LETTER FROM THE CHAIRMAN

SERGE KAMPF
CHAIRMAN OF THE CAPGEMINI GROUP

I can bear witness to the fact that my fellow Swiss are no less welcoming than the other tribes of Europe, but we have to recognize that they do not always go out of their way to convince their neighbors of this fact. That is why, in the French regions bordering on their country, all sorts of more or less amusing stories are told at their expense. I particularly like this one: a tourist who had become lost in the countryside outside Lausanne asked a farmer milking his cows if he could show him the right way back to town. And the farmer, still milking his cows, and without even giving the tourist a glance, finally answered: "Mister, when you don't know, you don't go."

That's pretty much the retort we have heard over and over again during these past few years, when trying **to explain the difficulties** caused by our acquisition of Ernst & Young Consulting: an acquisition which, by the way, was hailed at the time as a "remarkable strategic move." Our misfortune was that this transaction took place just a few weeks before what we referred to then as the bursting of the Internet bubble, and the deep recession that followed it. "What? You didn't see it coming? You didn't know?" Which is much the same as saying: "when you don't know, you shouldn't go!"

Easy to say in hindsight, because we had long been tempted, because we had a great opportunity, unanimous support from the Board of Directors, and chances of success that seemed perfectly reasonable for those of us who had already taken far bigger risks in the past. Setting off on the 23rd of May 2000 to conquer the world, we ran straight into the first squalls, then the second, then took the full force of the storm, which had by now settled in on both shores of the Atlantic. And we have taken five years to pull ourselves together after this bad beginning.

During these five years, the Group has not just struggled to repair the damage; it has also gained **20,000 additional people** (from 39,626 employees on December 31, 1999, it reached 59,324 on December 31 last year); the workforce in the United States is now two and a half times as large (8,893 people at the end of 2004, compared to 3,626 at the end of 1999); the number of countries where it has a significant presence has gone from 18 to nearly 30, including Australia, Canada, China and India. It is still part of the group of five large players that already dominated the global market for information services(*) at the end of the 1990s, and among which

(*) *This should not be confused either with the market for software products, in which Microsoft is the global leader, ahead of Oracle or SAP, or with the one for hardware maintenance, which often constitutes a major part of services supplied by conglomerates such as Hewlett-Packard or Fujitsu to their clients.*

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the pecking order has hardly changed since then (IBM, EDS, Accenture, CSC and Capgemini) even if some of the gaps have widened. **The Group is still independent**, even if there has been no lack of threats during this period and though the percentage of the capital controlled by its “historic” shareholders – CGIP and myself – has fallen in this time from 32 percent to less than 8 percent (as a result of my giving up a modest third of my holding in January 2000 to 200 Group managers; from the increase in shareholding reserved for Ernst & Young in return for their contribution in May 2000; and finally to the almost complete “exit” of CGIP at the start of 2004, after 22 years of friendly cooperation).

Yet during this same period, the Group has seen its revenues drop from 8.4 billion euros in 2001 to only 5.7 billion in 2003 (a decrease of 32 percent in the space of two years), and its net income move from a profit margin of 6 percent in 1999 to a loss equal to 5.7 percent of revenue last year. It has seen its stock market capitalization go down from its high point of about 30 billion euros (equivalent to seven years’ revenue at the time!) to barely more than 3 billion euros today. It has seen doubts cast on the reliability of its forecasts; been criticized for its financial communication, which had up to that point been viewed as highly satisfactory; condemned for its repeated, seemingly endless, reorganizations; seen its European leadership status contested. And, above all, it saw **doubts cast on the ability of its new chief executive officer** to decide on and implement the measures that I was told were urgent, but without ever hearing what these might be. No doubt thinking that it was not necessary to understand before passing judgment, they demanded Paul Hermelin’s head without really worrying about what would become of the Group after his public execution.

Last year, in this same letter, I had warned – much to the displeasure of these impatient aggressors – that I would support and, if necessary, protect my chief executive for as long as necessary. That is what I have done and I am glad of it. Today, everyone recognizes that our association has, in fact, stood the test, that he himself has shown a most unusual strength of character during this difficult time, and that, finally, there are more and more solid reasons for being optimistic than a year ago. I won’t spend much time on the current market situation: it is certainly more favorable but remains unstable and could well become gloomy again without our being able to predict it. **The Group, itself, is in much better shape**: it has returned to growth (we are now in the sixth consecutive quarter of increased revenue); it is no longer satisfied with a simple return to stability, nor does it feel that merely improving operating income compared with 2004’s mediocre performance is acceptable. The order book represents the equivalent of two years’ revenue, which is an absolute record in the history of the Group. There is a renewed ambition to do better than budget. There is a strong will not to squander the fruits of three years’ hard work. And this ambition, this will, are all the more credible within the Capgemini enterprise for being shared by the two deputy general managers that Paul Hermelin has chosen to support him – Pierre Danon and Nicolas Dufourcq – both of whom have the stature, the experience, the enthusiasm and the sense of urgency needed for reaching goals that are more in line with the Group’s traditions.

However well put together and however complementary it might be, **a team needs time to find its feet and be successful**. This team can count on the excellent management resources that the Group possesses. All the same, we have to accept that everyday pressure remains intense; the dictatorship of short-term actions continues to inhibit strategic vision; the growing aversion to change and risk-taking shackles initiative or puts a brake on good intentions. This team will need to know how to reconcile the fundamentals: rigor, resistance to trends, continuity, respect for a few ground rules that guide our profession…with an equal focus on adaptability, pragmatism and the responsiveness necessary for doing business in an unstable climate. It is up to them to restore discipline and, at the same time, to promote the spirit of enterprise; to praise solidarity while also encouraging a spirit of healthy rivalry between operating units; to invent new methods of motivation but also to confront firmly any shortcomings with regard to the Group’s traditional values or freely undertaken

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commitments. It is essential for them to pay great attention to detail, for the devil, as we all know, is in the detail. Finally, it is up to them to **speak with one voice**, and that will not always be the easiest thing to do.

But the Group's ambition is not just to become proud of itself and its achievements once again; it is also, and above all, to satisfy the needs of its clients, the aspirations of its employees and the requirements of its shareholders.

• **Its clients** are often themselves just emerging from a difficult period, which has led them to rethink their strategy and the way they work in order to face up to new competitors, improve the flexibility of their operations and return to innovation. They have come to understand that business and technology are definitely linked and that the real Internet revolution is rooted in architectures and new kinds of application. Capgemini intends to be their most active and responsive partner. Not by suggesting ready made solutions, nor by trying to usurp their mastery of the potentially decisive advantages that IT tools provide for their competitiveness (and sometimes for their very survival), but first of all **to listen to them** – why is it so difficult to convince people that you need to listen before you speak? – to understand their expectations and their constraints, and then put at their service our accumulated experience, an intimate knowledge of the most reliable technologies, and a toolbox of offerings that is constantly being renewed.

• **Its employees** have aspirations today that are not the same as they were ten or twenty years ago. Less tied to the business, to promoting its image and defending its interests, they are more concerned with managing their careers autonomously and improving their own market value. This is why a service company such as ours has the obligation – and the Group and its subsidiaries show a definite willingness in this regard – to offer them the best possible opportunities for personal development and to help as many of them as possible become **top professionals**, equipped to carry out many different functions within the business and proud to participate (or to have participated during a key part of their working lives) in Capgemini's success.

• As for **its shareholders**, they have not exactly been spoiled over the past five years: the last dividend they were paid was in April 2002, the stock price has been divided by 10, the market capitalization of Cap Gemini S.A. represents hardly more than six months consolidated revenue for the Group that it controls. They have suffered – and I have suffered with them – to see their shareholding tossed around at the mercy of back-biting rumors and hasty judgments. They have seen many hundreds of millions of shares change hands each year without taking much part themselves in this high level of trading. It is not surprising, therefore, that the Group should make one of its top priorities for 2005 the need to **give them renewed confidence**, to keep them better informed about our progress and also, by the spring of 2006, to go back to that good old tradition, which started in 1974, of distributing to its shareholders about one-third of the consolidated net earnings of the previous fiscal year.

2,000 new clients each year, 60,000 employees, 250,000 shareholders: these are enough reasons to sound the wake-up call, to free up our energies and get back to the battle. After so many years of problems, of contraction, reorganization, often painful changes, sometimes even doubts about our ability to fight back, **the time has come for the Group to conquer again** – to reconquer lost territory and lost time, regain the trust of both its clients and the market, again assume mastery over its own destiny, rediscover the confidence that makes it possible to move ahead without being hindered by the inevitable little problems one meets along the way. Yes, I truly feel that the Group has set off once more on the right footing.

As for me, I will continue to take part in this joint effort, helping the new leadership team to achieve its objectives, but without encroaching on its powers nor on its freedom to maneuver. In this way, the successes posted during the years ahead will be unquestionably its own.

Grenoble, March 27, 2005
Serge Kampf

The Board of Directors of Cap Gemini S.A.

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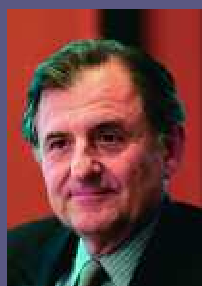
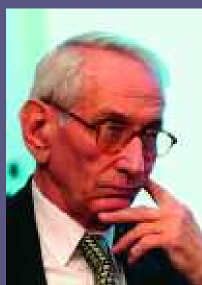


Jean-René Fourtou

Paul Hermelin



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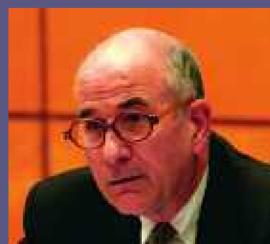

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