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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 1.30 am on Wednesday, 23 February 2005

at
Shiodome City Center
5-2, Higashi-Shinbashi 1-chome
Minato-ku
Tokyo 105-7123

Present: Mr. R. Christou (Chairman)
Mr. T. Adachi
Mr. D. Courtley
Mr. H. Madarame
Mr. H. Hirata
Mr. B. Harris
Mr. A. Nagai
Mr. K. Nozoe
Mr. T. Yurino
Mr. T. Moriya

In attendance: GRO (Secretary)
Mr. H. Kubo
Mr. T. Nagayama
Mr. S. Yamasaki

05/01 Introduction and Minutes of Meeting held on 18 November 2004

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

05/02 Chief Executive Officer’s Report FSMC/05/01

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

Mr Courtley presented this paper. With regard to Service Delivery, he added that he expected to see a further improvement in customer satisfaction this coming year. Increased volume had been placing Core under new strain and he had accordingly asked Jack Noble, the director of Core Services, to run a plan to improve some of Core’s management practices. With regard to Employee communications and morale, more analysis of the feedback would be provided once it had been completed. There were no questions or comments.

05/03 International Financial Reporting Standards

The Chairman asked Mr Adachi to make an oral presentation on this

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topic.

Mr Adachi explained that, as a consequence of Financial Reporting Standard (FRS) 17 and International Accounting Standard (IAS) 19, it would be necessary to reflect the £470m deficit in the Pension Fund in the balance sheet in the next financial year. There were two methods in IAS 19 by which this could be done. Mr Harris and he had discussed them with Mr Moriya. One method was the “retrospective” method. This would permit the deficit to be amortised, thereby avoiding much of the balance sheet effect. The necessary data had been sent to the Plan’s actuaries, Watson Wyatt, and a recommendation was expected in about three months’ time. As an international accounting standard can not be introduced in isolation, a decision to adopt IAS 19 would necessitate the implementation of IFRS by FS from 1 April 2005. The budget for the next fiscal year would not show the detrimental effect of the deficit on the balance sheet. Mr Moriya commented that, if FS was going to adopt IFRS, then that position would be reflected in the financial statements of the entire Fujitsu Group, FS was definitely a part of them, so it was important to keep this point in mind, going forward. The Chairman said that he was just asking the Board to note progress on this subject, which would be raised again at the next Meeting of the Committee with further details: it was important for the Board to understand how the accounts were to be put together, and approved the course adopted. It was agreed that the position be noted.

05/04 CFO’s Report

FSMC/05/02

The Chairman asked Mr Harris to present his report.

Mr Harris explained that there were two packs before the Meeting. The first showed Q3 for 2004/2005 together with a forecast for the rest of that year, and the other the Q1 budget for 2005/2006.

In the former pack, the four periods presented – Q3, YTD, Q4 and Full Year - were all compared with the Q4 budget.

In the interests of time, Mr Harris referred to the Summary P&L on *page 1* and the Balance Sheet on *page 12*.

Page 1 was the **Summary P&L**. Four periods were presented; Q3, year to date December, Q4 and the full year, compared with the Q4 budget.

Revenues in Q3 of £505m were £12m below the Q4 Budget. Commercial was the biggest shortfall from reduced hardware sales and slippage on the IRRELEVANT Public Sector and South Africa were also below budget. Central Government and Nordic, on the IRRELEVANT contract, however, were better. The **margin** of 21.1% was slightly lower than the budget and **Opex** was £7m lower at £81.6m with savings and deferrals to Q4 in all business units except Commercial and Public Sector. The share of profits received from the **associate** company Camelot was below budget and, overall, operating profit and **PBT** were almost £3m more than budget at £25.9m.

Orders received of £649m were £137m less than the Q4 budget. The

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Picture Archiving and Communications Systems order from the NHS was booked at the 70% guaranteed level of £161m, which was £59m less than budgeted. However, the bid to MCI for £55m was not placed, the customer having decided to take the service in-house. Contract negotiations for the PwC data-centre were ongoing. FS had been selected as preferred supplier for the £35m order.

Year to date revenues of £1424m were £179m more than last year. The integration of Consulting and FTSI had added about £75m and Aspire £46m. There had also been increases from HMCE of £47m and MOD of £32m. PBT of £48m was £13m more than Q4 budget and puts FS on track for the full year target.

Q4 revenues of £586m were £12m more than the Q4 budget, primarily from increased MOD activity. This provided a slight improvement in the **margin** to 20.7%. As **Opex** of £93.2m was £6m more than the Q4 budget, being expenditure deferred from Q3, and the **associate profits** from Camelot were forecast to remain below budget, **operating profit** of £29.6m was £3m less than the Q4 budget. The **disposal** of the shareholding in Infocare would produce a gain of £6.9m. **PBT** of £36.8m was £4m more than Q4 budget. Orders received of £1745m are £1123m more than the Q4 budget. The increase related to preferred status being achieved on Walsall at £580m and the LloydsTSB bid for £211m. The decision on DII at £450m is due in March.

For the full year, the **revenue** of £2010m and **margin** of £409m were unchanged from the Q4 budget. **PBT** was £7m more than the Q4 budget at £85m, which was the stretched target.

Page 12 was the **Summary Balance Sheet**. The cash balance of £8.6m at December was £18m better than the Q4 budget which was net borrowings of £9.4m. There was a cash outflow of £8.8m in Q3. The main expenditures were £11m on restructuring Consulting and FTSI and £10m for the [REDACTED] **IRRELEVANT** £16m of capital expenditure was incurred. Receivables collections continued to be good and the balance reduced by £6m to £307m despite the increase in the rate of revenues. The year end cash position was unchanged from the Q4 budget of £52.4m. It represents a cash inflow of £44m in Q4. The HMCE contract and the MOD would be the main sources.

The Chairman invited questions.

Mr Madarame commented that the accrued backlog was good in comparison with last year, but orders were lower. Was this a cause for concern? Would it cause a negative impact on the coming year? Mr Adachi replied that last year had benefited from the big Inland Revenue contract. This meant that the orders position last year was abnormal. The executive team did not feel there needed to be a concern about a reduction in revenue and sales were up by 15%. Mr Courtley added that there were three deals which the Company hoped to close in the current financial year – DII, Lloyds TSB and Walsall. If all were closed, the Group's orders performance for the year would be very good and the

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comparison with last year's very good performance would look much improved.

Mr Hirata had questions on page 7 (Operating Profit by business). He observed that the full year position was less good than last year because of reduced sales in UK Commercial - £83.8m against £108.6m - although this had been offset by improvements in EMEA and Nordic. He was wondering why this was so and what was the outlook for UK Commercial in the light of these numbers. He also wondered why the Q3 outcome for Group HQ, at £(6.2)m was better than the Q4B position of £(14.0)m.

Mr Harris explained that, last year, UK Commercial's figures had been affected by two items that had not occurred this year. First, on the Post Office Account there had been the acceptance in April of network banking, which gave the Group £11m margin catch-up (because the Group had been unable to recognise the margin until acceptance, but it related to the prior period). Secondly, there had been purchases of VME from the financial sector - customers like [IRRELEVANT] and [IRRELEVANT], as well as [IRRELEVANT] and [IRRELEVANT]. This year, VME sales had been much lower (although VME was expected to improve in 2005/6 and the Group had bid successfully to EDS for some VME). In total, these items had contributed £25m last year that was not present this year.

So far as Group HQ was concerned, spending had been constrained and had not risen again to former levels. In addition, substantial accruals on account of the [IRRELEVANT] litigation had been made. Although these were reflected in the Cash position, they did not have the same P&L effect.

Mr Hirata enquired whether this meant that, disregarding these special factors, there was no need for concern regarding the performance of UK Commercial. Mr Courtley replied that, as Mr Hirata knew, UK Commercial was now the Group's main focus. In his opinion, the Group would succeed in its aim and the Lloyds and PwC transactions showed that it could. Though not a complete solution, they pointed to an improving picture in the following year. He also hoped that hardware sales, which had depressed revenues in the UK Commercial sector, would improve next year with the much stronger management approach there.

Mr Adachi asked Mr Harris if he understood correctly the full year position on the UK operation in total and the Group HQ - was he correct to regard them together as the total UK operation? If so, a comparison of the 2004/5 position with the figures for the preceding year showed £146.8m minus £81.1m = £66.7m for 2004/5 against £132.5m minus £50.5m = £82.0m. In other words, the overall UK position was better than last year.

Mr Harris turned to the second pack, the budget for 2005/6.

The second pack was the Q1 budget for 2005/06. It incorporated the integration of FESA from April 1.

Page 1 was the **Summary P&L** for the enlarged FS. Four periods were presented; Q1, Q2, the Second Half and the full year, compared with the

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Mid term plan ("MTP").

The phasing of revenues and profits in the MTP had been addressed and improved in the Q1 budget. In Q1, **revenues** of £491.7 were the same as included £25m from FESA. The **margin** was unchanged at 19% and the improvements of £1.1m in **operating profit** to £4.5m and **PBT** to £5.2m were due to **Opex** savings in Group HQ, which more than compensated for the reduced **associate profit** from Camelot and Infocare. The profit contribution from FESA was £0.3m. PBT of £5.2m was £1.4m less than in 2004/05, but it included a prudent, higher level of rationalisation costs to cover Nordic and, possibly, Spain. **Orders received** of £483m were £428m below £911m in the MTP as the decision on DII was now forecast for March.

Revenues in Q2 of £519.5m included £28m from FESA and were £14m more than the MTP due to continued strength with the MOD. This was the main reason for the **margin** being almost two percentage points better at 19.6%. **Opex** of £88m was £1m lower with Group HQ maintaining its reduced spend level. Overall, **operating profit** of £14m and **PBT** of £14.5m were £11.7m more than the MTP. The profit contribution from FESA was £0.3m. The first half PBT of £19.7m was an improvement over the MTP of almost £13m. Despite higher revenues in the first half of £43m over 2004/05, PBT was £3m lower than the £23m in the first half of 2004/05, totally accountable by the higher level of rationalisation costs in Q1. 2004/05 also included £13m from high margin applications development on the Post Office contract. **Orders received** in Q2 of £541m were £219m below the MTP from the slippage of the Aspire and HMCE integration orders to the second half.

Second half **revenues** of £1269.3 were £14m lower than the MTP, offsetting the improvement in Q2. They were £258m more than the first half. **Operating profit** of £83.4m was considerably more than the first half of £18.5m. The main driver was the increased margin, partly from the higher revenues but also from better margin performance, most notably in Commercial on the business with the Post Office and EDS.

The full year retained the MTP. **Revenues** are £2280m, the **margin** was 20.6% and **PBT** was £102m. The savings in **Opex** in Group HQ compensated for the lower **associate profit** from Camelot and Infocare. The profit contribution from FESA was £2.2m. **Orders received** of £2569m were £535m below the MTP, relating to DII being decided in March. They included £135m in FESA. **Backlog** was £7 billion in March 2006.

Page 2 contained a **Summary P&L excluding FESA**. The movements in Q1, Q2, the second half and the MTP had been explained by the previous schedule and the Full Year was unchanged from the MTP with revenues of £2150m and PBT of £100m.

Page 3 was the **Summary P&L for FESA**. It was the same as the MTP and was relatively consistent with the current year's achievement. FESA's budget could not be considered until April, when ownership

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would have changed, but Full Year revenues were £130m, with a good margin approaching 25% and a relatively high Opex level of £28m. There was a rationalisation cost of £1m resulting from skill changes. Operating profit was £2.9m, which was consistent with the MTP but below this year's level of £4.1m. There would, however, be lower interest costs and so retain PBT of £2.2m.

Page 4 identified the major **Movements in the operating profit from the MTP** Q1, Q2 and the full year, including the strong MoD position, the weakening position in EMEA, the non-receipt of the Infocare associate profit and rephrasing of rationalisation in Nordic, the continued savings in HQ and the margin improvement objective in Q2.

Page 5 comprised the **Operating profit movement from the present 2004/05 to 2005/06** for Q1, Q2 and the full year, and showed the margin effect of £29m in the full year from the increased revenue, margin movements in the Post Office account and Central Government, and the additional rationalisation costs, mainly in Nordic.

Page 6 analysed the **Movements in margin from the first half to the second half of 2005/06**. The effect was that much of the profit in that year would be generated in the second half because of a significant increase in the margin from 19.3% (£195m) to 21.6% (£275m). £50m of this increase related to higher revenues in the second half, which were shown in the box in the middle of the page and included the NHS project. The other reason was the margin improvement in the second half, which included an improvement in UK Commercial from the additional contract pricing with the Post Office, VME sales to EDS and the PwC datacentre, and in Nordic after the holiday closures in Q2.

Mr Harris moved on to *Page 16*, the **Balance Sheet**. It incorporated the share purchase of FESA at the net asset value at March 31, 2005, which was forecast to be £12.6m, with net borrowings of £25m. There would, consequently, be a small net borrowings balance of £2.4m at June, which rose to £37m in September and would be £5.5m at March 2006. The Q1 budget was better than the MTP that had been restated to incorporate the integration of FESA. The MTP originally showed Fujitsu Services alone with no borrowings at March 2006. FS would try to recover this neutral position during the year, including FESA. The balance sheet was broadly similar to the MTP, with the exception of the two highlighted lines, Advanced Invoicing and Advanced Payments, which were higher. The latter included £80m from the NHS and £30m from the MoD, scheduled in April. These would run down in the course of the year, but it was expected that much of the MoD item would still be held at 31 March 2006.

Page 17 was the Balance Sheet of FS, including FESA, and *page 18* the balance sheet for FESA alone.

The last few pages comprised **Inventories by business** (*page 19*), **Debtors by business** (*page 20*), **Payables and accruals by business** (*page 21*), **Cashflow** (*page 22*) and **Capital expenditure and depreciation** (*page 23*). Mr Harris commented on the highlighted items

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there. He noted that there would be a £58m net outflow next year and explained the reasons for this.

The Chairman asked if there were any questions.

Mr Moriya referred to *page 11* and noted that FS's operating profits were increasingly arising in the second half. Was there a reason for this? Was it company culture or some UK-specific reason? The ideal was, of course, that they should be spread evenly over the year.

Mr Harris explained that the biggest customer at present was the UK Government, whose financial year ended at 31 March. As a result, its expenditure increased towards the end of the year as it tried to spend its budgets and companies that did business with the Government tended to start slowly and have a better second half. There was additional one distorting factor which would apply in 2005/06: the nature of the Post Office contract was such that there would be higher pricing in the second half of next year, which would improve second half margins by £20m.

The Chairman added a general point. Historically, the old ICL made a loss in the first three quarters and the profit, if any, in the last quarter or last month. So the trend of the last five years had been to flatten the profits quite significantly, compared to that former position. He thought that it would not be possible to make the profit entirely flat. The position would continue to be influenced by the UK Government spending effect and, as in the case of many governments, the UK Government was subject to the rule that unspent budget could not be carried forward. FS would try to do better and would where possible pull items forward from the second half to the first. But the present forecast represented the management team's best estimate at present of what was likely to be possible.

Mr Courtley agreed and added that Business Reviews were conscious of the need to pull items forward. There was one other factor, which was that there were of course risks attendant upon the receipt of expected profits and, where a risk was identified, it might well make it prudent to forecast receipt in the later rather than the earlier period.

Mr Yurino referred to the period when the financial year ended in December and profits were made in that month. Was that so? The Chairman agreed that this was the case but explained that, when there was a shortfall in profit for a year, customers were sometimes offered the opportunity to place VME orders in that month at a big discount, instead of in the next year. There was also the practice of commuting the payment for software licences.

There was another question from Mr Moriya, who asked whether FS encountered the same phenomenon as Fujitsu Limited whereby orders were concentrated in the last week of the month. The Chairman replied that this was not nearly so noticeable, as FS was not dealing with hardware. In response to the point that, in Japan, this sometimes happened even with software, Mr Courtley pointed out that FS was also less dependent on software, as it was more of a service model, so that factor did not occur within a month and it was not relevant to the business.

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Mr Adachi added his comments on the profit profile flattening issue. He noted the point about the Government paying in cash at the end of the financial year and agreed that this was common to Japan and Europe. But there was also the factor that many of FS's contracts were long-term and that long-term nature tended to flatten off the timing of the sales. Much had, in fact, been done to improve the profile before it was brought to this Meeting. So, for example, the operating profit had been improved. He agreed that the risks incidental to these contracts could be high and said that it was therefore the practice to forecast the profit towards the end of the contract term. FS was trying to move away from that practice and he thought that it would be sensible to keep the issue under review.

Mr Moriya said that, at present, Fujitsu Limited found that some 60% of its software business was concentrated at the end of the month of March, which was quite abnormal. He thought it would be worth seeing whether Fujitsu Limited could follow FS's model and increase its infrastructure business. If FS could find a way to level off further its profit profile, he hoped that the result might offer a model (making due allowances for factors specific to FS's business) which Fujitsu Limited could copy in its efforts to flatten its own profit profile.

Turning to another topic, Mr Hirata referred to the aggressive plan to improve EMEA, including the 2003/4 major restructuring and the 2004/5 introduction of the Core model. Mr Courtley agreed with this description and said that he hoped to see some improvement next year, though he would be challenging the unit to do better. Mr Escudier GRO GRO and Mr MacNaughton was standing in for him. The latter had reviewed the position and was committed to the numbers before the Meeting.

Mr Yurino referred to the movement in margin on the Post Office account from 23.7% in the first half to 42.3% in the second (see page 6). Was that because of a special project or negotiation?

Mr Harris confirmed that this was because of the change in pricing on the Post Office contract next year and the Chairman added that a discount had been given to the customer in the early years to help their planning; now, that discount would be recovered through the price increase.

There were no other questions and the Chairman asked Mr Courtley to take the Meeting through the Major Bids Report.

05/05 Major Bids Report**FSMC/05/03**

Mr Courtley presented this paper. He would use the first page to provide an overview; the other pages provided more detail, if needed.

The first three items had already been mentioned and were in many ways the most significant in terms of order value.

Item 1, Ministry of Defence, Defence Information Infrastructure – Mr Courtley thought that this bid, if won, would be worth more than the £1bn stated, but it would be worth at least that amount. The decision, which had political implications, would be received within the next few weeks.

Item 2 and 3, Lloyds TSB and Walsall – These bids were similar, in that

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FS had been selected as preferred supplier and attempts were being made to sign contracts by the financial year end and accelerate receipt of the revenues and profits.

Item 4, Northern Ireland Civil Service – This bid had some months to run. This was another BPO opportunity and the competition was Accenture, which was world-renowned in this field. But FS stood a good chance.

Item 6, NOMS – This had been in the report for some quarters now, but was finally getting going and would be an important bid over the next few months.

Item 7, Post Office – This was about developing a modernised system for the Post Office and FS was working on a single tender basis. Tough negotiations were expected, but the transaction looked in good shape at present.

Turning to newly emerged bids, *item 9* for the Inland Revenue was about hardware fulfilment. Computacenter had this at present and it was very large - £150m a year for four years. If this bid was secure, it would assure the future of the Group's supply chain business going forward. He thought FS had a good chance of winning.

Item 10 – FirstGroup plc – This was a UK travel company. The opportunity to tender had arisen and FS was now well-positioned on the short-list.

Item 11 – London Borough of Harrow – This was another deal building on the Walsall strategic partnership approach. It would be interesting to see how FS got on over the next few months.

Item 12 – PwC LLP – FS had been chosen for this, beating Cap Gemini, and the value of the transaction had been increasing.

Item 13 – Inland Revenue/CGEY – This was extension work following from the Aspire win.

Mr Courtley referred briefly to the bids which FS had lost. He regretted losing the TfL bid, but MCI/Worldcom and Accenture (RWE) had decided not to proceed. So the situation was somewhat mitigated by the fact that the reason for the loss was beyond FS's control and was not a loss in the market place.

He also mentioned the need for a parent company guarantee on the Lloyds TSB deal and hoped that Fujitsu Limited would look favourably on the request, given that the customer was answerable to financial regulators etc.

In response to a request for questions, Mr Madarame noted that there was considerable variety in the ways in which data-centre and infrastructure services were being provided by FS, and he would be interested to know more about partnering with customers. What kinds of skills were involved, and where did they come from? Mr Courtley said that the Harrow offering was rather like Walsall, although the scope was not as wide. As well as the infrastructure offering, FS would work with the customer to change the processes in its business. This involved consultancy skills. FS would probably also take on the management of

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other parts of the customer's operations e.g. payroll and would do this using third parties, as FS did not itself possess those skills. FS would accordingly provide an overall management capability for this kind of deal. FS had to have the relevant expertise during the bid, or it would not win. It had relevant expertise in the local government business with consultancy skills. The integration of FC into FS helped and FS now had more general change management skills available than previously was continuing to build them FS did not yet have those skills on the scale of IBM or Accenture but did have sufficient good people to be very credible.

Mr Hirata asked a couple of questions. What were the implications for FS of the projected Inland Revenue/Customs merger? And how much was the Thurrock data-centre being used?

Mr Courtley said that the customer had decided that it wanted to use Aspire as the model, because the contract was more suitable and more flexible than the HMCE contract. The Government fully recognised that the HMCE contract was a PFI contract where FS had invested early on for later return. So they understood that, however the merger was achieved, FS would need full financial compensation. This could mean termination for convenience, but that would cost the Government around £200m and he suspected they would not take that course. It was more likely that FS would be compensated in some other way with the Government ensuring that FS's revenue and profits from the combined deal would satisfy FS. In sum, Mr Courtley did not expect that FS would lose out from the merger – in fact, it would probably gain. His only regret was that all FS's work for the combined Revenue and Customs would come under Cap Gemini as prime contractor, but so far FS's relationship with Cap Gemini had worked reasonably well and he hoped this would continue.

As regards Thurrock, it was filling up as capability and equipment was moved in. This was slower than expected, but expenditure there was also less. FS had a list of customers who might take the services directly and Mr Courtley thought that the Government would in future want to use it a lot because of its very special security features.

There were no further questions.

05/06 Strategy for Developing Private Sector Business

At the previous Meeting, Mr Madarame had asked for an oral update on this subject. The Chairman asked Mr Courtley to address this subject.

By way of reminder, Mr Courtley said that the question was how FS proposed to develop its Commercial business.

The MTP contained quite a lot of material on the approach and each of the individual vertical segments had its own mini-MTP. So considerable detail had gone into the planning. In essence, there were two dimensions – first, the vertical dimension, which involved understanding those markets and the individual customers in those markets, getting to know them and developing industry skills and business over time. Local government was a good example of this; retail was another (there was to be a big initiative in April); and financial services was yet another (branch renewal was an entry point and the announcement of the Lloyds

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TSB deal in due course would help). References would continue to be key in this dimension. The second dimension was horizontal –FS’s capabilities and innovation, the way something different was said to customers. This ability to say something different was key to winning new business. An example was the way Sense and Respond was demonstrated to win the [REDACTED] business. Triole would be another source of differentiation for FS, particularly as against IBM.

The investment required in support of this strategy was partly investment in good people (more consultancy skills and better relationship development people), partly investment in differentiating capabilities like Triole (this was not a no-cost exercise, of course); and investment in branding (customers needed to know what FS stood for to help penetration of the private sector, in particular in competition with IBM).

Mr Madarame agreed with this, but observed that the sector challenges for Commercial were different from those encountered in the Government and public sectors. What services could be offered to Commercial customers? He thought this needed further careful consideration. Mr Courtley undertook to do so, but said that there was a lot that could be done even with FS’s existing capabilities – as the Lloyds TSB deal indicated. Most private sector customers wanted infrastructure or data-centre services and FS already had those capabilities. In retail, in particular, FDS had an excellent position to develop from. The challenge would be to sell overall outsourcing as well.

There were no other questions.

05/07

Major Projects Report

FSMC/05/04

Mr Courtley presented this report to the Board. It referred to the NHS, the Post Office and other Government projects and he would outline the main points.

As regards the NHS report, there had been difficulties with the customer in getting the requirements defined and some of the customer dependencies were late. There had also been difficulties with FS’s supplier, BT, which had a contract with IDX for the common software for the project. These suppliers were late. So FS had two sets of problems – one with the NHS, one with its suppliers. These difficulties were recognised by the NHS and by [REDACTED]. There had accordingly been intensive negotiations amongst the parties with a view to making changes to the contract. Heads of agreement had been signed and he expected that the parties would aim for signature of a revised contract before the end of May. The crystallised proposals would be brought to the Committee for discussion with Fujitsu Limited before then. The main features of the revision would include changes to the Milestone Plan and a reduction in size of the [REDACTED] (currently valued at £64m) which would help fund the changes. It was important to appreciate that the changes would defer revenue and profit because of the delay, even if the changes could be contained within the model. Further developments on this subject would be communicated in the normal way through Mr Nagai and Mr Hirata. He felt that these developments provided a way through the problems if the change notice could be

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agreed to FS's satisfaction.

As regards the Post Office, there had been some service problems. This resulted from changes to those services, which were now more online in nature. The Post Office had to some extent expecting these problems, though not their scale, and it was a priority to meet expectations, particularly having regard to the new contract with this customer planned for later this year. The relationship was being managed quite well, but this depended on FS's service improving.

On HMCE, there had been very good performance, and (as already indicated) the expectation was the project would be merged into the Inland Revenue contract. This would probably take several months, if not a year.

Libra was yielding high profits and a high level of customer satisfaction.

Passing over other items, the Inland Revenue contract was going well, the customer was pleased and the relationship with Cap Gemini was satisfactory.

Mr Courtley invited questions.

Mr Nagai and Mr Hirata commented on the proposed extensions to the Post Office project with respect to the new generation architecture. This would not be an open bid, but a bilateral negotiation with the customer. They explained more of the background and actions which were under way to try and develop opportunities in Japan. Mr Courtley welcomed this and said he would be pleased to visit, if that would help.

There were no further questions.

05/08

Items for noting and questions

FSMC/05/05-14

Infocare – FSMC/05/05 – This was the disposal of FS's shares in the Nordic break-fix business from which it was hoped to derive a £6.9m profit. Negotiations were very close to conclusion with Ergo, the IT Services arm of the Norwegian Post Office. The Ergo board had approved the acquisition and the transaction was now with the Norwegian Post Office for approval. It was hoped that the deal would be completed within the next couple of weeks.

U-Scan – FSMC/05/06 – This was a consequence of FTXS having bought the U-Scan product, including a very small wholly-owned UK company called U-Scan UK Limited, the assets of which it was proposed should be transferred to FS for £33k. There would also be a distribution agreement with FTXS. This acquisition was approved.

Spain – FSMC/05/07 – Mr Adachi reported that the acquisition of Fujitsu Limited's Spanish subsidiary, FESA, into FS was projected for 1 April 2005 and was already reflected in the budget. Fujitsu Limited was expected to approve the disposal in the following week. The Chairman commented that this was for the Meeting to note. He was pleased with the deal, which he thought would work well for both sides.

Norway capital reduction – FSMC/05/08

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Reorganisation of EMEA/Nordic – FSMC/05/09

The Chairman asked Mr Harris to address these issues.

Mr Harris explained the background to the Norwegian capital reduction and sought approval, which was given.

The other item involved further transfers of European subsidiaries from the Dutch holding company to Fujitsu Services Overseas Holdings Limited ("FSOH"). This was also approved.

Major disputes – progress report – FSMC/05/10

HR Manpower Report – FSMC/05/11

These were tabled and the Chairman asked Mr Courtley to address them.

As regards the Major disputes report, either Mr Courtley or Mr Allnutt could address them. He would mention that, in the context of the NHS project (described earlier) there had been formal reservations of position, which was why the NHS project was mentioned in the report. None of the other items required special remark.

The Chairman commented that the making of formal reservations was very important and had been a very important lesson learned from previous disputes. There was no intention to offend the customer, or prevent a commercial resolution of the issues, but if litigation followed then proper control of these earlier stages always proved to have been a wise precaution.

As regards the HR Manpower Report, it contained a lot of detail and Mr Courtley commented on the reasons for increases in headcount due both to FS/FTSI and to customers like **GRO** and others. He also commented in the rise in non-permanent heads. He was not happy about this and was taking steps to control it; but there were certain advantages e.g. in the DII bid and in call-centres. Attrition was levelling out – around 8.8-9.0%. Though high, this might be reducing.

There were no questions on this.

Fujitsu Sarl recapitalisation – FSMC/05/12

Fujitsu Services Overseas Holdings Limited recapitalisation – FSMC/05/13

The Chairman asked Mr Harris to address these papers.

Mr Harris explained the background to the first of these items, which concerned Luxemburg, and sought approval. This was given.

The other item involved an increase in capital of FSOH from £2 to a level consistent with its activities as a major Group holding company. This would be carried out by capitalising the Group loans made to FSOH to enable it to acquire its subsidiaries. £375m of new capital would be issued. This too was approved.

Signed and Sealed – FSMC/05/14 – These were noted.

05/09 **Any other business**

The Chairman asked if there was any other business.

COMPANY SECRET



Mr Nagai observed that the Department for Work and Pensions (“DWP”), which incorporated parts of the former Department of Social Security (“DSS”), was not in the Major Projects List. This was a new customer and there was the prospect of taking its work from EDS. FS was on the short list for all five service categories of this work, a precondition for which was the signature of a frame agreement. Work was proceeding on this. It was likely that DWP would seek a parent company guarantee to replace the guarantee given to DSS in 1999 and this would be raised with the Committee in due course.

Mr Courtley welcomed this new prospect.

05/10 **Date and location of next meeting**

The next Meeting of the Committee would be held in May. The venue would be London. The Chairman looked forward to welcoming Mr Madarame and his colleagues and he and Mr Courtley would arrange for them to meet as many customers as possible during their visit.

There being no further business, the Meeting ended.

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Chairman