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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 1.15 pm on Wednesday 18 May 2005
at
26 Finsbury Square
London EC2A 1SL

Present:	Mr. R. Christou	(Chairman)
	Mr. T. Adachi	
	Mr. D. Courtley	
	Mr. H. Madarame	
	Mr. H. Hirata	
	Mr. B. Harris	
	Mr. A. Nagai	
In attendance:	GRO	(Secretary)
	Mr. H. Kubo	
	Mr. T. Nagayama	
	Mr. S. Yamasaki	

05/11 Introduction and Minutes of Meeting held on 23 February 2005

The Chairman welcomed those present to the Meeting, thanking Mr Madarame and the other Japanese members for the meetings that they had arranged to have with FS customers during their visit. He asked if there were any comments on the draft minutes of the 23 February 2005 Meeting. The Meeting approved the minutes and had no points to raise which would not be covered by the present agenda. It was accordingly agreed that they should be signed on behalf of the Meeting by the Chairman.

05/12 Chief Executive Officer's Report FSMC/05/15

The Chairman invited the Chief Executive Officer to make his report.

Mr Courtley presented this paper, adding some further comments.

The market for IT services in Europe had remained stagnant and, as expected, was not changing. FS's competitors were, however, struggling, which was helpful: IBM had shed 13,000 jobs in Europe, of which 3,000 jobs were in the UK, which meant that they would be inwardly focused for some time. EDS had not recovered and there was strain at CSC. Provided that the Group focused on the right things, delivering its work and growing steadily, he thought there were

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opportunities for FS even in this market. To take these opportunities, though, it was necessary to remain keenly competitive and demonstrate clear differentiation to customers.

The 2004/05 performance had been good –the revenues had been very nearly £2bn, only £24m under budget, and the £85m PBT stretch target had been achieved. All parts of the business had contributed to this good result, and the increase in revenues was not solely due to the acquisitions of FC and FTSI – there had been some noticeable organic growth as well.

The 2005/06 budget showed improved performance in Q1 over the Q1 budget presented in February and was unchanged for the full year.

On Service Delivery, the number of critical alerts was now falling after a period in which Jack Noble had taken steps to force early disclosure of potential problems. The new 'Operational readiness' and 'Weekly Alert' reviews within the CSLC process were helping. Steps were being taken to improve the quality of the management in Core Services and some changes were being made.

Morale was good. Senior employees knew of the results and were pleased. The Group would be able to pay the 6% Sharing in Success bonus, which would be well received. Mr Courtley valued the interesting comments he received from those he received on continuing site visits and employee lunches.

On behalf of Fujitsu Limited, Mr Madarame congratulated Mr Courtley on the year's achievements, expressed his sincere gratitude and hoped for similar success in the current year. Mr Courtley thanked him for these kind words.

With regard to Mr Courtley's comments on strengthening the Core Services team, Mr Madarame asked about the capabilities for which the Group was looking in the context of its growth strategy.

Mr Courtley explained that he wanted to find a few very senior people who could address quality issues. For example, in Applications, FS already had a capability, but it was not at present seen as a leader. A substantial recruit was needed who could explain FS's approach to customers and instil in them greater understanding of and confidence in FS's abilities. The Group was too inward-looking at present and this had on occasion resulted in losses. It needed greater external focus. Another example was the need for much stronger project management skills: an overall leader there was needed, either from within the Group or from elsewhere, who could champion the best approach and create the necessary disciplines.

With regard to the overall outlook, the Chairman remarked on the need to learn from the different experiences of ICL and IBM in the 1990s. IBM had recognised the way the market was going and restructured. ICL failed to do so until much later. Although IBM was having current difficulties, there might be a downturn for FS one day and the Group needed to protect the long-term business and keep costs down, even if history did not repeat itself.

05/13 CFO's Report FSMC/05/16

The Chairman asked Mr Harris to present his report.

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Mr Harris explained that there were two packs before the Meeting. The first showed FY 2004 Actuals, and the other the Q2 budget for 2005/2006.

Beginning with the FY Actuals, the presentation showed Q4 on the left and the full year on the right.

Page 1 was the **Summary P&L**. The results for 2004/05 full year were broadly consistent with the Q1 budget presented at the last FSMC.

Revenues were £1.986 billions and the stretch target for **PBT** of £85m had been achieved, despite the disposal of the shareholding in Infocare not happening. The forecast gain on this transaction of £6m was replaced by the margin on project revenues from the MOD pulled forward from the first half of 2005/06 and further savings in Group HQ Opex. Compared with 2003/04, **revenues** were £251m higher. Aspire contributed £112m and Consulting and FTSI about £100m. There was £45m more from HMCE and £35m more from the MOD. However, VME revenues were £37m lower. The reduction in VME was the main reason for the **margin** of 20.7% in 2004/05 being 1 point less than in the previous year. The increase in **Opex** to £336m from £325m in 2003/04 was primarily due to Consulting and FTSI. **Operating profit** was significantly higher at £81.1m, for a return on sales of 4.1%, compared with £47.4m and 2.7%, respectively, in 2003/04.

Below the P&L, **Orders received** of £2,688m were £507m less than the Q1 budget. The slippages in Walsall at £580m, LloydsTSB for £211m and the loss of the First Group to BT at £50m were the main shortfalls. On the positive side, additional orders were received on Aspire for £72m, DII for £78m and DVLA for £36m and from the MOD for £36m. The LloydsTSB contract had been signed in April. At the bottom of the page, **Headcount** of 17,677 was 163 below the Q1 budget, due mainly to 128 fewer on Aspire and 32 less in Finland. It was 3,656 more than the level in March 2004. About 1,370 of the increase related to Consulting and FTSI and 900 to Aspire joining the Group. Another 450 were from the Elisa contract in Finland and a similar number for the NTL helpdesk.

Pages 2 to 9 were the analyses of the lines on *Page 1* by business unit. As the main movements had been referred to in the explanation of *Page 1*, in the interests of time Mr Harris proceeded to the **Balance Sheet** on *Page 11*. The cash balance at the end of March was £70.2m. It was £18m more than in the Q1 budget, primarily due to lower capital expenditure of £38m, with Aspire and Sirius each £14m less. However, working capital was £23m above budget. There had been a positive cash balance in every month of the year and it was still positive today. The closing cash balance represented an outflow of £23m from the cash balance of £93.4m at March 2004, despite expenditure of £59m on the NHS contract. So the underlying business, apart from NHS, was cash positive.

Pages 12 to 17 were the analyses of the main lines on the Balance

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Sheet by business unit and the cash flow.

There were no questions.

Turning to the Q2 Budget pack, at the last FSMC in February the Management team had stated that it was considering implementing International Financial Reporting Standards from 1 April 2005. Preliminary work by Watson Wyatt had shown that the accounting treatment of the Pension Fund deficit by applying the IAS 19 retrospective method would be favourable. Watson Wyatt had completed the detailed evaluation and the preliminary conclusions had been confirmed. However, approval of the implementation of IFRS by Fujitsu Services had to be received from Fujitsu Corporate. The matter would accordingly be finalised when Mr Adachi and Mr Harris met with Mr Ogura at the beginning of June 2005. In the interim, the Q2 budget had been prepared under UK GAAP, with the exception of the effects of FRS17 Pension Fund Accounting. The deficit had not been written off to Reserves in the balance sheet and the P&L charge had been left unchanged from previous years, pending the confirmation from Fujitsu Corporate, as they were materially different from the accounting under IFRS. This presentation was the same as the Q1 budget.

Page 1 was the **Summary P&L**. The phasing of revenues and profits had been further addressed, in accordance with the commitment given at the last FSMC. The block to the left of the page was Q1. **Revenues** of £496.1m were £4m more than the Q1 budget of £491.7m, despite the pull forward of MOD revenues of £10m into the fourth quarter of last year. The main reason for the increase was VME sales to Centrica being advanced from the second half. These sales had also the effect of adding £2m of **margin**, net of the MOD pull forward, to £95.7m. **Opex** was unchanged at £87.7m. **Rationalisation** costs were £1m lower than the Q1 budget at £2.5m with Core costs deferred to Q2. **Operating profit** of £7.8m was, therefore, £3m better than the Q1 budget of £4.5m. As the delay in the NHS core programme made the advance payment unlikely, **interest** costs would be incurred this year. £0.6m interest income in the Q1 budget would not be obtained. Q1 **PBT** was £7.8m, £2.6m better than the Q1 budget. **Orders received** of £670m included LloydsTSB and PwC. **Headcount** increased by 1988 from 17,677 at March 2005 to 19,665 in June, primarily from the integration of FESA but with 528 from LloydsTSB.

Compared with 2004/05, **revenues** were £59m more than £437.4m in the first quarter of last year, of which £24m related to the integration of FESA and £30m on Aspire. The **margin** in Q1 of 19.3% was almost 1 percentage point better than 18.6% last year, which was accounted for by the reduction of 1 point in 2004/05 for the effect of the Sirius benchmarking on prior years. **Opex** of £87m was £9m more than £78m in 2004/05. £6.6m of the increase related to the inclusion of FESA and £3.4m to a more even phasing of Group HQ costs. **Operating profit** of £7.8m was £2.4m more than last year. **PBT** was £1.4m more.

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The next block was Q2. **Revenues** of £527.9m were £8m more than the Q1 budget due to the pull forward of VME sales to EDS. These sales increased the margin by £7m to £108.4m. With **rationalisation** costs in Core deferred from Q1 and **interest** costs of £1.4m, **PBT** of £18.4m was £4m higher than the Q1 budget. **Orders received** of £1,070m included £580m for Walsall. Compared with 2004/05, **revenues** were £46m more than £481.5m in the second quarter of last year, of which £29m related to the integration of FESA and £18m from NHS and Walsall in Public Sector. **PBT** was £2.5m more than the £15.9m achieved last year, despite **interest** costs being incurred this year. First half **revenues** of £1,024m were £105m more than in the corresponding period of 2004/05. **PBT** of £26m was £6.5m more than the Q1 budget and £4m more than last year.

The full year was to the right of the page. The lines of the P&L were generally unchanged from the Q1 budget. **Revenues** were £2,280.5m and **operating profit** was £101m. **Interest** costs of £5m would be covered by the **gain on the disposal** of the shareholding in Infocare of £6m and **PBT** was on the Q1 budget of £102.2m. **Orders received** of £3,211m were £642m more than the Q1 budget from the Walsall contract. In the bottom section, **headcount** of 19,979 was unchanged from the Q1 budget and was 2,302 more than last year. 1,342 related to the integration of FESA, 528 to LloydsTSB, 215 to DII and 147 to Walsall.

Compared with 2004/05, **revenues** were £294m more than £1,986m last year, an increase of almost 15%. Excluding FESA, the increase was still more than 8%. The increase was accounted by the integration of FESA of £132m, LloydsTSB at £67m, NHS £60m more and Aspire £29m more. The **margin** remained at 20.6%. **Opex** was £29m more due to FESA. **Rationalisation** of £11.5m included an allowance of £7m for Nordic and FESA. **Interest** costs were offset by the higher **gain on disposals**. **PBT** of £102m was £17m more than in 2004/05 and the return on sales improved to 4.5%.

Page 2 showed the **Major Movements** in Q2 budget revenues and PBT from the Q1 budget for Q1, Q2 and the full year. The first four lines of the analysis showed the benefits of pulling forward revenues from the second half for VME (Centrica, EDS), on the higher margin Libra contract to replace the lost Defra order and for hardware in Holland and Germany. The next line was the task of additional revenues from the MOD to replace those advanced to last year, which was shown on the next line. The next two lines were the interest costs this year from the absence of the NHS advance payment and the gain on the disposal of the shareholding in Infocare.

Page 3 was the **Revenues by business unit**. There were very few changes from the Q1 budget. The figures for **FESA** were shown for 2004/05 and eliminated in **Group HQ**. This presentation was shown on the following schedules as well. The main changes from the Q1 budget were as follows. In Q1, **Public Sector** was higher at £34.2m due to PACS revenues on NHS. **EMEA** was £9m more at £71.7m from

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additional hardware sales in Holland and Germany. In Q2, **Commercial** at £131m benefited from the Centrica VME revenues. **Central Government was** lower at £182.7m from the pull forward to the fourth quarter of 2004/05. The higher level of hardware sales in Holland and Germany continued so that **EMEA** was £7m more at £68.9m. In the full year, a minor increase in **FESA** was the only business unit change.

Page 4 was the **Margin by business unit**. The movements were in accordance with revenue, with the exception of **Commercial,** with sales of high margin VME to Centrica in Q1 and to EDS in Q2, therefore improving their margin position.

Page 5 was **Opex by business unit**. Opex was generally lower in all periods than in the Q1 budget, reflecting constraints on sales and bid costs imposed by Mr Courtley and Mr Harris to improve the bid success rate. These savings were being held in a central pool to help fund important upcoming bids (to which Mr Courtley would refer later) and were offset by a minor reclassification from the margin in **FESA.**

Page 6 was **Rationalisation costs**, Page 7 was **Operating Profit**, Page 8 was **Orders received**, Page 9 was the **Orders backlog** and Page 10 was **Headcount**, all by business unit. The movements from the Q1 budget had been explained by the previous schedules.

Page 11 was the **Headcount bridge**. It was the pictorial representation of the reasons for the movements across the year. The main movements occurred in Q1 and the increases relating to FESA and the LloydsTSB contract were highlighted.

Page 12 was the **Balance sheet**. The cash balance would be maintained in June at £15m, due to the better cash position at March and exceptionally good collections in April following the relatively high revenues in March. This position would unwind thereafter. The absence of the advance payment on the NHS contract meant that net borrowings throughout 2005/06 would be more than in the Q1 budget. They would be £60m in September and £30m in March 2006. The main movements from the Q1 budget were highlighted as the absence of the NHS advance payment and the reduced fixed assets relating to the continued deferral of the capital expenditure programmes on Aspire and HMCE due to the HMRC integration. These customers were slowing down their capital requirements until more was known of the way their integration would proceed.

Pages 13 to 15 were the **Inventories, Debtors and Payables by business unit**, respectively.

Page 16 was the **Cash Flow**. The cash outflow in the year would be almost £100m as a net cash balance of £70m at March 2005 became net borrowings of £30m in March 2006. Working capital increased by £52m during the year mainly on the NHS and Aspire contracts.

Page 17 was the **Capital Expenditure and Depreciation** by quarter.

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There were few changes from the Q1 budget. The increased level of internal capital related to acceleration of the refurbishment projects in Bracknell and Stevenage and Health and safety programmes.

The Chairman asked if there were any questions.

Mr Hirata asked about the impact of the loss of the NHS advance payments – how great would it be in Q1 and Q2, and in the full year?

Mr Harris explained that the main impact was on cashflow. The effect of the likely contract change had been taken into account in Q1, where the revenues were shown as less than those shown in the Medium Term Plan, though the advance payment was still shown as coming. This now seemed unlikely. The first delivery under the PACS contract had, however, taken place in March and that caused an improvement.

The Chairman himself made a couple of comments. First, as could be seen from the full year figures on page 7, this was the first time that the combined operating profits of Nordic, EMEA and Africa (for this purpose he was disregarding Spain and the Japanese Enterprise Business) had been positive, so that their results did not undermine the UK business. Clearly, FS could do better in some countries, but a contribution was being received from outside the UK. Secondly, he observed that delivery over the last couple of years in the large public sector projects was causing the cash invested to flow back to FS, which was in part why the cash position had been positive. In the same way, adverse cashflow had to be seen as an investment over the next two to three years in the next round of large-scale projects and not as a problem. He thought that this was a good and balanced situation and that congratulations were due to David.

Mr Madarame asked about the positioning of South Africa, going forward. Mr Courtley said this business had been difficult for some years, with a particular problem with a building asset and associated cost. He thought that its future lay in securing Government contracts (the BEE deal with Yard would help with this). Those opportunities would be realised by using the Core model and providing some support from the UK. South Africa still looked to the UK in terms of its culture and institutions, so there was some chance that some of the work done for Government in the UK would help. Some internal call centre activities were now located in South Africa and these were going well. South Africa, with a highly educated workforce, had the potential to provide low cost call centre-type services to the rest of FS's business.

Mr Hirata noted the big improvement in EMEA and assumed that it must have involved improvements in France and Germany. Where did Mr Courtley expect future improvements in EMEA to come from? Mr Courtley said that, as the Chairman had observed, EMEA had seen progress, though slow progress, even in France and Germany. France remained FS's biggest negative and was probably the biggest problem to solve. FS's strategy was to manage better with what the Group had there and improve the management a little. There was no major investment, some ratex and a gradual improvement. To go to the next level on an organic basis would be very difficult. Andy MacNaughton had taken temporary charge of EMEA and Mike Stares was focusing hard on

Nordic, and Mr Courtley expected a better performance this year. Perhaps there would be some bigger opportunities to assist growth, which was the only real way to improve – cost cutting alone would not deliver significant success. In addition, FS needed to look very carefully at the wider market to evaluate possible reasonably-sized acquisitions which would help with the strategy there. This was what the market was expecting.

Mr Adachi observed that that there had been a charge of £10m attributable to Logicom. That was no longer applicable, so that was a big contribution.

Mr Hirata commented that the negotiations with Fujitsu Siemens Computers over helpdesk services had been delayed and the news today was that no order would be placed. If FSC was not going to use FS, then FS could not regard FSC as a group company. He felt that, as a first step, FS must let them know its position. The Chairman said he would take a neutral stance, but it was disappointing to hear this.

The Chairman's last comment here, referring to page 1, was to emphasise Mr Courtley's point that cost-cutting was becoming very difficult (Opex was now stationary at £365m year on year). So what the Group was depending on this year was new revenue growth. This was where the risk lay if the market collapsed or was less good than expected. The competitive environment was such that the gross margin was not going to go much higher. Mr Courtley agreed: the Group was capable of achieving organic growth, but it needed to keep working away at it and to deliver some more.

05/14 Major Bids Report **FSMC/05/17**

Mr Courtley presented this paper. He then proposed to comment on the major accounts and talk about his strategy to develop the Public Sector business.

Item 1, Walsall – This bid was not yet closed. There were resources issues with the customer. Peter Hutchinson was, however, confident that it would close, following a lot of work, probably by the end of July.

Item 2, Northern Ireland Civil Service – This bid involved partnering with PwC for a BPO bid, which was helping enormously. If the Group won it, it would provide an excellent reference alongside the Walsall deal. The main competitor was Accenture and the Group was in firm contention and well-placed to win this bid.

Item 4, NOMS – This was infrastructure services, a classic territory for FS.

Item 5, Post Office – This was a single tender contract extension to modernise the Horizon delivery engine for the Post Office to make it more flexible. It was a good opportunity and was going well.

Item 6 was the Inland Revenue supply chain offering. It was likely that the Group would not bid for this, as it was proving very tough. It involved hardware fulfilment and was accordingly not high margin.

Item 8, PwC – This related to datacentre services and was close to signature.

Item 9, BAE Systems – This was for a £2bn large-scale infrastructure and applications maintenance outsource. CSC was the incumbent supplier and ought to be strongly placed. But this was one of a number of projects placed in the 1990s which were coming up for re-bid and offered FS opportunities, if it positioned itself correctly. BAE was interested in FS because it had won DII and BAE had seen its work with their major customer, the Ministry of Defence. It was even possible that BAE might ask CSC not to bid. The Group would have to qualify hard and carefully, and it would be expensive, but if the Group could replace CSC, this would give the Group a trophy account and would make a hole in CSC's European business. It was with a bid like this in mind that FS was, as Mr Harris had mentioned, conserving its resources. Mr Courtley would keep Fujitsu Limited informed.

Item 10 – DCA – The Group now had a high level of customer satisfaction – 9/10 – with this, the old Libra customer and was well placed to secure this emerging opportunity for IT managed services. This would be another long-haul deal, but one the Group might be expected to win.

Item 12 – Marks & Spencer – This bid was for end to end POS managed service. This customer now saw the Group as more than a POS supplier and this work would give the Group the opportunity to reposition itself.

Item 16 – FirstGroup plc – This bid had been lost to BT, which Mr Courtley regarded as having "bought" the work. BT was keen to develop in the IT services sector and was currently a distorting factor in the market.

Mr Courtley concluded his remarks on this paper by saying that he was pleased that the Group had signed Lloyds TSB and DII and thanked Fujitsu Limited for its help in hosting Lloyds TSB in Tokyo. Those projects were going well so far.

There were no questions.

05/15 Major Accounts Report FSMC/05/18

The Chairman asked Mr Courtley to present this report before dealing with his strategy for developing private sector business, and Mr Courtley did so. In the interests of time, he proposed to focus on selected items.

MoD – DII: The start up was going well. It was not going to be an easy account, but there was a good FS team on it.

NHS: There was a difficult situation here. FS had been let down by BT and IDX and to an extent by delays caused by the NHS itself. FS had taken the initiative to improve the management of the project by involving itself further in the management. This gave it a better understanding of BT's and IDX's progress and it had become evident that they had done worse than had been supposed. FS had accordingly discussed with the customer moving away from BT and IDX and, instead, using an alternative supplier, Cerner, under FS's project management. This was still being explored. Over the next couple of months it would become apparent whether this project could be

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realigned through a contract change. It was felt that the project would work a lot better with Cerner, which would agree to be managed directly by FS. The NHS had also agreed to simplify the position considerably, allowing roll-out of some existing capability that was already working in an existing UK hospital trust. There were also a number of issues under the original contract and FS was determined to solve them before any new contract was signed. Mr Courtley felt that a solution was feasible and that the problem had been caught early, before a lot of damage had been done. He would continue to keep those present updated – he had already spent time on this subject this week with Mr Hirata.

The Chairman observed that, apart from revenue growth, the NHS was currently FS's number one issue. By grasping the problem early, he hoped that another Pathway, with work in progress accumulating on the balance sheet, could be avoided and that an acceptable solution could be reached. The Authority's conduct of the project was not blameless : it was potentially in a different position and so were the responsible Ministers. All parties needed a solution and the Chairman was reasonably confident that the goodwill existed to find one. FS had put a trusted team to work on the negotiations and the Chairman thought the best course was to let the team get on with these proposals. He was not overly concerned about the position but would be keeping a close watch.

Mr Hirata agreed with the decision to grip the issues early and move on with an alternative supplier, especially as IDX had not really got started on delivering its work (if it had, the position would have been much more difficult). He suggested that Fujitsu Limited's Healthcare department might be able to help. Thanking him, the Chairman thought that the time to follow up on this would be when the present negotiations were concluded and the change control had been signed. Mr Courtley agreed.

Reverting to the paper, Mr Courtley referred to the **PACS** programme, a very significant (£250m) datacentre and picture archiving extension to the rest of the NHS programme. This programme was going very well. FS was the most advanced of the LSPs and its management and delivery skills were helping with FS 's overall credibility in the eyes of the Authority. That credibility remained fairly high.

The Inland Revenue project was also going well – incremental growth revenue of £311m had been achieved this year. This was a good project with a good customer and Mr Courtley was confident that FS could grow the revenue. He noted with pleasure that Roy Freeman was being honoured in Tokyo for his team's efforts.

Jogging back to the subject of bids, Mr Yamasaki asked about the proposed framework with DWP, which Mr Madarame and Mr Hirata had visited that day to discuss the utility framework proposal. He wanted to check that there was a common understanding between the UK and Japan on this. Mr Courtley confirmed that FS had been given the opportunity to obtain new business from DWP in what was EDS heartland. It had successfully positioned itself to engage broadly with DWP with a view to DWP taking services from FS not just in the old mainframe area but also as a capable and visionary managed services supplier. FS's long-term strategy was to be seen as an 'operate' company and take the heart of the EDS work. Under the Unity framework, competitive projects would arise over a period of time and each time DWP would want to take up the Fujitsu Limited guarantee that had been formulated. Mr Courtley would keep Fujitsu Limited informed in advance. He expected FS to bid for and to win its fair share over time.

Mr Madarame said that on their visit to DWP he and Mr Hirata had found DWP's expectations of Fujitsu to be very high. An appropriate response was required and he hoped that would result in successful business. He understood that a negotiation was about to start for 'Lot 3' – Applications Maintenance. He thought that FS had good capability in this area and accordingly hoped that FS's first bid under the Unity framework would be successful at an early stage. Both he and Mr Hirata thought that the DWP CEO should be invited to visit Fujitsu in Japan to be shown Fujitsu's technology as a means of getting FS into the core of DWP's needs.

Mr Courtley thanked Mr Hirata for his help with the sales campaign and said that inviting senior customers to Japan had been very helpful in the past – for example, the visits paid by John Yard and more recently by the MoD. He was confident that the DWP would take up this invitation at the right time. Mr Nagai added that the deadline for the first round RFP was 13 June 2005, so approval of a guarantee was needed before then. Mr Courtley commented that the procedure was a little tedious but, where a customer was spending £1bn per annum, it was entitled to be tedious.

Amongst the big bids (Northern Ireland, NOMS, HMCE) there were sub-contracts from IBM which would require approval letters, and on BAE there would be a need for security export control clearance (which had been done). Mr Hirata said that Mr Courtley had recently showed him his guidelines on the private sector and these had been submitted to Board members in Japan. There had been high praise from the Board members for the way that business was being done and they hoped he would continue.

The Chairman approved the position which Mr Hirata had attained on parent company guarantees. He commented that FS intended only to make requests for parent company guarantees where they were unavoidable.

The Meeting adjourned briefly, resuming at 3pm with the same persons present as before.

05/16 Strategy for developing Private Sector Business

The Chairman introduced this topic by emphasising that it was one of the Group's central issues. He hoped that, following Mr Courtley's presentation, there could be a wide-ranging discussion.

Mr Courtley circulated a paper [now in the record marked **FSMC/05/18a**] which showed the relevant elements of the business and the ways FS was going forward. There was nothing revolutionary here, but the paper indicated where the Group needed to achieve continuous improvements in its private sector business.

Marketing and branding - The renaming of ICL as Fujitsu Services had helped a lot by emphasising the greater connection with Fujitsu Limited. Not only customers, but the industry as a whole, were observing FS's progress in the market and this helped in creating interest and confidence. FS had a new, very experienced, Marketing director, Philip Oliver. He was forming connections with Japan - he had had a good exchange with Mr Nagano, for example. He was taking FS's branding to the next level.. This would not take the form of expensive advertising, but would involve agreeing FS's brand values and using them in FS's more general campaign to make FS better known to potential private sector customers.

Targeted campaigns and prospecting – These would not be restricted to the UK and Europe. The Group knew the organisations with which it wanted to do business – both existing customers and prospects like BAE. FS had the concept of a 'campaign', which was the opposite of reacting to an ITT or RFP – it involved positioning over time. DWP was a good example in the public sector – FS needed to do the same in the private sector, as well.

Business units and vertical strategies – The key was the development by each business unit of its vertical strategies. There were some very specific messages that FS wanted to convey to customers in these specific vertical areas – a point of view on their businesses (without telling them how to run those businesses) and a deep understanding of and an ability to consult with them on their business problems.

That, of course, implied a need for more FS consultancy resource. This was not a large number of people, but a few very capable "partner level" consultants who could articulate industry issues and relate them to FS's capabilities. Historically, FS had had the capabilities, but had not been able to explain them to its customers. This was now changing as a result of embedding the skills of Roger Camrass's people in FS's businesses. So far, it was working well.

Qualification – A clear understanding of strategy and careful use of FS's resources would help FS qualify better.

Commercial capabilities – The ability to give customers confidence in the contracting process through flexibility and moving fast was important – for example, the law firm advising Lloyds TSB had praised the FS team's willingness to solve problems.

Offerings and capabilities – In a number of areas – infrastructure, call centres and datacentres – FS was as capable as its competitors. Through the work FS was doing to raise productivity, it could fairly clam to be highly competitive. But there was a risk in FS's industry that all the suppliers were doing the same thing. The important thing was to find differentiation. A good example of this was Sense and Respond, which was now being articulated much more effectively as a means of differentiating FS from its competitors. It had proved invaluable on Lloyds TSB as a winner of hearts and minds alongside FS's flexibility and listening skills. Securing that project against IBM, a very determined opponent, had given FS its biggest win in the private sector for a very long time.

By way of a specific example, Mr Courtley wanted to show the retail strategy in more detail through some presentation slides [now in the record marked **FSMC/05/18b**].

Retail was one of FS's most important areas outside Government, but customers had begun to lose a sense of where FS was going. With that came a loss of confidence. A good industry consultant had therefore been retained and the position had been much improved.

The slides before the Meeting showed the Retail Strategy Update in late December 2004 from a start in October. The objective was to become preferred IT services supplier for retailers in Europe and Nordic, understand customer needs and do some work on the offering. Retailers needed to respond to consumer needs and to drive down costs. They also had a challenge in their delivery chain, which they had to manage in real time. Some – for example, Sainsburys – were having difficulties with this.

Work had also been done recently on the supply chain problem. The focus was shifting to the shopping experience and more of the professional retail problem was coming to the fore. FS had good expertise in this area, so this was good for it. Solutions improving flexibility and visibility remained important for these customers. So FS had engaged in discussions with One Network because FS felt it needed to add a supply chain component to its story.

One Network was a US based company that was looking for a top-tier partner in Europe. The plan was to be able to offer, where appropriate, a supply chain capability through this company. So far, this was proving a good idea and Sainsburys were very interested in a possible deal to address their supply chain problems. Sainsburys was, of course, a former customer whose work it would be satisfying to obtain again.

Other issues for retailers were driving customer loyalty, how to have greater consumer impact and – very importantly – what would be the disruptive impact of technology such as self-checkout capabilities and RFID. Customers could see that a company like FS had a lot to say to them about the way they faced their challenges. FS needed to find a way of explaining those issues to customers that put them in context.

FS also realised that FS's POS solutions had diverged and that FS needed to reinvent its relationship with FTXS, which had itself been repositioning. Other elements of the strategy included In-Store Vision, shelf-edge labelling, loyalty systems and loss prevention measures. On this basis, FS needed to create a service model as the basis for long term success. Partnering was the way to go, with a pan-European approach.

FTXS had a core capability which FS needed to develop for the European market as part of its story in POS. Discussions to that end had taken place. Another element was InstoreVision, which came from Portugal. FS also needed to think about loyalty systems – and, indeed, Fujitsu had implemented loyalty systems. Having a broad capability was thought to be the way to go. Big retail customers wanted integrated systems and Fujitsu could provide that. New economic models were required, not least because the investment in technology was significant. Their concerns over the investment required was one reason why partnering with Fujitsu was attractive, and that was what had been under

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discussion with Marks & Spencer. The strategy was accordingly to consolidate the in-store offering, POS, by working with FTXS and also to extend the capability in the areas mentioned above by offering them in the form of a service model that could be bought on a long-term basis – similar to the way FS contracted with Government customers, partnering as appropriate with Fujitsu companies like FTXS and also with third party companies like One Network. This strategy also needed to make sense across Europe, with international customers like Staples, H&M etc. And it needed to be a unified strategy that reunited components that had been diverging.

Those slides represented the position in December. Mr Courtley had then challenged the team to package the strategy so well that all FS's best customers could be invited to a Retail Showcase in April 2005. This duly happened and a really good event had taken place, with customers and non-current customers from all over Europe.

Customer perceptions had been measured before and after the event. Before the event, there were some negative remarks. Post-event, it was found that most of the perceptions had changed. Typical comments were that FS had a network-centric view of the future. Most of those attending would consider FS for future work, and all would like to attend a future event. Customers were looking for qualities like flexibility, partnering and listening. The challenge was to execute this policy.

As a direct consequence of this initiative, FS's most loyal existing retail customer, Marks & Spencer, now wanted to take a fuller, managed services offering, so there had been some output. The challenge now was to take similar steps in other areas such as financial services.

The Chairman invited questions.

Mr Madarame said he understood this strategy and thought that it was very smart. He felt that Fujitsu Services was a well-recognised name in the UK and the rest of Europe, and better than what Fujitsu had in this area in Japan. In Japan, Fujitsu had the various components but lacked an integrated solution. Perhaps the difficulty lay in Fujitsu Japan's retail relationships, but this was undoubtedly the hardest sector for them and they had not yet seen any good business there. He thought the problem might be that Fujitsu Japan tried to do everything itself. It might be better to adopt the partnering and risk-sharing approaches used by FS.

Another problem was FTXS. As those present knew, they were trying to acquire self-checkout, but there would be issues like maintenance etc. Perhaps Fujitsu Japan should try to do that in Japan, or launch it in the market for smaller retailers. Or perhaps they needed to change the specification which was applicable globally. He hoped that FS would be able to pursue that FTXS business progressively. Retail was a sector where the customers were quite tough and made quick contract decisions; for its part, the supplier had to make quick changes.

So far as recruitment was concerned, he hoped FS would be successful in getting people with the right skills in Applications. He thought it was right to focus on retail as a sector. But he warned that over-diversification could result in dilution.

Mr Courtley acknowledged the force of this last point, but felt that with stability in the Government sector this was now the time to address another sector and that retail was the logical choice. This could not be done overnight – it had taken a year to reach this point. But this was the time to move from strategy making to execution in retail and to make a careful start in financial services.

As regards Mr Madarame's other comments, partnering could reinvigorate the way customers saw FS. FS was identified with POS and needed to be seen as having other capabilities: an active partner was a good way to change perceptions. On Applications, he agreed that FS needed to develop its expertise there. As regards FTXS, they were a kind of core capability for FS – they had the ability to manage certain products that FS did not have or want to have. Finally, retail was an international business: it gave opportunities for co-operation with Fujitsu Japan and he hoped that what FS was doing here would help Tokyo in due course.

The Chairman commented that the way to tackle these vertical sectors was to have global products i.e. software. The problem was that no one part of Fujitsu, as at present set up, could afford the costs of development. The businesses needed some internal applications and also needed to partner with third parties to get applications in which the businesses did not invest themselves. The result of the present arrangement was duplication. In retail, for example, FS had spent millions to very little purpose on a number of applications; FTXS had done the same and the position in Fujitsu Japan was no doubt no different. What was needed was a global product that was capable of some customisation (though not much) – not only in retail, but also in financial services, utilities and also, to some extent, in telecoms. Some of what had been discussed in the Global Business Executive Committee bore on this. The Chairman thought that the development needed to be done once for the whole world and then sold vigorously as part of a service offering. This needed to be done by the whole Fujitsu Group – no one part of it could do this.

Mr Courtley commented that a similar problem had been anyicipated when FS had integrated Invia. In fact, it had proved relatively easy to persuade people of the virtues of a co-ordinated approach, with development in one place and then a roll-out across various geographies. He thought that grasping this problem would be welcomed.

The Chairman added that he had recently had a similar discussion with FCS in the US in the context of global hardware. He thought Software and Services thinking needed to be injected into this debate so that R & D funding was not wasted – the development should be done once and done right.

Mr Courtley suggested imagining a similar set-up in the US to that in Europe – business units and a core. Under such a set-up FTXS could perhaps be part of the core capability responsible for the retail offering that could be deployed both in North America and Europe. That would provide more focus for FTXS and perhaps they would be more successful as a solution centre rather than as a sales etc unit as well.

Mr Madarame commented that negotiations were conducted regionally, rather than globally. Perhaps Europe/US meetings every six months

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would be a starting point. And an issue like partnering would also benefit from a global approach with a view to developing global products.

Mr Courtley observed that Triole was another example. It was a horizontal rather than a vertical offering, but global adoption would help Fujitsu a lot by providing a consistent story throughout the world. The same applied to applications, as well. This could be done even without organisational consistency.

Mr Yamasaki commented that he had spoken with Mr Courtley earlier about retail in Europe, Triole and other initiatives, all of which suggested the need for a common approach involving the US and Europe.

The Chairman observed, however, that the FS model in Europe would not work in America – Fujitsu did not have the businesses there to do it. To achieve a similar model in the US would entail the acquisition of a serious systems integrator or services company in the USA. The US Fujitsu businesses were too small, and the US market was simply too big. He thought the biggest problem that Fujitsu had was how to create a core and regional organisational structure in the US. In Europe, there remained an issue with FSC, but otherwise the structure was basically there. In the US, it could not be created without outside help. Asia Pacific was different again. Although both in Europe and in Japan it was viewed as one market, the Chairman thought this was incorrect: there were, in his view, more differences between the Asia Pacific countries than amongst the countries in Europe. The task there was not, he thought, to build cores and regional structures, but to consider what Fujitsu wanted to achieve, say, in China and Australia and to disregard some of the other countries. In North America, however, Fujitsu would never progress unless the decision was taken to build the business inorganically. With due respect to them, he did not believe that the management in North America were capable of managing that scale of business. He hoped that the Global Committee would work on these questions, as these were big challenges, but also big opportunities.

05/17 Items for noting and questions FSMC/05/19-21

Major disputes – progress report – FSMC/05/19

This report was tabled and the Chairman asked if there were any questions.

Mr Yamasaki asked about the new Thales matter in France, which involved a big number. Mr Allnutt explained the circumstances which had given rise to this claim. Based on previous experience with this type of claim, he believed that a robust defence would pave the way for a negotiated settlement in due course involving lesser sums than those claimed, although it was possible that this would take some time. The position might be clearer by the time of the next meeting.

Mr Hirata asked about the dispute with the DTI over the Cameo project and its implications for FS's relationship with the DTI. Mr Courtley said the relationship was quite good. The DTI was a major customer and this dispute was being contained. Some provision had been made, but (at the risk of making predictions) he thought it would probably be resolved satisfactorily and soon.

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HR Manpower Report – FSMC/05/20

Mr Courtley said that headcount was increasing, mainly in the UK, although FESA had obviously caused the numbers to rise. Several hundred were joining from Lloyds TSB. Generally, FS needed to recruit in order to improve the quality of the workforce, but it was also necessary to keep an eye on manpower cost – which was a big cost.

The Chairman remarked that, if the acquisitions were disregarded, there appeared to be a slight reduction. Attrition was up a little but, paradoxically, that was a good thing. If a need to shed labour arose, the attrition rate showed that a clamp down on recruitment would bring numbers down without a cost. Attrition was high in break fix, and that was also good, as that was an area where the fewer people FS had, the better – if there were none at all, the need could be managed in other ways. None of this was a cause for concern at this stage.

Mr Courtley agreed – no highly valued individuals had been lost (except for one quality project manager). Mr Hirata noted that the attrition rate in Core Customer Services was at 14.7% - was there any reason for that? Mr Courtley said that there was a lot of movement in this area of business, and typically the attrition rate could be twice the rate here, so 14.7% was not unhealthy. Staff in this area included break fix people, help desks and many contractors.

Signed and Sealed – FSMC/05/21 – These were noted, approved and ratified.

05/18 Any other business

The Chairman asked if there was any other business: there was none.

05/19 Date and location of next meeting

The next Meeting of the Committee would be held in August. That meeting would be in Tokyo, as would the November meeting.

There being no further business, the Meeting ended.

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Chairman