



ADAM & EVE PATRICIA NIX

OPTIMISM AND CAUTION

Paul Hermelin, CEO of Capgemini, is continually being questioned by clients and Group members, analysts and journalists. We asked him to share some of his views on 2004, and his perspectives on the year ahead.

What lessons did you learn from 2004?

The main lesson is that the heavy emphasis put in 2003 on simplifying the Group structure was urgently needed. In other words, we have definitely turned our backs on a hybrid model, and this process of simplification has been very beneficial. Since January 2004, we are organized along four business lines (consulting, technology services, outsourcing and local professional services) in every country; we call them the four Group disciplines. They help us improve the services and capabilities we bring to our clients, while enabling us to enrich the specialized training and development of our people. This discipline-based organization gave us a better view of the basics and the economic model of each discipline. I have only one regret: I wish we had simplified our organization sooner!

Another important lesson from last year concerns my colleagues. Confronted with a mediocre first quarter, they were able to react with incredible energy, as borne out by their performance during the second half. Following the publication in September of that poor first-half showing, the whole Capgemini community got on top of the situation and succeeded in reversing the trend. I greatly admire the courage and team spirit with which they accepted the cost reductions, the cuts in support functions, and other necessary actions. I feel privileged and thankful to work alongside so many first-rate people.

What we also learned – and it is by no means the least important lesson – is that Capgemini is able to weather the storm, to preserve the trust of its clients and win new contracts, while maintaining an aggressive sales profile. **Don't forget that in 2004, we booked more than 10 billion euros of business... a new record for the Group.**

PAUL HERMELIN
CHIEF EXECUTIVE OFFICER



Four years after the merger with Ernst & Young Consulting, what still has to be fixed, and why this need to keep returning to the basics?

The Group has changed drastically; but since May 2000, the markets have changed even more. To confront these changes, as I have already noted, we first had to establish full control of each discipline in its own right. We are not pigheaded; I did not hesitate in fixing some mistakes made at the time of the merger.

Today, the Group can take pride in offering a chain of services which starts with transformation consulting and ends with full outsourcing. But each of these services has its own rules, its own cost models. The Group's ability to "bundle" these services is a key asset, but only if the services provided by each discipline are competitive in their own right.

But going back to the basics does not mean going backward. We must continue to manage our resources carefully – for example, making sure that our people with



Capgemini is ready.



highly marketable skills are assigned to client-facing, revenue-generating jobs. We also had to re-establish an understanding of what is affordable and what is not under given market conditions. Our aim in going back to these basics was to better prepare us for the future – given that in 2005, our clients' expectations are very different from what they were four years ago, whether in terms of consulting or outsourcing services. Moreover, service delivery is becoming highly industrialized with the growing popularity of delivery centers – including offshore. This is a completely different picture from the one we knew before, which was based on services carried out in proximity to client locations.

What are the 2004 achievements about which you're especially proud?

The first is that we have kept our commitments: resumed growth, developed in the outsourcing market, integrated Transiciel into our Sogeti subsidiary. Growth, which is the yardstick of every business, is returning. A growth rate of 9.3 percent translates into a total revenue of 6,291 million euros. That, in itself, is cause for satisfaction. I would even say that, psychologically, this achievement erases three years of pain and revenue decline, so it is a real boost for all of us. On top of that, all our disciplines were growing in the fourth quarter. Which proves that Capgemini's growth in 2004 is not just the result of a few huge deals, but represents a return to growth, however modest, in most of our markets.

The second achievement I would mention is that we have become one of the real world leaders in outsourcing. During the 1990s, large-scale business and technology transformations were the market headlines. Now, at the beginning of the 21st century, it is the transformational outsourcing deals that are driving our business. And it is in this field of transformational outsourcing that our disciplines come together and generate tremendous value for our clients – something very few service companies can do.

A third notable achievement: After the acquisition of Transiciel in December 2003, we proceeded to integrate this company with Sogeti. By mid-2004, it was

a fait accompli. With a workforce of 15,000, Sogeti-Transiciel confirms the relevance of a business culture and a special way of organizing in today's market. Note that this new, combined company is currently reporting Capgemini's highest margins.

Lastly, I would call attention to our market repositioning with the "Collaborative Business Experience." This initiative responds to a new requirement of our clients who, in a networked economy, see collaboration as an essential ingredient for their success. The Collaborative Business Experience has its roots in the values of our Group, is a real vehicle for innovation, and offers our clients **the best and most productive relationship** to be found anywhere in our industry.

At the same time that we inaugurated the Collaborative Business Experience, we also changed our name and logo and launched a worldwide advertising campaign which has been extremely well received by the markets.

Is the Group entering the new year in fighting condition?

Yes it is. **Capgemini is ready.** Of course there are always issues to be dealt with, but I believe we are in better shape and the organization that we put in place in 2004 is now fine-tuned. The management team is now stronger, younger and more complementary than before. It can look to managers and employees Group-wide who are battle-ready and more than ever fired up with a conquering spirit.

What is your frame of mind moving into 2005?

I would say: optimistic and cautious.

With the emphasis on caution or on optimism?

With the emphasis on both words.

Let's start with **caution.** First of all because, even though the markets are moving in the right direction, they remain unstable. The large IT investments of the late '90s now



PORT OF ST. TROPEZ I PAUL AÏZPURI

belong to the past; and no major technological breakthrough seems to be on the horizon. Maybe that's due to the fact that I don't often find in Europe the same degree of enthusiasm for new ideas and technologies which seems universal among American executives.

Cautious, too, because even though our managers tell us **we are on the road to recovery**, we have to see this trend strengthen and take hold over the long term.

You are also aware that, for some time now, our situation in North America has not been satisfactory. Considering the strategic importance of our business there – and based on an in-depth study we have just completed – we have drawn up a far-reaching transformation program for the region. Although its implementation has only just begun, Capgemini's ambition is to show profitability in North America from the second half of 2005.

Optimistic, for three reasons.

First, market conditions globally point to a general recovery. Next, the functioning of the Group, which depends on its most precious asset – its people – and on the organization of our disciplines, seems to have reached full operational efficiency. Lastly, Capgemini has rediscovered its sales energy and a desire to gain market share. The first signs of this renewed appetite are some major contracts recently won. We are working tirelessly to earn the trust of our clients, and we will do whatever is necessary to keep it.

All in all, my optimism is reasoned. Throughout my travels across the Group, in the field, I observe, day after day, that **Capgemini is decidedly on the move**, with its sights set squarely on achieving success for its clients... and for itself.