

# 2009 annual results presentation

## Pierre Pasquier, Chairman & CEO

Thank you for attending the annual results presentation of Sopra Group. We will proceed in the usual way by looking at accomplishments in 2009, additional information, major project wins and highlights for the year, strategy and outlook. I will deliver part of the presentation and Dominique Illien will present the rest.

## I. Results presentation

### 1. Achievements in 2009

Revenue for the year was €1.094 billion. As you can see on *Slide 3*, there was negative growth of 3.1% with an organic decrease of 4.5%. On the right-hand side of the chart you have the situation for Q4.

Management consulting took a beating this year, but the fourth quarter was better. Negative growth was limited to 7.3% and the forecast as of early 2010 is satisfactory. In France, performance for the year remained positive despite a negative Q4. Why was Q4 negative? In 2008, we had an excellent Q4. At the end of the year we booked cost-overruns on fixed-price contracts, which reduced [net] revenue. There have also been adjustments here and there. Europe contracted 15% in the full year and 18% in Q4. This quarter is not particularly significant. Axway posted negative organic growth of 7.6% but Q4 was -1.1% and Q3 -1.6%.

We can see the figure of €1.094 billion again in the income statement on *Slide 4*. Staff costs for employees and contractors were down 0.9%, with the cost of sub-contractors falling from €97.6 million to €74.3 million. Operating costs were 5.2% lower thanks to the cost-reduction plan. Depreciation, amortisation and provisions increased by 13.6% but this percentage increase is applied to a limited base (€14 to €15.9 million). Profit from recurring operations was €83 million, representing a margin of 7.6%.

Amortisation of intangible assets mainly related to Axway products, but also some of Sopra Group's banking products (such as BIA and CIBF). Exceptional costs in the amount of €17.2 million break down into 2.2 million for exceptional costs in Spain and 15 million for an impairment of goodwill in that country. This writedown did not have an impact on cash. The operating profit was €63 million.

It was impacted by the cost of debt servicing, taxes and the discontinued activities in Spain. We had kept Valoris Spain in the hope that the business would take off again, but the crisis meant that we had to let it go. Its contribution of €4.1 million appears on this chart. Net profit was €27.2 million, with a net margin of 2.5%. If we had not decided to impair goodwill, net profit would probably have been €46 or €47 million.

*Slide 5* shows profit margins per segment. Management consulting achieved a 2.2% margin. SSI France continued to deliver an excellent performance with a margin of 8.3%, an excellent achievement, particularly if we compare it with the 8.9% of the two prior years. At SSI Europe, profit from recurring operations grew 3% to €5.2 million. Finally, Axway once again broke through the 10% barrier in its current margin of 10.2%. The gross margin was 7.6% for the group.

The simplified balance sheet on *Slide 6* shows that goodwill fell from €372.7 million to €356.6 million. This reflects the decisions taken for Valoris and Spain. Intangible and other fixed assets total €119.1 million. Equity increased from €268.3 million to €281.7 million and financial debt decreased from €198.2 million to €137.4 million. We believe that it was a considerable achievement to have reduced financial debt to this extent.

With regard to equity, the position at 31 December 2008 was €281.7 million, as indicated in *Slide 7*. After deducting dividends, adding net profit for the year and various other items, equity was €281.7 million as of 31 December 2009.

Moving on to changes in net debt on *Slide 8*, cash from operations before changes in working capital was €94.6 million, with income taxes paid of €32 million and a change in working capital requirements of €50.2 million. The change in working capital requirements was achieved thanks to various factors: a slight top-line contraction of 3%; the French government's decision to introduce a new framework governing payment terms; an excellent net profit; and we finally brought pressure to bear to deal with the issue of debt collection. This was not been a priority in the previous period. After the net cash flow from investing activities and net interest paid, free cash flow was €91.2 million. The change in the scope of consolidation indicated below corresponds to the final part of the earn-out for Spain. Total debt at the end of the financial year, after taking into account dividends paid, was €137.4 million.

*Slide 9* shows the financial ratios. Gearing is back under the 50%-barrier at 49%. Net debt to EBITDA is 1.52. Bank covenants require gearing of less than 100% and Net debt to EBITDA below 3. The Operating profit to Borrowing cost ratio (after taking into account the €15 million goodwill impairment charge in Spain) is 6.86%. It has to be more than 5. So we feel very comfortable with the bank covenants.

## **2. Additional information**

*Slide 10* presents our business sector and vertical market positioning. It has not changed a great deal. It centres around consulting, fixed-price projects, outsourcing and local and industry-specific expertise. I would like to highlight application solutions and Axway, in particular. Like our other activities, they help us boost our revenue and profit, even in a difficult period.

Financial Services (banking and insurance) remains our primary vertical market, but the Public Sector is nipping at its heels: it now accounts for 17% (excluding the para-public sector) and is concentrated mainly in France and the United Kingdom. The percentage attributable to Manufacturing has fallen because we are focusing on several big groups where we have established a strong position. Telecoms accounted for 12%. Services, Transport and Utilities represent 17% and Retail 7%. Sopra Group is pretty resilient in this market, which is not particularly buoyant.

Figures for Axway are provided in *Slides 12-14*. With Axway, 74% of Sopra Group's revenue is generated in France, with the substantial proportion of the remainder coming from elsewhere in Europe and the United States. Without Axway, this rate rises to 81% in France. Based on 2008 exchange rates, 38% of Axway's revenue is generated in France, 30% in the United States and 30% in Europe. Applying a theoretical exchange rate of one euro for one dollar, US revenue would account for 38%, France 34% and Europe 26%. The American market has thus become the principal market for Axway. The breakdown between licences, maintenance and services has seen maintenance assume greater prominence, largely thanks to the acquisition of Tumbleweed. Licence revenue has advanced slightly over the last four years.

As *Slide 15* shows, staff numbers have remained absolutely constant between the end of 2008 and the end of 2009, at 12,450. But there have been changes inside this figure: the French headcount has risen from 8,210 to 8,335 whereas staff numbers outside France have fallen from 4,240 to 4,115. In France we have hired just over 1,000 new staff and have had almost 900 leavers.

This completes my presentation of the numerical charts. I will now hand the microphone to Dominique Illien, who will give us his comments on 2009.

### **3. Major project wins and highlights for the year**

#### **Dominique Illien, Deputy CEO**

In the depressed market conditions of 2009, we continued to win market share, particularly in the utilities vertical market. This has been a real growth-driver and we have established a strong position with EDF. We carry out projects in Application Management or areas closer to its core business (hydro- and nuclear-power). GDF Suez has been a springboard for international business development.

2009 also saw business pick up in financial services, where spending was severely curtailed in early 2008. Business picked up in the second half of 2009. In *Slide 17* you will see a number of clients based outside France, where the decline was more striking. This upturn in the financial sector is expected to continue in 2010.

The vertical market in which Sopra Group has made the most progress is clearly the public sector. We have staked our place within the government ministries of France, Scotland and Italy. We have acquired a sense of momentum and have achieved double-digit growth over a period of several years. This trend should continue in the years to come.

Manufacturing has imposed stringent spending cuts, but we have continued to make headway in specialised, technology-intensive industries. Moreover, our relationship with Thales and EADS spurred us on to develop internationally.

Another vertical market where we were pleasantly surprised by the growth we achieved was Retail. We increased our share of revenue, mainly from projects that we carried out for the Mulliez group (the parent company of Auchan and Leroy-Merlin). We adopted a highly structured industrial-scale application management approach.

Aside from the client accounts themselves, our resilience in 2009 was attributable to several very large-scale transformation projects, especially in the public sector. In *Slide 18* we give the example of Chorus. Created in 2007, it is now entering rollout and additional phases. We also won business

with an ONP consortium (the national payroll operator). This win did not produce revenue in 2009 but it is important for the future. We also joined forces with Axway to offer a combined solution of systems integration services with Axway's products. We now have to deal with the issue of supervision, assessment and functional comprehension of data flows. This provides a foretaste of what a partnership between Axway, a major software publisher, and Sopra a great systems integrator, can offer.

In Banking, demand for large-scale projects has picked up again, particularly for the Group's Evolan products. Banks have reduced their recurring IT expenses, but at the same time they have launched major back-office rationalization projects, with a substantial IT component. They often have several IT and back office data bases for the same solution. They are now looking to rationalise these data bases with the aim of only keeping one of them. This entails only maintaining one production site for the distribution of both credit and payment solutions, in France and abroad. We have been very closely involved with Société Générale and La Banque Postale in connection with Transactis, their common payment processing platforms. We have also worked on Evolan smartcard products and have invested in the launch of various loan processing platforms. The major banks are harmonising their solutions in this field. All these projects encourage us to develop internationally, giving us access to an international client base.

Another factor that spurred us on in 2009 was what we used to call application management. We now call this application outsourcing because it applies a more industrial-scale approach and the volumes and commitments have grown appreciably. The service centre concept has become critical and we have made progress with an increasing number of client accounts, particularly in sectors that have recently become open to this kind of rationalization (banks, general and providential insurance companies). Easyjet is an interesting case in point: in the UK, we helped Easyjet design its booking and ticketing system. We are now entering a maintenance phase which will last several years.

We also made headway in 2009 thanks to our new offerings listed in *Slide 19*. We devoted a great deal of effort in previous years to our testing services. Testing is increasingly regarded as a standalone task. We have been very proactive with regard to our testing services, and have established a strong reputation among testing professionals. We are now regarded as being the most innovative firm in this field. On this basis, we have achieved some significant successes with a number of client accounts. As with application outsourcing, we have established recurring services. Without limiting ourselves to one-off tests as part of the installation process for new applications, we maintain ongoing test bases that can be applied to successive versions of applications.

We have also made progress in software engineering for scientific, technical and industrial applications and embedded systems (which we refer to under the acronym STIE), where we have gained market share. We are focusing on the aeronautic industry, which not only helped us grow, but also to become an international player in this market. We now have operations in the UK and Spain.

Another pillar of stability in 2009 was our application solutions: Evolan for the banking sector, Pleiades for human resources and Altaïx for property management. Thanks to Altaïx, we won the Carrefour account, which means that all major retailers now use our products.

Aside from these key successes, changes in client demand have followed a few basic trends in two areas presented in *Slide 20*.

- In terms of rationalisation and industrialisation, our business is evolving towards application outsourcing. In 2009, application outsourcing continued to grow at the same rate as in previous years, that is to say 9 to 10%. It currently accounts for close to half our Systems and Solutions Integration (SSI) revenue, which is why it is crucial for us to grow in this area. The challenges linked to application outsourcing are starting to spread across all our business segments, so it will remain a key growth driver. We have a number of competitive advantages in this field that we need to maintain and develop.
- New technologies and new uses of technology are the driving force behind our large transformation programmes. Today technology is strongly influenced by mobility: large company applications are reaching a growing number of users, which generates new uses and new functions. We have also started to offer cloud computing services. Although this offering is still in its early days, developments in new uses and new methods of process supervision should lead to large projects in the future.

*Slide 21* goes beyond the 2009 balance sheet to broach topics that we need to work on in 2010 in preparation of our future. We must continue to develop the areas that made us competitive in 2009. These competitive areas arose due to prior investments in our offering, key accounts, human resources and delivery processes.

We have boosted our investment programmes in these fields and hope to gain new competitive advantages from our existing services (such as application management and application outsourcing) as well as identify new offerings (such as mobility).

We currently manage 6 key accounts which, in 2009, generated internal growth of 20%. We now need to broaden the scope of this programme. We want to bring it up to 22 key accounts, accounting for 44% of our revenue. We will, however, choose sectors that offer the highest potential, namely the banking sector, utilities and the public sector.

Internally, we are continuing to pursue our industrialisation strategy, with a particular focus on toolkits. A number of initiatives introduced in previous years (quality, testing, methods, etc.) have now been deployed within the company. We will need to make a number of new investments, for instance in direct equipment for all the project teams. This will enable us to be more productive in the core activity of project development. This focus goes hand in hand with rationalisation and creating service centres both in France and abroad. We have also made considerable efforts to improve quality: we can now implement vast application outsourcing and other large-scale projects, achieving excellent client feedback on quality, despite occasionally missing a deadline. We have noted that this holds true even when we offshore large parts of the project.

Lastly, we will need to anticipate significant changes in human resources, as increasing quality is a priority in this area. We must also flesh out a 3-year strategic vision. We were clearly in a position to recruit in 2009 as we are in 2010. We must plan this recruitment drive and prepare our employees for future changes. We will see less development in the mainstay European countries such as France, the UK and Spain, but we will need more employees with functional knowledge, alongside a mastery of upstream project conception and analysis. To achieve this we will supplement our usual training programmes with a series of special training courses in 2010.

## 4. Strategy and outlook

### Pierre Pasquier, Chairman & CEO

I will now bring this presentation to a close.

2009 was largely shaped by the spin-off of Axway from Sopra Group. This was a key strategic decision. So why did we take it, and why now?

It was because the systems integration and software developer business models did not mesh together very effectively. Until now, Sopra Group had been able to make the acquisitions Axway needed, but I don't think that we would have been able to continue had further opportunities arisen. Moreover, part of Axway's market is now moving into European countries in which we have little presence (for instance in Germany), and into the United States. Another reason is that Sopra Group's market capitalisation does not fully recognise the value of Axway. That is why we made the decision to split the two entities.

Why did we make this decision now? We needed to fulfil a number of conditions. Axway needed complete operational autonomy, which it has now had for the past one and a half to two years. It also needed a strong enough positioning and a solid enough reputation in the United States for its strategic initiatives to be feasible. It fulfilled this condition when it acquired Tumbleweed Communications. Tumbleweed was a listed company and thanks to this acquisition, the Synchrony offering became well-known.

*Slides 25 to 27* cover Axway's programme. The Synchrony platform guarantees, secures and governs all electronic exchanges necessary to an enterprise, both internally, externally, between applications, file mode, BtoB and EDI modes and so on. We are already in a position to sell these offerings as products and software programmes and we are concurrently working on new OnDemand offerings. Therefore we are embracing new technologies, especially those for smart phones. Our geographical positioning is good: we are the leader for this offering in Europe, a major player in the United States and we are established in Asia. We have the two must-have positions in transfers (finance and supply chain). Our leadership has brought us integrators as partners. Moreover we are leader in Gartner Group's MFT, B2B and eMail "Magic Quadrants". Gartner even commissioned a targeted study on Axway, the results of which were positive, indicating that we have the resources to fulfil our ambitions.

In *Slide 28* on functions and management, we can see the acquisitions that Axway needed to secure its position: Viewlocity in 2004, Cyclone Commerce in 2005, Atos/Actis in 2007 and Tumbleweed in 2008.

As a separate entity from Axway, Sopra Group is pursuing a key transformation programme which is outlined in *Slide 29*. This "strategy in motion" is designed to adapt to evolving client demand and, when the time is right, to play a role in market consolidation. Sopra Group will continue to capitalise on its core strengths to optimise, rationalise and industrialise. Our industry has developed in such a way that only a small number of large global competitors are able to meet all demands. And while they are positioned strongly, each one has its own geographical area, its own offering, its own products and its own business line. Sopra Group is committed to being among the top two or three preferred suppliers that major clients work with over the long term. We intend to stick to this strategy, fostering organic growth and improving our profitability.

The *last slide* shows that Sopra Group forecasts modest organic growth and a slight increase in profit margins for 2010. The same applies to Axway.

We shall now open the floor to questions.

## **II. Questions & Answers**

### **Dov LEVY – CM CIC Securities**

I have a couple of questions for you. I understood in terms of the economic environment that Q4 was similar to Q3. There are still some uncertainties as to demand? How do you foresee the beginning of 2010 and how do you think the year will progress?

### **Pierre Pasquier**

As of the beginning of this year, demand seems to be fairly high. In any case it is higher than what we had expected. We had anticipated the need to recruit 700 people in France, but chances are we will need to recruit more. In any case the current situation is nothing like the beginning of 2009.

That being said, there is still pressure on prices. Our vision extends over 3–4 months, but no further. It appears that companies are seeking to rationalise their information systems in order to cut costs and start investing again. Many of the projects feature smart phones.

This time last year, we had no visibility and we weren't in a position to make a forecast. We have now returned to the position that we were in three years ago: we can't be precise on guidance, but we have a clearer vision of the next two months.

### **Dov LEVY – CM CIC Securities**

In this context, what factors will enable you to increase your margins slightly? There is still pressure on prices, at 1.5%?

### **Dominique Illien**

Price pressure was 2% in 2009.

### **Dov LEVY – CM CIC Securities**

What are your forecasts for 2010?

**Dominique Illien**

We have noticed that since the beginning of the year we have been entering a phase of stability. Price pressure will therefore ease off in 2010.

**Pierre Pasquier**

This means that productivity must improve by at least 2 points if we hope to improve margins. Another solution would be to shield part of our business model from this price pressure, which is what we do in our big embedded outsourcing contracts. All the same, we remained resilient in France. Industrialisation and human resources management are the issues, but they are complex. I personally think that over the long term we will need to win 1 or 2 productivity points every year.

**Dov LEVY – CM CIC Securities**

In Spain, you have seen through a number of restructuring plans. How have you begun the year in this country? Do you think that you'll be able to make a profit in 2010?

**Pierre Pasquier**

The situation as it stands in Spain has two explanations. The first is to do with our offering in the Spanish market. In Spain, we focus more on supplying contract IT staff, whereas in France we focus on solutions and large outsourcing projects. Secondly, there was an aggravating factor at the end of the earn-out period late last year. As a result, the local manager put off making decisions until the beginning of 2010. This pushed business back 6 months compared to the UK, where we were able to intervene much earlier with economic crisis management plans. The beginning of the year is set to be difficult in Spain, although the situation should return to normal in the second quarter, or in the second half.

**Dov LEVY – CM CIC Securities**

What are your market anticipations for the consulting arm? The extent of the top-line contraction tapered off as the year progressed, but margins did not follow suit. Have you recruited more because you anticipate an upward trend in growth?

**Pierre Pasquier**

We present Orga Consultants, now known as Sopra Consulting. However, this is representative of only part of our consulting activities. In the public sector, many of our consulting activities are embedded and these work very well. Management consulting suffered an appalling start to 2009, but from one quarter to the next, we started winning contracts again. At the end of the year, our decline was confined to 7.4%. The current situation isn't ideal, but it is once again manageable. Over the course of the year, we need to return to growth and improve profits.



**Dov LEVY – CM CIC Securities**

Why did margins fall in the second half?

**Pierre Pasquier**

I can't give you a precise explanation. We had a lot of downtime between consultancy contracts in the first half, but we were able to reuse this time in Sopra Group. This applied less during the second half.

**Dominique Illien**

There doesn't seem to be a significant change in profit. Overall our consulting activities remained profitable in 2009, despite the severe economic downturn.

**Dov LEVY – CM CIC Securities**

So margins are expected to pick up gradually over the course of 2010?

**Pierre Pasquier**

Yes.

**Dov LEVY – CM CIC Securities**

This also applies to Spain?

**Pierre Pasquier**

Exactly.

**Brice PRUNAS – Oddo Securities**

I would like to come back to the plan to spin-off Axway from Sopra Group. Historically, the free cash flow generated from SSI activities was used to finance Axway's acquisitions. Once it becomes autonomous, is it concerned about not having the necessary resources to fund its development? Also, please could you recap your business plan for Axway? On the upside, without Axway, Sopra Group will generate significant free cash flow. What will you plan to propose to your shareholders? Will you return it to them, or do you have any acquisition projects planned that will create sufficient value?

**Pierre Pasquier**

Sopra Group's free cash flow has undoubtedly financed acquisitions for Axway. However, for the last three years, Axway's operating profitability has been higher than that of Sopra Group.

Axway's strategy consists of finding ways to develop by relying on its own revenue and margins. We hope to see its operating margin improve to reach a normal level for a software developer.

The spin-off we are intending to carry out is not a stock-market listing. The shareholders will remain the same. If acquisitions became necessary and worthwhile, we would consider them from a software developer's viewpoint and we could make a public offering to finance them. Up until now we have never done this. 15% of the shares will remain in the hands of Sopra Group, and the main shareholders have manifested their intention of retaining their shareholdings. This company is therefore well-controlled and should be present on the market in October.

What shall we do if Sopra Group generates a lot of cash? We haven't really given much thought to the matter. This issue raises that of the future for Sopra Group. We shall give due consideration to every possibility. Our prime focus this year remains on our separation from Axway and the need for us to create the most favourable conditions for both business initiatives. Considering new acquisitions is not currently part of our approach. We shall only consider acquisitions if events lead us to do so.

**Antonin BAUDRY - HSBC**

Where does your heart lie between Axway and Sopra? Are we heading towards a different leadership style for both groups, or will you remain on top?

**Pierre Pasquier**

My heart inclines to both, with no preference for either over the other. The products come from Sopra Group, and Axway comes from all the expertise that Sopra Group has garnered for 20 years. The same management bodies will be set up and the same dominant groups would be present in both entities. Our motive in conducting the spin-off is to develop an independent Axway. We are not selling Axway. I intend to remain a shareholder of both Axway and Sopra Group. On the other hand, I don't know whether all the main shareholders will retain their interest in both entities.

**Antonin BAUDRY - HSBC**

What about the management?

**Pierre Pasquier**

Sopra Group's management is associated with the founders and, with them, owns 34% of the group. They will be involved with both entities.

**Antonin BAUDRY - HSBC**

My second question concerns how quarterly growth will follow on in 2010, in view of a slightly negative embedded effect, particularly in France.

**Dominique Illien**

We didn't start 2010 with negative growth.

**Isalina TROCHERIE – EXANE BNP PARIBAS**

My first question is also about Axway. You stated that December had been a particularly strong month for Axway. How are matters progressing in January?

**Pierre Pasquier**

They are progressing reasonably. I'm deliberately remaining vague. We had a somewhat stressful 2009 year-end. Above the usual trend, the last fortnight saw the bulk of licence revenue. However, we did not sign everything. Deferred investments will be sufficiently strong for us to view the first quarter in a more positive light than the same period last year.

**Isalina TROCHERIE – EXANE BNP PARIBAS**

My second question addresses your dividend policy. What was the rationale for that policy when 2009 profit was lower than 2008? Have you any acquisitions in mind?

**Pierre Pasquier**

No. This policy is a compromise between what the shareholders may want, the wishes of staff for profit-sharing, incentive schemes or remuneration, and what we need to keep in order to effectively manage both corporate projects. We have lower net profits. We shall retain roughly the same payout percentages.

**Patricia DAVID – CREDIT AGRICOLE SA**

What were the developments in the French IT services market in 2009? How do you see 2010?

**Pierre Pasquier**

I suggest letting the President of Syntec answer these questions.

**Jean Mounet, President of Syntec**

The final figures are not yet available. In France, services will be on a downtrend of between 3 and 3.5%. In Europe, the downturn is likely to be between 4 and 4.5%. It is somewhat premature to give you the forecast for 2010. The earliest estimates range between 0 and 2%. They will be confirmed shortly.

**From the floor**

I have two questions. First, what was the improvement in the customer-receivables component of WCR? What do you foresee for 2010? And also, how will you split the net debt between Axway and Sopra Group?

**Pierre Pasquier**

To reply to your first question, in my view we gained 15 days in 2009 and will retain the same 15-day improvement objective for 2010. We can reasonably improve our performance as regards deals signed, the payment terms laid down on signature, billing and collection. We are optimistic for the coming year.

I'm not in a position to reply to your second question right now. The matter is under review. The Board of Directors will make a decision in the coming months. Some small amount of debt may perhaps remain in Axway. That is all I am able to say, but nothing is hard and fast as yet.

**Brice THEBAUD – AUREL BGC**

What are your plans regarding recruitment and average salary increases in 2010? I understand that there was some tension in salaries. Could you also perhaps give us further details about maintenance at Axway? You are in the process of improving and optimising maintenance there for existing clients. How did this go in 2009?

**Pierre Pasquier**

I shall deal with your first question regarding our human-resources and recruitment policy, while somewhat shifting the emphasis. Sopra Group must attract and train from within its managers of tomorrow. We shall not succeed in running the business by chopping and changing the workforce, sometimes increasing and sometimes lowering it. We are planning to recruit. We shall combine extremely advanced, specific, individually-tailored training programmes. This combination of recruitment and training is designed to give us the managers we need not just now only, but also in two to three years' time. We are growing 3 to 5% in France. Part of that revenue growth will be put out offshore. Obviously there will be fewer movements in staff. In this context, human-resources management is essential.

Last year, we only increased salaries very slightly in January, then by somewhat over 1% in July. This year we are raising them by a little over 1% in January. For July, we shall wait and see, depending on how the first quarter turns out. Perhaps we shall have to take some measures. It is not easy for staff to accept, even against a zero-inflation background, but we cannot distribute what we

don't have. We need to reconcile economic objectives, systems of reward and the search for the managers Sopra Group will need tomorrow. Accordingly, far fewer experienced staff will be recruited than in the past.

Maintenance has expanded at Axway since Tumbleweed has brought us sizeable maintenance revenue. We have a good business strategy for the next two or three years. Doubtless our Axway offer is not at the optimum when it comes to maintenance. We have investigated the client base in depth, enquiring into its maintenance position and the level of service we can propose for the standard 24/7 service. This fundamental work should enable us to improve our score.

**Brice THEBAUD – AUREL BGC**

What is your current average maintenance rate?

**Pierre Pasquier**

Theoretically 18%.

**Brice THEBAUD – AUREL BGC**

And in reality?

**Pierre Pasquier**

We are certainly below that, but individual-country analysis is needed. Each year, we have to renegotiate our maintenance contracts. It is not easy to evaluate. Groups merge, and they change. We add further products. It is difficult to retain records of everything that we have sold in order to assess the level of maintenance. I believe we are closer to 14/15% than 18.

**Brice THEBAUD – AUREL BGC**

What about lost maintenance work?

**Pierre Pasquier**

We are limiting that, working more upstream on service offers than on providing maintenance support. Each year 2 to 3% evaporates from our books. Previously, it was more like 5 to 6%.

**Emmanuel PAROT – GILBERT DUPONT**

I have a very simple question to ask about Axway. You published a current operating margin of 10%. That is satisfactory, but below both your target of 15% and your competitors' margins. What drivers are you seeking to work on in order to push towards 15%? Is it simply an issue of critical size, or are other factors at play?

**Pierre Pasquier**

This year, we still have some functions to set up, particularly Axway's IT network. Fundamentally, the main driver is organic growth. I see no real reason for changing the cost components for administration, distribution or the product chain. On the contrary, we probably have enough staff to sustain growth. Part of a 5% to 10% organic growth would be achieved at constant costs. The main driver therefore consists of resuming the organic growth we did not have last year and in accompanying the whole effort with industrial rationalisation. We can deliver new products. We have positioned ourselves to take advantage of organic growth.

**Richard NGUYEN – SOCIETE GENERALE**

Your growing exposure to the public sector causes me some concern. States are currently highly indebted. It is therefore legitimate to assume that volume will undoubtedly continue to increase, but at the same time, pressure on prices will be higher. What are the other risk factors in your exposure to the public sector, given that there are very few feasible offshore components?

Following on from that question, could you remind us of your ambitions offshore? What is your situation today and what are your plans for the future?

**Pierre Pasquier**

In the public sector, pressure on prices exists at the outset when the contract is signed. Contracts are always for major integration projects. Four or five companies battle to secure decent prices for themselves. The major outsourcing operations don't disappear offshore, but they can go to the French provinces, or even elsewhere in Europe. Morocco is also acceptable. In the final analysis Sopra Group's operating arrangements for the public sector are not bad at all. We therefore have no fears about price pressure in the public sector.

**Dominique Illien**

Even if the major developed countries may be planning deficit reduction policies for the years ahead, it should be clearly understood that the projects we are involved in are major conversion projects that governments really need. These projects generate maintenance. Demand is changing in the public sector. The reforms began before the deficit policies and will continue after them. These reforms are not dictated by cyclical factors.

**Pierre Pasquier**

Today, our offshore policy is embodied in 600 people in India, 200 in Spain, 350 in Romania/Bulgaria, and a sizeable team in Morocco working mainly for banks with Sopra Group products. In France, we have a large number of 200- to 400-person, fully-industrialised production platforms. We have embarked on a conversion programme which will result in our having to reshape our existing offshore strategy, but within the strategy of platforms and production centres that we deploy in Paris and the French provinces.

Two-thirds of the Indian platform workforce works for the French market. We accept everything we are asked to do in India. We know how to serve this market: EADS, for example, has placed its full trust in us for a few hundred engineers in India. The UK market should obviously work in favour of India. I believe we are set to grow towards about 1,000 people. Today I see no difficulty signing contracts in India. On the other hand, our presence is not strong enough in the UK.

At the end of this year, we shall probably reach close to 15% of the workforce compared with the current 10%, but the figures should be treated with caution, since Axway products have developed in the Eastern countries, as have the platforms in the provinces. In certain provincial cities in France, the final cost for a technically demanding project is scarcely higher than in Morocco. It's really an industrial policy issue.

**Richard NGUYEN – SOCIETE GENERALE**

What is your strategy with regard to partnering with market players in India? What risks do these partnerships entail for the future? We have already seen Indian players who were not in partnership with local groups siphoning off customers in Germany and the Netherlands.

**Dominique Illien**

We have arranged a number of deals with Indian companies, industry majors or medium-sized businesses. This is an essential step for us in contracts requiring an expanded workload offshore that exceeds what we can reasonably produce. We have reserves available to scale up, but in certain cases, for certain types of skill, there is a need for an offshore presence for which we don't have enough volume. In these cases we resort to partnerships such as exist between European integrators, while remaining very firm about controlling access to the end client. These partnerships absolutely rule out signing away access to the client since, in the long run, this would lose us our customer base.

**From the floor**

Have you any idea of your 2010 tax rate and of the exceptional expenses entailed in the Axway spin-off?

**François Lefebvre, Directeur Financier Sopra Group**

The 2009 tax rate remained identical, to within a few tenths of a point, to the 2008 tax rate. There is no reason for the 2010 rate to be significantly different. Syntec has formulated recommendations for treating the new *taxe professionnelle* [business tax] as corporate taxation. We shall probably follow that recommendation. The tax charge will doubtless be increased, but the impact on net profit will be neutral.

**Pierre Pasquier**

That will improve profit from recurring operations. However, when I say that we can improve it slightly, the improvement will not stem from this source. I should remind you that our business is mainly French. The *taxe professionnelle* business tax represents €10 million, or 1%. The way in which we present our accounts will be governed by the Syntec decision.

**From the floor**

Operating expenses fell 5% in 2009. Do you think there are any other areas left for you to work on? What external-personnel expenses do you foresee in 2010?

**Pierre Pasquier**

We have some room for manoeuvre with external expenses. Travel expenses are sizeable. We still have room here. At constant revenue, we should be able to decrease these expenses significantly.

As regards external personnel, we still have €70 million to €75 million of external purchases. Sometimes we have no choice; sometimes we do. We have worked on this topic since early last year. I think we shall improve in 2010 in both volume and utilisation. It is not necessarily a wise decision to purchase externally a SAP specialist involved in the detailed specifications of a fixed-price project. We are working hard on rationalising our external purchases.

In both cases, we have room to manoeuvre.

**From the floor**

What expenses will the spin-off entail, if any?

**Pierre Pasquier**

They will be small. Obviously we're getting outside assistance, but the expenses are not on the same scale as stock-market listings. We have isolated those expenses. In all, a few million euros are involved. We have factored all this into the forecasting scheme I set out to you.

If there are no further questions, I would like to thank you for attending this meeting.