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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 9.00 am on Tuesday, 19th November 2002
At Fujitsu Limited, Irrelevant
Irrelevant

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| Present: | Mr. H. Kurokawa | (Chairman) |
| | Mr. R. Christou | |
| | Mr. D. Courtley | |
| | Mr. T. Adachi | |
| | Mr. H. Hirata | |
| | Mr. H. Kodama | |
| In attendance: | Mr. T. Okada | |
| | Mr. B. Harris | |
| | Mr. M. Tokuda | |
| | Mr. Y. Katsuya | |
| | Ms. R. Mizusawa | |
| | Mr. E Tsuyuzaki | |

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**ACTION**

**02/20 Minutes of Meeting held on 20th August 2002**

The Minutes of the last meeting held on 20th August 2002 were approved as a correct record.

**02/21 Matters Arising from August 2002 meeting**

It was noted that Mr Adachi had reviewed the Invia business plan and it would be discussed in more detail later in the meeting.

The Chairman's customer visits had been very well received and Mr Courtley and Mr Christou continued to meet customers.

Mr Christou and Mr Adachi were in constant discussion with the actuaries regarding the Pension Plan.

Mr Courtley and Mr Hirata had investigated the possibility of a management buy-out in Belgium, however it did not appear to be an option and Fujitsu Services would continue to manage the Belgium operation into the future.

**02/22 Chief Executive's Report**

Mr Christou took members through his report, he felt that it was likely that there would be more industry consolidation globally into larger companies, however, it was unlikely that we would see very high growth rates in west European in the near future.

He drew members' attention to the major disputes ongoing with, amongst others, Transys and Unisys, which would have to be managed properly to enable us to get through to year end. It would not be impossible but would require hard work and dedication.

Fujitsu Services had done well in a number of areas, particularly with regards to the Pathway extension. He congratulated the team that had signed the Heads of Agreement to extend Pathway for a further five years at profitable margins. Over the ten year life of the contract this would prove to be a very successful piece of business. It was also hoped that the Post Office would be interested in signing this by the end of December.

Deutsche Bank had been retained to take care of the sale of Invia, and that morning the Information Memorandum had been examined. It would be issued by the end of next week at the latest. He predicted closure by the end of February 2003. It was impossible to forecast the value that would be achieved but it was envisaged that the benchmark would be a minimum of Euros 100,000, 0000.

The disposal of MCD was proceeding well. Mr Christou anticipated on his return to the UK the private equity firm Hg would have been selected as the preferred purchaser.

The disposal of the remainder of the KnowledgePool business was underway but it was too early to give an indication of the price.

France had made good progress this year. Following considerable discussion about whether the operation should be disposed of or closed it was agreed that our preference would be to keep it as one of the core countries and to work towards getting it to break even.

Mr Christou then turned to EMEA. He pointed out that if Invia were sold and there were some further re-structuring in the last quarter of the year (financed by some of the money that had previously been allocated to France) then it would be possible to bring about a break even position for EMEA as a whole very much earlier than previously predicted. It was not possible to say whether or this could be done, it would depend on whether or not Invia could be sold and for how much.

Mr Christou then drew members' attention to a discussion paper dealing with pensions. It was noted that Roger Leek was in continual contact with Okada-san on the issues raised and that he was visiting to Tokyo in December to have further discussions with Okada-san and his people. He stressed that the paper gave thoughts and possibilities and was not necessarily a concrete plan. However, the UK Government has been looking at pension legislation in general and its findings need to be taken account of. As agreed at the last FSMC, consultation and action should not begin before April 2003.

Moving on to employee morale, Mr Christou felt that it was improving but was not high. The company had starting winning business and was doing better than our competitors and this was helping. Both Mr Courtley and Mr Christou had spent a great deal of time talking to employees trying to get these messages home. Mr Christou felt that

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there were two things essential to employee morale, the first was that we achieve our targets this year so that we can pay out to all the employees that do not have EIP plans the 5% bonus that we promised. If this payment can be made then they will see that the company has changed and this is very important.

The second was to resolve the pension plan in a way that is acceptable to both the company and the employees. If these could be achieved then next year I believe we will see a considerable improvement in employee morale.

Drawing to a close Mr Christou asked if there were any questions or comments on his remarks.

The Chairman noted that orders and sales had been declining and asked what measures would be taken to improve the situation. He also suggested further discussion on Invia.

Mr Adachi apologised to the members and explained that there was a mistake within the finance report and hence sales were not reflected correctly and appeared to have declined. However, for UK services sales had not declined and for EMEA the sales were a little less than budget but in a mature market we cannot expect high growth rate.

The Chairman stressed that Fujitsu Services needed to focus on its weaknesses in order to grow stronger. Further he suggested that the company should not continually focus on cost reduction but should take some positive and aggressive measures.

Mr Christou pointed out that costs had to be controlled at all times but there came a time when controlling costs was not enough. He assured members that as far as the current year was concerned it was known which contracts had to be closed in order to make the revenues required. It was noted that revenue would be flat next year and he had deliberately taken the decision to work on that basis as anything else would be imprudent. Increases would come in the next two years in the plan as, hopefully, larger Government contracts would be won and would start to bring in the revenue.

The Chairman discussed the issue of bonuses and employee morale. He felt that in order to pay the bonuses to the employees there needed to be a secure and firm outlook for revenue and profit.

In response Mr Christou pointed out that the bonus payment had already been announced to the employees. It only applied to employees who would not get a bonus otherwise and was nothing to do with the managers or employees on a bonus scheme. Nobody received an increase during the year and employees had been told that they wouldn't get a salary increase but if we achieved the budget plus enough on top to pay the bonus they would get a 5% bonus. This wouldn't cost the company anything. In effect it has made it more likely that we will make the budget by taking the cost savings from the salaries and only paying for results. This is quite a radical approach and also helps the pension situation because the 5% bonus is not pensionable pay so it helps to reduce the deficit that would otherwise have been incurred. However, it is not something that can be done every year, it is an extraordinary measure.

Mr Christou pointed out that the mid-term plan suggested investment in the Government area in order to win major contracts and less investment in areas such as EMEA where there are fewer contracts to win. He then invited Mr Courtley to comment.

Mr Courtley acknowledged that the question of declining revenue had been a factor in the company for a few years but that it had been masked by other issues. It was only now that the way in which we work has been simplified that we can properly focus on the customer and new customer issues and differences between division do not get in the way. Nevertheless it is a challenge but we have a great pipeline in the Government sector and we should be pleased to see how it is emerging.

Mr Courtley had been looking specifically at the private business. In principle the private sector opportunities could be used next year to bolster our situation, however we need to understand that the business we do in non-Government sectors is quite primitive in many respects. To move to the more general outsourcing and large services contracts that we should aspire to is going to take more time, more innovation and more energy. Consequently Mr Courtley was not optimistic that business would be closed quickly, nevertheless any opportunities would be pursued.

Mr Adachi commented that until last year both Fujitsu and Fujitsu Services had been in the red. He felt that Fujitsu's strategy was wrong and that it should learn from Fujitsu Services' strategy. He stressed that Fujitsu's strategy should not be imposed on Fujitsu Services and that there should be specific measures for specific sectors and not a holistic approach.

**02/23 GFD's Report**

Mr Harris presented the GFD's report.

In the second quarter, revenues of £475m were £20m below the Q2 budget, mainly due to the two weaker sectors Finance and Telecoms which had been having problems.

Within the Finance sector, a major outsourcing contract with British Midland of over £100m had been delayed and affected revenues in the second and third quarters. That order had now proceeded for approval by the Chairman of the Board and was due to be formally signed within the next month.

Although revenue was below the Q2 budget we have been able to achieve profit commitments, primarily through the reduction of costs in the Core Services unit, where major initiatives had been undertaken to improve productivity. These initiatives would continue into the second half of the year.

In addition, work done on PFI contracts concluded in the summer had enabled these contracts to be forecast with more certainty and enabled the margins, that previously had not been recognised, to be

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booked.

The Company achieved a £17m margin in the second quarter, enabling the PBT commitment of £1.2m to be achieved within the quarter.

The second quarter profit commitment included a task of £10m, mainly through the margin recognition on the PFI contracts. This was achieved by a margin that enabled some shortfalls to be overcome, including the write-down of our investment in Anite.

In the first half of the financial period, revenue was below the Q2 budget by £27m, at £935m.

The reasons for the shortfall were the same as described for the second quarter. The first half year loss of £10.8m, at the PBT level, was in line with the Q2 budget. Furthermore, the cash flow in the first half year showed a positive balance of £45m in the second quarter, compared to the Q2 budget outflow of £27m.

This improvement related mainly to the large PFI project contracts. In July 2002, the UK government paid £26m, when Libra was signed and there were better collections on the other contracts as well. Furthermore, all business units have improved their cash collection considerably in the past three or four months and undertaken major exercises to clear the old debtor's position.

Not only had the risk has been minimised, but also the contract negotiations were of a more profitable nature and hence the improvement. Overall the company was generating profit from which you can see that the business or units profit had been improved and also the company's structures were much improved. There was also some margin for improved profit and loss after this year.

Mr. Courtley stressed the need to sign the HMCE contract before the year end, in order to minimalise any risk of re-negotiations.

In particular, the improved results had been achieved as a result of re-negotiations of contracts, not as a result of a revised view of existing contracts.

Mr Harris reported that in October, revenue of £146m was £5m below the Q3 budget.

There were two offsetting items in the revenue figures;

- An assumption, in the Q3 budget, of the disposal of MCD that failed to materialise, resulting in the non realisation of £27m of anticipated external revenues from MCD.
- However, this was offset by the inclusion of revenues, of a similar amount, from Flexible Financing.
- Finally, the £5m reduction is a reflection of the general slow down in the UK market, as alluded to by Mr. Christou in his commentary.

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Despite the revenues being below the budget, there had been able a slight improve on the gross margin, mainly in defence, where the margin on the CHOTS contract is the main reason for the improvement.

In summary, the profit before tax was slightly ahead of the Q3 budget at £1.2m compared to the forecast £1m, representing a positive start for the second half year and a move towards achieving our commitments.

Cash flow again proved positive. Borrowings at 31 October were £102m compared to the budget of £181m in the Q3 budget.

The Meeting considered the proposed Q4 budget that had been circulated prior to the Meeting.

The Meeting moved on to consider the Q3 budget and noted that actual revenue was £11m higher than shown in the budget. This was largely due to MCD and the Meeting was directed to the revenues of the individual business units, set out on page 2.

The main features included:

- UK services revenues down £60m, largely as a result of the incorrect inclusion of £42m from Flexible Financing and the slow down in the UK market, across all the business units, with the exception of Integrators, which accounted for the remaining £18m.

- A similar slow down is being experienced in Europe and Invia and EMEA.

- The inclusion of MCD revenues, which had not been included in the budget.

It was noted that, notwithstanding lower revenues, there was a substantial improvement in the margin position, particularly on the large projects.

It was noted that, although net OPEX was shown to be £13m more than the Q3 budget, there was the profit task of £11.6m, which was included in the OPEX line. This profit task would be achieved through the margin improvement from the large projects; resulting in a switch between lines and OPEX costs not increasing over the Q3 budget position.

The pre-tax profit commitment made in the Q3 budget was a loss of £4.6m. This will be achieved, despite the disposal of MCD, now likely to show a small loss as opposed to the small profit previously anticipated.

The Meeting considered the revenue figures by existing customers and new business and the revenues arising from new customers. It was noted that almost all of the revenue in the third and fourth quarters arose from existing customers, with relatively little from new customers. The judgement element was decreasing continually so the figures did give some comfort that the full year revenue risk was now

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being minimised.

The Meeting considered page 13, which provided a crystallisation of the Q3 budget task, which, at the time of preparation, included a £33.8m task in operating profit.

Although it was anticipated how such results would be achieved, the components could now be confirmed and had been included in the business units forecast. The large projects of £47m profit improvement arose from the margin and profits on these contracts since the re-negotiations that had made the future favourable position more certain.

In the finance and retail business unit there had been a dispute with a customer called Kwik Fit that had now been resolved. A provision of £5m had been made for this contingent liability, but the dispute had been without liability to us and the customer was now continuing with that contract.

Telecommunications, utility and manufacturing businesses are having a particularly difficult time, due to the obvious weakness in its end customer market place. Revenues had declined substantially in the second half and consequently, the margin has been reduced, although this reduction had been anticipated.

It was noted that this position had been under review for several months, along with ways to reduce it and the introduction of initiatives to reconsider the sales activity and the abilities and skills of some of the sales force.

Within EMEA the management had done an excellent job in reducing the costs of this business around Europe.

Focusing on the four core countries had enabled them to successfully introduce major cost reduction programmes.

The core services unit had shown good results, where productivity had improved by approximately 14%, which was recognised as a major achievement, particularly in the environment of declining revenues. This had enabled the cost of the products and services being offered through our business units to come down considerably.

Within Group Headquarters, some major action had been taken to strengthen the balance sheet, including the write-down in the investment in Anite. However it was noted that there were three disputes outstanding at the time of the meeting with Transys, Unisys and CWS.

The increase in the provisions did not reflect any weakening in our position, but simply provided a higher provision level than that currently held.

The practice of carrying software licences on the balance sheet was under review, since the actual utilisation of this in the future was uncertain and the intangible asset was being reduced. The Transco and Census contracts were due to end in mid 2003 and, as the assets relating solely to these had not been fully depreciated, it would be necessary to write them down. Accordingly, of the £64m profit improvements that had materialised, there were £30m worth of items to set against them.

In addition, the avoidance of the pay rise saved the company £6m and an accrual, in the full year budget, of £6m, to cover the 5% bonus, had been created. In this way the profit commitment to be achieved took into account the paying that bonus.

In the full year, the revenue of £177.8m was £47m below the Q3 budget. The slow down continued, particularly in the telecommunications, utilities and manufacturing business units, which was £25m lower now than the Q3 budget. The large projects showed a reduction of £54m due to the Flexible Financing revenues.

Invia and EMEA also reflected the continuing slow down in Europe, although the Multi-Vending Computer revenues, for October and November, represented external revenues of £47m. It was noted that there might be further revenue, for December, which would increase this figure by approximately £25m.

The Meeting noted that the margin was considerably better than the Q3, largely due to the achievement of the profit task in the Q3 budget.

Some additional local rationalisation had been planned, with the rationalisation cost of £11.3m being £3m higher than the Q3 budget. These local programmes, mainly in finance in the UK, in procurement and also the EMEA activities, form part of the cost reduction programme that would produce substantial end-year benefits. Accordingly, the PBT figure of £20.2m in the Q4 proposed budget retained the Q3 budget commitment.

The Meeting considered the head count, which at 11,631 is 3,320 people below the Q3 budget. Approximately 3,000 of this figure related to the removal of Invia, KnowledgePool and the European countries that were being disposed of during the second half of the year, and which should have been taken out of the Q3 budget. In addition, there was a further reduction of 300 people in the rest of the businesses.

The importance of the sale of Invia identified that MCD was now anticipated to make a loss, rather than the profit included in the Q3 budget

At the end of the year, the impact on the headcount of the disposals of Invia, MCD and Q3, KnowledgePool and the small European countries, known as Project Glass, was clearly demonstrated. The balance sheet showed that, by the end of the year, net borrowings would be down to £46m compared to £68m. This was £22m lower than the Q3 budget and represented a slow down arising from the PFI contracts, based upon the terms of the renegotiations, particularly on Pathway, that had taken place. This was demonstrated in the inventory and the receivables figures being higher, but it was still a positive position

The inventory schedule highlighted large project inventories that would increase by £35m in the fourth quarter, having risen by £21m in

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the current quarter, as the new contracts moved forward. If cash unwinds strongly in the latter part of the mid-term plan there would be very positive figures there.

On the debtors' page, the number of debtors' days would be down to 48.5 by the end of this year, compared to between 55 and 60 throughout the rest of the year. It was noted that this would be a major accomplishment but reflected the work being done to clear many of the old debtors.

The cash flow schedule demonstrated the positive free cash flow generated by the group in the second half of the year. Whilst a large proportion arose from large projects, the group would also be generating positive cash throughout the whole business.

In summary, the Meeting noted that considerable activity was in hand to increase productivity and to focus on cost levels. The group's main commitment was to ensure the achievement of the PBT targets that had been set throughout the rest of this current year and to be in a good position for the mid-term plan and develop a relatively strong balance sheet and cash position.

It was noted that, at Headquarters, a number of items had been written-down and that in the next quarter this element would be completed. Mr Harris advised that a lot of work in this area had been carried out to clear all outstanding items. It was recognised that, whilst there would be no guarantee as to how many disputes may turn out next year, the year-end balance sheet would be a clean, strong balance sheet.

The Meeting considered the major disputes progress report and noted that Transys was likely to be a long case, probably running into next year and maybe the year after. For this reason an additional provision was proposed and, whilst it was not certain whether such provision would be necessary, the position would be reviewed at the end of the year. The Meeting noted that the Company believed that it had a good case, this opinion had not changed over the last few months or so, since the dispute arose.

The Unisys dispute arose out of the Libra contract, Unisys was sub-contractor to the Company on the Libra contract. Unisys had developed the application software to be used in Libra and when the Government cancelled the contract, the sub-contract was also cancelled. The dispute related to how much, if anything, should be paid to Unisys as a cancellation charge under the sub-contract. Due to Unisys being late in the development of the software, there was an argument that Unisys should be paid nothing. This case may also go on for the next two years. Some provisions had been made, but to be prudent, it was proposed to strengthen the balance sheet by increasing the provisions. The opinion remained that the Company had some strong arguments.

The Meeting's attention was drawn to the £13m figure for HMCE, which, unless the HMCE contract was signed, the £13m figure cannot be taken. Accordingly, an important task was to close the HMCE contract, which was forecast to be achieved by the end of December.

The Anite figure related to the sale of a Government applications business in January 2001 to a UK quoted software company called Anite. Part of the purchase price was paid in shares in that company, which on that date were valued at 85p but were now valued at 20p, resulting in the Company being unable to receive £7m. Accordingly, the figure had been written down to its current market value.

The Meeting noted that the data centre costs had been included in the third and fourth quarters, as reflected in the OPEX. The initial start up costs of the Thurrock data centre were mainly in the plans for the next year, although capital expenditure schedules for the third quarter included £3.9m primarily for core services.

**02/24 Progress On The Challenge to Build Revenue**

Mr Courtley updated members on progress made with the challenge to build revenue, it had been agreed that because this was such an important item it would be covered at every FSMC. Working through the slides it was noted that a successful sales conference had been held a few weeks prior to the meeting which succeeded in energising and motivating the sales force. Further that Mr Christou and Mr Courtley were continuing to make themselves available to visit prospective customers and help out with sales campaigns. New customers were being targeted in order to raise the Company's profile and expand the services we were known for. Advertising material had been emailed to customers, this was innovative and working well, and external seminars had been arranged at which new contacts were identified.

Despite work to build new business existing accounts were not being neglected. Since the last meeting new deals of considerable value had been signed, including the Home Office (£104m), the Post Office (£0.5bn +), MoD and DVLA (£100m). This was a tremendous improvement and demonstrated that new business with exisiting customers was being generated. To support the sales staff an account management programme had been established to provide support in the form of education and mentoring for those staff new to sales positions.

Mr Courtley went on to outline how Fujitsu Services was working with Fujitsu. He emphasised how important the relationship was and it was noted that customers were keen to see how we connected with Fujitsu, at both executive and working/technical levels. He was pleased to report that there were engagements planned, including a visit to the Inland Revenue in December.

Moving on to the vertical marketing areas it was noted that there continued to be a reliance on Central Government. Here there was an excellent pipeline, however the aim was to reproduce this picture in Retail and Local Government. As a result of the poor market and a poor positioning this would be more difficult in Financial Services, Utilities and Telecoms.

The next slide looked in more detail at the opportunities within the UK Government, it was noted that most of the values had been understated. Opportunities worthy of note were those with the Inland Revenue and with the National Health Service, which involved

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collaboration with Fujitsu and True North, an excellent datacentre opportunity

An improvement in the pipeline was visible from the next slides, the first columns demonstrated that the ability to qualify opportunities was improving and that the win ratio for bids was 50%. The third column showed the year-to-date wins and the final column the value of the bids lost. The next slide gave further evidence of the growing pipeline and the final slide showed the number of opportunities faced since September and their total values.

Discussion turned to the growth of large projects in line with GDP in the UK. Mr Christou explained that although the industry as a whole was growing in line with GDP the real issue was whether or not the business can grow faster and to do that business must be taken away from our competitors. Competition is fierce, hence marketing and bidding skills become increasingly important. The situation appeared to have improved considerably since the last FSMC in August and this was partly due to the report being specific to the UK.

Both Mr Courtley and Mr Christou agreed on the need to focus on infrastructure management but also recognised that within the market process and transformation opportunities existed. Care had to be taken that these opportunities did not subsume existing business and result in the loss of market share. It was essential that changes in conditions were reflected in strategy, or else there was a danger that the company would get left behind.

The Chairman asked if the strategy outlined at the last meeting to differentiate between new and existing customers was working. Mr Courtley informed members that he was very pleased with the way in which they new strategy was working, however he was conscious that existing customers needed to be encouraged to be champions for the cause.

In reference to a question regarding tension between the core as a cost centre and the business units Mr Courtley offered assurance that the new structure was working very well. He felt that there was a better sense of integration and togetherness throughout the Company than previously.

When asked to account for why we had won the projects we had Mr Courtley recommended that members focus on the sales issues. Our sales performance has improved along with the support provided to the sales team. Lost business could often be attributed to the postponement of projects or customers changing their minds, as had happened recently when bidding for a contract with Centrica.

**02/25 Presentation of Mid Term Plan**

Mr Christou began, outlining the scope of the plan, the market conditions, objectives and the long term plan. He emphasised the importance of the shrink-to-grow strategy, by the time this was implemented the UK services business would be in a strong position and situation in the core countries of France, Germany, Italy and the Netherlands would have improved. The few remaining non-core countries were being kept under constant review and would be treated appropriately. It was also noted that the plan did not include MCD, Invia, Africa (apart from South Africa) or KnowledgePool. The non-core EMEA would be eliminated under Project Glass which had been given the go ahead the week before the meeting.

While Mr Christou did not believe in mission statements he did have two, short, elevator speeches that formed the core of the plan. The first being expert in managing IT infrastructures. The second concentrated on the fact that by changing its IT infrastructure a business can transform itself and we can manage that change. However, he commented that the service we provide must be perfect in order that customers will trust us to help them transform their businesses.

We offer to design, build and manage datacentres, networks and work groups, in effect the desktop, in a number of different ways. Customers can either have a managed service, outsource the whole of their IT infrastructure or simply a maintenance contract. There were a number of infrastructure projects up and running, including Pathway and the DVLA.

Turning to the market situation Mr Christou suggested that outside of the UK the only market worth looking at was Germany, the others were all too small to make any difference. He warned members that Gartner's July forecast would probably drop in terms of growth rates and that as previously mentioned people are still not spending on IT. There was no new technology coming that would spur growth. Mr Christou did not believe that anyone felt that broadband and mobile would make a huge difference in the short term. Gartner also advised the reduction of growth expectations, planning for uncertainty and to anticipate that buyers are going to make do with what they've got.

Given the uncertain economic climate forecasts were reducing all the time and although Outsourcing was an important sector market growth was very low. In light of this information the strategic plan did not include revenue growth next year. This did not mean that there wouldn't be any new business but because current contracts would be drawing to a close it would take any new business to keep the Company in the same position.

Plans for the second year included significant growth that would continue, with a slight drop in the third year. Mr Christou attributed this optimism to Large Projects and Central Government. He believed we would complete current contracts successfully and win more business from Central Government. With this in mind Mr Christou moved on to strategic objectives.

Mr Christou outlined his three objectives, the first was to retain the overall position as number three in the IT services market in the UK, he acknowledged that this would be difficult given the merger of PWC and IBM. The second was to be the number 1 supplier to the UK Government and the third to break even, or better, within EMEA.

Mr Christou was confident that the company would grow organically again. This was dependent on the maintenance of the current strategy, the development of the existing customer base and also the continuation of the new names programme.

Both Mr Christou and Mr Courtley stressed that within EMEA the focus continued to be on controlling costs and increasing efficiency and sales. It was noted that EMEA was a less developed market than the UK or US and that the situation had changed very little since the last meeting.

Mr Christou drew members' attention to the slide giving a summary of the plan, while it appeared that revenue had been declining he pointed out that if revenue from discontinued business was removed then revenue had actually been relatively flat over the last two years. Employee numbers would drop, as a result of the disposals of non-core businesses and also of reductions, to about the 11,000 mark and would remain at roughly that level, growing slightly over the plan. Revenue would then start to grow again, but would remain flat in fiscal year 03 and the PBT would double next year and nearly double again the following year, after that it would level off at about the correct level. He assured members that it was a conservative plan to which we are seriously committed.

Mr Courtley went on to discuss how the plans would be implemented. He started by guiding the Committee through his slides, starting with the organisational chart. It was noted that we would continue with this current structure, the customer focus from the business units and the dedicated delivery teams, together with a horizontal focus achieved through our core services across the business.

He reported that quite a number of the accounts were growing, equally there were customers where revenue was declining, but the reasons for the decline were understand. The combination of some growth and some decline resulted in a total picture of less than 5% growth from these large accounts, this reinforced the message that next year growth overall will be quite difficult.

Moving on, it was noted that a substantial element of the mid-term plan was the continuing work on brand recognition. To date there had been some positive swings in terms of recognition and inclusion on tenders, but Mr Courtley felt that there was still some confusion about what needed to be done, particularly in the private sector. Also Fujitsu Services were often known as a low-level maintenance provider rather than a sophisticated outsourcing provider. Work would continue on this.

The next slide looked at the competitive situation, it was important to understand how to beat competitors if promises were to be delivered. It was noted that EDS was looking increasingly vulnerable because of their poor press and share performance. It had too much in Government and Mr Courtley believed that the only way it would go was down, he hoped Fujitsu Services would gain business at its expense. IBM and CSE were strong players, but not as strong as us in the Government sector, however we had to worry about new entrants. He reported that HP was trying to move into the services business and British Telecom had been trying to do so for some time.

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Mr Courtley went on to look at the retail sector. There was a strategy in place based on existing business. It was evident that customers were responding to it, one such example was an opportunity with Marks & Spencer's, who were an existing customer. As a direct result of the reformulated strategy there was a possible £50m opportunity with that customer.

Moving on to EMEA Mr Courtley emphasised the points made by Mr Christou. He informed the Committee that there were some multi-national opportunities but, as the numbers suggested, outsourcing in Europe was not as popular as it in the UK. The account management model in Europe was the same as the one used in the UK, although its implementation had not progressed as far. However, the picture was beginning to emerge and it showed where the growth opportunities were. Again some business were in decline, there was an overall growth percentage of almost two percent for existing business, however growth was not strong overall.

The final slide looked at the leverage on Fujitsu relations, which continued to be important across Europe as well as in the UK. Work was ongoing on joint offerings with sister organisations in Europe. Particular efforts were being made with Fujitsu Siemens and Fujitsu Consulting to identify common opportunities.

Mr Adachi then went on to explain the specifics of the three-year mid-term plan, starting next year.

Looking firstly at the P&L it was noted that the profitability of each project was improving, the major contributing factor was the low margin in MCD sales. Mr Adachi was confident that three digit PBT would be achieved in three years time. The second page, showed revenue by business broken down. There would be no change in 2003 and sales would be flat.

Moving on to the large projects revenue analysis it was noted that there was a breakdown for each project. The next year would be flat as a result of the contingency. Coincidentally 2004/2005 were also flat but were based on the projection of each project.

The next page looked at gross margin by business. As requested by Mr Kodama, Mr Adachi's team had gone back to previous year's recognised cost and hence deficits and the next year's profits seemed a little exaggerated. However the UK Service sector was growing steadily. A margin rate of 25% had been set as the target. It would go down in 2004 but we would maintain a margin rate of 24%.

Mr Adachi looked briefly at Net OPEX, he pointed out that the Datacentre would be integrated within UK Services. Once the integration had taken place the effect of the cost reduction would be realised on 2005. Turning to operating profit Mr Adachi pointed out that if the deficit from Central Government in 2003/04 were included along with the bid cost then there would be a deficit. Further that the contingency was also suppressing the profit.

Drawing members' attention to the Q3 budget Mr Adachi commented that the profit that had been forecast on the sale of Invia had dropped

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as a result of a decrease in price in the market for IT stocks. Consequently negotiations were ongoing with potential purchasers of Invia. In Africa, the Q3 budget had included an allocation for loss on disposal of £7m, however, with the current position it would generate a loss of £4m. With regard to EMEA it was noted that France would not be sold and would remain at the core.

Concluding Mr Adachi stressed that the plan was conservative and that if everything went well it would be achieved. Dramatic results were expected and it would be the first time in the history of Fujitsu that they would be achieved.

Mr Christou drew the presentation on the mid term plan to a close, commenting that there were definitely possible upsides. Clearly these depended on many things that it wouldn't be prudent to include in the plan. However the plan was realistic and it incorporated elements that the board had asked for in the past. Mr Christou believed it could be achieved, if things went well, and was committed to the PBT on the current plan.

The Chairman understood the points made and appreciated that the figures could not be changed upward. However he asked for clarification regarding the applications business and whether an alliance was necessary in order to meet the needs of the customer.

Mr Courtley confirmed that Fujitsu Services could offer an application capability, either directly or in partnership with Fujitsu Consulting. Another consideration was the area of business transformation and the capabilities that that entailed. Here he felt we were less well equipped and it was noted that transformation deals that have been won have been in partnership with the likes of PwC and CGEY. Further the Consignia deal had been lost because we didn't have the capability.

The charts showed the growth figures for outsourcing, they were projections from analysts so may not be accurate. However, if examined more closely it was apparent that the analysts were predicting that the business process arena would grow, sometimes at the expense of straightforward infrastructure management. Hence it was important that careful consideration was given to competitive strategy within the transformation arena.

Mr Courtley assured members that the plan would be good for the next three years. However, looking five years ahead we would have to do more than is currently included. The current plan concentrated on what seemed to be the right strategy for now and that could be delivered.

The Chairman stressed that Fujitsu saw the three year plan as a minimum commitment from Fujitsu Services and suggested that it maybe necessary to revise it annually in order to make the upside.

Referring to the P&L and the review, Mr Kodama expressed his amazement at such high figures, he was also impressed with explanation of the system and there had been restructuring. However he asked for more detail and an annual breakdown for the restructuring and cost base reductions.

Mr Adachi pointed out that if the restructuring of EMEA went ahead it would mean a positive return. However, Invia had to be sold successfully to generate the necessary funds.

Mr Christou was committed to achieving the planned operating profit and PBT. If Invia could not be sold then the plan to restructure would be put on hold in order that the target figures were met. He stressed how important the sale of Invia was to the plan.

The Chairman agreed that the restructuring of Fujitsu Services was dependent upon the sale of Invia. However he expressed concern as to what would be considered a reasonable price in order for the restructuring to go ahead and if there was an alternative plan if that price was not reached. He asked that this be discussed with Mr Kodama and stressed that achieving the right price and the timing were critical.

In response Mr Christou assured members that if Invia could be sold it could be done by the end of the year. With regard to a good price, in his experience the only real measure of value is what somebody else is prepared to pay. It was agreed that detailed discussions be held between Mr Kodama and Mr Adachi. **RC HK TA**

Mr Kodama turned to the US market trend regarding outsourcing and the convergence of applications and infrastructure. It was suggested that there was a need to have an offshore capability or be unable to do business in the United States. He questioned whether we needed to take any measures to address this situation.

Mr Courtley acknowledged that there was such a trend and that it had been the case for some time. It had also become real and more credible for Western markets as it had become better understood.

He pointed out that a Fujitsu Services customer, Lattice, had managed its applications offshore with Zensar, in which we have an interest, in for some time. However there was a need to be prepared for and to understand this trend to ensure we are up with the market. However, as with many other things, it was moving slowly and was not a big factor in our Government business at the moment. However, that could change and Peter Hutchinson had been asked to keep an eye on the situation.

**02/26 Items for Noting and Questions**

Mr Christou suggested that given all the papers under item 7 had been covered in earlier discussions, that all the papers were taken as read and approved. He invited comments and questions.

Mr Harris asked for specific approval of FSMC/02/49, the proposal to re-capitalise Hungary. This was a common feature in European countries, where if the shareholders funds of a company became less than half the issued share capital the law required that the company be re-capitalised. The Hungarian company had been re-capitalised at the beginning of this calender year and at that stage, it was noted that further re-capitalisation, based upon the financial plan for the

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company, would be required before the end of this calender year. The amount to be injected was 320m Hungarian Florins, which equalled £834,000. That capital injection would be used to repay the external borrowings of the Hungarian company that it has with Credit Lyonnaise and these borrowings would become repayable under Project Glass.

It was agreed that the proposal to re-capitalise Hungary, as set out in FSMC/02/49 be approved.

It was noted that the position as set out in the EMEA non-core countries report had moved on since the previous week. The position had improved and Mr Christou had given the approval for the disposals to go ahead. The FSMC would be given a full update at the next meeting. **RC**

There being no further questions the meeting drew to a close.

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**Chairman**