

COMPANY SECRET



**FUJITSU SERVICES HOLDINGS PLC
FUJITSU SERVICES LIMITED
FUJITSU SERVICES (INVESTMENTS) LIMITED
(the "Companies")**

**Minutes of a Meeting of the Fujitsu Services Management Committee
of the Boards of Directors of the Companies**

Held at 2.00 pm on Thursday, 18 March 2004
at

Irrelevant

Present:	Mr. H. Kurokawa	(Chairman)
	Mr. R. Christou	
	Mr. T. Adachi	
	Mr. D. Courtley	
	Mr. H. Hirata	
	Mr. H. Kodama	
In attendance:	Mr. H. Madarame	
	Mr. K. Nozoe	
	GRO	(Secretary)
	Mr. B. Harris	
	Mr. Y. Katsuya	
	Mr. H. Kubo	

ACTION

04/08 Introduction

The Chairman sent a message saying that he had been slightly delayed, asking Mr Christou to begin without him. Mr Christou accordingly declared the Meeting open. The Chairman joined the Meeting after a few minutes.

**04/09 Chief Financial Officer's Report – Q3 Actuals,
Year to Date Actuals, Q4 Forecast**

Mr Christou requested Mr Adachi and Mr Harris to take the Meeting through the finance papers entitled "Fujitsu Services – Q3 Actuals, Feb Actuals, Q1 Budget 2003/04".

Mr Harris explained that the principal pages were laid out in four blocks, comprising the Q3 Actuals ("Q3A"), the results for February 2004, the Actuals for the eleven months of the year to date (YTD) and the Q1 Budget ("Q1B") for the full year

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Beginning with *page 1, Summary P&L*, and the Q3A, Total Revenue was £455.4m, £15m down on the Q3B figure of £470.3m. The figure included the pull forward of £18m of VME (consisting of £8m referable to Northern Rock, £6m to EDS and £4m to the MoD). TUM, at £28.9m (Q3B: £36.5m) had been affected by the deferral of a Centrica order for VME and delays in progress of the deal with BT Syntegra. Public Sector had achieved ££26.3m against Q3B: £29.2m because of delays in the signing of contracts like the Norfolk and Norwich Health Authority. Nordic, at £74.2m and Q3B: £86.0m was down £8m on MCD product sales.

Gross margin at 21.7% was better than Q3B: 19.6% due to the VME pull forward. Accruals had been made totalling £4m for CWS and Transys legal fees, but the margin was still £6.6m more. Net Opex had been £(80.3m) against Q3B: £(78.5m), the £2m increase being due to accruals to cover additional incentive payments related to the increased profit in the Q4 budget ("Q4B"). There had been hardly any rationalisation expenditure in Q3 – £(0.1m) against £(1.8m) as it had been possible to redeploy staff concerned within Core.

Operating profit was up £7m at £20.7m against Q3B: £14.1m. Interest costs had only been £(0.1m) compared with Q3B: £(1.3m), reflecting the improved cashflow, itself the product of a very good effort at collecting receivables promptly. Profit before tax ("PBT") was £20.6m, well up on Q3B: £12.8m.

Total headcount, at 14,282, was in line with Q3B.

Moving on to the figures reported in the second block, February Month, Total Revenue was behind budget, down to £142.7m from the Q4 Budget ("Q4B") figure of £154.1m. The shortfall arose as follows. Integrators were down £10m due to the slippage of Liberata sales. FSRT were £4m lower because of the loss of the prospective Royal Bank of Scotland project and delays on LloydsTSB and BMI. Public Sector had had trouble bringing deals to signature, as already mentioned and so were down £2.9m. Nordic were down £6.7m because of slow sales of MCD products. Compensating these reductions were £3m more of VME revenue from Centrica in TUM, £4m additional spend by the Ministry of Defence and £4m more on PFIs. Nevertheless, the general picture was that most business units were down on their forecasts.

Gross margin had been 23.2%, well above the 16.9% in Q4B. Total Gross Margin was £33.0m compared with £26.0m Q4B. Total Net Opex was down by £6m at £(23.0m), achieved through savings in Group HQ. Rationalisation showed a major movement, from £(0.1m) in Q4B to £(7.2m), reflecting the EMEA transformation programme to move away from break fix activity to outsourcing in order to improve margins. This provision was included in March in the Q4B.

Operating profit was positive at £3.4m compared with Q4B loss of £(2.6m). Cashflow has remained positive, with interest income of

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£0.1m. Profit before tax was £3.5m compared with £(2.9m) loss in Q4B. Headcount was 271 less than Q4B due to EMEA in the Netherlands.

The third block, February YTD, showed total revenues of £1527.7m, about £27m down for the reasons already given. Gross margin had been 21.7%, £1.5m above Q4B due to the pull forward of revenues due in March benefiting the margin by £16m. Total Net Opex at £(290.1m) was £11.8m lower than Q4B: £(301.9m). Reducing spending in HQ was the major saving, whilst Nordic was £2m lower from its restructuring. Rationalisation was higher at £(17.6m) than Q4B: £(11.8m) due to proving for the EMEA transformation programme.

Operating profit at £33.6m was substantially ahead of Q4B £10.7m and interest costs were £(1.9m) compared with Q4B £(3.0m). Profit on disposal was up £2.5m to £7.1m, compared to Q4B: £4.6m. This was due to the OBS disposal in Nordic. Profit before tax was £39.1m, compared with £12.7m in Q4B.

Mr Madarame asked about the transformation charges in EMEA. Mr Courtley explained that the charges resulted from action by EMEA's Director, Mr Escudier, to make management and sales changes in and to incur training and marketing costs. These changes were designed to improve the performance of the businesses in the main EMEA countries.

Turning to the fourth block, Q1 Budget (Full Year), Revenue was down from Q4B: £1,765.8m Q4B to £1,733.2m. The main reason for this reduction was the performance of Nordic MCD. Total Net Opex was, at £(326.8m), slightly less than Q4B: £(329.3m). Rationalisation, at £(17.9m), was up on Q4B: £(13.1m). Operating profit stood at £45.2m compared with £48.6m in Q4B. Interest was better at £(1.9m) compared with Q4B: £(3.4m), reflecting a much improved cashflow. Profit on disposal was £6.4m (Q4B: £4.6m). Headcount was 14,381 compared with 14,356 in Q4B.

The revenue figures were broken down by business unit on *page 2*. FSRT, TUM, Integrators and Public Sector were all down compared with Q4B. In FSRT, this was due to delays with the Lloyds TSB, BMI and Reuters projects. Slippage was also the cause in TUM. Integrators' sales were down from reduced sales of MCD products and Public Sector had also had slippage. Central Government, however, was £16m up on Q4B because of higher customer activity, particularly the MOD, and the Post Office was also up, as was EMEA. Nordic, however, was down because of the reduced MCD sales.

Pages 3-11 contained Revenue Analyses by business. It was noted that most of the revenues were coming from existing customers.

Page 12 contained details of Margin by business. In the fourth block, Q1B Full Year ("FY") was £378.7m, Q4B was £379.6m. In the Q1B figures there, Integrators was up at £51.2m on the Q4B figure of

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£47.1m, but Public Sector was down at £26.6m compared with £32.1m as a result of lower revenues and higher costs on the Transys dispute. Group Accounting also showed £3.0m negative margin, representing provision against CWS.

Page 13 related to Opex by business unit. The total Q1B figure of £326.8m in the fourth block was slightly lower than Q4B. this was due to savings in EMEA and Nordic, with NHS costs going £1m higher.

Page 14 showed Ratex by business. The main change here was EMEA, where Q1B was £7.8m., compared with £2.3m in Q4B.

Page 15 showed Operating profit by business.

Page 16 showed total Headcount by business. This stood at 14,381, a slightly greater number than that for Q4B (14,356). FSRT were up from the Reuters contract. Central Government down, with the transfer of 240 service delivery staff to Core offsetting the increases from the MoD and NHS wins. The movement in Core, from 5,246 to 5,699, was due to the transfer from Central Government and additional staff for Aspire and NHS. The EMEA loss of the Casema contract in Holland and the outsourcing of break fix in Germany, however, had decreased staff there from 3,199 to 2,895 and there had also been a reduction in Nordic from the disposal of On line billing systems.

Page 17 was a pictorial representation of the headcount movements.

Page 18 was the Summary Balance Sheet. Cash had been £12.6m at the end of February 2004, mainly owing to the MoD, including advance payments, and to efficient collection of receivables. The February Actual figure for Fixed Assets stood at £119.2m, with the figures for the Q1 Budget (Full Year) being £147.7m Q4B and £152.9m Q1B, reflecting the purchase of assets for Aspire. The Company's cash position was improved at £24.9m Q1B.

Page 20 showed Inventories for Central Government. The Q1B figure was down on Q4B (£105.5m against £120.0m) because of delayed new projects.

Page 22 covered Payables and Accruals by business. The MoD was again responsible for the increase from £63.1m to £92.0m in Central Government from the higher activity in MoD and Libra contract accruals.

Page 23 showed Summary Cash Flow.

Page 24 set out Capital Expenditure and Depreciation. The FY/Q1B figure for capital expenditure was £85.1m.

Mr Harris invited comments and questions.

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Mr Kodama noted that profit before tax was expected to be £50m this year compared with £30m last year and £37m in the original budget. He also noted that there had been over £12m of cash at the end of February and so no need to borrow. He commented that the effect of the recent major bid wins would be to increase the need to borrow later. Mr Adachi referred to the intention of the Ministry of Defence to make certain payments early. He expected free cash to be about £40m by the financial year end. The budget for next year had not yet been finalised.

Mr Nozoe observed that this was the first time he had seen Fujitsu Services' financial reports. He was impressed by the way they were presented and said he would like the opportunity to exchange views with Fujitsu Services Finance Department with a view to taking advantage of Fujitsu Services' experience in Fujitsu Limited.

Mr Madarame said that Fujitsu was still waiting for results from China – EMEA's information came earlier, and there were different measures for Europe. Mr Adachi replied that this had been so until last year, but there was now more co-ordination.

**04/10 Chief Financial Officer's Report - Q1 Budget FSMC/04/15d
2004/2005**

Mr Adachi addressed the Q1 Budget 2004/05.

Beginning with *page 1*, Summary P&L, he explained that it included the numbers for FC and FTSL. The numbers had not changed since the mid-term plan ("MTP") and was set out in three blocks – Q1, Q2 and FY.

Looking at Q1, total revenue at £463.1m was up from £435.8m in the MTP. Gross margin was £87.8m. Total Net Opex was £(84.7m), up from £(70.9m). Operating profit was down to £3.1m from £7.2m in the medium term plan because of cancellation of the RBS project. Rationalisation was, however, reduced from £(10.7m) in the MTP to £(1.3m). Operating profit in the MTP was shown as £(1.0m) but the Q1 figure was £4.5m. Interest was only £(1.2m) in Q1 compared with £(2.1m) in the MTP and profit before tax according to the MTP had been expected to be £(3.1m) loss, but this was changed to £3.3m – an improvement of £6m. This outcome was the same as for Q1 2003/04, although that year had included a £3.7m gain on disposal.

The FY Q1B Total revenue was shown as £2047.3m compared with the £1933.0m shown in the MTP. Total Gross Margin was £420.5m compared with £396.7m in the MTP. Of this, £25.8m was attributable to the impact of FC; the loss of the RBS project of course had a negative impact. Total Net Opex was up at £356.9m. Operating profit was £72.0m (MTP: £63.0m) and profit before tax £67.0m (2003/04: £50.0m, which included a profit on disposal of £6.4m). The planned increase in profit before tax was therefore 50% over the preceding year.

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Page 2 comprised a Summary P&L for FC alone. This envisaged in the FY Total revenue of £75.4m and a profit before tax of £9m.

Page 3 comprised a Summary P&L for FTSL alone; it envisaged in the FY Total revenue of £38.9m and a profit before tax of £0.0m.

Page 5 comprised Revenue by business. Looking at Q1, FSRT was £36.8m (MTP: £41.4m); TUM was up at £36.4m (MTP: £27.4m) – this included £2m from FC; Public Sector was at £29.1m (MTP: £27.3m) – again, including FC's contribution; and Central Government at £133.9m (MTP: £125.7m). The total for UK Services was £313.1m (MTP: £296.2m). Total revenue was at £463.1m (MTP: £435.8m); this included the contribution of FC but also reflected the negative effect of the loss of the RBS project. Beginning in Q2 and going forward, the numbers reflected the acceleration of the MTP. In the FY, TUM was at £157.5m (MTP: £122.5m), including £7m from FC; the numbers for Public Sector, Government and the Post Office were broadly unchanged. The total for UK Services moved up to £1437.9m from £1414.8m MTP. EMEA was budgeted to move to £312.3m from £249.3m, with a contribution of £25.3m from FC. Adding in £5.4m from the Japanese Oriented Companies led to a Fujitsu Services total of £2047.3m (MTP: £1933.0m).

Page 6 contained a Revenue Analysis in terms of existing customers, backlog, momentum and new business, and the following *pages 7-14* more detailed analyses by business.

Page 15 contained Margin by business. In the FY, FSRT was at £37.3m (MTP: £40.3m); TUM was at £37.7m (MTP: £26.8m); and Public Sector down slightly at £31.8m (MTP: £33.7m). The negative impact of a £4m Transys accrual was noted. The total for UK Services was £302.2m. EMEA went up to £50.7m (MTP: £39.4m). The total for Fujitsu Services in the FY was £420.5m (MTP: £396.7m).

Page 16 comprised Opex by business. Mr Adachi noted the move to £73.9m from MTP: £67.7m in Group HQ.

Page 17 comprised Ratex by business. In the full year, ratex in EMEA was at £10.7m in the MTP but this was now reduced to £1.3m in Q1B. In Fujitsu Services as a whole, ratex was at £1.9m Q1B, which was very low.

Page 18 set out the budgeted figures for Operating profit by business.

Pages 19-20 contained the headcount estimates and headcount bridge, which reflected the integration of FC and FTS and the consequent increase of 1638 heads. In Q2 a significant increase (914) would occur on account of the Inland Revenue and a decrease of 269 as a result of FC/FTSL rationalisation. Another 77 and 89 FC/FTSL heads were expected to go in Q3 and Q4, respectively.

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Page 21 was the Balance sheet. Looking at the Net borrowings/Cash line, it was noted that there would be net borrowings through Q1 and Q2 with net borrowings of £25m at FY. This would include the borrowings needed to incur the costs in inventory for NHS.

Inventories by project were set out on *page 23*. By the end of the year, the Company would be bearing a heavier burden.

Page 26 set out the Summary Cashflow. The position at the end of 2003/04 had been £77.8m free cash flow. The present year was expected to end £40m negative, chiefly on account of incurring high levels of costs held in inventories.

Page 28 dealt with capital expenditure by major project. The figures for FY 2003-/04 of £19.1m and £14.6m for Aspire and HMCE, respectively, now stood in FY/Q1B at £33.9m and £25.6m.

Mr Adachi added that the exact position over FTSL remained to be resolved and that might affect the budget, but agreed with the Chairman that the revision would not be major.

The Chairman commented that he was pleased to see that the numbers in the budget were moving in line with Fujitsu Services' plans.

He was, as the Meeting knew, intending to resign and hoped that his successor as Chairman, Mr Christou, and the new Chief Executive, David Courtley, and his team would continue to do a good job.

04/11 Minutes of Meeting held on 5 February 2003

Reverting to the Agenda, Mr Christou asked if there were any comments on the draft minutes of the 5 February 2004 Meeting. The Meeting approved the minutes and it was agreed that they should be signed on behalf of the Meeting by any Director.

04/12 Chief Executive Officer's Report

FSMC 04/02

Mr Christou noted that the markets were moving up in Europe. Although the terrorist attack in Madrid had shaken confidence, there had been no substantial effect yet. He remained confident that the Company's targets would be achieved. Assuming they were, the profit schemes, including Sharing in Success would pay out. Morale was good and the pension plan consultation had been received well. The final meeting to settle issues over FC and FTSL was imminent. The principal remaining issue on the employee front at present was the capability of middle management.

Mr Courtley agreed, saying that things had changed and for the better, but some managers were not as effective as they needed to be, and needed to given training. There had been positive feedback in the employee survey, but also some criticisms, which were being

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addressed.

Mr Kurokawa asked about the kind of training proposed for managers. Mr Courtley explained that it would be basic and suitable for people leading smaller groups (often technical people who had no management skills). The training would explain how to conduct appraisals and give feedback. If people were not told about their performance, morale would dip.

04/13 Major Bids Report

FSMC 04/16

Mr Courtley presented this report and referred the Meeting to the Board paper for further detail.

The MoD/DII bid was the next big challenge. There had been a shortlist of three – EDS/Fujitsu, Lockheed Martin and CSC. Lockheed Martin had decided not to proceed and EDS/Fujitsu was thought to be a stronger contender than CSC. The third item on the list was the UK Foreign and Commonwealth Office, a large Government opportunity for desktop managed services, where the Company was on the shortlist and thought to be well-positioned. This would be worth £200m over seven years. Another Government project was Home Office IND, where there were three competitors, Fujitsu, Sema (Atos) and SBS. There was also another Home Office opportunity, worth £99.8m over eight years, which was an extension of the Sirius project. Major local government opportunities comprised Birmingham City Council, worth £555 over fifteen years and Walsall Metropolitan Borough Council, worth £400m over fifteen years. The list showed that there were not many commercial sector bids and Mr Courtley was aware of the need to tackle that challenge. Centrica was offering the opportunity of a £60m Desktop IT Outsource which would permit the Company to use both its Fujitsu Services and its Fujitsu Consulting components. So far as one of Fujitsu's competitors, Accenture, was concerned, IBM, had let it down, whereas Fujitsu was considered to be a good bidder and was well liked. The bmi deal – worth £150m over ten years – had now been signed and would be a valuable contract. The big news, of course, was that the NHS contract had been won – it was worth £1200m over ten years. The RBS deal had, however, been lost. Fujitsu had been selected, but the customer had then changed its mind.

Mr Kurokawa asked whether Fujitsu Services, with all the other work it had on, could ensure delivery of these projects. Mr Courtley said he believed it could. Peter Hutchinson would be looking after the NHS project, a new senior manager had been recruited to look after Core and Roger Gilbert (who would be taking over Aspire) was also recruiting.

Mr Madaramé commented on the need to find people with the right characteristics to manage major projects like the NHS or DII, and upon decisions such as whether to recruit or to use offshore resources. Mr Courtley agreed that it was necessary to think ahead. Fujitsu Services was now a good place to work (and the marketing

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campaign had helped with that) so that recruitment was now easier. Careful consideration was being given to the use of offshore resources, as there were countries like the Philippines where there were good people who were well trained. Mr Hirata added his voice to these comments, commenting on FC's approach to these issues. He thought it important to put the company in a state of readiness. Mr Christou agreed: the Company needed to attract senior people, use Fujitsu Limited resources, redeploy people from FC in an effective way and grip the question of outsourcing.

04/14 South Africa Recapitalisation

FSMC/04/17

Mr Christou noted that there had been approval of a Rand 40m injection by Fujitsu Services Holding B.V. ("FSBV") (or one of its subsidiaries) into ICL Technology Holdings Limited to ensure that it and ICL SA did not trade insolvently. For the reasons explained in the paper before the Meeting, that recapitalisation had not yet taken place and it was now proposed that the amount in question should be Rand 60m (about £4.76m). It was RESOLVED that the proposal be approved and that steps be taken by Fujitsu Services Holdings PLC to enable FSBV or its subsidiaries to complete the recapitalisation.

04/15

Items for noting and questionsFSMC/04/18-
24**Major Accounts Report – FSMC/04/18**

Mr Courtley commented on this. So far as the NHS was concerned, good relations had been developed with the Southern Cluster, although there were concerns about the scale of the resources needed and the Cluster had expressed some concerns about BT's responsiveness. As regards the Inland Revenue, all was going well and regular meetings were taking place with CGEY. A red alert had occurred on DTI Elgar on account of some slippage. The Post Office was also going very well, although outages of the on-line services had resulted in the placing of the service on red alert to ensure effective analysis of the problem and its resolution. This was a chronic, rather than a critical, problem. Mr Hirata and Mr Nagai were helping to find sources of expertise in Japan which could offer support.

Business Continuity Report – FSMC/04/19

Mr Christou presented this report, which was an update on the February report, to the Meeting to note. The aim was to ensure that the Company had a proper policy on business continuity

Norway Recapitalisation – FSMC/04/20

Mr Harris presented the paper on the recapitalisation of FS Norway AS to the Meeting. It was RESOLVED that the proposal be approved and that steps be taken by Fujitsu Services Holdings PLC to enable

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FSBV or its subsidiaries to complete the recapitalisation.

Disposals Programme – FSMC/04/21

Mr Christou presented this report. The Meeting noted its contents, including the Online Billing Solutions (OBS) disposal in Finland.

Major disputes – progress report – FSMC/04/22

The main development had been the settlement of the Unisys dispute for the payment by the Company of £13m, which was thought to be a reasonable outcome. The Meeting noted the report.

HR Manpower report – FSMC/04/23

The Meeting noted the report.

Documents signed and sealed – FSMC/04/24

The Meeting noted, confirmed, ratified and approved the documents listed, the dates of which fell in the period 23 January 2004 – 5 March 2004.

04/16 Other business**Touchdown/Triole**

Mr Hirata referred to Project Touchdown, which Mr Courtley was leading in conjunction with Mr Maeyama, Mr Tanakura and Mr Hirata himself. The aim of this project was to alter Fujitsu Services' culture. Mr Courtley explained that it would enable FS to embrace the Triole concept, which had been devised as a way to find solutions for customers' problems in a manner similar to that used in Japan. It moved away from the "best of breed" approach and was not to be seen as just a marketing initiative. The concept aimed to be a clear contrast to the business approach of competitors like IBM and HP. Fujitsu Limited was providing good support, and Mr Madaramé had offered to second personnel to help. It was important to market the concept in a joined up way, and talks were taking place with third parties such as Fujitsu Siemens Computers to this end. Mr Hirata saw the concept as sending a message to the global market.

Board changes

Mr Kurokawa referred to the changes that were to be made to the Boards of Fujitsu Services Holdings PLC, Fujitsu Services Limited and Fujitsu Services (Investments) Limited with effect from 1 April 2004. He was stepping down and Mr Christou would be Executive Chairman, Mr Adachi would be Deputy Executive Chairman, Mr Courtley would be Chief Executive Officer and Mr Madaramé, Mr Nozoe and Mr Nagai would join the Board of Fujitsu Services Holdings PLC. Mr Harris would become Chief Financial Officer.

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Written resolutions of the Directors of the three companies would shortly be circulated to give effect to these and related changes.

Mr Kurokawa added that in future Mr Christou and Mr Madaramé would report to Mr Akikusa on the discussions at the FSMC following the meetings. Mr Kurokawa also suggested that Mr Christou and Mr Madaramé should decide upon the members of the FSMC.

Mr Christou thanked the Chairman for all his support for Fujitsu Services – he was very sorry to lose him from the Board of FSH. He was, however, glad to have Mr Madaramé and Mr Nozoe joining the Board. So far as he himself was concerned, he wanted to move on from the role of CEO after three and a half years. The company was stabilised and was making profits – it seemed a good time to hand over to Mr Courtley who would continue on the course that had been set and work to further the Board's strategy.

Mr Courtley responded by saying that he intended to provide continuity into the future and looked for the support of everyone in the room.

The date of the next Meeting was left to be fixed by agreement [it will in fact be held on Wednesday 9 June 2004 in London].

There being no further business, the Meeting ended.

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Chairman