I can simply say that in terms of margins, application solutions didn't perform as they should have done but this may be corrected soon. All you need are a few projects that are postponed or missed, by two or three million euros, and the margin will suffer.

One of your other questions related to our major clients.

Dominique Illien

Sopra's top ten clients, which we monitor specifically, represent more than 30% of revenue. The first two account for revenue in excess of 50 million euros. For each of these accounts growth is positive. However, it is more or less rapid based on the customers and sectors.

The dynamic of major clients is therefore real, historically speaking. Moreover, it was re-launched at the end of 2007 and at the beginning of 2008. It functions very effectively and corresponds to our strategy as a whole. After industrialisation, the second component of our strategy relates to offerings, partnerships and major clients. Revenue recognised represents the materialisation of this strategy. Similarly, the major signatures follow this trend towards industrialisation and major accounts.

Pierre Pasquier

I think that one of your questions still needs to be answered.

Question

How and based on what timing do you plan to meet your objectives of 15% revenue in Consulting and 20% in the public sector?

Pierre Pasquier

As quickly as possible. Do you have any other questions?

Question

Your investments in industrialisation and the constitution of offshore resources have been substantial. Can you quantify them? I understood that these expenses weighed on the margin in France. Is it 400,000, 500,000 euros or more?

Pierre Pasquier

Much more! We maintain centrally a Quality and Offerings Department comprising 40 or 50 engineers to foster industrialisation. If we wanted to allocate these people to projects, given their skills, they would be billed immediately. But where would we go from here? Industrialisation is a big deal. You can't develop major projects without having worked in depth on the methods, tools processes and training. We have powerful teams that we have reinforced even further.

Of course, we all speak the same language. I can't therefore make a distinction by language. However, it's the work carried out by the central teams which over three years has allowed us to improve our margin each year: central teams comprising engineers who previously directed projects, did consulting, etc. These aren't entry-level people. They therefore don't receive entry-level salaries. They have a minimum of eight to ten years' experience. One of them has even spent his whole career at Sopra. This therefore represents a substantial investment.

Equipment investment is also intensive. This year, we budgeted and spent relatively significant amounts for tools. We also bought a complete development toolset for fixed-price projects and application management. We set up communication infrastructures which allow us to work on the same project from anywhere in the world. This is therefore a very heavy investment.

However, giving you a figure would not be very meaningful. Perhaps we invested 10 million euros, but if we had not made this investment, our margin would plummet in the future.

Question

With regard to the strategic operations that would allow you to rapidly reach a revenue figure of 2 billion euros, how many transactions would be necessary? Between one and five, between one and three? Just one?

Pierre Pasquier

No, we can't quantify that. The truth is that there are a lot of potential transactions and at the same time there aren't any. We spent the year trying to digest last year's changes. Of course, a lot of potential transactions are presented to us. On Thursday we'll announce in the press the arrival of a Group Business Strategy Director, but until now we haven't yet studied the files. This subject will come to the forefront at the end of 2008 and during the course of 2009.

Question

With regard to organic growth, do you think you could benefit from a positive price effect for all of your businesses or will it mainly be a volume-driven growth?

Dominique Illien

We can see a slightly positive effect on the growth of unit prices but in terms of percentage of revenue, the portion actually related to off-days is declining. Therefore for the major contracts, it is

much more than unit/man price, service catalogues, etc.: these are notions which are completely separate from the price of off-days.

Therefore the contribution of the price effect on growth for 2008 will be low, as it will be in 2009.

Pierre Pasquier

The price effect is closely linked to industrialisation processes.

Question

Don't you think that you're taking a risk by only reinforcing market share in major client accounts?

Pierre Pasquier

Why? No, on the contrary. We are no different from our competitors in this respect: if you don't have major accounts, you don't exist.

Dominique Illien

As I said earlier, no major client accounts for more than 5% of our revenue. We are not in a state of dependency with respect to a single major client.

Pierre Pasquier

For the past few years, we have modelled losses to be booked in the event of the default of a major account. Some years ago, when HP cancelled its project which for us represented 100 to 150 people we were able to manage the situation without any staff layoffs.

In order to maintain our room to manoeuvre in this business, you absolutely need to unlock organic growth. I'm also rather dubious about the viability of a business that does not have organic growth and whose workforce is therefore not growing in France. I can't believe it. I can't understand how you can retain staff. Each time we generated organic growth, we've been able to reorganise our staff. Without organic growth this is difficult to envisage. We experienced this in 2003-2004. You can't block salaries so easily, especially in a period of inflation.

As far as I'm concerned, and for all of us here, local presence is therefore extremely important. So even if the systems have all been established and stand the test of time, on a local basis, there will always be a need for advice, adaptation and implementation. This is why only a mix of offerings can meet these needs.

If you don't have any more questions, I'd like to thank you for attending this meeting.