# Steria

## Creation of One of the Most Advanced Business Models in the European IT Services Sector

Analyst Meeting

17 December 2007

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# Environment

## Market Sector Consolidation

- Top 10 market share is increasing
- New stakeholders leading to consolidation (telco., private equity…)

## Labour Market

- Shortage of engineers in Europe
- Quality & quantity of engineers in Asia

## IT Services Sector

- Market growth 5% - 6% per year
- Commoditisation of non differentiated IT services

## Clients

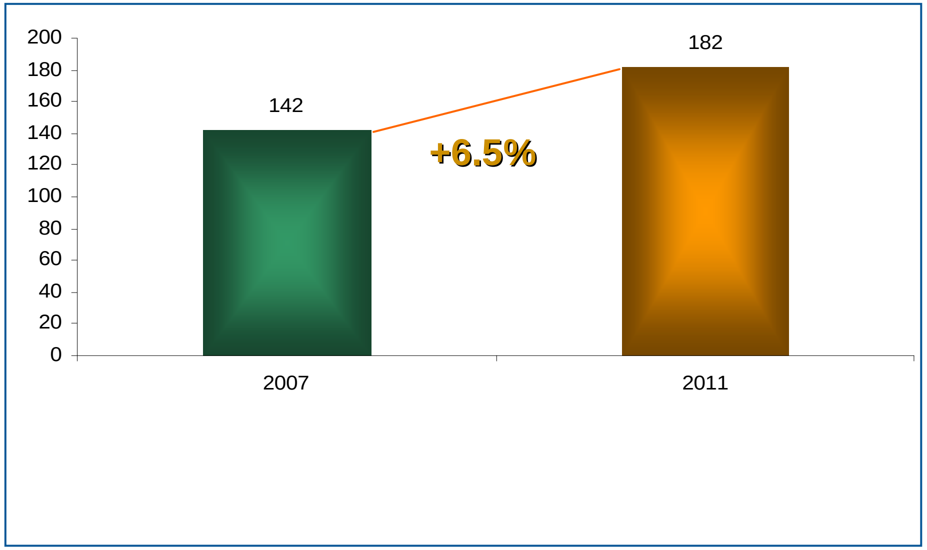
- IT Investment is business driven
- IT more & more intrusive in customer’s business processes
- High selectivity

## Competitive Environment

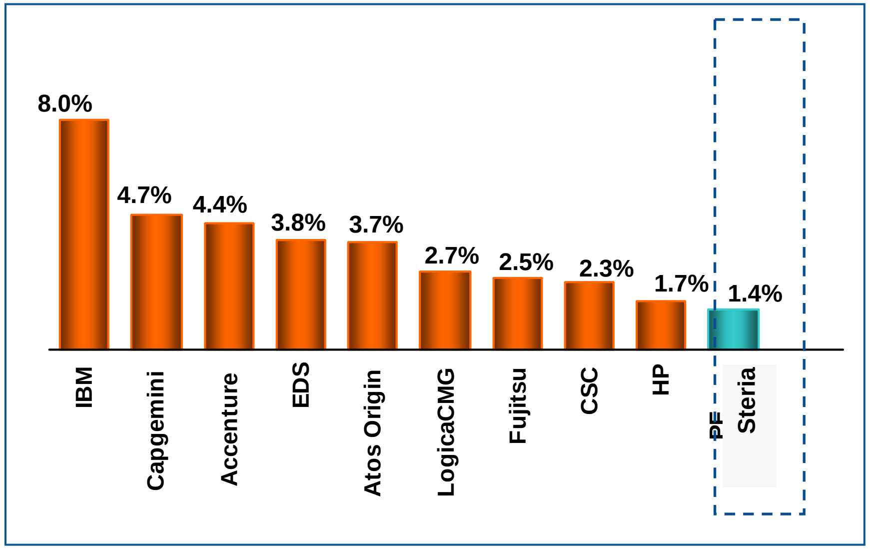
- Offshore development for western players
- Increasing power of Indian ITS companies
- Medium term BPO market opportunity

# European IT Services Market

## European IT Services Market (€bn)




## European Top 10 IT Services Companies % Market Share




- 2007 Market size: €142bn
- 2007 – 2011 expected average annual growth > +6%

- Fragmented market
- Top 10 market share: 35,2%

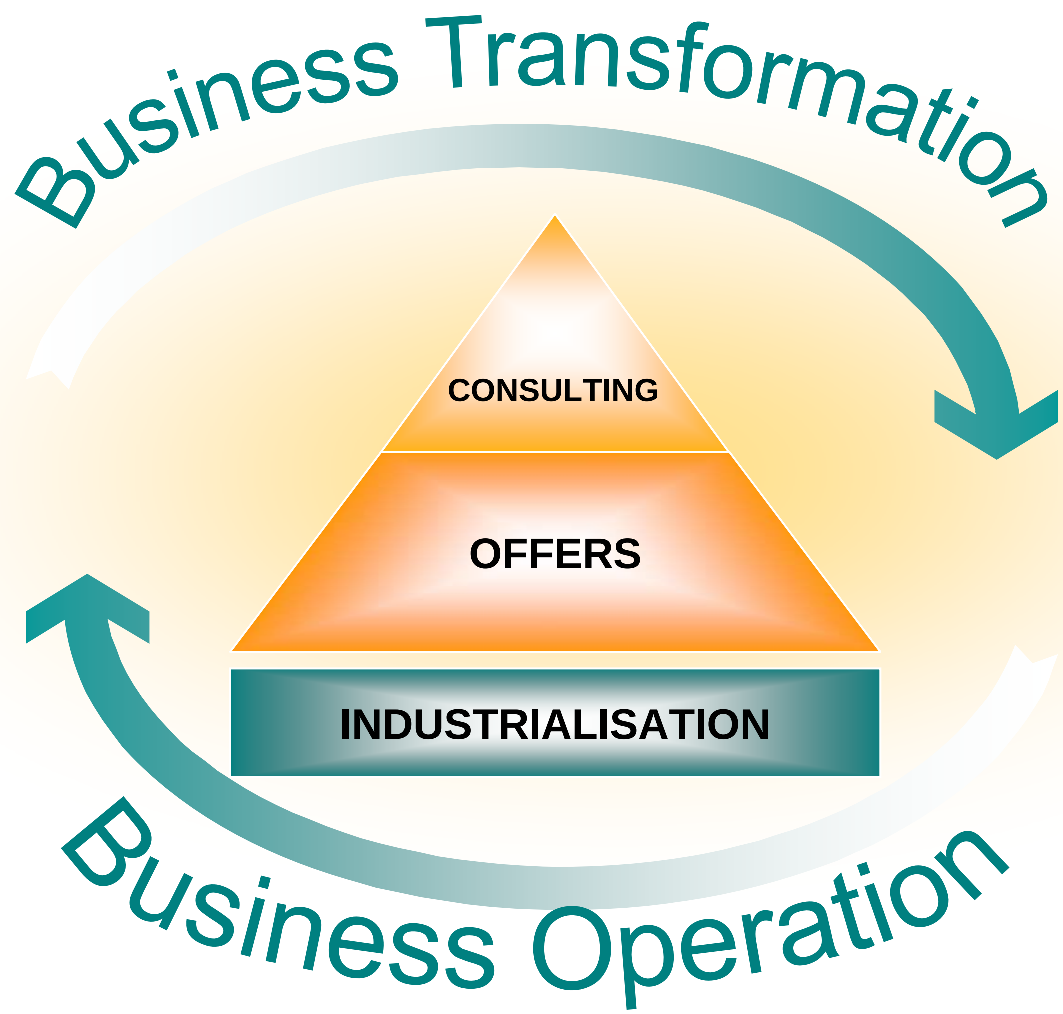
*Source: Gartner. Top 10 analysis based on Gartner database as at April 2007 (professional services revenues only). Includes end to end service providers only and excludes captive IT services companies.*

# HR challenge

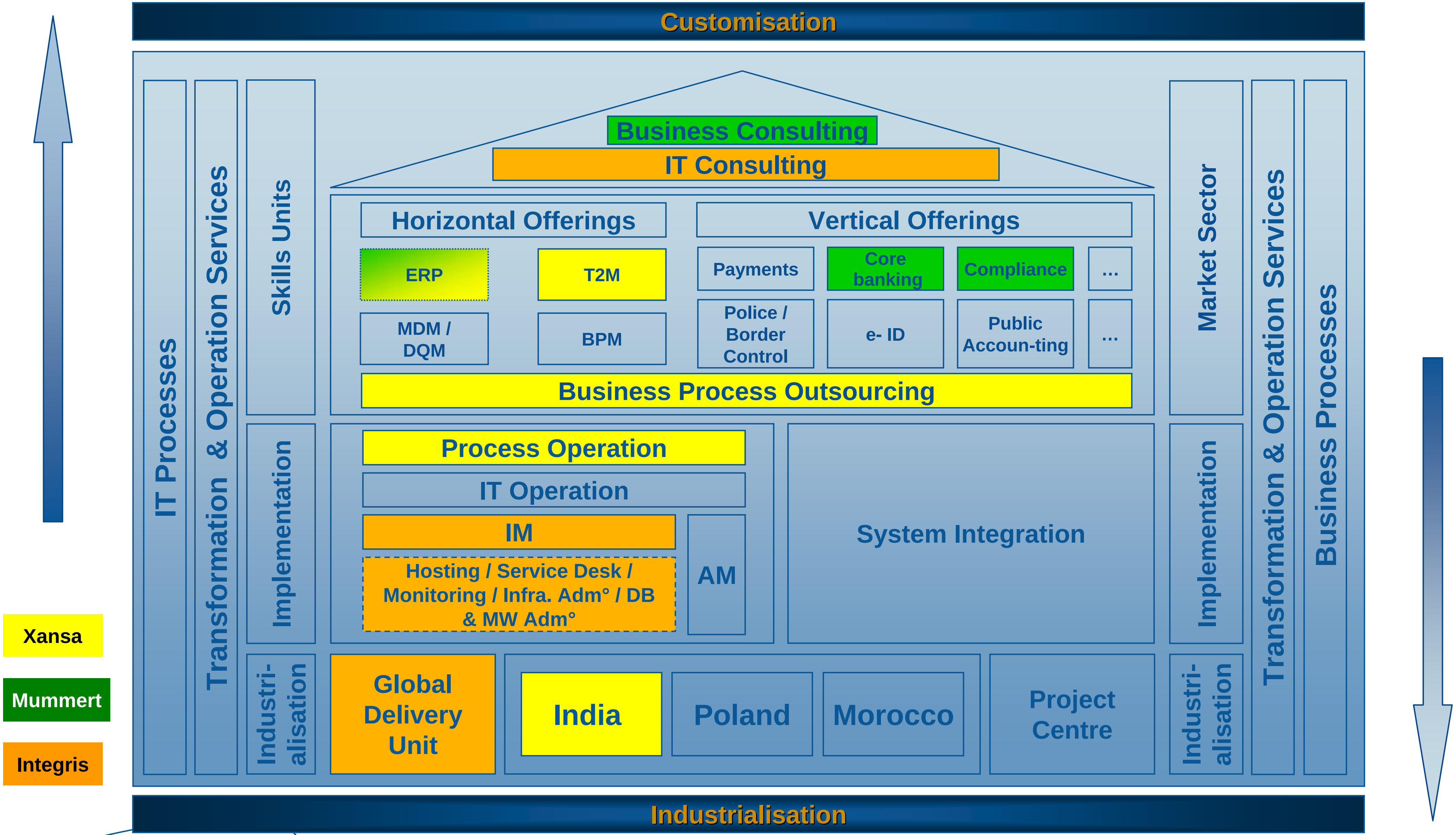
## UNESCO – January 2006 (Report about Science)

- 1950: graduated -> 80% Western
- 2008: graduated -> 50% Asians
  20% North Americans
  30% Europeans
- 3 M engineers per year from China and India

# Creation of One of the Most Advanced Business Models in the ITS Sector



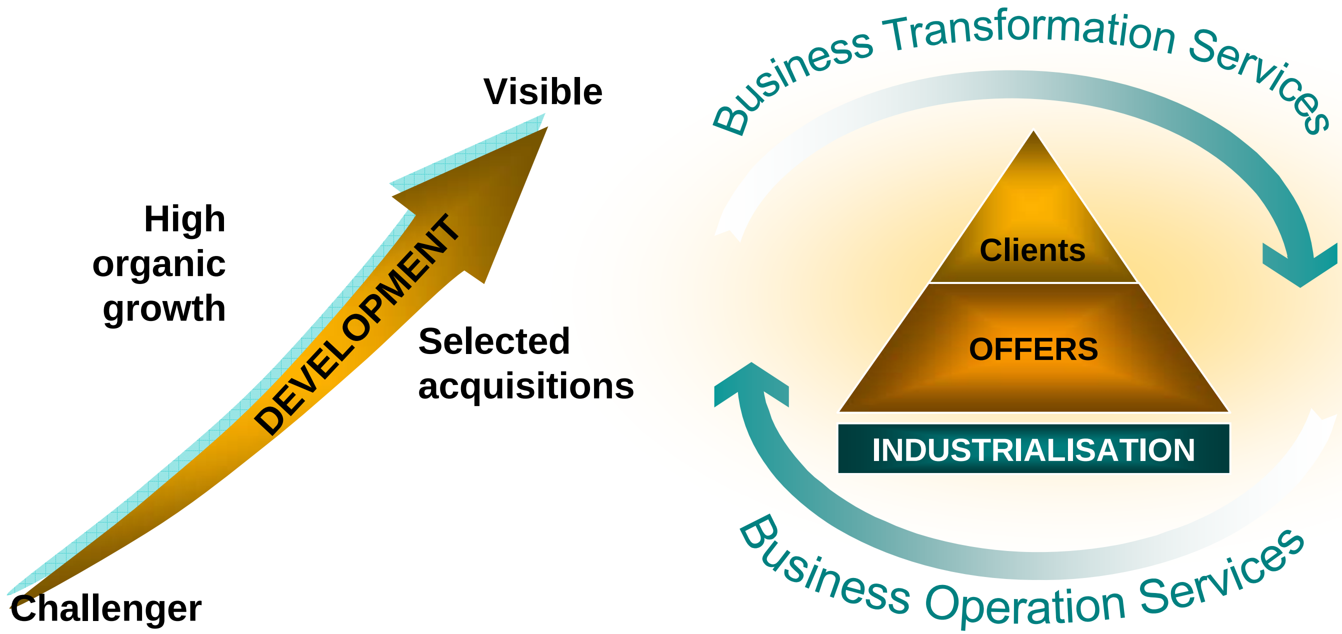
# Value Proposal: Highly Customised and Heavily Industrialised



# Our Strategic Objectives

| | Eligibility Visibility | Excellence and Value Added | Signature and Style |
|---|---|---|---|
| OBJECTIVES | SIZE | FOCUS | UNIQUENESS |

MODEL




- Entrepreneurship
- Governance
- Corporate Social Resp.
- Work environment

**PRIME RELATIONSHIP** | **PRICING POWER** | **ATTRACTIVENESS**

# 2007: Rich in Transformation

## 2007 Transformation

- Business Achievements
- Area Transformation
- Transformation costs

# 2007: Some Key Business Achievements

- #1 Oracle licence reseller in the UK (FY 2006/2007)
- NHS SBS awarded in 2007 the outsourcing provider of the year by the National Outsourcing Association
- Biggest European SAP integration for the public administration in France
- One of the most complex systems for Telco Operators in France: mobile phone number portability
- At the top of the list of German management consulting companies in terms of new hirings

# 2007: Rich in Transformation

## 2007 Area Transformation

- Germany -> Growth engine with high value added
- UK -> Xansa
- France -> Reduced exposure to low value added business

# 2007: Rich in Transformation

## 2007 Group Transformation Costs

- ~ 2 points of revenue growth
- ~ 30 bp of operating margin

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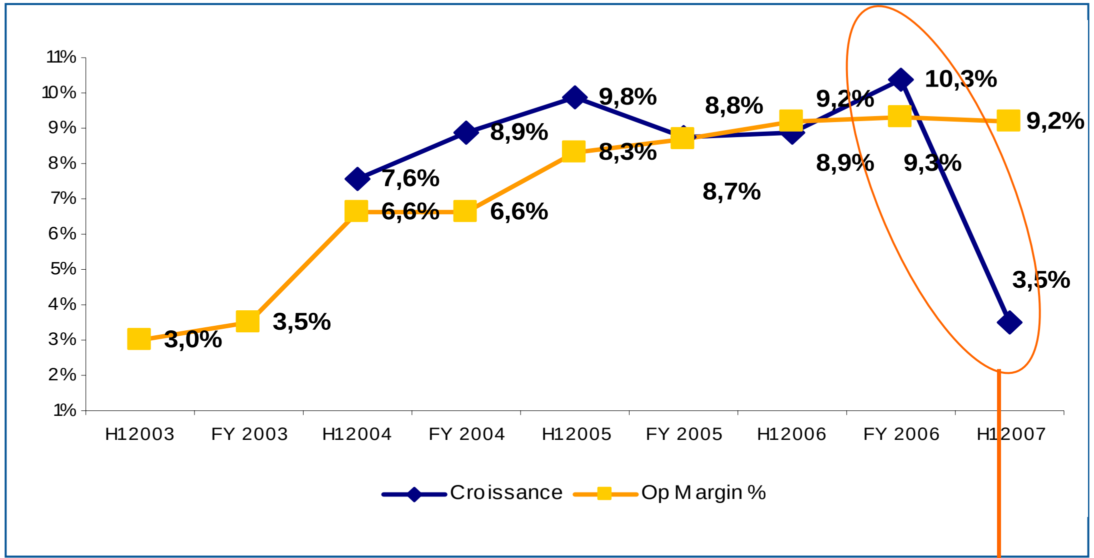
# France Historical Performance

## France Performance Since 2003: Organic Growth and Operating Margin Before HQ Cost




- Revenue in France has grown by more than 8% per year organically on average since 2003
- Operating margin before HQ cost has improved by ~600 bp since 2003 and tends to stabilize slightly above 9%
- To be aligned with Group ambition in terms of profitability evolution business needed to be transformed
- Growth engine is not broken: 2007 impact of the business transformation –> Recovery in 2008
- Consequently, better intrinsic profitability conditions are embedded

# What is the Content of the Transformation?

## Reduce exposure to low value added business

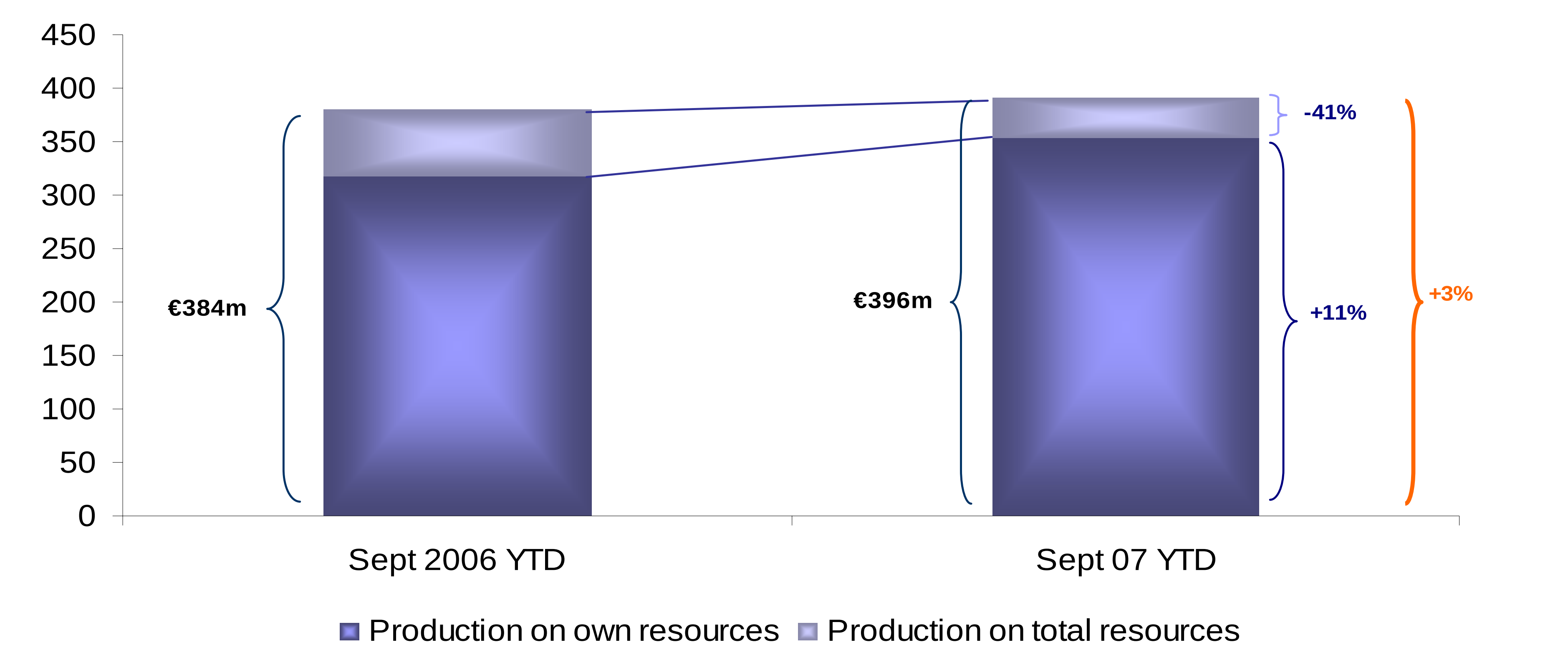
- Non differentiated services
- Subcontracted services

## Strengthen IT and Business Transformation capabilities

- Business consulting
- IT consulting
- Focus on business expertise
- Capitalise on horizontal and vertical offers

# Transformation Impacts from Revenue Evolution

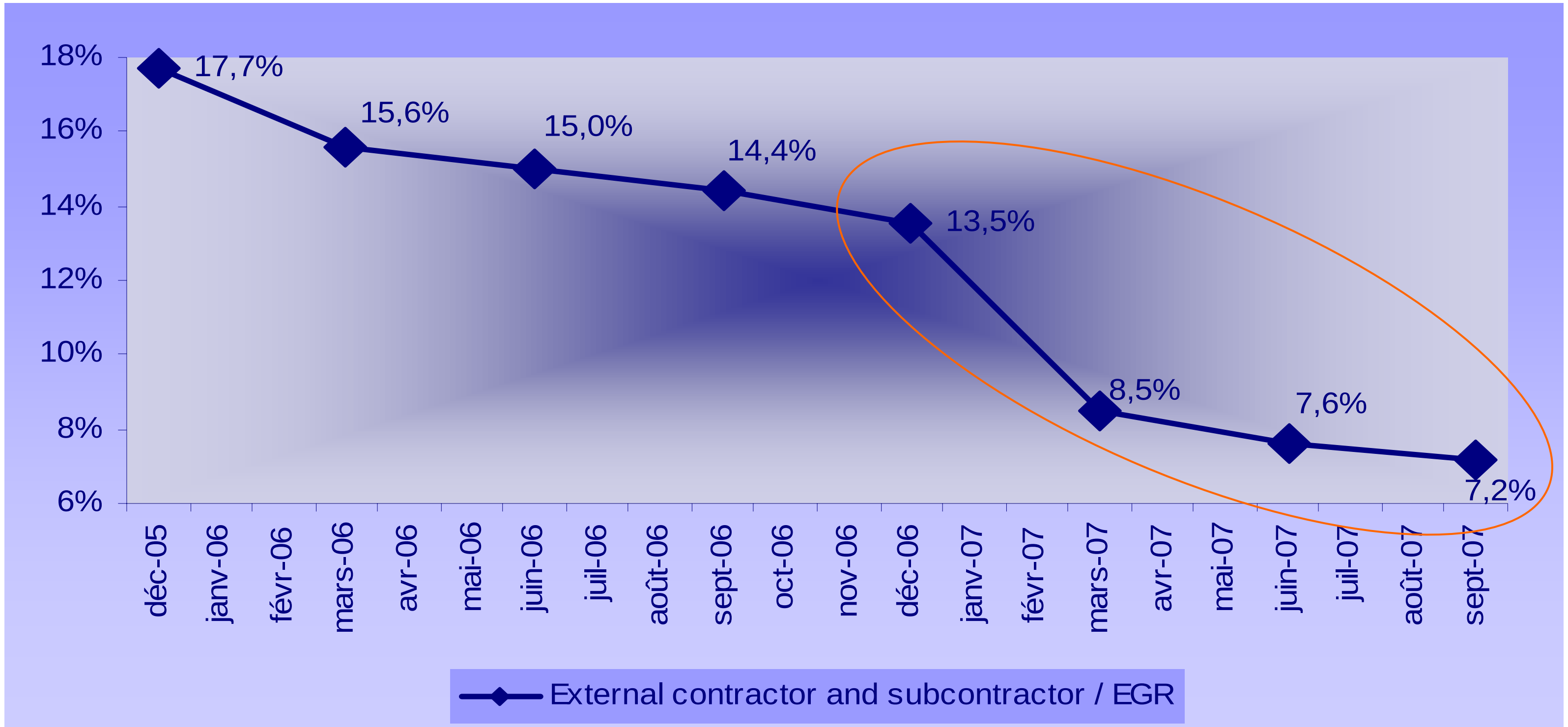
## France Area Revenue YTD Sept 2007




- Reduction by 41% of external revenue YTD Sept. 2007
- Revenue on own resources increased by 11%

# Subcontracting Reduction

## Subcontracting rate evolution in France since December 2005




Number of subcontractors have been divided by 2 between August 2006 and August 2008

# Business Transformation Achieved Since 2005

## Subcontracting reduction

- 2004: Headcount ~4000 / Subcontractors ~1000
- 2007: Headcount ~6000 / Subcontractors ~400

## Leadership position on key offerings

- ERP
  - SAP Rev. +35% in 2007 (#1 in SAP Public Sector)
  - Oracle Rev. +30% in 2007
- Test To Market (T2M): Rev. +50% in 2007
- Pioneer and strong position on MDM / DQM

## Large deals capabilities

- CNES €45m in 2006, Chorus & Chronopost / Colipost in 2007

# Business Transformation achieved since 2005

## Visibility & recognition in Public Services through strategic projects

- TeleIR, OCFI, India, AM Accord Lolf, Chorus…
- 2007 Minefi framework agreement

## 2007 trend on strategic revenue

- Business & IT consulting +9%
- Horizontal and vertical offers +19%
- Complex IS +6%
- Outsourced IM +16%

# SNCF is an illustration of the Transformation in France

- A major and historical client in France
- 2006 & 2007: strategy implementation of increased value added
- In 2007, revenue ~ -6%
  - Low value added business stopped (subcontracting -10%)
  - Progressively replaced by high value added business
    => business application transformation, fixed price
- Examples of the re-positioning:
  - SNCF applications' delivery monitoring
  - TER CRM
  - Data Management for telecommunication equipment floats
  - FRET Business Intelligence
- 2008 – 2010: Rev. Growth ≥ +20%
- GMD + 600 bp compared to 2006

⇒ Less Volatile business

⇒ More strategic relationship

⇒ Higher profitability

# France Perspectives

## 2007 Perspectives

- Slightly positive organic growth
- Growth from own resources in line with the market trend
- Gross margin increase embedded
- Offset in 2007 by additional costs compared to 2006
  - Profit sharing since 2007 ~€4m + Transformation costs

## 2008 Perspectives

- Revenue growth in line with market growth
- Profitability increase

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# €353m Equity in the balance Sheet at 31/12/07

## €353m Increase of equity

- All of the cash was received by 11 December 2007
- 2007(e) net debt / shareholder equity ~60%
- Debt mix of Libor and Euribor
  - Term loan negotiated before sub-prime crisis
  - Interest rate hedging
  - 2008(e) cost of debt ~6%
- Banks covenants
  - Net debt / ebitda **2.75** (Dec. 07 - June 08), **2.25** (Dec. 08 -> June 2012)
  - Ebit / Financial Interest **3.75** (Dec. 07 – Dec. 08),
    **5.0** (June. 2009 -> June 2012)

# €353m Equity Refinancing – Rights Issue

## €201m Rights issue

- 8.66m new shares at €23.2 (=> €201m)
- Theoretical right price €2.60
- All historical per share data series adjusted by 0.9178
  (see full table in the appendix)
  - 1999 IPO price €13,36 adjusted to €12.26
  - H1 07 current fully diluted EPS 1.19 vs. 1.30 previously
  - FY 06 current fully diluted EPS 2.96 vs. 3.22 previously

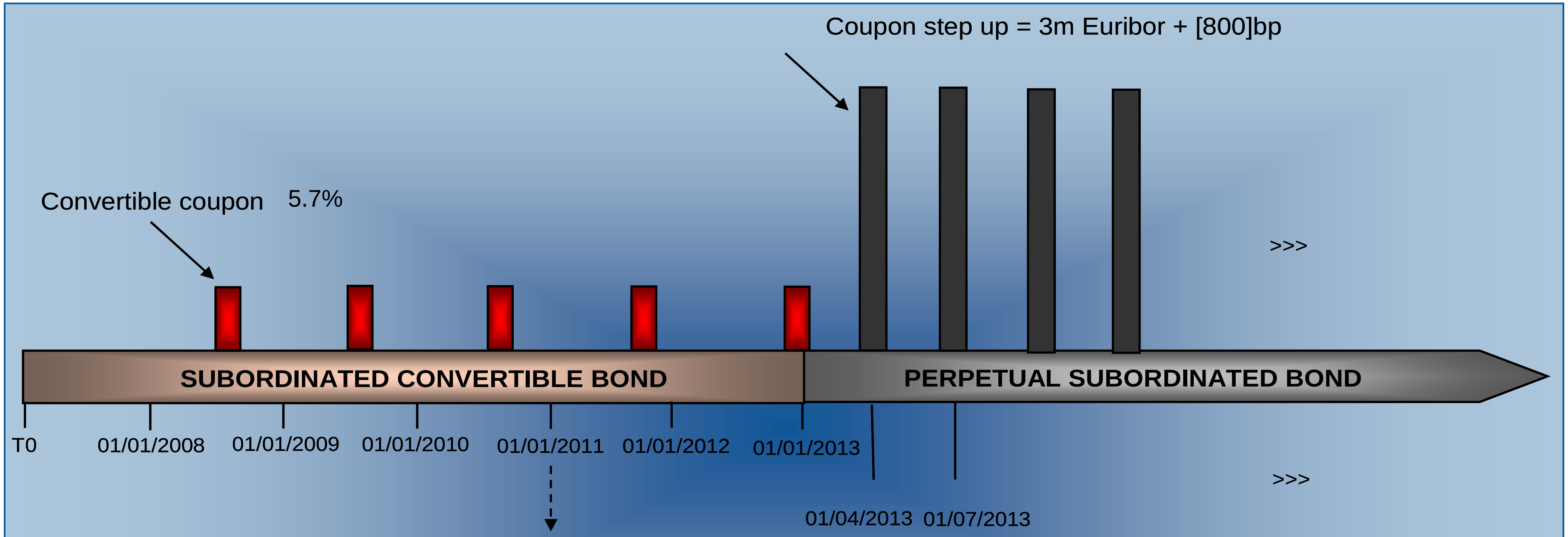
# €353m Equity Refinancing – Hybrid Convertible

## €152m Hybrid subordinated convertible bond

- Mix of a classical convertible bond and a perpetual debt
- 100% booked in shareholder equity in IFRS
  - No obligation for the issuer to redeem in cash the instrument without its agreement
  - Coupon payment could be postponed (if no dividend paid)
  - For Steria, possible redemption of the instrument every quarter from 01/01/2013

# €353m Equity Refinancing – Hybrid Convertible

## €152m Hybrid subordinated convertible bond




Steria can force earlier conversion from 01/01/2011 if share price is above 30% of the conversion price
(€37.36)

- If conversion, instrument converts into new or existing Steria shares
- If no conversion, Steria can call back the instrument from 01/01/2013 every quarter to refinance it and avoid coupon step up or decide to keep on going with the instrument

# €353m Equity Refinancing – Hybrid Convertible

## €152m hybrid subordinated convertible bond

- Coupon treated as a dividend (CFS), no financial charges impact in the P&L
- Coupon is tax deductible
- 4,08m potential additional shares in the fully diluted EPS
- Possible scenarii in 2013
  - The bond is converted
  - Perpetual debt is redeemed with cash generated
  - Perpetual debt is refinanced

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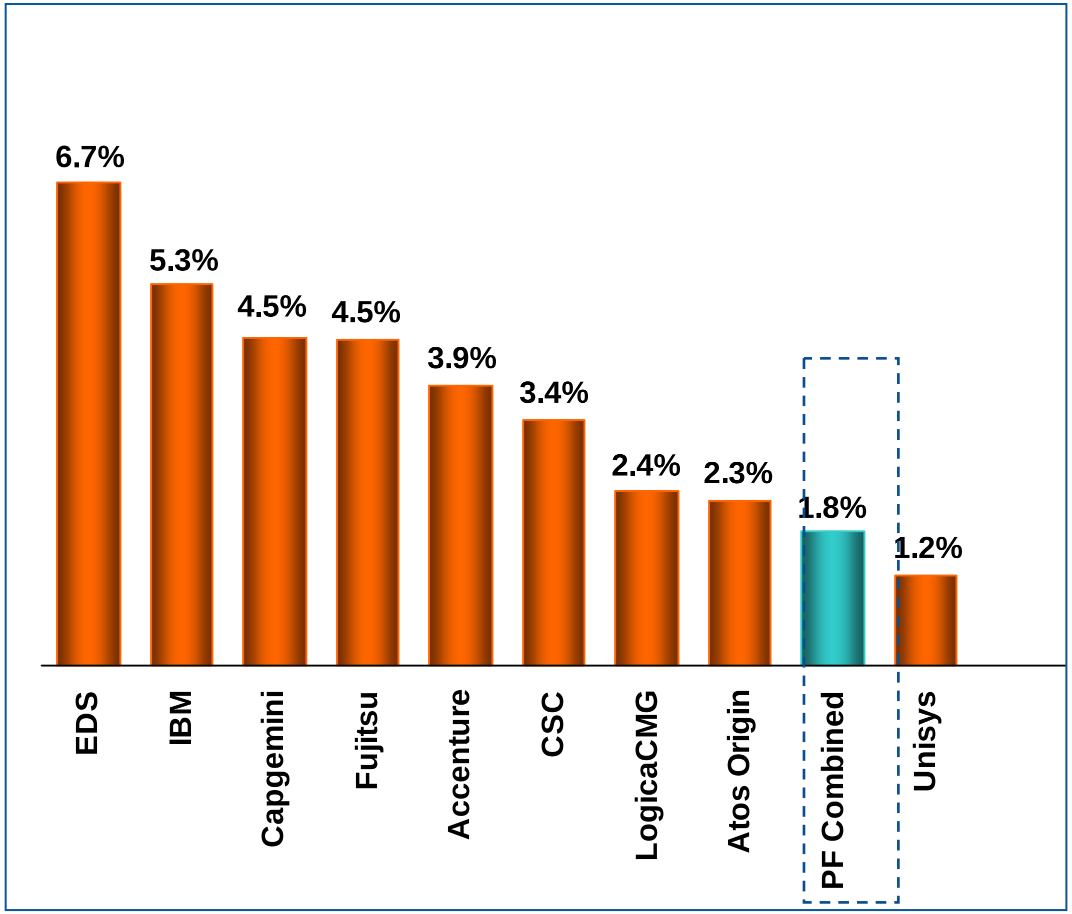
# Reminder of the Transaction Rationale

## Strategic benefits of Xansa acquisition

- Strengthened UK position
- Integrated Global Delivery Model (Europe/India)
- BPO expertise

# Creation of a Top 10 Player in the UK

## UK Top 10 IT Services Companies % Market Share




## Observations

- Creation of a top 10 player in the UK
- Alignment of UK profile to the Group profile: market share in the private sector and in application development
- #4 position in UK public sector with revenues of c€400m
- In the UK financial services vertical, position will be comparable with Atos Origin, LogicaCMG (c€200m in revenue)

*Source: Top 10 analysis based on Gartner database as at April 2007 (professional services revenues only). Includes end to end service providers only and excludes captive IT services companies. UK financial services and public sector revenues for Xansa as per Xansa reported financials. Steria UK financial and public sector revenues as per Steria reported financials.*

*Note: Assumes EUR/USD exchange rate of 1.37 and GBP/EUR exchange rate of 1.49 (26-July-2007)*

# An Integrated Global Delivery Model

## Key differentiator for a GDM in the ITS sector

- Managing experience of a remote and shared delivery platform
- Fully integrated delivery model

## 10 years of offshore management experience

- Early acquisition of IIS Infotech in India in 1997
- Tier 2 cities (Pune, Noida, Chennai)
- Business driven organisation with end-to-end integrated P&L per clients and market topics
- Common processes and tools (in house methodology: Remix)

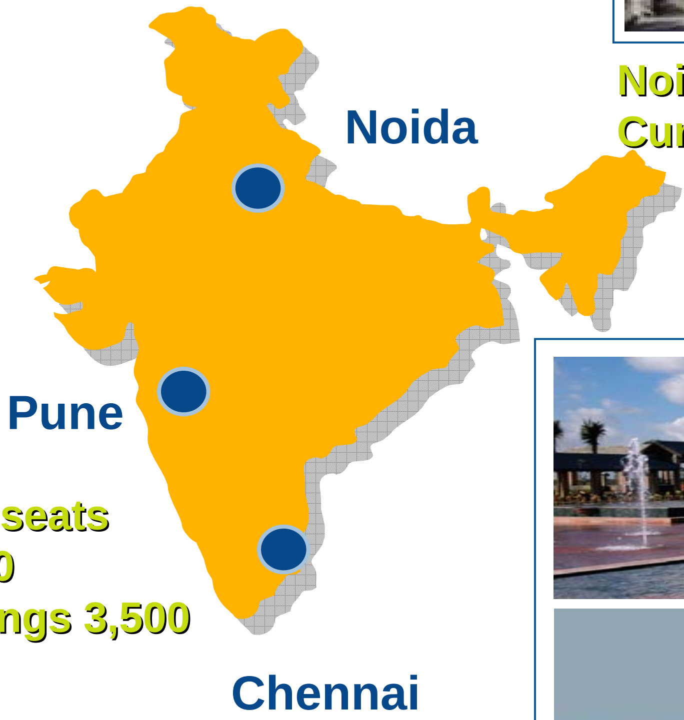
## India is much more than a pure difference in cost

- Recruitment capability
- Innovation & offerings
- Anticipation of future competition

# An Integrated Global Delivery Model Scalable

## India Capacity

**Noida: capacity for 3,500 seats**
**Current nb. of heads: 3,000**

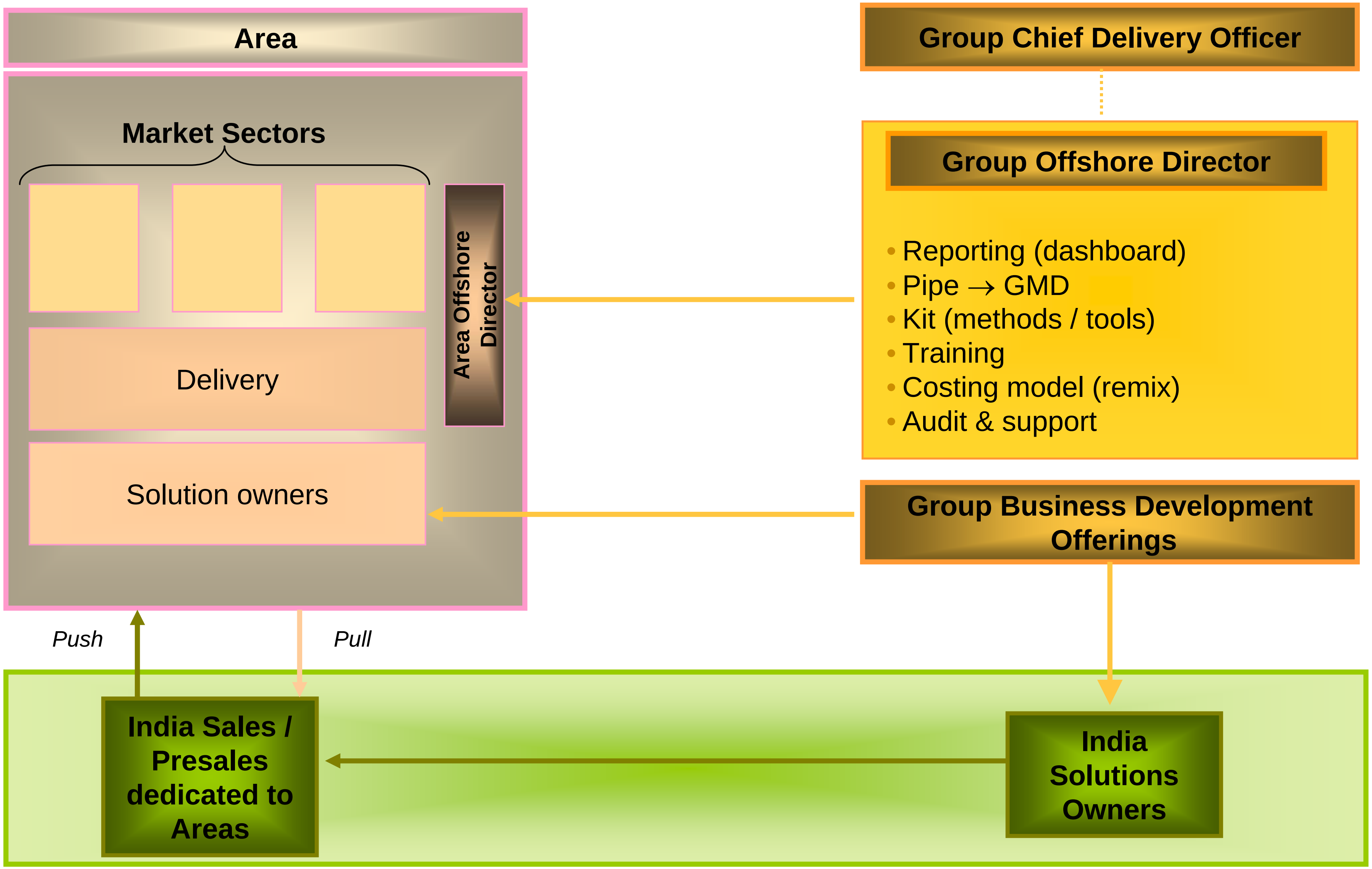



**Pune: capacity for 1,000 seats**
**Current nb. of heads: 900**
**Capacity with new buildings 3,500**

**Chennai: capacity for 1,500 seats**
**Current nb. of heads: 1,300**
**Capacity with new buildings 6,500**

# An Integrated Global Delivery Model

## The Offshore Model



# BPO: Major Medium Term Opportunity

## Key component of our business model

- Business process oriented
- Value added for managed services business

## Key issue in the medium term

- Significant market size (potentially larger than pure IT)
- Growing market (Western Europe +8% per year[1] 2007-2011)
- Significant role in future IT decision process

## Key early footprint in the European BPO market

- Leading position (F&A, HR, customer services…), Rev. ~€150m[2]
- Top 7 world wide F&A player[3]
- F&A / Payroll: BT, BBC, Lloyds TSB, O2, NHS…
- Business Processes: Barclays Card, Thames Water, Boots…
- Promising Shared Business Services model through a JV with NHS

*1 Source Gartner 2007*
*2 April 2007*
*2 Source Gartner 2006*

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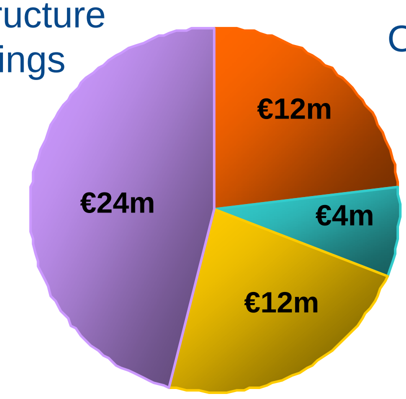
- Introduction
- 2007 France Transformation
- Refinancing Is Done
- Xansa update
  - Reminder of the Strategic Rationale
  - Reminder of the Synergies Identified and the Calendar
  - Integration is on Track
- Confirmation of 2008 Perspectives

# Reminder of Identified Cost Synergies

## Cost Synergies

- €53m from 2010 onwards
- €24m UK structure cost savings < 5% of Xansa cost base
- €53m NPV = €410m
- Significant value creation

## Run-rate Synergies by Type




| €m | 2008 | 2009 | 2010 | Run-rate |
|---|---|---|---|---|
| P&L Cost savings | 23,5 | 48,8 | 52,8 | 52,8 |
| Restructuring Cost Phasing | 32,6 | 16,3 | 0,0 | 0,0 |
| Cash Out Restructuring | 32,6 | 16,3 | 0,0 | 0,0 |

*Note: Assumes GBP/EUR exchange rate of 1.49 (26-July-2007)*

# Integration Planning

**30 July 2007**
- Acquisition announcement

**17 Oct.**
- Deal Closing
- UK first Mgt. Line announcement
- Enlarged Excom

**Nov.**
- Xansa Trust shareholder of Steria

**1 Jan. 2008**
- New merged organisation fully operational
- Legal entity cleaning
- UK Re-branding

**1 Jan. 2009**
- IS Migration
- Key legal entity merger

People, Properties, Purchasing, MIS, Subcontractors…

Offshore and BPO deployment

2007 | 2008 | 2009

30 July | 17 Oct. | Nov. | 1 Jan. | 1 Jan.

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# Integration Governance effective since October 2007

**EXCOM**

Dashboard on major topics & KPIs

**Group Steering Committee**

**UK Steering Committee**
**UK CEO**

**HQ Steering Committee**
**Group CFO**

**Group international Committee**
**Chief Global Delivery Officer**
**BPO Director**

**UK integration**
Structure cost
Delivery cost
Cross selling

**Corporate & Finance integration**

**Integration with other regions**
Offshore
BPO

**HR integration** (Group HR Director / UK HR Director)

- Integration Governance in place since October 2007
- Steering committee monthly meeting
- Full support & involvement of Excom members

# Fully Operational First Line of Management Since 17 October 2007

**General Manager**

**ExCom**
**1 Chairman (General Manager)**
**8 Executive Directors**

- **François Enaud, *Chairman***
- **Mukesh Aghi, *CEO India***
- **Hervé Hannebicque, *HR Director***
- **David Leigh, *BPO Director***
- **Laurent Lemaire, *CFO***
- **François Mazon, *CEO* Southern Europe and Asia**
- **Juergen Sponnagel, *CEO* Central Europe**
- **John Torrie, *CEO UK***
- **Olivier Vallet, *Chief Global Delivery Officer***

**UK**
John Torrie

**Business Dev. & Commercial**
David Leigh

**HR**
V. Hughes-d'Aeth

**Operations & Quality**
Asma Aïdi

**CFO**
Davinder Ahluwalia

**Vertical Sector Units**

**India**
Mukesh Aghi

**Horizontal Service Lines**

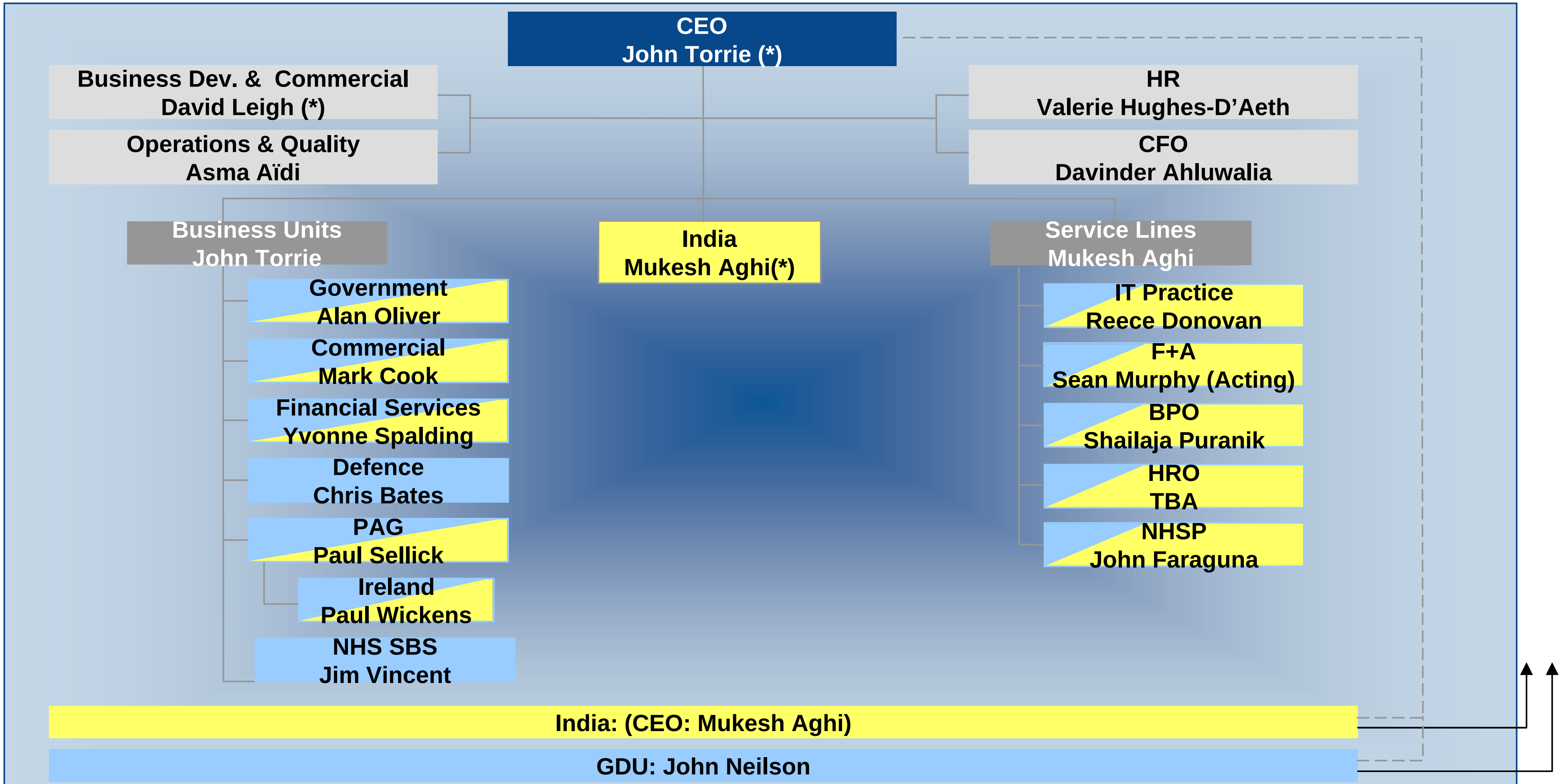
# Second Line of Management Announced

## New merged organisation principles

- One brand
- Market sector focus
- Service lines
- Maximise off-shoring
- Continue industrialisation drive
  - GDU
  - IT Practice
  - Off-shore
- Central governance

# Second Line Structure

## New merged organisation fully operational as of 1 January 2008




(*) Group Excom member

UK Staff | India staff

# What Has Been Launched so Far?

## Main tasks are under way

- Suppression of PLC costs
- Reduction of external expenses
- Optimisation of support functions
- Off-shoring of support functions
- Sales and Pre Sales optimisation
- Properties rationalisation
- Subcontractors replacement
- Procurement policy
  - Insurance
  - Networks, software, hardware
  - Transportation
- Offshore client proposal
- Retention plan

# Working Together

## Integrated sales activities in progress

- 60 joint opportunities today
- Current accounts and new names
- Cross-selling of service lines (e.g. application services, BPO, infrastructure services)

- Renault
- MoD (UK)
- NATS
- Metropolitan Police
- European Commission
- Airbus
- TNT

- Local Govt Association
- Boots
- France Telecom
- Centrica
- Deutsche Bank
- Ministry of Interior (Belgium)
- Société Générale

# Employee Trusts

## Employee trusts purchase of Steria shares

- Xansa Employee Trust & Employee Benefit Trust
- Managed by directors appointed by management and employees
- Support employee share schemes (sharesave, aesop, international)
- Now own approximately 1.4 million Steria shares

# What Has Been Achieved so far?

**2 months after the closing, 33% of the 2008 expected UK costs synergies has been achieved**

- €8m already achieved
- 33% of the targeted UK costs synergies for 2008
- Staff consultation programme well advanced and on plan
- Strong focus on external spend
- Confident of delivering €24m in 2008

| Nature of savings €m | Annual Savings "locked" YTD |
|---|---|
| HQ Costs | 3.8 |
| Structure Costs | 4.0 |
| Other external costs | 0.2 |
| Total | 8.0 |

# What Has Been Achieved so far?

## First commercial achievements

- 60 commercial joint opportunities today in the UK
- Core offshore proposition circulated end of October 2007 to Group sales & pre sales
- 80 potential initiatives so far including offshore in continental Europe
- Already 2 deals signed including offshore (France and Germany)
- New client perception

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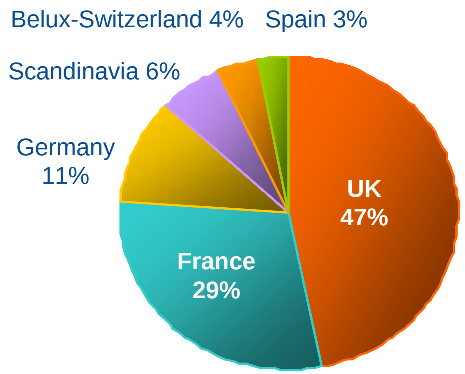
# A Solid Profile

## The combined croup has a solid profile

- Top Ten European ITS company with €1.8bn revenue and full coverage of the value chain
  - Prime relationship reinforced
- Focused on the most intensive and the dynamic economic verticals in terms of IT spending
  - Organic growth potential
- Well balanced revenue in terms of geographies and business lines
  - In line with European market structure
- 55% of recurring business
  - Resistance capability in a downturn (performance track record)
- 27% of the headcount in India (#1 in Europe in %)
  - Ability to gain market share and compete with India players

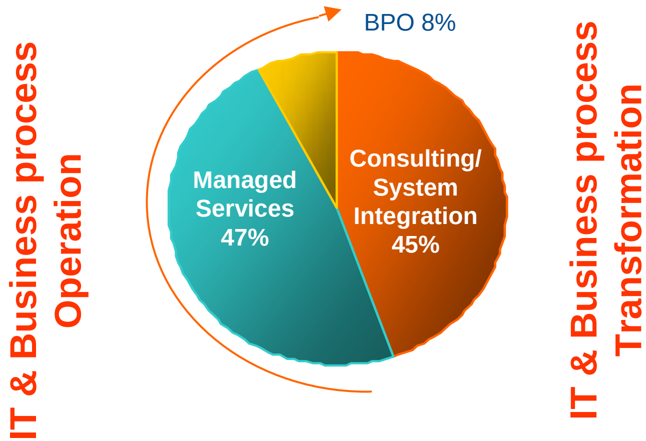
# Group Profile

## Geographic Focus

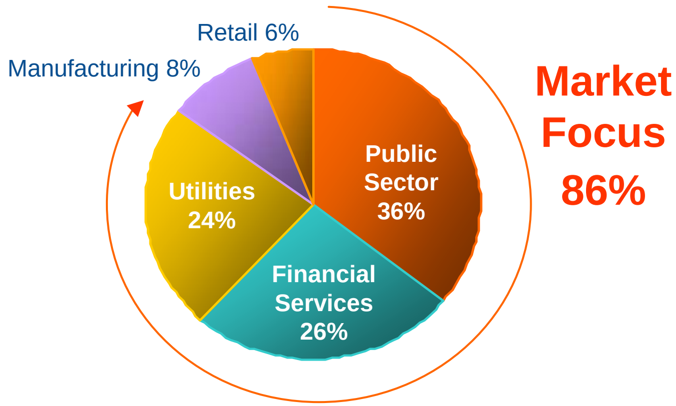


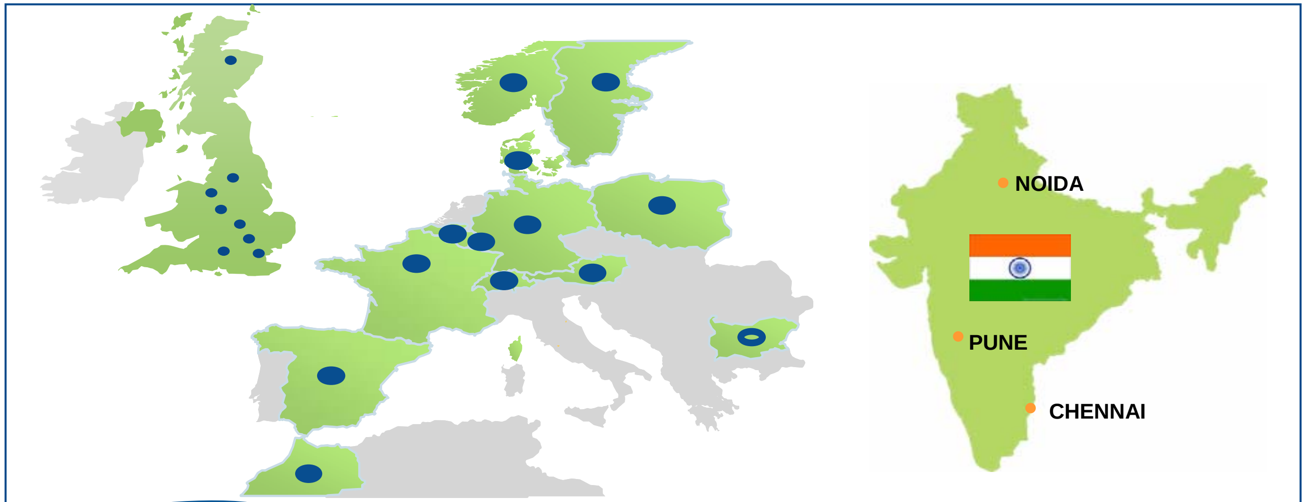

Top 10 in Europe,
# 6 France, # 9 UK, # 9 GE

## Vertical & Horizontal Service Offerings




## Customer Focus




## Headcount

- Total headcount 18,468
- o/w 27% in India (> 5000 staff)
- Capacity for 8,500 additional seats in India

*Application Management reported in Managed Services*
*Utilities includes Energy, Telecommunications and Transportation*

# 2008 Financial Objectives

## 2008, Combined Group

- Outside UK organic growth ≥ market growth
- In the UK
  - Top line control
  - Focus on integration and synergies
- Operating Margin > 8%

# 2008 Financial Communication calendar

| | |
|---|---|
| 15 February 2008 | Q4 2007 Revenue |
| 25 March 2008 | FY 2007 Results |
| 15 May 2008 | Q1 2008 Revenue |
| Spring 2008 | Analyst Day |
| 14 August 2008 | Q2 2008 Revenue |
| 29 August 2008 | H1 2008 Results |
| 14 November 2008 | Q3 2008 Revenue |

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# Right Issue Per Share Data Adjustment

- Reference price 31.65
- TERP 29.05
- Theoretical right price 2.60
- Adjustment factor 0.9178

| 0,9178 | Former historical data | | | New historical data | | |
|---|---|---|---|---|---|---|
| **Ajusted historical EPS** | **Basic EPS** | **Fully Diluted** | **Current diluted EPS** | **Basic EPS** | **Fully Diluted** | **Current diluted EPS** |
| 2007H1 | 1.27 | 1.22 | **1.30** | 1.17 | 1.12 | **1.19** |
| 2006FY | 2.96 | 2.87 | **3.22** | 2.72 | 2.63 | **2.96** |
| 2006H1 | 1.21 | 1.16 | **1.33** | 1.11 | 1.06 | **1.22** |
| 2005FY | 2.12 | 2.06 | **2.75** | 1.95 | 1.89 | **2.52** |