

Presentation of first half 2010 results

I. Presentation of results

Pierre Pasquier, Chairman and Chief Executive Officer

I wish to thank you all for attending this presentation of Sopra Group's half-year results. We have prepared a relatively simple presentation. I will try to deliver it to you quickly. Several members of the executive management team are here and will be happy to answer any questions you may have afterwards.

1. Key events of the first half of 2010

Slide 2 summarises the key events. Revenue increased by 4.3%, driven in particular by our core business in France, which posted growth of 3.9% and by Axway, which saw growth of 13.7%. Operating margins also improved. The French local business tax known as the *taxe professionnelle*, has been replaced with a tax comprised of two components. In accordance with the recommendations issued by Syntec Informatique, Sopra Group has decided to recognise one of these new components, the *cotisation sur la valeur ajoutée des entreprises* (CVAE), based on the value added each year by the business, under corporate income tax. This new development aside, France improved by 2 percentage points, while Axway gained 8 points and the Group 2.5 points. Taking into account the CVAE, which was treated previously as an operating expense and has become a tax, France gained 0.8 points in the first half, Axway 8 points and the Group 1.6 points. With respect to the solidity of our financial position, at 30 June 2010 we reduced our debt by €68 million. Our financial ratios are sound. Lastly, we are pleased to report that we recorded some major contract signings during the period.

These were the key events of this first half of 2010. Let us now look at the Group's financial results in more detail.

2. Achievements at 30 June 2010

On slide 4, you can see that Sopra Group's first-half revenue was as follows: €69 million for the Group as a whole, €386.9 million for France, €86.9 million for Europe and €95.2 million for Axway. Total organic growth was 4.3%, with 5.5% for the second quarter, which included two additional days compared to the year earlier period. This second quarter proved to be favourable for all our businesses. Sopra Group's activities in France posted organic growth of 3.9% in the first half and 4.5% for the second quarter which, given the additional two days, results in a level of growth nearly similar to that for the first quarter. Europe declined by 3.3% in the first half but reached equilibrium in the second quarter. I think that this declining trend in Europe has come to an end and that we will soon see positive growth. Axway turned in excellent results for the first half, in the first as well as the second quarter, with 13.7% growth. We are not accustomed to seeing such growth for this subsidiary in the first half; usually the second half of the year is better. We hope Axway's performance will be as good in the second half.

Slide 5 shows the income statement. Revenue amounted to €69 million. On the income statement, we have shown figures for both 2009 and 2010 and, between these two columns, the results we would have recorded before the reclassification of the CVAE. Revenue improved 4.3%. Staff costs, for employees and contractors, increased by 4.9% and decreased by 5.6%, respectively, resulting in an overall increase of 3.9%. The increase in staff costs is therefore lower than revenue growth. Operating expenses decreased from €6 million to €8 million. We need to look here more closely at the figures before the reclassifications, which were impacted by the professional tax, in other words €3 million. Nevertheless, this amount represents a decrease in operating expenses. Depreciation and provisions amounted to €8 million. Profit from recurring operations thus came to 7.4%. It would have been 6.5% under the former accounting treatment. Operating profit after exceptional items was 6.8%, compared to 5.9% under the former accounting treatment. Exceptional expenses include the depreciation charge for products, mainly related to Axway and, to a lesser extent, to Sopra Group, as well as exceptional expenses for the preparation of the spin-off, consisting of invoices received from our banking partner and two legal firms. These expenses came to about €2 million in the first half. Similar expenses will also affect the second half, after which time they will no longer be incurred. The net borrowing cost was €3.3 million, down from €4.9 million. The income tax expense now includes the professional tax. Whereas in the past this expense would have amounted to €0.6 million, today it comes to €14.7 million. As for the net profit, we have gone from €10.8 million last year to €19.8 million this year, thus increasing from 2% to 3.5%.

I have already presented the information shown in the first quadrant of slide 6. The second relates to France, thus excluding Europe and Axway. In France, profit from recurring operations came to 8.4%, including the impact of the professional tax. It would have been 7.2% under the former accounting treatment. Operating profit was nearly identical. Some depreciation charges for products were recorded. That's everything. In Europe, we recorded profit of 1.8%. Here, the professional tax has no impact. Operating profit and profit from recurring operations are on the same level. Last year, profit from recurring operations had come to 2.7, but we had set aside provisions for restructuring expenses, which had brought this figure down to 0.2. Lastly, Axway's activities in France are slightly affected by the professional tax. Profit from recurring operations thus came to 8.6%. After exceptional expenses, including depreciation charges for products but above all expenses incurred in preparing the spin-off, operating profit fell to €5.3 million or a margin of 5.6%. The comparison with 2009 is extremely favourable, because we signed significant new contracts in this first half of the year.

Slide 7 shows the simplified balance sheet. Goodwill amounted to €56.6 million at 31 December 2009. Currency fluctuations, particularly relating to the US dollar and, to a lesser extent, the pound sterling, had an impact of €25 million on goodwill. At the same time, equity increased by a nearly equivalent amount. These figures thus vary depending on the performance of the US dollar, the pound sterling, or the Indian rupee. In fact, they have been relatively stable. There were no new acquisitions during the period. Nothing has changed in this regard since the end of 2009. Next, you can see the intangible assets, financial income and the other fixed assets. The change in equity has improved, even with regard to currency translation adjustments. At 30 June 2010, net debt was €28.2 million. We had hoped it would be €10 million lower. We had been slightly disappointed by the receipts at end-June, some of which were deferred to 15 July. However, this does not require any change in our forecast for net debt of about €70 million at 31 December 2010.

As for the change in equity, on slide 8 you see that equity amounted to €281.7 million. We set aside a provision in the amount of €9.4 million for dividends. The profit for the period and the currency translation adjustment of €25.9 million give a position at 30 June of €315.5 million.

The change in net debt is shown on slide 9. We started the period with net debt of €137.4 million. EBITDA, representing our gross cash flow from operations, was €54.6 million. Tax amounted to €5.3 million and was thus lower than last year. Changes in working capital requirements amounted to a decrease of €27.6 million, for two reasons. I have already mentioned that receipts in the amount of €10 million were deferred. Furthermore, we saw some growth, which engendered new working capital requirements. Last year, due to our negative growth, we improved, through the WCR, our free cash flow. Capital expenditures totalled €7.3 million in the first half. Net interest paid was €3.4 million. Free cash flow for the first half therefore amounted to €1 million. This means that we can be optimistic about the free cash flow at the year-end, which should come in slightly under last year's figure but remain acceptable nevertheless. At the end of the period, net debt was €128.2 million.

On slide 10, you can see some of our financial ratios. Earnings per share climbed from €0.92 at 30 June 2009 to €1.69 at 30 June 2010. The gearing ratio, which was 74% a year ago and 49% at year-end 2009, came to 41% at 30 June 2010. After employee profit sharing, it was 33%. I think that, in the absence of new acquisitions, our gearing should improve considerably by the end of the year.

3. Additional information

I will now present additional information with respect to our operations, as shown on slide 12. Axway and our application solutions represented 17% and 12%, respectively. The Group's core business, in both France and Europe, corresponds to consulting, systems integration for fixed-price projects and application outsourcing, which together accounted for 71%. Our revenue breakdown by industry segment changed little, dropping 1 point in banking and 1 point in telecoms, but gaining 1 point in the public sector. Demand is strengthening in the public sector, but relatively slowly. Telecoms have been declining for a few years now, but this trend seems to be levelling off. Most of the other industry segments continue to make advances, but manufacturing has seen a decline. We have focused on major accounts in this vertical. It is therefore understandable that we can make strong and significant progress on these major accounts while recording, for the other accounts, an overall business with manufacturing clients that is declining slightly.

With respect to the revenue breakdown by geographic region, on slide 13, Sopra Group and Axway in France came in at 74%, as against 20% for Europe excluding France and 6% in the United States. If I separate Sopra Group and Axway, France represents 82% for Sopra Group as against 37% for Axway. Axway generated 33% of its revenue in the United States, 28% in Europe, and a small percentage in Asia.

I have already presented the information in the pie charts of slide 14 on the breakdown of Axway's revenue. Taking as the basis of calculation 1 euro equal to 1 US dollar, licences accounted for 34% of revenue in the first half, with 40% for maintenance and 26% for services. For the year as a whole, the contribution of licences should increase, while that of maintenance should decrease slightly. In geographic terms, using the same basis, the United States accounted for 37%, France 35% and Europe excluding France 26%.

Slide 15 shows you the growth in our workforce. Net growth amounted to 580 persons. At 31 December 2009, we had a workforce of 12,450 persons, whereas at 30 June 2010, it had risen to 13,030. This growth was especially concentrated in France. In fact, we received a flood of applications. There was also growth in the offshore workforce. In India, we will soon reach full capacity at the Noida centre (800 persons). We are therefore seeing relatively strong growth in India, in Romania for Axway and, to a lesser extent, in Morocco. In Europe, our staff levels have remained stable or have slightly decreased.

4. Strategy and prospects

I would like to close with a few quick comments about our current situation. On slide 17, you can see that our activities this year are affected by the proposed spin-off. The idea is to create two distinct brands with two well-defined strategic profiles. For Sopra Group's strategic profile, we confirm our focus on consulting, fixed-price projects, application outsourcing and our application solutions. We do not create system architectures. Nor do we usually work in business process outsourcing, although, on an exceptional basis, we sometimes supply services in this area. However, these areas are not part of our strategy. This is not what we do and we won't be doing it in the future. We are concentrating on France. We have been criticised for not turning our sights more to Europe. It is true that our presence in Europe is inadequate. But we plan instead to reinforce our positions in France so as to remain among the top three players, in each of our business lines. To continue to serve our major French clients, we need to maintain a business presence in Europe, in various countries, in order to better assist them. By working this way, we may also find clients, in Spain, England and Italy for example, that will allow us to connect with our operations in France. This is our strategy. Assuredly, there is a problem with the scale of our operations in Europe. We have set ourselves the priority of bringing our offerings in Europe to the same level of excellence, in terms of business lines, as our offerings in France. We are in the process of achieving this now.

As we have seen, Axway has a real software developer and vendor model within Sopra Group. If we want to see Axway succeed, allow it to double its revenue and achieve the profitability of a software developer – in the region of 15 to 20% – we need to exit. This is why we have initiated a process to carry out the spin-off before the end of the year. It will mean that we can shore up Axway's position in Europe and the United States. This spin-off is also an opportunity to capitalise on acquisitions.

I am going to comment quickly on Sopra Group again. Slide 18 shows that aside from Axway, Sopra Group is still pursuing the same strategy in terms of our divisions, vertical markets and geographies. Executing this strategy presupposes that we constantly adapt our "division/offer" and "major client account" industrial structures. Every six months, year in year out, we constantly work towards this goal. And I'd like to draw attention to two other priorities which are not part of the ongoing adaptation programme. First, we want to reinforce our position in the banking software sector and we will probably have the opportunity to do this. Secondly, as I have just mentioned, we need to enhance competencies at our European subsidiaries. Sopra Group will also have to confirm its leadership position in the verticals we have mentioned. We are obviously looking for what can differentiate us, particularly from major Indian competitors. We also want to stay close to our clients, a factor associated with quality of delivery. Finally, we want to protect our margins.

My last slide does not contain any surprises. I have taken the key items from 2010. This year, Sopra Group is enjoying positive organic growth with a slight improvement in its operating margin. Axway is also benefiting from these improvements. We outperformed the guidance that we communicated in February-March. Over the next three years, Sopra Group should experience robust organic growth, external growth in France and Europe and generate an operating margin of around 10%. Within the same timeframe, Axway should benefit from strong organic growth, will probably make acquisitions and record an operating margin in excess of 15%.

Ladies and gentlemen, this completes my presentation. We are now at your disposal to answer your questions.

II. Questions – Answers

Grégory Ramirez, Bryan Garnier

Good morning, I have two questions. The first concerns the reduction of subcontracting. How much leeway do you have in the second half of the year? Are you going to reduce it further or should we expect it to stabilise? My second point concerns the three-year targets for SSI. You are looking at an operating margin of around 10%. And you're not far off from that target. How do you see this margin evolving given the upside potential that remains in France and the slight potential for improvement internationally?

Pierre Pasquier, Chairman & CEO

In response to your first question, we are currently focusing more on quality than on the volume of subcontracting. We have implemented a set of processes and we believe that we can manage subcontracting infinitely better than we do today. Certain guidelines need to be followed when it comes to subcontracting and we did not always apply them properly in the past. Subcontracting fixed price projects by buying in project managers on a chargeable-time basis has proved to be unsatisfactory. It is not necessarily in the subcontractors' interests for projects to make rapid progress. We are therefore working on the quality of our subcontractors, rather than the volume. I believe that volumes may change, but not significantly. Having said that, there is considerable upside potential in terms of operating profit.

With regard to Sopra Group's margins, you say that we have to make 10% and that we can do better. I respect your opinion. It's an excellent direction to move towards. It is indeed true that the CVAE has given all of us in France the chance of adding an extra percentage point. But this will soon be taken for granted and forgotten about. Sopra Group believes it can improve its margins this year in France (stripping out Axway). I am not able to say by how much, but we do expect to achieve a slight improvement in our margins. We observed that this was happening in the first half of the year and I hope that we will continue along the same trendline in the second half, although I don't know to what extent we will improve. As you noted, there is nothing out of the ordinary about all of that. The first and second levels of operating profit are virtually identical. Last year, we had exceptional items in Spain, arising from a situation that proved hard to manage for various reasons. There were no exceptional items this year.

Isalina Trocherie, Exane BNP Paribas

I'd like to ask a question about Axway. You stated that the strong growth over the first half of the year was in part due to projects from 2009 that were postponed until 2010. Can you quantify them? Will we see the effect of these postponements again in the second half of the year or is it more or less finished?

Pierre Pasquier, Chairman & CEO

No, this phenomenon will not continue. A few projects were pushed back for some accounts. As we're dealing with a software developer and vendor business with significant licence sales, we are still experiencing some difficulty in disclosing a very precise figure. I don't know how to quantify it. I do not think that we will have the same level of growth in the second half. However...I don't know. We started from a budget that we outperformed. It is difficult to quantify that because variances may prove to be significant. Our pipeline is good, as is our third quarter. The fourth quarter is still a bit far off. We usually give an overall direction. We know the exact figures at the end of the year. I do not know how to quantify the impact of these postponements, but it should amount to a few points. All the same, we delivered solid performance in the first half.

Eric Blain, Tradition Securities and Futures

There was a significant calendar effect in the first half in May. Do you think that, despite a less favourable calendar effect in the second half, you will be able to maintain your operating margin for the Sopra Group part of the business or is that too ambitious? Also, could you also tell us about staff turnover? It seems that the whole industry is seeing a considerable pick-up in turnover, along with pressure on salaries and difficulties feeding this through to prices in some cases. I think that we should differentiate Sopra Group from Axway. Could you shed some light on these issues for us?

Pierre Pasquier, Chairman & CEO

Your question has several components. I am going to try to address them one by one. In general, the second half is better for Sopra Group, as it is for all its competitors in the application management and systems integration industry. It is more favourable because structural expenses and production both get a break. The two additional days in the second quarter certainly boosted growth for the quarter. We do not really foresee any change or negative growth in the third and fourth quarters. We originally envisaged growth in France and in Europe of between 3 and 5%. As a prudent estimate, I will now say between 2 and 5%. I maintain this growth level today.

With regard to margins, the margin is established from activities that you sell on a time-spent basis. We have only relatively few of these. Management performance of fixed-price contracts is also taken into account. These are one-shot items. Application management projects are also taken into consideration; these are also service-level agreements. This is where a company's entire industrial process resides: price, tools, the choice of managers, the control system, and team motivation. Sopra Group has 800 fixed-price projects, that's 800 teams making constant contributions to the margin. From this standpoint, we have a solid delivery track record, probably because we have done some fairly intelligent things. This is also why we can hope to continue along the same trend line. But it's complex. Offshore represents only a very small component. We work just as much on

tools, people, base salaries and wherever we have installed development platforms. This work is non-stop. We constantly have to start over because the pressure on prices is always there.

There is pressure on salaries, too. It turns out to be simpler to resolve when we are experiencing growth. And we are currently experiencing growth. As for staff turnover, we are going to see turnover of less than 10% in France, in other words, not very high. Of course, the consulting business is proving trickier, with higher turnover. I will not draw too many conclusions from this. I will just make a few comments. It is widely said that recruiting is proving difficult. But this is not true. We are managing to recruit talent. Whenever the market picks up slightly, the same comments arise. It is more difficult to recruit, but we are managing to do so all the same.

Laurent Daure, Kepler Capital Markets

I have two questions. First, I would like to go back to your comments on the external growth of the Sopra Group part of the business. Looking at your IFRS accounts for the first half of the year, it would seem that at year-end, the Sopra Group portion will carry debt of about a hundred million euros, with net cash in the other portion. So where is your firepower? How are you going to finance acquisitions? What size are you aiming for?

As for the second point, most of your competitors disclose their order-book. Could we have some information in this regard?

Pierre Pasquier, Chairman & CEO

One day we should explain to you how we work. With book-to-bill, if you add a 10-year contract, it doesn't mean anything. I think order-books may be the most perverse mechanisms in our profession. It can be nonsensical. We just signed a six-year contract. Crediting it will provide no indication as to the coming year. You can record negative growth despite a huge order book. Furthermore, how do you record an order for maintenance? At Sopra Group, we have tried to show orders that are going to impact revenue for the following year. That is a real indicator for us. Nobody handles bookings the same way.

As for cash, the two companies combined will have close to €70 million in debt at year-end. For now, we have not made any decisions about the apportionment of this debt. For both companies combined, €70 million represents a very low level of debt. Sopra Group is very well controlled. We have very flexible bank credit facilities. In my opinion, if we wanted to make an acquisition, we would not encounter any problems. A year and a half ago, our debt totalled €210-220 million. But we reduced our indebtedness very quickly. This company does not burn cash, except in acquisitions when we pay for them in cash.

Jean Mounet, as the former Chairman of Syntec, would you like to say something about book-to-bill? I get the impression that anything goes in our profession.

Jean Mounet, Sopra Group Vice-Chairman

I agree completely. We are experiencing the same phenomenon with inter-contract periods, where people manipulate the figures, with non-standard definitions. There is no standard definition used by everyone for book-to-bill ratios. This is absolutely not the case today. Every company records its figures and its orders. If you sign a facilities management contract for six years or more and you

record it in your book-to-bill for the year, you get an extraordinary set of results, but they mean absolutely nothing with regard to future years. We would need a common benchmark. I tried to implement this when I was Chairman of Syntec. Everyone was opposed to it, putting forward their own ways of handling bookings. So there is flexibility of disclosure for each company's presentation of its figures.

Pierre Pasquier, Chairman & CEO

Both components are useful for managing a company. You can verify what they give you the following year in terms of work planning and, at the same time, try to extend them. We also know that after 2 or 3 years, regardless of what is signed, a contract can almost always be renegotiated. Negotiations are not that frequent, though. We look closely at this indicator internally but we do not disclose too much because drawing comparisons with the competition is difficult. Furthermore, a book-to-bill differs depending on whether it relates to consulting, infrastructure, BPO, etc. In general, it's better to show a positive book-to-bill than a negative one. That's just about all I can tell you.

Sébastien Thévoux-Chabuel, Oddo Sécurities

You mentioned some encouraging contract signings. Could you provide us with a few details on the vertical markets and services involved in order to clarify what is working well right now for Sopra Group?

Pierre Pasquier, Chairman & CEO

Pascal Leroy, who heads up France and who is going to help me more and more closely, will tell us about a few recent contract signings.

Pascal Leroy, Managing Director for France

If we focus on the top deals signed in France, banking is Sopra Group's principal vertical market. Crédit Agricole initiated a large-scale programme to streamline its IT platforms. We won two major assignments. First, to complete the migrations so that there will ultimately only be one single information system. We will also provide support to CSC to help them with their entire project management portfolio and help them in the rollout of this new system. These are two major contracts, which extend over 2 to 4 years, depending on their size.

We could also mention EDF, which has decided to change its entire business intelligence system for its nuclear power plants. You've been following the news. Reactor availability at our nuclear power stations in France is not sufficient. So it is necessary to have management control information to monitor availability. Sopra Group won this contract deal in the first half of the year.

In the UK, we won a contract at the end of the first half with Virgin Media. We are conducting significant testing activity. The UK has divided their processes into a development activity and a testing activity. We established a service centre for Virgin Media with about a hundred people dedicated to testing.

Business deals relating to Airbus are always in the news. We sometimes forget to mention certain deals because they are almost a part of everyday life. Groups are increasingly using service

providers to expand research and development of multiple applications that are often part of the same functional domain. We have won and continue to win contracts that mobilise the resources of an average of between 50 and 100 people, for example, on aircraft maintenance or to managing the technical documentation for these aircraft.

Lastly, the SNCF has decided to perform a major streamlining of its information systems. It has created a company called NoviaServ to accomplish this. This company has selected three service providers—IBM, Capgemini and Sopra Group—to manage its new information system. This is a multi-year project that is starting immediately. We will not see real results until the end of the year and into 2011. I believe it will mobilise several hundred Sopra Group engineers. Since this decision has been made public, we can announce it. Now we have to give it the necessary substance.

I hope that we will also have the opportunity to confirm our strong performance in the public sector. We are expecting further success in this sector.

Pierre Pasquier, Chairman & CEO

Thank you. With regard to the SNCF, you all doubted our ability to produce in India. If we were chosen as the number 3 against 3 other competitors, this was thanks to the quality of Sopra Group's delivery from its Indian platform. This proves that the structure that we set up for the French market in India is working very well. Having EADS as a client was helpful to us in this regard because in India we are not doing BPO, but major application management and fixed-price projects. We took our time. The team in India is doing well and is proving to be a quality team. These are just a few examples.

Sébastien Thévoux-Chabuel, Oddo Sécurities

What is the situation with regard to seasonality between the first and second halves of the year for the Consulting and Systems Integration businesses? Could it change this year compared to prior years? Considering the improvement in the margin in the first half, we could have imagined a more positive result in the margin for the whole year. I also noted that your language was slightly cautious concerning Axway maintaining its performance in the second half. Is this the only variable that leads you to be cautious?

Pierre Pasquier, Chairman & CEO

It is quite complex. We are optimistic, but we are sticking to previously disclosed guidance. I will make the same comments that I read out earlier. There are still some areas of uncertainty. Some markets may dry up. Today, both Sopra Group and Axway are doing well. I cannot tell you that we are going to gain 2 or 3 points. I don't know. We are going to improve our results. Today it's working well. We still need to win major projects on a regular basis, deliver, and avoid budget cuts or business problems.

Sébastien Thévoux-Chabuel, Oddo Sécurities

One last question. Could you help us identify what, in your opinion, are the holes in Axway's offering that would justify acquisitions? Without disclosing names, what are the areas that may be lacking in the company today?

Pierre Pasquier, Chairman & CEO

The needs do not really relate to the company's offering. Of course, we can always find some. There are competitor companies that offer relatively similar products in different markets. Both our American companies and our German company have brought us not just products but also market positions. Now we would like to expand our presence in the UK. Don't deduce from this that we are necessarily going to make acquisitions. Germany is another major market that could be further developed. However, we already have a relatively solid team there. From time to time we may also find a product that duplicates, supplements or provides a particular version, but the offering is already proving to be satisfactory. Some larger players might decide to sell at some stage in the future. In that case, it would be a traditional business consolidation.

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