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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 2.00 pm on Thursday, 5 February 2004
At 26 Finsbury Square
London EC2A 1SL

Present:	Mr. H. Kurokawa	(Chairman)
	Mr. R. Christou	
	Mr. T. Adachi	
	Mr. D. Courtley	
	Mr. H. Hirata	
	Mr. H. Kodama	
In attendance:	Mr. R. Allnutt	(Secretary)
	Mr. B. Harris	
	Mr. A. Nagai	
	Mr. T. Matsuoka	
	Mr. Y Kawamata	

ACTION

Introduction

The Chairman declared the Meeting open and asked Mr Christou to lead the Meeting through the business on the agenda.

Minutes of Meeting held on 7 November 2003

Mr Christou asked if there were any comments on the draft minutes of the 7 November 2003 Meeting. The Meeting approved the minutes and it was agreed that they should be signed on behalf of the Meeting by any Director.

04/01 **Matters arising from 7 November 2003 Meeting** **FSMC 04/01**

Mr Adachi would update the Meeting on the FC and FTSI mergers when the Meeting moved to item 5. Otherwise, there were no matters arising that should be addressed.

04/02 **Chief Executive Officer's Report** **FSMC 04/02**

Mr Christou said that the general economic position was at best stabilising rather than worsening. The UK had been more fortunate than other European countries: though France was, he thought, becoming stronger, activity remained flat or recessionary in Germany. Although it was difficult to see what the future held, there was a view that European IT companies had grown in value over the last six months, with analysts saying that the IT market had a future. It was also unclear what would be the effect of the weak dollar, which was at £1 = $1.80 and could go to £1 = $2. Public spending remained strong in the UK, but there were signs that the UK Government wanted to extract more efficiencies from existing contracts and would in future be spending less on IT.

FS's performance in the current financial year would be discussed in detail later. Q3 had been good and profit before tax in the year to date ("YTD") was over £25m. There had also been a positive cash balance at 31 December 2003. These results had, however been achieved in part by the pulling forward of orders from the fourth quarter and by good work on collection of debts (as to which Mr Christou offered his congratulations to all concerned). There remained the concern about declining revenues. OPEX continued to reduce and the improved gross margin percentages (now over 21%) had been sustained.

So far as the full year was concerned, Mr Christou thought that, in the absence of unforeseen circumstances, FS should make its targets. Details of this would be given in the Finance report. Congratulations were due to the teams responsible for the wins at the Inland Revenue and NHS and to David Courtley, Tim Gibson and Roger Gilbert for their leadership. These were very large contracts and winning them was a signal pointer to FS's recovery.

So far as the question of the Pension Fund was concerned, the consultation which had taken place had been a model of its kind and had been positively received. It now remained to implement the details.

It was good to report these big wins and the solution to the pensions issue. Employee morale had recovered to a significant extent. An issue which was currently being addressed was the way in which middle managers were addressing their tasks.

As regards the integration of FC and FTSI, there were some concerns about progress, especially with respect to Europe outside the UK. The businesses there were not in a very good shape and it would be burdensome for FS to take them on and sort out the problems there.

The Budget for 2004/2005 would be ready late in February and would be discussed in Tokyo in March.

To sum up, FS was in a position where it had turned the corner and had put the past behind it. It could move forward on the basis of its big wins. Mr Christou congratulated the FS team on the progress that had been made in the business and invited questions. (There were none).

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04/03 Chief Financial Officer's Report FSMC 04/03

Mr Adachi explained that ideally he would be addressing the 2004/2005 Budget, but, as Mr Christou had indicated, this would not be available until later in February. He asked Mr Harris to review the December Actuals, YTD Actuals and Q4 Forecast.

Mr Harris referred to the Summary P&L (page 1), which was divided into four blocks – Quarter 3 ("Q3"), 9 months Actuals to 31 December 2003 ("9M"), Quarter 4 ("Q4") and Full Year ("FY"). The first two blocks were sub-divided into Actuals, a comparison with Q3 Budget ("Q3") and a comparison with last year. Q4 and FY were sub-divided into Q4 treated discretely, a comparison with Q4 Budget ("Q4B") and a comparison with last year.

He dealt first with Q3.

Total revenue was £455.4m, £15m below Q3B at £470.3m. £18m of VME revenues had been brought forward from Q4. Gross margin was better than Q3B – 21.7% over 19.6%. The gross margin figure took account of the reverse in the litigation with the Co-operative Wholesale Society ("CWS"), which had necessitated the reinstatement of a £4m provision. Costs on the Transys litigation had also been high, so there was an increased accrual there, too. Net OPEX stood at £(80.3)m, £2m over Q3B. The increase related to an accrual for incentive payments expected because the profit target had been increased. There was no Ratex. Interest payments were negligible at £0.1m in Q3 compared with £1.3m Q3B. The Q3 PBT stood at £20.6m in comparison with £12.8m Q3B. £8m of this improvement was due to the VME revenues mentioned above.

Turning to YTD (9M), small moves from the Q3B would be observed, but these were mostly in line with movements in the discrete Quarter described above. The 9M PBT stood at £26.2m in comparison with £18.1m Q3B. £8m of this improvement was due to the VME revenues mentioned above, but even if PBT was viewed as £18.2m it was ahead of Q3B and the figure for last year, £5.1m.

Looking at Q4 discrete, Q4, revenues were £488.7m compared with £514.0m in Q4B. Although this was a shortfall, the trend was to improve, as could be seen from the comparison with the figure for last year, £456.8m. Q4 showed an improvement over Q3 in the revenues of Central Government and Integrators, with a factor contributing to the shortfall being the pull forward to Q3 from Q4 of VME revenues. Q4 Margin and OPEX were in line with Q4B. The rationalisation increase was due to the EMEA transformation project, which was being funded from within PBT. Interest was, at £(0.3)m, lower than the Q4B figure of £(1.0)m. The disposal sum of £1.8m related to the sale of on-line billing systems, a small non-core unit. Q4 PBT was £23.8m compared with £31.6m Q4B – again, this was due to the pull forward of VME to Q3.

In FY, revenues were £1733.2m, £33m down on the Q4B figure of £1765.8m. Margin was better at 21.9% against 21.5%. There had been savings which reduced OPEX from £(329.3)m to £(326.7)m. The increase in RATEX from £(13.1)m to £(17.9)m was due to EMEA. Interest at £(1.9)m was lower than Q4B at £(3.4)m. Profit on disposal was better at £6.4m than £4.6m Q4B.

Mr Harris commented briefly on the track from Q4 Budget to Q1 Budget for discrete Q4 and the full year. The effect on Q4 revenues of the pull forward of VME to Q3 had been mentioned. This was partially offset by new VME revenues for CEGY and others and by the deferral of TUMs Q3 VME revenues from Centrica to Q4. The Post Office would also contribute to Q4. Despite the general recovery in Nordic, MCD hardware had stabilised at a lower level than before, resulting in a £(11.6)m item in the Q4 discrete figures. The effect of further provisions for the CWS and Transys litigation in the FY had been mentioned, as had the EMEA restructuring. There were also positive items of £1.1m relating to the settlement with Finnair. EA Provision releases, OPEX reduction, Interest and the sale of OBS were also benefits.

The next page, page 3, showed *Q4 Profit compared with the YTD.* Average PBT per Quarter Year to date was £9.0m; Q4 Profit (Q1 Budget) was £24m. This was due to the, TUMs and Integrators improvements from VME sales, Central Government spend in Q4 and local authority spends on remaining budgets.

Turning to page 4, *Revenue by business*, the total Q3 Actual was £455.4m against £470.3m Q3B. At £43.9m, FSRT was up on £41.8m Q3B, following better spend by Northern Rock. TUMs was £8m down as a result of Centrica slipping to January and a delay in the sale to BT Synregra. Integrators was also down, at £45.7m against £50.4m from lower MCD sales. Public Sector was also lower at £26.3m against £29.2m. Revenues tended to be affected by delays in signing up contracts, bmi being an example. Central Government and the PFI projects were, however, better with Central Government's result being £61.2m compared with £56.5m Q3B and the result for PFIs £70.8m against £66.2m Q3B. As noted above, Nordic was down at £74.2m compared with £86.0m Q3B due to lower MCD sales.

Turning to the Q4 figures, the Q1B figure of £488.7m compared with £514.0m Q4B, £25m down. FSRT at £44.2m reflected the pull forward. Centrica had delivered improvements in January, but BT/Syntegra was unlikely to sign this year. Integrators was £10.2m down due to lower MCD sales and the VME pull forward. Central Government was £66.9m rather than £70.5m Q4B; again, there was the VME factor. PFIs were, however, £8m better at £73.1m with more activity in all those projects. Nordic was down at £76.6m compared with £88.2m Q4B due to a slowdown in Sweden.

As regards the FY figures, the discrete figure was £1733.2m compared with £1765.8M Q4B.

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Page 5 contained a *Revenue Analysis* for UK Services and EMEA which broke down Existing Customers into Backlog, Momentum and New Business as well as showing New Customers. In Q1B/Q4, Backlog Revenue was £217m, and New Business £142.7m out of the total figure of £407.9m. Existing Customers accounted for 90% of all revenues. The schedules on pages 6 to 13 (inclusive) contained further analysis for each of the business units.

Page 14 related to *Margin by business*. Q3/Actual showed the total for Fujitsu Services at £98.6m, up on £92m for Q3B. Under UK Services, Enterprise Accounts was £2.1m compared to £0.3m Q3B, due to the release of debtors and accruals on the Sun distribution supplier rebates. EMEA was down from provision for the GE Plastics dispute.

The Q4 numbers totalled £114.1m. TUMs was up at £13.8m over £10.1m, reflecting the VME sale to Centrica. PFIs were also up due to margin improvement. Under Group Accounting, the £3.5m reflected the transfer of. The accrual of the Transys legal costs to PSBU that was correspondingly lower.

For the FY, the Fujitsu Services figure was £378.7m, very slightly down on Q4B. The Business Units were better than the Q4B reflecting the YTD position. Group management showed the CWS legal provision.

Page 15, covered *OPEX by business*, where the total for Q3/Actual was up £2m at £80.3m against £78.5m. This reflected the addition of the incentive accruals referable to the higher profit target. By business, the Meeting would note that Central Government was up just under £1m because of higher than expected bid costs and that each of EMEA and Nordic showed savings. Q4/Q1B at £86.2m compared to £86.1m in Q1B. The FY figure was £326.7m, £3m down on Q4, reflecting savings in EMEA and Nordic despite additional Central Government bid costs.

Rationalisation by business appeared on page 16. The activity shown in Q3 was low, but the EMEA transformation was reflected in the FY figures. 23 staff were due to leave in this financial year, and a further 56 next year.

Page 17 showed *Operating profit by business*. This was a summary of previous pages.

Page 19 set out *Headcount by business* and a *Headcount bridge* followed on page 20. Headcount, at 14,282, was in line with the Q3B figure of 14,289. The forecast for 2004/2005 was similar to that for Q4B. There were likely to be movements between business units as FS gained business. FSRT was up, with 50 new people on Reuters. Central Government had 1,437 Q1B compared with 1,224 Q4B; 120 came from the NHS and 78 from the MoD. There was a reduction from 696 Q4B to 456 Q1B in PFIs caused by a movement of service

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delivery people to Core. Core was at 5,246 Q4B and 5,699 Q1B, the further increases being due to transfers in on the Aspire and NHS projects. EMEA was down from 3,199 to 2,895. In Nordic, the headcount was down 93 from 2,049 to 1,956 as a consequence of the sale of the on-line billing business.

Page 21 contained the Balance Sheet. Actual net borrowings stood at £(12.6)m – that is, cash - against £76.1m Q3B, an improvement of some £89m. This was the result of early payments by Government customers. In addition, capital expenditure had been lower and collection performance much better. The FY Q1B figure accordingly showed net cash of £24.9m compared with net borrowings of £47.9 Q4B. The major improvements were highlighted in the summary. Near the end, the Meeting would see that there was an increase in fixed assets: this related to fixed assets for the Aspire contract.

There was nothing to say about *Inventories by business* on page 22.

Debtors by business, on page 23 showed debtor days reducing. They stood at 58.2 at the end of December 2003 and would be slightly higher, at 59.9, in Q1B.

Mr Harris had nothing to add to *Payables and Accruals by business*, page 24.

The *Summary Cashflow – 2003/04* on page 25 showed operating cashflow and free cashflow. Both the figures for Actuals and for Q1B were better than previous figures and all were positive.

Capex, on page 26, reflected the increase in connection with Aspire that had already been mentioned.

Mr Harris asked if there were any questions.

Mr Adachi remarked that, instead of being in debt, FS was cash positive. The last time this had been the case was in 1997, and then that had been because Fujitsu Limited had pumped in cash. Nevertheless, the Meeting should bear in mind that the NHS contract might send FS cash negative.

Mr Christou thanked Finance for looking after the balance sheet.

The Chairman observed that the move to having no indebtedness was a major achievement for FS. He was delighted at the upcoming large projects and encouraged FS to continue to pursue success and to put in place the plans needed to avoid failure.

Mr Christou agreed with the Chairman. Although it was still early days, the important thing was to deliver projects properly.

The Chairman commented that it seemed to him that the businesses in Norway and Denmark had improved, leaving the remaining problems in Sweden and Finland. Mr Courtley agreed. He had

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recently conducted a detailed review of Nordic and was pleased with the improvements in Norway and Denmark. Finland was, in fact, progressing satisfactorily; the problem was Sweden, which was performing poorly against its budget. Attention was therefore being focused on that country. He noted that hardware volumes were down in Nordic as a whole against budgets. Where there were improvements, they were in revenues, not in profits.

There was a short adjournment.

04/04 Update on FTSI and FC Integration

Mr Christou explained that there was no paper for this item, and he would report on it orally.

So far as FTSI was concerned, it was intended that FS would absorb its operations in its business, radically rationalise its staff and remove direct and indirect expenses. A Memorandum of Understanding had been signed on 9 January 2004 on that basis. Only assets would be transferred. Whilst FS would be responsible for all future operations and liabilities, all pre-acquisition liabilities would remain with FTSI. (The Meeting agreed with this). The plan was to reduce headcount from 391 to 191 after the integration, a number which was in line with the plan. FS had current costs estimates and analyses of the effect on FS's cash position and balance sheet. There were some differences of opinion between FTSI and FS on costs and Mr Adachi and Mr Motohoshi were planning to meet, with the help of Mr Kodama, to achieve a resolution. The FTSI pension fund had under-funding problems similar to those which had been experienced with the ICL pension fund and that was a liability which FTSI would have to retain and take care of. FS would assume responsibility only for future service, although FS would try to assist FTSI, and so the Fujitsu Group as a whole, by sharing its own experience of dealing with an under-funded pension plan. Mr Adachi had spoken to Mr Kodama's and Mr Okada's departments. Consultation had been taking place with the FTSI employees over the transfer and all the integration teams were fully engaged. It was expected that the remaining details would be sorted out and the feeling was that the integration was on course for completion on 31 March 2004.

The position on the FC integration was not so satisfactory. FC wanted to concentrate on Q3 and Q4 and, as a result, was being slow to give FS the information and the access to middle-level management which it needed. There was disagreement between FC and FS on FC's financial position in Europe. FS's due diligence showed that there were problems over how the business was run. Mr Christou thanked Mr Kodama for his help in facilitating discussions with FC's US management, as a result of which proper discussions were now going on about the issues in dispute. There was not much to add at present. Mr Christou was conscious that the team had to work hard to achieve a 31 March 2004 transfer date. His principal concern was to identify the true costs – this was vital if the correct solutions were to be found to put the problems right. The aim was to incorporate the FC business in FS at 1 April 2004, when it would cease to exist and its component parts would be broken up and distributed within the FS business. Consultation with FC employees would start shortly. In short, progress was less good than with FTSI.

Mr Christou invited comments from Mr Adachi and Mr Kodama.

Mr Adachi referred back to the strategy meeting that had taken place on 26 January 2004. The problem about costs had been evident then and everyone involved, including Mr Okada and Mr Motohoshi were agreed that costs, and the profitability of the FC businesses, were the main issues. But the intention remained to work towards the 31 March 2004 date, reporting to Fujitsu Limited on progress. Mr Kodama agreed that progress had been delayed. Discussions had been taking place with Mr Alan Baxter, and similar problems were being encountered in Australia. Mr Kodama thought that the firm stance now being taken by senior management in Tokyo meant that the people concerned in FC were now concentrating their minds on what was needed to achieve integration by 1 April 2004. The FS position was that all costs must be planned for, although it was prepared to listen to FC's proposals. Mr Kodama was confident that the cost would be identified soon. He felt that integration of the FC business with that of FS would both be good for the FC activities and for the FS business as well.

Thanking Mr Adachi and Mr Kodama for their contributions, Mr Christou said that he did not know how profitable was the FC business in continental Europe because FC took a different approach in its accounts. In his view, the FC business could be profitable in the UK, but that business would not involve a separate operation after the end of March 2004. The real question was how profitable were the other bits of business. The cost of sorting out FC needed to be ascertained and borne in the current year; if it was not sorted out, it would affect FS's 2004/2005 budget. It was also desirable to find a solution because, if the business were not acquired and take into FS, it would deteriorate. Turning to FTSI, Mr Christou thought that FS should have taken over that business two years ago. The proposal made around two years ago had been rejected by FTSI's management and the business had since deteriorated. That pointed to FS taking FC now to avoid a similar outcome. The situation in FC France was very serious, with radical restructuring there being necessary. The Meeting would appreciate that putting three poor businesses together would not automatically improve anything and could easily lead to a bad result. In order to sort things out, it was imperative to have the facts.

Mr Adachi admitted that there were various views about how the FTSI and FC businesses would progress after integration, but he thought that they ought to be capable of making a profit. He also believed that agreement would be reached on the costs involved. Those costs would need to be borne this year so that 2004/2005 could begin with

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a clean slate. The consolidated numbers would, of course, have to be agreed with Fujitsu Limited.

Having regard to the fact that FS would be absorbing businesses with problems, Mr Christou considered that it was important not to spoil FS's profit record – profit before tax must not be materially reduced by restructuring costs. FS needed to establish and maintain a solid three year profit record, possession of which would benefit the Fujitsu Limited Group as a whole, as it would help FS to grow its business. That was why the costs needed to be borne by Fujitsu Limited. On a linked issue, Mr Christou appreciated the more relaxed approach taken by Fujitsu Limited to the giving of parent company guarantees, which had been well received by customers.

To sum up on FTSI and FC, Mr Christou felt the Meeting was agreed that integration should be achieved by 1 April 2004 and was looking to Mr Kodama for his help to ensure this happened.

04/05 **Major Bids Report** FSMC/04/04

Mr Courtley presented this paper.

Aspire and NHS

The news about Aspire and NHS was obviously very good. Mr Courtley had much appreciated the support received from Tokyo and thanked the Chairman for this. He was also grateful for the efforts of Mr Hirata and Mr Nagai.

Before Christmas, FS had not been in the lead amongst the competing bidders. The decision by the customer not to award the contract at that time had, however, allowed FS to team with BT. Although there had been some opposition to that course, it had allowed a more cost-effective solution which had been decisive in January. The NHS was organising these projects in five regions and BT had already won the London region. FS had been bidding for the South. By employing the same solution as BT, FS had reduced the risks and had achieved a turnaround in the bid. The project would now involve a big £50m sub-contract under which BT would supply the solution for the South. This project would add another dimension to the BT relationship. Both parties would need to concentrate hard on delivery. It was vital to manage the project with a high degree of visibility and to ensure that the right people were deployed on it.

Other Central Government business

The paper before the Meeting listed other significant central Government opportunities at 2, 4, 6, 7 and 8. Of these, the Home Office bid (6) was an extension; the others were new. Mr Courtley felt that there was a fair chance here to win a fair share of the business. But he warned that the Government had eventually concluded that it had given too much business to EDS, which had struggled to perform. Whilst this presented an opportunity to FS, FS must bear in mind the risk that it might run into the same difficulty.

The *BMI* contract was very close to signing; Mr Courtley expected news soon.

On the *MoD* contract, there were at present three bidders – CSC/BT; a Lockheed Martin consortium and FS and EDS. It was expected that the list of bidders would be reduced from three to two in March or April. As an incumbent supplier, it was thought that FS with EDS was in a position of some advantage. This bid now needed to be converted into a win. IBM had not been short-listed, but had now agreed to join with FS and EDS in a small work share. This was a valuable prospective contract and was being taken seriously.

FS was working hard on the *Lloyds TSB* bid.

It was short-listed on the *Foreign and Commonwealth* bid. This was for infrastructure supply and management and FS had a good chance of success. Close attention was needed to the political climate as well as to the technical aspects.

As noted above, the *Home Office* bid could be run as an extension of FS's existing contract. It was an EDRM document managed service. The hope was that it would close favourably and on time – securing this contract was important for next year's numbers.

The *National Probation Service* ("NPS") project was one which FS had a good chance of winning. But it was important that FS did not overstretch itself.

Other business

Amongst the other business listed, Mr Courtley referred to the *Schlumberger (NHS)* bid, which had fallen away because FS had won the main contract; and to the *Royal Bank of Scotland*. As regards the latter, preferred supplier status had been achieved, but the Bank had now decided not to proceed at all. The moral of this story was a reminder to check that there was an appetite to do the business in question higher up in the customer's organisation.

The Chairman commented that, although it was good to get large projects in succession, the need to ensure timely delivery was very important. Mr Courtley said this was a very good point of which he was fully aware. Although the Aspire and NHS projects were both very large, each had a good (and separate) team. They were also very different teams. Aspire was in transition and the current task was to move the Inland Revenue people over as smoothly as possible. On the NHS project, the customer was keen to start as soon as possible. The immediate challenges were the development work which was needed, changes to existing software and the sub-contracts. All this presented a significant project management challenge. Timeliness was therefore a particular feature and FS would need to work closely with BT – both FS and BT needed to succeed. Mr Courtley was keen to ensure that the top teams in both projects contained the best people available.

The Chairman referred to Fujitsu Limited's own experience with hospital projects in Japan. Quite apart from the medical staff there were numerous other interest groups – caterers etc – within hospitals, all with their separate requirements. This meant that it was necessary to find people who knew *everything* about hospitals, in order to overcome the many difficulties! Fujitsu had experience of systematisation in hospitals and would gladly collaborate with FS.

Mr Courtley welcomed this. He had spoken to Fujitsu Healthcare and thought that help with references would be useful. If FS needed specific help, he would ask for it through Mr Hirata. He also mentioned Mr Yamada's great help on Aspire.

Mr Hirata commented that the NHS project would probably need more help than was available in Japan, but he would collaborate with Mr Courtley to deal with issues as they arose.

04/06 **Items for noting and questions** **FSMC/04/5 - 13**

There were as usual a number of items for consideration under this heading.

Aspire – FSMC/04/05a

Mr Courtley referred to the slides which this paper comprised. The transaction had been signed on 5 January 2004, with Transition starting that day. There had been communications events at several sites explaining FS's plans and how staff would be treated on joining FS. There had been good feedback from these events. The service would start on 5 July 2004. Slide 4 contained facts and figures about the project, which was expected to grow. FS's share of the 3,500 transferring employees would be about 1,000. The delivery locations were on Slide 5, with Telford being the main one. Slide 6 summarised the four main phases of the project – Transition, Adopt, Adapt, Transform – and Slide 7 provided detail about the Transition process. A point to note here was that EDS had been told to be more co-operative (their attitude to the DVLA project had been noted) and were proving to be so. After the first four weeks, things were going well. Slide 8 gave details of what was expected over the next six to eight weeks. Due diligence had been done for the technical and service reviews and had provided a great deal of information. Input and Output services were providing a focus. A review of third party supply contracts was proceeding. Slide 9 dealt with progress with corporate and personal relationships and Slide 10 looked at prospects for business development. On the latter subject, if in the longer term the Government decided to combine the Inland Revenue and the Customs and Excise, FS would be in a good position to help. It was also possible that spare capacity in certain of the centres – for

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example, printing – could be sold to other Government customers.

Mr Hirata commented that the involvement of Fujitsu Limited in this project was inhibited by the question of obtaining security clearance unless there had been a period of residence in the UK. So far, only Mr Yamada had been able to secure a Basic Clearance. Mr Hirata was wondering what could be done to secure clearance, for example, for engineers.

Mr Courtley observed that Mr Yamada had been cleared as an act of goodwill. Most work did not need security clearance, but Inland Revenue work did, because of the nature of the data. He hoped it might become easier in future. Security was not an issue for the NHS.

The Chairman commented that, in his experience, replacing systems constructed by others was always difficult. When NEC was replaced by Fujitsu Limited, willing collaboration had not always been forthcoming. He was reassured by the co-operation which had been received on Aspire from both the Inland Revenue and EDS. He appreciated that FS was used to transition exercises, but it was essential that CGEY should have planned its communications policy for both itself and FS should have done so carefully, and he hoped that was the case. He looked to Mr Courtley on this.

Mr Courtley said that this was another good point. On this project, the notion that one of the two suppliers might do well and the other not, was unthinkable. A governance structure, including joint meetings, had been set up. The teams were working as one and the output was promising. There was, of course, always the risk of problems in the future, especially if there was a shortfall in relation to either party's experience.

Major Accounts – Full Report – FSMC/04/5b

Turning to other major projects, Mr Courtley referred first to the *Post Office*. Here the forecast was improving, the work was going well and new functionality was being introduced. Future opportunities included chip and pin and a plan to take out IBM's network banking engine. SLAs continued to be met and were usually green, with only occasional dips into amber.

Results were also good with *HMCE*, with customer satisfaction levels at 8 and a pleased customer. HMCE had agreed to be a reference, and there were opportunities for new business.

Working levels on *Libra* were also good, with high levels of customer satisfaction – over 8.

The *Home Office* project also showed continuous improvement in confidence and there was a good level of customer satisfaction. The Technical refresh programme was the key to improving resilience and this was going well. The implementation with IBM was satisfactory and the EDRM pilot had been completed. Work had started on constructing a business case to enable full EDRM roll-out.

FS was now in year five of the fifteen year project with the DTI and the most recent service level score had been 8.2. There had been an outage some months ago, but things were much better now. The business was growing and was doing well. There were, however, still some questions over whether the contract was giving the DTI what they really wanted, so FS was reviewing that with the DTI.

Business Continuity Preparedness Report – FSMC/04/06

This report was aimed at the Company's preparedness for an attack or similar incident at an installation of FS or a customer. There had been discussions with the Government about the possibility of such an incident at Government premises and Mr Courtley had been asked to consider that possibility in the context of FS, too. This was an update of the previous report. It concentrated on the UK: elsewhere, the operations were much more widely dispersed and there was less risk. It was intended to consult with Fujitsu Limited and it was Mr Courtley's intention to complete an exercise in preparation for a limited test from which, it was hoped, lessons would be learned. Mr Nagai added that at Fujitsu Limited a similar exercise had developed into a total investigation of readiness. The wider scope of that investigation might be needed here as well.

Update on the UK Pension Consultation Process – FSMC/04/07

Mr Christou reported that the consultation had been completed on 29 January 2004. The Employee Consultative Forum had supported the changes discussed and a way forward had been agreed. The main change required had been that employees would now retire at 65 rather than 60. This would help the fund, in that members would contribute longer and would not draw their pensions as long once they retired. In this way, future liabilities would be reduced and the past deficit would be funded over a longer period. All appropriate reviews and approvals had been completed and notice to change contracts of employment would be given to all members. This would take effect during the course of the year. Mr Christou thanked HR and the pensions team for their work in solving this big issue. That left FRS17 to be dealt with.

Disposals Programme – FSMC/04/08

There were only small completed transactions to report – the businesses in Macedonia and Croatia and the sale of the Online Billing Solutions in Finland, already mentioned.

Litigation – FSMC/04/09

Mr Christou commented briefly on items in this paper. The issues with *IBM* (which had acquired PwC, FS's original prime contractor) over DVLA were being closely monitored. Basically, IBM wanted to get

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more work from this project and Mr Courtley, Legal and Commercial were liaising closely to ensure that the dispute did not escalate. *Global Crossing* was a fairly normal commercial dispute. *Prestige* was a serious and long running dispute with CTS, a subsidiary of Cubic, which would, sooner or later, reach trial (it was an arbitration case). The date for the trial had now been postponed from April to October 2004, as CTS's expert witnesses had not been able to be ready for the earlier date. It would be important to put forward as strong a case as possible. On the *CWS* case there had, as Mr Harris had mentioned, been a reverse, as the Court of Appeal thought that the trial judge had not treated the CWS fairly and had ordered a retrial. FS was appealing against the Court of Appeal's decision. If that appeal failed, there would be a retrial. Mr Christou considered that it was important to take a strong line on this case, because FS's reputation was involved. The Libra/Unisys dispute, by contrast, did not involve issues of reputation. There had been some settlement discussions, but it was likely to go to trial in March on certain preliminary issues.

HR Manpower Report 2003/2004 – Q3

Central control over headcount continued to be very strong. FS did not want staff numbers to increase in the wrong way. Voluntary attrition across FS was now running at 7.8%, which was down from 13% in 2000. As the market stabilised, more employees were becoming satisfied. This was good but, of course, a lower voluntary attrition rate made it more difficult to achieve staff reductions, when required, through such attrition. As the NHS project got under way, the headcount would go up as necessary staff were taken on, but this had been costed into the project.

Health and Safety Report – FSMC/04/11

The status of Health and Safety issues remained satisfactory. There had been no serious accidents. Health and Safety would continue to be addressed responsibly and would have the requisite priority. Mr Dalrymple would continue to report regularly to this Committee.

Nordic – FSMC/04/12

Mr Courtley addressed this report. He said Mr Stares had done an excellent job making the old Invia into a part of FS. Mr Stares had based himself in Sweden, which had helped, as he was near to the business. There had been leadership changes and the results were now coming through. There were two new young managers in Norway and Denmark. Finland was performing quite strongly. The time had arisen to think about the direction these businesses should be taking and about different offerings that might find favour there. Sweden itself was not very strong at present and its losses were not acceptable. Means needed to be found to improve the management team, which was a big one – the same size as that in the Netherlands. Nevertheless, the workforce had been rationalised and

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people had been taken out. Mr Courtley expressed confidence that better results would flow through.

The Chairman commented that he had sensed that things had been difficult in Sweden. But he pointed out that Sweden was Nordic's largest national market, which ought to offer scope for improvement. He urged all concerned to pursue such improvement.

Documents sealed – 24 October 2003 to 23 January 2004 – FSMC/04/13

The Meeting noted, confirmed, ratified and approved the documents listed. It also noted, ratified and approved the parent company guarantees given by Fujitsu Services Holdings PLC ("FSH") in relation to the NHS and Home Office projects.

Mr Nagai and Mr Christou referred to possible future needs for parent company guarantees from FSH and Fujitsu Limited. They thought it was likely that they would be needed for future central government bids such as MoD, FCO, NPS and Home Office IND (though not the other Home Office bid). There was no agreement with the OGC on local authority bids and it was not known whether such guarantees would be needed for the Birmingham and Walsall bids. The basic response to questions about guarantees in local government ITTs was to offer a guarantee from FSH, but to push back on Fujitsu Limited as guarantor. Other bids that might need guarantees were BBC Technology and perhaps Transport for London. Mr Nagai would liaise with Mr Kodama, as appropriate.

04/07 **Date and Location of next Meeting**

The next Meeting would be held 18 March 2004. The budget would be presented on 23 February 2004.

There being no further business, the Meeting ended.

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Chairman