

ANNEX BULLETIN

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Updated 3/02/06, 10:00PM MST; adds [chart](#)

Analysis of Capgemini's 2005 Business Results

Capgemini Tops Rivals

Strong Finish to a Great Year; Revenues Up 12% (15% in Constant Currency)

MOSCOW, Feb 25 - Capgemini finished 2005 with a bang. Revenues surged by 11.5% (up 15% at constant currency) to €6,954 million (\$8,345 million). More importantly, the company reported a €225 million operating profit, as compared to a €24 million operating loss in 2004. Net profit was €141 million compared to a €534 million loss the year earlier. Last but not least, net cash rose from €285 million to €904 million, and the company declared a €0.5 per share dividend.

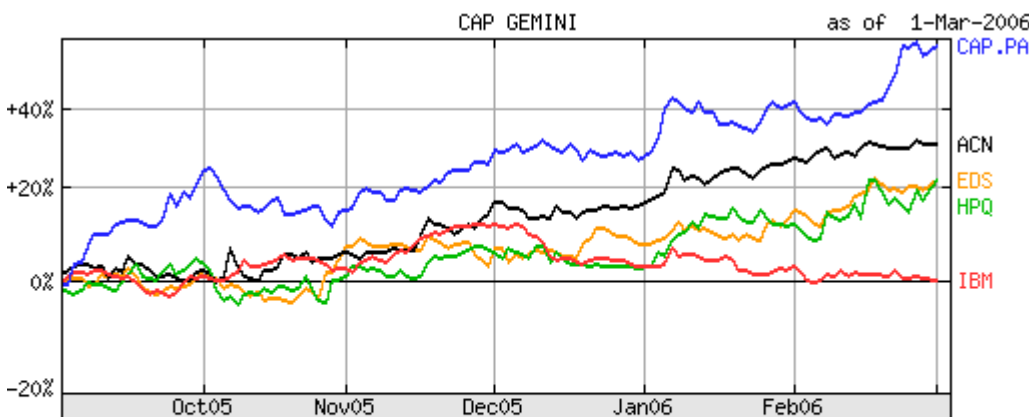


Capgemini stock soars on strong revenue growth in final 2005 results

"I think it was a year of solid progress, since for the first time we combined solid gains in market share and a nice surge in our operating profit," said Paul Hermelin, Capgemini's CEO, in a [video interview](#) about the company's latest results. He added that, "a positive net cash position of 900 million euros - gives a legitimate impression that the Group is back under control, and back in the market fighting."



Investors also applauded the final 2005 results by bidding the Capgemini share to multi-year highs.



Capgemini stock outperforms its major rivals in last 6 months

As a result, the rise of Capgemini stock topped all of its major rivals' shares in the last six months, including that of the highflying IT companies, such as HP and Accenture (see above chart). It closed Thursday (Mar 2) at

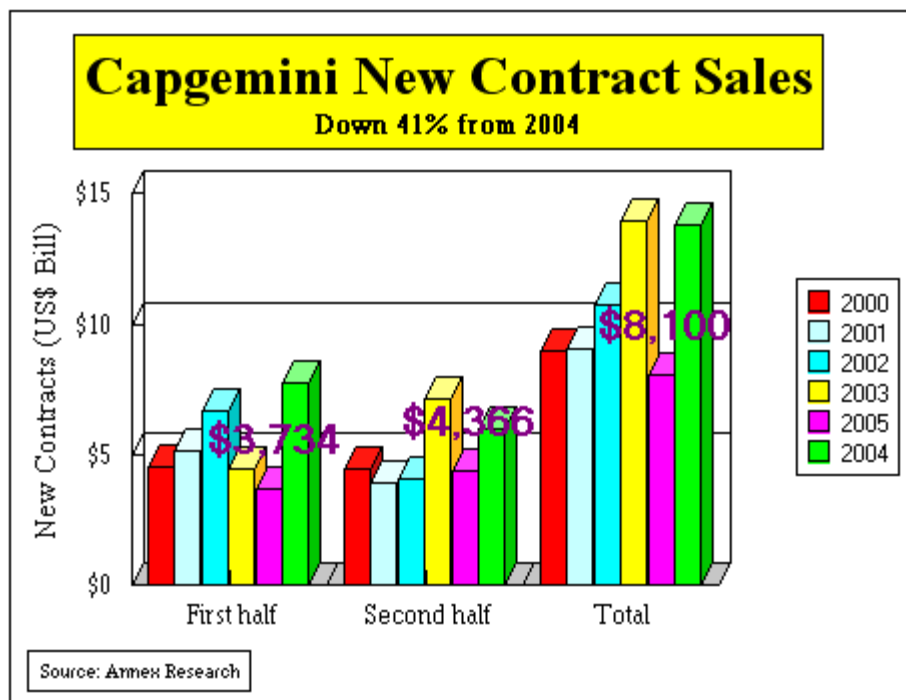
€42.43, just off its 52-week high of €43.22.

Wall Street analysts rushed to upgrade the stock, as usual after the stock had already risen. S&P revised its outlook on Capgemini from negative to stable, saying the credit rating agency expected that, “Capgemini’s operating performance will continue to gradually improve, in line with recent trends.”

Goldman Sachs said all trends “appear positive.” Morgan Stanley increased the price target based on “an improving U.S. business” and “better than expected cash outturn.” HSBC said prospects for 2006 look good with sales up 4-5%, operating margin of 5% driven by continued recovery in the U.S.

New Bookings

While the fourth quarter new bookings were an improvement over the third period results, they could not stave off a 41% drop in new contract signings for the year.



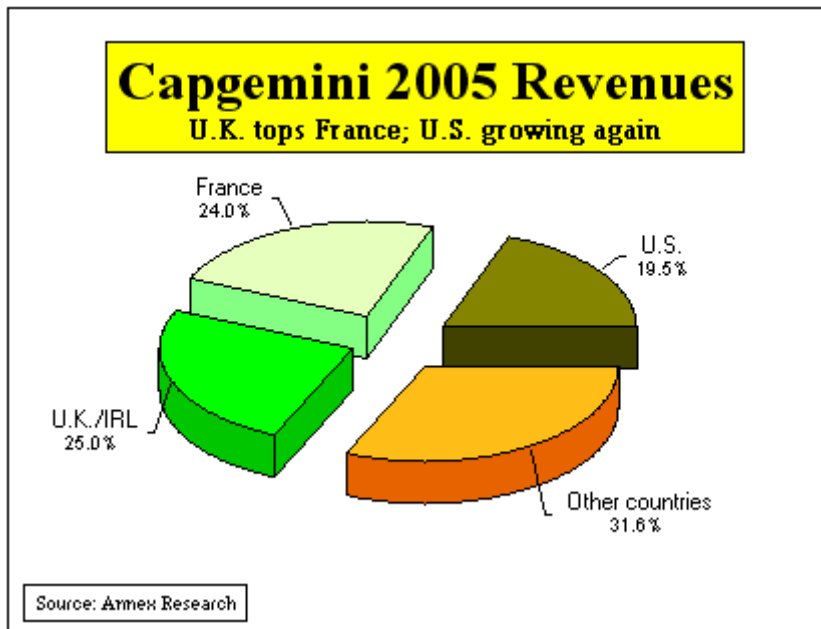
New outsourcing contracts almost matched those in the consulting and technology services in the fourth quarter (€1.1 billion vs. €1.3 billion), and by far exceeding the deals signed in the first three quarters of the year. The chart on the right illustrates the volatility of the outsourcing business relative to



the consulting and integration services which seem to bring in €1 million to €1.2 million every quarter. The reason the 2004 signings were so high is that Capgemini scored several megadeal wins in the second and fourth quarter of last year, lifting the year's total €13.8 billion, almost level with the record new bookings signed in 2003 (€14 billion).

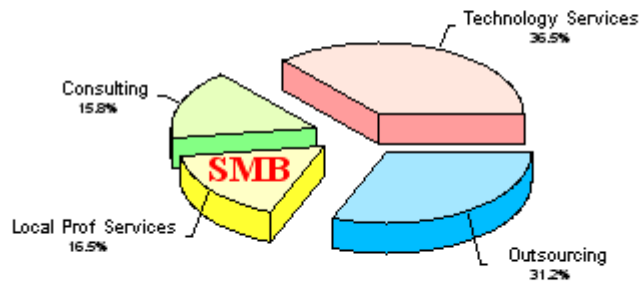
Business Segment Results

Among the largest Capgemini countries, the U.K. and Ireland outperformed France last year growing its revenue by 3.8% to €1.74 billion versus a 2.6% rise to €1.67 billion for the company's home country.



As a result, the British operations now account for 25% of the company's business as compared to 24% for France. North America, Capgemini's second largest geographic segment, accounts for about 20% of the total revenues, or €1.35 billion, down 2% from 2004.

Capgemini 2005 Revenue
Prof Services (Sogeti-Transciel) - SMB - best performer

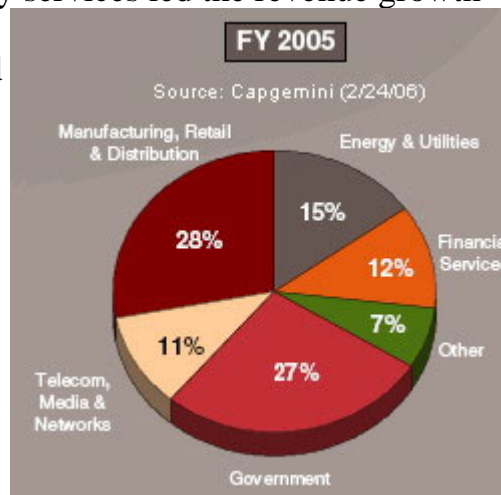


Source: Annex Research

In terms of horizontal segments, the local professional services business chalked up the best performance, growing by 8% over 2004, and posting an operating margin of 9.1%.

In Europe, the consulting and technology services led the revenue growth rising 9%, and delivering an operating margin of 7%. In the U.S., a turnaround of the consulting and technology business reversed the loss from the year before. The outsourcing also grew rapidly in 2005, surpassing 30% of total revenues.

Among the industry sectors, manufacturing and distribution and government led all others, accounting for 55% of the total revenues. Energy and utilities, financial services and the telecoms were the next three largest segments.



Outlook

Hermelin, the CEO, said he expected the IT services market to grow in the mid-single digit range in 2006. Capgemini should outgrow the market, he opined, forecasting a 6% to 7% increase in its revenues.

These are modest ambitions for a company that grew 15% last year. But then, 2005 wasn't exactly a stellar year for new contract signings, so the revenue increase should be more moderate as a result. Unless, of course,

the company wins a few more megadeals this year. They should boost the growth rates though they may not do much for the bottom line.

Given that the price competition is moderating across the board, an opinion that Accenture also voice back in January, chances are that the profitability may also continue to improve. An 80% increase in Capgemini's work force deployment in lower labor cost countries, such as India, China and Poland, should help the bottom line.

80% increase!

Country	Headcount '04	Headcount '05
India	2,050	3,550
China	200	400
Poland	350	750
Spain	150	300

Source: Capgemini (2/24/06)

Overall, therefore, there is good reason for optimism in 2006.

Happy bargain hunting!


Bob Djurdjevic

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