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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 10.00 am on Wednesday, 9 June 2004
At 26 Finsbury Square
London EC2A 1SL

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

04/17 Introduction

The Chairman welcomed those present to the Meeting.

04/18 Minutes of Meeting held on 18 March 2004

The Chairman asked if there were any comments on the draft minutes of the 18 March 2004 Meeting. The Meeting approved the minutes and it was agreed that they should be signed on behalf of the Meeting by the Chairman.

04/19 Chief Executive Officer's Report **FSMC/04/25**

Mr Courtley presented this paper. The Chairman asked if there were any questions.

Mr Madarame asked how much was invested in management training relative to the Group's revenues. He thought it would be a good idea to keep track of how much was invested to ensure that the skills of the Group's personnel remained strong. He was concerned that the amount currently invested in training was lower than the investments made by its competitors like IBM.

Mr Courtley commented on the training which was at present being given to middle management. He explained that the courses were short – one day – both to ensure that they were not too expensive and to prevent them being a distraction from the Group's business. Fees of a few hundred thousands of pounds were being paid to training consultants, but all the expenditure was budgeted. Mr Adachi and the

Chairman added that training had had to be cut in the difficult circumstances prevailing two years ago, but it was important to resume it now that it could be afforded.

04/20 Chief Financial Officer's Report FSMC/04/26

Mr Harris made a presentation by reference to the papers before the Board, namely, the Full Year 2003 Actuals, the May 2004 Actuals and the Q2 Budget 2004/2005.

With respect to the full year 2003-2004, the main points to note were:-

- Total Revenue had been £1735.3m, compared with £1765.8m in the Q4 Budget ("Q4B")
- Although the 2003-2004 Total Revenue appeared to be much less than the 2002-2003 ("02/03") figure of £1859.9, the true comparison was with revenue in that year from the businesses now continuing, which had been only £1749m.
- The shortfall compared with Q4B was due to weakness in Nordic hardware sales and slowness in closing deals in the UK Commercial business.
- Gross margin percentage at 21.9% was slightly better than Q4B and 02/03.
- Total Gross Margin at £379.4m was very close to Q4B.
- Total Net Opex at £(325.1)m was slightly less than Q4B.
- Operating Profit was £54.2m (Q4B: £50.3m).
- Rationalisation was up at £(17.6)m, reflecting the Nordic and EMEA programmes.
- Cashflow (see also page 23) had been very good, reflected in the low interest costs.
- Profit before tax at £50.4m was in line with Q4B and targets and £20m better than 02/03.
- In the Balance Sheet (page 18) share capital and reserves were now £347.5m, a considerable improvement on 02/03 (£281.1m).
- At the year end, net cash had been £(93.4m), substantially better than Q4B (this resulted from big payments from Government, especially the MoD, in March, which were also reflected in Advanced Invoicing).
- Cash generated was £194.5m (much better than Q4B: £72.6m) as was free cash flow (£145.2m compared with Q4B: £3.8m)

Turning to the May-04 Actual 2004/05 sheets:-

- They reflected the new organisation of business units.
- Total Revenue was £19m below Q1 Budget ("Q1B") but up on last year because of the FS/FTSI revenues now added.
- Gross margin percentage at 18.1% was in line with Q1B.

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- Total net opex was below Q1B
- Operating profit was in line with Q1B and better than 02/03
- There had been interest income of £0.7m.
- Headcount at 16,014 was below the Q1B estimate of 16,306; the increase over 02/03 was due to the FC and FTSI joiners.
- Net cash at the end of May still stood at £(109)m.
- Advanced invoicing of £(161.5)m reflected MoD receipts and would unwind over the year.
- Liability provisions stood at £(84)m - £50m up on March 2004.
- Fixed assets were lower than Q1B.
- Operating profit was in line with Q1B and cash flow remained strong.

The Chairman commented that, although EMEA and Nordic needed to perform better, compared to last year there had been an improvement. Mr Courtley agreed. Apart from Finland, activities in these units consist of small operations. Dealing with the underlying performance problems of small businesses was difficult. The aim was to transform the nature of the businesses and enable them to expand. The integration of FC and FTSI in the EMEA units had been painful, but it was better to face those issues.

Mr Kodama asked about the headcount by business. Mr Harris and Mr Adachi explained that the figures had been temporarily distorted by the inclusion in HQ in Q1B of ex-FTSI headquarters people who had in fact now left the Group.

Mr Harris referred to the Q2 Budget ("Q2B") for 2004-2005. The main points were:-

In the Quarter 1 columns, the Q2B numbers were the same as those for Q1B (the budget was expected to be achieved).

- Total Revenue was £463.1m, up on 02/03 because of HMCE and the FC/FTSI joiners.
- Gross margin was 18.6%.
- Total net opex was up slightly.
- Profit before tax at £3.3m was in line with Q1B.
- Q2 would be in line with Q1, with profit before tax of £8.3m and staff numbers at 17,178 with Aspire joiners in June.
- In the full year, Total Revenue at £2047.3m was in line with Q1B and up on 02/03.
- Gross margin percentage was in line with Q1B at 20.2%.
- VME revenues would be less than last year and fewer users meant that this decline would continue.
- Net opex would be £25m higher than last year and would include

£10m on training and £5m on marketing.

- Operating profit was budgeted to be £63.6m.
- There would be very little Rationalisation.
- Profit before exceptionals was expected to be £67.0m, half as much again as last year.
- Headcount would be up 100 or so in the second half on account of the start up of the South African call centre.
- The pages analysing revenues indicated that in the full year only £90m – 5% of the whole – would come from new customers.
- Margin by business (page 8) showed increasing margins in EMEA as the year progressed.

The Summary Balance Sheet (page 14) and Cashflow (page 18) showed the net cash position moving to Borrowings over the year due to big investments e.g. on NHS and Aspire.

The Chairman observed that the revenue analysis emphasised the importance of closing deals, including new business over and above the backlog.

In the course of Mr Harris's presentation, one or two questions were raised. Mr Madarame asked about the decline in gross margin. Mr Harris explained that this was mainly due to the decline in high margin VME business, though the Post Office margin catch up last year had also played a part. Mr Courtley and Mr Christou answered related questions about the prospects for future VME sales.

04/21 Update on FTSI and FC Integration

Mr Courtley commented that the picture in the UK was different from that in EMEA.

In the UK

Integration was going reasonably well.

There was a consultation process with sections of the workforce in contemplation of the rationalisation.

Most of the joiners were going to Core.

- FTSI was a declining business and was not adding margin.

In EMEA -

- The integration was proving a major distraction for Mr Escudier and his team.
- FC Management in Belgium and Luxemburg were not co-operating.
- Generally, there had not been a downturn in performance as a consequence of the integration operation.

The Chairman invited questions, observing that integration was easier in the UK because many of the FC employees there were ex-ICL anyway; in EMEA, some of the FC businesses were the same size as or bigger

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than FS's businesses and laws protecting employees in the relevant countries were tougher.

Mr Adachi commented that FS had through Mr Kodama asked Mr Madarame to order FC to co-operate with FS over the integration. Once integration had taken place, of course, FS would have the responsibility and the power to solve management problems as it saw fit. If the lack of co-operation by the ex-FC managements in Belgium and Luxemburg continued, there would not be many choices for FS in what it would have to do. Agreeing, Mr Courtley said that there were some difficulties, but the Company would find a way to solve them. Mr Madarame said that he understood that FC in Luxemburg had many highly-skilled delivery staff who were doing well with local and Japanese banking businesses. He recommended FS to consider how (leaving aside the management issues) such staff could be integrated into the Group's businesses. Mr Hirata added that Mr Inoue, who worked for Mr Kunimaru, should know the ex-FC businesses in Luxemburg well, and suggested that contact be made with Mr Inoue. Mr Courtley welcomed these suggestions: he wanted the integration to work.

The Chairman summed up by saying that in the UK the task was to preserve revenue and profit; in EMEA, there was a management task. Mr Courtley could be relied upon to act decisively.

04/22 Major Bids Report FSMC/04/28

Mr Courtley presented this report, highlighting some but not all of the current bids. Points made included -

- DII – Sub-contractor to EDS. An expensive investment. One competitor – CSC. Decision at end of year.
- Lloyds TSB – One of a few private sector opportunities. Decision in the autumn.
- Foreign and Commonwealth Office – new Government opportunity.
- Birmingham City Council – Qualified out.
- Walsall Council – Still engaged.
- Inland Revenue and NHS new bids – opportunities derived from the existing projects.
- Northern Ireland Government – some business process content.
- Home Office – extension of existing business.
- Home Office EDRM – the customer wanted to go more slowly, possibly exposing the job to competition elsewhere.

Mr Courtley invited questions.

Mr Hirata asked about the Home Office IND bid. Mr Courtley said that the Company was short-listed with Sema and SBS. The outcome depended to an extent on the relationship between IND and the rest of the Home Office.

Mr Hirata also referred to the FCO bid, where he believed that, of the two bidders, the Company was in the lead. If the customer would like to visit Tokyo in July and August, they would be very welcome.

With regard to the parent company guarantee which was likely to be needed for the MoD project, he requested that the application to Fujitsu Limited be requested as early as possible.

04/23 Major Projects Report FSMC/04/29

Mr Courtley presented this report to the Board. His comments included the following:-

- NHS – A vital project. Mr Hutchinson, one of the Company's most experienced managers, was managing it. The project was up and running, but there were some concerns about the ability of BT and IDX to deliver, and they were already behind.
- Inland Revenue – The Company would take responsibility for the service in July.
- HMCE – This project performed well last year. In anticipation of the planned merger of HMCE and the Inland Revenue, The Company was getting to know David Varney, Chairman of the combined Department, and the new CIO who was to be appointed to succeed John Yard. As a present supplier to both Departments, FS was well positioned for work from the combined Department.
- Libra – This project was going well. In passing, the applications project which had been transferred to Accenture was said not to be going according to plan.
- Home Office – This relationship was more difficult. The big test would be whether the Company won the IND project.
- Post Office – Progress was pleasing. There was talk about a future opportunity to undertake refresh work. The Post Office had been pleased that the Company had declared a red alert on banking system issues which were now improving; the customer had regarded this as a positive approach to the issues.
- Elgar – There was high customer satisfaction. One project was running rate and a red alert had been declared. This was not good, but the problem had been tackled.

Mr Courtley invited questions.

Mr Hirata commented on the NHS project. If pressure needed to be exerted on BT, then Fujitsu Limited would be pleased to help. As regards Aspire, he would like to hear more about the project at the end of July with a view to his submitting it for the President's award. Mr Courtley replied that heavy direct pressure was being exerted on BT, but he would invoke Fujitsu Limited's aid, if necessary. He hoped for a good transition on Aspire.

Mr Madarame referred to difficulties which Fujitsu Limited was experiencing on large projects, where he thought that they might be able to learn from Fujitsu Services' experience. He also asked about how Fujitsu Services tried to add value to its existing accounts, such as adding mobile solutions to IT outsourcing business. If Fujitsu Limited could do anything to add extra value to FS's existing accounts, it would be pleased to do so.

Mr Courtley responded that Fujitsu Services would be glad to help Fujitsu Limited by sharing its experience. So far as mobile solutions were concerned, he recognised a trend towards its use as the technology became more usable. The Company was trying to work on it with people it knew well like Vodafone and Nokia, using its technical capability to stay at the forefront in this area. Customers like Centrica, and the airline industry, which had large maintenance requirements seemed to be the most likely targets. Mr Nagai added that the people at Fujitsu Limited's Risk Management Office had already contacted him about FS's project management skills. Roger Camrass and his Business Development team, who had been recently recruited to FS, were developing extra value by offering consultation services to customers.

04/24 Business Continuity Preparedness Report FSMC/04/30

The Meeting noted this Report.

04/25 Litigation and disputes FSMC/04/31

The Meeting noted this Report. Mr Allnutt referred to the letter recently received by Fujitsu Limited and by Fujitsu Services from Cubic Corporation and to measures which were being considered by way of response. The CWS petition to the House of Lords for leave to appeal in the CWS case had been refused, and the Company was preparing for a new trial in the autumn or early part of next year.

04/26 HR Manpower Report FSMC/04/32

The Meeting noted this Report.

04/27 Environmental Affairs FSMC/04/33

The Meeting noted this Report.

04/28 Data Protection FSMC/04/34

The Meeting noted this Report. Mr Allnutt commented that the authors of this and the preceding report, for whom he was responsible, would be glad to discuss the subjects of the reports with their respective counterparts in Tokyo.

04/29 Documents signed and sealed FSMC/04/35

The Meeting noted, confirmed, ratified and approved the documents listed, the dates of which fell in the period 5 March 2004 - 24 May 2004.

04/30 Other business

There was no other business

04/31 Date and location of next meeting

The next Meeting of the Committee would be held by video conference in August. Mr Harris would visit Tokyo in the preceding week to explain the financial presentation to the appropriate people. The following meeting would be in Tokyo in November. There would also be a meeting of the Directors' Remuneration Committee in July.

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There being no further business, the Meeting ended.

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Chairman