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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 9.30 am on Wednesday 29th May 2002
at 26 Finsbury Square, London EC2A 1SL

Present:	Mr. H. Kurokawa	(Chairman)
	Mr. R. Christou	
	Mr. D. Courtley	
	Mr. T. Adachi	
	Mr. H. Hirata	
	Mr. H. Kodama	
In attendance:	Mr. R. A. J. Allnutt	(Secretary)
	Mr. T. Matsuoka	
	Ms. Reiko Mizusaya	

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02/01 Constitution of Committee

It was noted that the Committee had been constituted by resolutions of the Boards of Directors of the Companies passed today. The composition of the Committee, including Mr. Kurokawa's appointment as Chairman, were noted. It was also noted that the final form of the Committee's powers and terms of reference had not yet been agreed, but that the Boards had approved the transaction by the Committee of the business on its Agenda for this Meeting and any other business connected with it.

02/02 The Chairman welcomed those present to the first meeting of the Committee, which marked a fresh start in the management of Fujitsu Services Holdings PLC ("FSH") and its Group. The aim was to make meetings of the Committee real working sessions with a view to moving the Group forward. He invited all members of the Committee to express their opinions frankly.

02/03 CEO's Report **FSMC/02/01**

Mr. Christou commented on his report.

The last financial year, 2001/2002 was one in which a great deal had been achieved: the restructuring, Project Fuji, the rebranding and some difficult contract

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negotiations. The outcome had been positive, with the break-even result showing that the Group was capable of operating profitably. A lot remained to be done, but the foundations had now been laid for further progress, and he had expressed his thanks to the Group's employees for all their efforts during the year. He noted, however, that some of the actions taken would make it more difficult to achieve operating profit targets in 2002/2003. It had been very difficult to cover the Libra write-down, and this had been achieved by extraordinary actions.

Going forward, the Group's credibility would depend on whether last year's performance continued into the present year. The results for April 2002 were reasonably encouraging. The biggest challenges for 2002/2003 would be EMEA and legacy issues from the restructuring which could not be addressed because the restructuring provision was insufficient (e.g. surplus or vacant UK property space).

The FS/FC relationship was going well. In Mr. Christou's opinion, the biggest issue was FC's lack of critical mass in the UK and Europe. So far as FS was concerned, it was now concentrated in the UK, with no US representation and representation at sub-critical level in EMEA. Viewed globally, there were big holes in coverage and Fujitsu Limited might wish to consider this.

This year's budget for FS must be regarded as stretching. Revenue was likely to be a problem in H1 and it would be a challenge to break-even at the end of H1. Nevertheless, Mr. Christou confirmed that he, Mr. Courtley and Mr. Adachi remained determined to push forward. He invited questions from the Meeting.

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02/04 CFO's Report FSMC/02/02

Mr. Adachi presented his report, commenting that the 2001/2002 figures were not final pending resolution of outstanding issues on the provision required on HMC&E and on completion of the renegotiated contract with the LCD on Libra. The time required to resolve these issues depended, in the case of HMC&E, on negotiations for a variation agreement with the customer, which were expected to be concluded by the end of July 2002; in the case of Libra, it depended on signing of the new agreement which would, it had been hoped, take place this month, but was now likely to be in the first half of June (the delay being caused by the need to agree a letter of comfort or parent company guarantee). The accounts would have, as a matter of law, to be finalised by the end of October 2002, which imposed a deadline. It was hoped that the two contracts would be signed well before then.

Noting this, the Chairman asked all concerned to use best efforts to ensure the agreements were signed as soon as possible.

Mr. Adachi then took the Meeting through the figures in his reports, highlighting the following points –

(a) Page 1 – Profit and Loss 2001/2002.

Referring to the column "Full Year – Actual", he noted revenue of £2166m, down 10.4%; gross margin undershooting at 17.4%; but operating expenditure down to (17.7)%. After taking into account the central restructuring cost of £(117m), profit before tax was £(133m).

(b) Page 2 – Revenue and Operating Profit

Mr. Adachi commented on performance of the divisions in turn:

- ISD revenue was up at £892m, up £90m. This had been assisted by a commutation of VME income from EDS.

- MCD, at £533m revenue, was down £120m on the year, with its operating profit running at one-tenth of the previous year's.

- P&PS: Revenues were down £50m at £100m. Software sold to Anite had not been a success, although a profit had been taken

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on the sale of Pericles. As a result, there was an operating profit of £4.5m.

- Large Projects (including Pathway): revenues were up to £325m from £308m last year, but the result was £(17m) due mainly to the Libra write-off (last year £25m).

- EMEA revenues were down from £434m to £369m, with the loss trebled over the last year to £33m. Much of the loss was due to France.

(c) Page 4 – Balance Sheet

Mr. Adachi noted that the equity shown exceeded the minimum level prescribed by the Bank covenants.

(d) Page 5 – Cash flow 2001/02

Mr. Adachi drew attention to an increase in the figure against "Movements in provisions/other" to £139m. "Movements in working capital" also worsened to £(95m). Of the movement in working Large Projects accounted for £(61m) of the movement in working capital. The £(33m) figure for capital expenditure should also be noted. Overall, there had been a shortage of cash last year and that needed to be addressed this year.

Passing by the detail in the second section of his report and the draft statutory accounts contained in the third, Mr. Adachi paused at the draft profit and loss account of FSH for the year ended 31 March 2002 in the fourth section. This showed a loss on ordinary activities before taxation of £(97m) and a loss for the year carried forward of £(113m).

Moving on to the comparative figures in the fifth section for the current year to April, Mr. Adachi noted that actual revenue was £134.9m, £15m down on last year (this was mainly due to reduced sales in MCD). Gross margin was, however, slightly better at 17.3% (15.2%). Deducting operating expenditure of £(30.1)m, operating profit was £(6.2m) and profit before tax £(7.3m), an improvement on last year's £(12.7m). The budget for the first half was shown on the right of the page and no change in the forecast was needed at present. With regard to "Profit on disposal" a letter of intent for the sale of Beaumont had been exchanged. Overall, Mr. Adachi regarded the budget as very challenging, but he and his

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colleagues would use their best efforts to achieve it.

Turning to page 6 in this section, cash flow for the current year, he drew attention to the entries in the last box for "1st Half" against "Total of acquisitions", £(16m); and "Total disposals" (£31.2m). The former related to the proposed acquisition of the minority in Fujitsu Services Invia Oyj; the latter to the Beaumont and Tieturi disposals.

Moving to the sixth section, "Negative Legacy", Mr. Adachi noted that the 2002/2003 budget for Profit before tax was £30.2m, after taking into account the impacts from Legacies as shown in the lower box. This box was divided between Legacies included in the budget (totalling £(44.5m)) and those not included in the budget. The latter – Peregrine, Computer Associates and Transys – were not "must do's" from an accounting perspective but, if the Company could afford to deal with them, that would be desirable.

As regards the next paper, "Future Improvements", the items included were at various stages: some were included in the budget, some were not. The effects of the Invia acquisition and the Beaumont disposal were shown at £(4.0m) and £6.4m, respectively. As regards KnowledgePool, the premise was that a sale price of £6m could be achieved for the goodwill. If MCD were sold for £30m, the effect would be £4m. Zensar (ICIM) was currently affected by concerns over Kashmir and its share price was declining. A figure of £4.9m was included for this, but this figure would worsen if the political situation deteriorated. No figures were available for EMEA (E. Europe), but £(0.2m) was shown. £(10m) and £(50m) were shown as the effects for closures in Africa and France, respectively. £(22m) was shown against sub-letting of vacant properties. CAPEX reductions would have no effect in 2002/2003 but should show £6m in each of 2003/2004 and 2004/2005. Cost/Opex reduction was shown as £50m. The profit before tax indicated after deterioration and these Improvements was in the range £(62.6m) - £(74.9m), which would mean that the target of £30.2 was not achievable. If, however, an Invia disposal followed later in the year, the profit before tax would be in the order of £38.5m - £26.2m.

Mr. Adachi then dealt with his paper on Preference Share redemption. Redemption of these shares was due in July 2002. Redemption using distributable reserves was not possible this year, so redemption would be effected out of the proceeds of a fresh issue of new preference shares, redeemable in three years' time.

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As interest rates were now lower, the coupon would be 6% rather than the 9% on the existing shares and so there would be a £4m saving on the preferential dividends.

The next paper concerned Banking Arrangements, and Mr. Adachi referred the Meeting to Appendix 1. The top box here showed borrowings, with £219m borrowed. All these borrowings were committed, except for Citibank, which was uncommitted. In effect, facilities of £410m were available for borrowing. The second box showed forecast facility usage. This showed gross borrowings at March 2002 of £171.5m with a Q1 peak of £249m and a Q2 peak of £284m in the current year.

Finally, Mr. Adachi referred the meeting to the proposed support letter to the Board of FSH from Fujitsu Limited. Mr. Adachi had on his recent visit to Japan received confirmation that this letter would be forthcoming.

Mr. Adachi invited questions from the Meeting.

The Chairman emphasised the importance which Fujitsu Limited attached to the accuracy of the Company's forecasts, and the need to ensure that forecasts stayed as close to reality as possible. This should be achieved by reviewing the budget in Q2, paying particular attention to the apparent decline in revenues and the implications of that decline. Generally, it was important to achieve a better profit level.

Whilst the Chairman appreciated that there was little time to prepare for Q1, he requested that the work be carried out by 18 June 2002 so that the outcome could be explained to Fujitsu Limited. Mr. Christou, Mr. Adachi and Mr. Courtley indicated that this would be difficult, but they thought it could be done.

Mr. Adachi

Mr. Kodama added that the actual figures for April-June 2002 would also need to be explained, and that the explanation would be needed by the 15th of the month for Fujitsu Limited Board Meetings, which took place on the 20th of the month. Mr. Adachi said that this should be in time to report.

Mr. Christou
Mr. Adachi

The Chairman asked how future improvements would be brought into actual figures. Mr. Adachi and Mr. Christou will arrange for this to happen.

The Chairman also asked about cost reductions in Invia, indicating that Fujitsu Limited might pursue this closely. Mr. Adachi said that these reductions would be shown in

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Mr. Adachi

the forecasts provided by 18 June 2002.

Referring to these reductions, Mr. Christou agreed to ensure that the plans for them were collected and reviewed. As regards cost reductions generally in the Group, he thought that the figures for April 2002 showed that the cost cutting measures taken were becoming effective. Cost of sales was better, although there was a need to look further at operational expenditure, which had been higher in April. He would continue to keep costs down. Containing recruitment, and accordingly head-count, was the most effective way to effect cost savings. He had instructed Mr. Courtley and Mr. Leek to avoid any increases and, as a result of the measures already taken, head-count was down from 21,000 last year to 17,000 this year. There was still some scope for further reductions, in particular outside the UK, in EMEA and Invia. A plan would be worked upon.

Mr. Christou

Mr. Courtley added that he thought there was a need to look again in the UK at about 200 people; elsewhere in Europe, it could be very expensive to remove head-count. As disposals proceeded, of course, the number of employees would reduce. He confirmed that the Group would be very careful about further recruitment.

The Chairman and Mr. Kodama confirmed that Fujitsu Limited wanted to see a plan for these reductions, and the expected benefits, by mid-July 2002 so that a report could be made to its Board for it to take into account in considering the big picture for the Fujitsu Group as a whole. Mr. Akikusa was personally interested in this. Increases in the budget, because these reductions were not planned and factored into H2, would disturb the Fujitsu Limited Board.

Mr. Christou confirmed that such a plan would be drawn up.

Mr. Christou

The Chairman added that, apart from Invia, the way forward on France, Africa and India had been agreed and he wished to see the plans carried out without hesitation. Mr. Adachi understood that the Group could aim for an Invia disposal, including beginning discussions with potential buyers and the possible price, but formal approval from Fujitsu Limited was still needed. Mr. Kodama said this was understood but, whether Invia was sold or not, it was important to prevent further deterioration there. Agreeing with this, Mr. Christou observed that three steps needed to be achieved: to take out the minority; to stabilise the operation; and then to look at realisable value and decide whether a sale was in the Group's interests.

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02/05 New Organization Model FSMC/02/02-1

Mr. Courtley presented his paper and identified the principal issues:

- A new top team of managers, some from within FS, some from elsewhere.
- A new accounting model focussed on customers.
- Core delivery – a new concept to drive cost improvements and productivity.
- Large Projects reporting directly to Mr. Courtley until sensitive negotiations concluded.
- New plan for EMEA (to be presented at this meeting by Mr. Escudier).
- Core organization to be involved in EMEA countries to ensure compliance with the Group's corporate standards.
- No changes at MCD, KnowledgePool, Africa and Invia because of disposal plans.
- Head-count down significantly.
- Sales teams reduced, focussed on opportunities, enabling such opportunities to be taken in the coming year.
- Business assurance under Martin Coombs working closely with Mr. Hirata's team.
- New business review process – first round has demonstrated it worked.

02/06 EMEA FSMC/02/03a FSMC/02/03b

Mr. Tim Escudier in attendance.

Mr. Courtley explained that a careful withdrawal was planned from non-core countries, consulting where appropriate with Fujitsu Limited and relevant governments. PricewaterhouseCoopers Finance had been retained to advise. The overall intention was to withdraw from East, Central and Southern Europe, and from the Middle East so that the management team could focus on more important countries.

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Mr. Escudier explained that the countries in question were not an operational problem, but they were distracting and there was always a risk of financial problems going forward. The solutions varied. The Balkan operations were difficult; it was proposed to close them, move certain aspects of them under the management of the Greek operation and then sell that operation. The operations in the Eastern and Central European countries would be closed or sold, and the UAE and Malta would be sold. Fujitsu Siemens were, it was reported, interested in the well-run operations in Malta and the Czech Republic, and the Head of M&A was working on that.

Mr. Christou indicated that a general approval for this plan was sought, empowering him to effect such sales or closures by the end of the year. He invited views from the Meeting.

Mr. Hirata thought that where a sale was possible, it would be worth producing a review or survey of the business in question, but not where closure was the only option.

The Chairman agreed that the correct course for non-core businesses was sale or closure. If Fujitsu Siemens was interested, that would help both FS and the employees, many of whom were of good quality. Mr. Christou agreed, commenting that sales to local management might be possible; he would, however, like a decision from Mr. Urano on the operations in the Czech Republic and Malta.

At the Chairman's suggestion, it was RESOLVED to proceed with sale or closure of operations in non-core countries and agreed that the programme should be put in the milestone chart so that progress could be monitored.

Mr. Christou

The Meeting turned its attention to the operations in core countries.

By way of introduction, Mr. Christou observed that none of the core countries, apart from the Netherlands and Finland, could take big infrastructure support contracts. Accordingly, even if losses were stabilised and there was a realistic opportunity to achieve break-even or better, the question remained what contribution those countries could make in the next three years. The challenge was to find a way to move the operations in these countries into profit.

Mr. Escudier was invited to address the Meeting, and

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presented a paper entitled "Core Countries Overview". In summary, Mr. Escudier felt that a high degree of autonomy had been the norm in the core countries; that a number of countries had lost their way; and that base offerings and capability varied widely. The Netherlands was in the best condition. Italy and Switzerland were the worst.

His team were engaged on three approaches to achieve turnaround: functional discipline; Project Profit, which aimed to deliver improvements in sales, services and cost; and the formation of a strategic/business plan.

In considering capabilities and offerings, it was important to look at the market place, since local conditions were not always the same as those in the UK or the US. For example, not all countries accepted outsourcing. One of the objectives of the offering portfolio was to help countries decide where they stood.

Looking at each of the countries in turn –

- The Netherlands – this country was in the best shape. It was expected to deliver between £1m and £3m of profit this year. Although there were still some risks affecting the achievement of this result, there was a strong business and a good strategy, and a close alignment to Fujitsu Services Limited ("FS") in the UK.

- France – the position here had been very poor for many years, with £50m having been lost over the last three years, taking into account RATEX. That said, there was some evidence that the operation was finally getting its act together. The local management's current recovery plan should be rejected. There was an outside chance of the operation breaking even in eighteen months' time, but France was a very difficult location and there would always be a risk of a relapse. The management team was now motivated to make money, rather than lose it.

- Germany – the base of the business here was at a low level and capabilities were also low. It would lose money this year but the new management team, though inexperienced, was highly motivated. They believed that they could turn the business around and the expected loss of £2m this year would certainly be better than the £5m loss last year. The management was doing the right things to control cost. Mr. Escudier believed that they could attain break-even in the year 2003/2004.

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- Italy – the position here was very bad. Of the 220 staff, 110 were mobile engineers, which in a country the size of Italy was a very small force. Another 50 staff worked on retail Centres of Excellence and there were a further 50 employees selling various local offerings. There was no strategy and a very poor capability. One possible solution was to outsource the mobile engineers to a local company: this, and the general way forward, needed to be discussed. All that said, it must be admitted that Italy was a large European economy where there should be opportunities.

- Portugal – the operation here was very well managed by Antonio Almeida, who retired this year. A succession plan was in place. There had been a problem last year with a bad debt which had had to be written off, but Portugal was not usually a loss making operation. Nevertheless, it had to be recognised that Portugal was not a major economy.

- The Republic of Ireland – this operation was currently going backwards and the Country Operating Officer had just been removed. Mr. Escudier questioned the viability of the streamed businesses of FS and Fujitsu Consulting ("FC") in Ireland. Given the size of the economy there, he thought it would make sense to consolidate FS and FC into one business.

- Belgium – this was a small operation, which had been maintained because it supposedly offered the opportunity to develop relationships within the European Union. There was a possibility that the business might be turned round within eighteen months.

- Switzerland – capability here was weak and there were, in effect, only two retail customers – Bally and McDonald. The staff consisted of twenty employees and around thirty-five mobile engineers. Mr. Escudier considered that the customers in Switzerland could be supported without a Swiss operation. He did not expect a turnaround to be achievable within eighteen months.

Mr. Escudier added that a number of countries complained about the costs of the arrangements with Logicom. He considered that, if better managed, the countries would be able to drive down their costs in this respect, as had been done in the UK. He conceded that the cost of the arrangements was higher than market

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rates in some countries, but they all needed logistical capabilities and some level of cost would be incurred in any event.

Mr. Christou suggested that the Meeting consider each of these countries in turn. It was evident to him that the core countries were in as much trouble as the non-core countries.

- The Netherlands – Mr. Courtley indicated that he was pleased with this country. There has been a problem with two key customers affected by the events of September 11th, but these problems had now been overcome. There was both the potential for profit and a base upon which to build. The offerings and general position were not exciting, but were sustainable. His recommendation was that the Netherlands should keep doing the same things as they did at present, but do them better. The aim should be to improve the offerings base and make a £3m profit on £70m revenue, which he considered to be feasible. The steps which were being taken by Mr. Escudier included requiring the Country Operating Officer, Frank Boekel, to submit to the new style of the Group and its new disciplines, and he was seeing the beginnings of a response to this.

  Mr. Christou wondered whether it would be possible to double the revenue in the Netherlands by March 2004. Mr. Courtley felt this was not possible organically: in his view, it would take three and a half years. Mr. Escudier thought that it would be necessary, with UK support, to obtain two or three total outsourcing contracts. Even then, to double revenue would be a stretch. Mr. Christou thought that the capability for growth in The Netherlands meant that other courses should be at least considered – for example, allowing recruitment or increasing the size of the operation through an acquisition. He stressed that he was very cautious about this, but felt that it was easier to make a viable operation stronger by acquisition.

  The Chairman observed that, if the Netherlands operation could maintain a critical mass, good management and a reasonable market profile, and if it could achieve a reasonable sustainable profit within the next eighteen months, it seemed to him that there would be no need to close or sell the operation. Mr. Christou agreed with this. The question he was asking himself was whether this operation was ripe for investment because it afforded an opportunity for growth. In the absence

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of such investment, he thought that the operation would improve organically, but it would still be small even if it was profitable.

- Belgium – Mr. Courtley wished to consider Belgium next, because of its physical proximity to the Netherlands. He agreed with Mr. Escudier's views. There were 150 staff and £11-12m of revenue. The business was budgeted to break-even. It was not strategically significant, and its capabilities were not exciting. It was proposed to change the management team.

  The supposed attraction of the Belgium operation was that the European Union was based in Brussels and provided a focus for Europe. The problem was that the EU itself was not a large purchaser so that the notion it offered the opportunity for revenue growth was really illusory.

  Mr. Courtley had wondered whether to align the Belgium operation to the Dutch management team as a means of squeezing down costs. The problem was that the Dutch and the Belgians tended not to work well together. On the whole, Mr. Courtley thought that the best course was to close the Belgium operation down, although he conceded that it was expensive to terminate employment there. Prospects for a sale were marginal. Mr. Hirata agreed that the best course was to either sell the operation, if that was possible, or to close it. He supposed that alignment to the Netherlands was a possibility, but it did not sound attractive.

  The Chairman concluded that it would be hard to enable this operation to reach a critical mass and therefore sale or closure was the best answer so that it would no longer be a liability for FS. Mr. Adachi also thought that a turnaround in Belgium was not credible. It was agreed that Mr. Escudier and Mr. Hirata be asked to confer with the Director, M&A about possibilities for disposal.

- France – As noted, the huge losses were the main feature here. Mr. Escudier's belief was that, if the current recovery plan were done properly, the French operation might do better than an operating loss of £8m. Nevertheless, it was thought that a great deal of effort would be required to bring the business back to break-even. There would be a need to keep winning contracts. Further, the workforce was intransigent because of the legal system there, which greatly favoured the employees

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– a state of affairs of which the staff were only too well aware. The fact was that the quality of work in France was not helping FS in terms of its image there. It was poorly positioned in the IT services market.

Mr. Escudier thought that tight management of the French operation could, nevertheless, achieve a lot. With revenue of £48m, it ought to be possible to make a profit. France was a major growth market. On the other hand, the operation had a low capability and even after a huge effort had been put in to turning the business around, it would still not be a true infrastructure support business but a business engaged in lower level field maintenance activities etc. The only way to improve this would be to buy an operation engaged in infrastructure support or get a large outsourcing contract: neither of these possibilities was very likely.

A discussion followed, to which Mr. Hirata, Mr. Christou, Mr. Adachi and Mr. Kurokawa all contributed. Mr Adachi considered that the French operation should be sold or closed. The Meeting agreed. It thought that it would cost a lot of time and money to close the French operation outright. So the best course might be to run the business down to the point of closure. Although sale was thought likely to be difficult, given that there were only a few buyers in the market, it was decided that this course should also be considered. These possibilities should be brought back to the Committee once the figures and milestones were available. It was also agreed that there would be no further investment in France.

- Germany – Mr. Courtley observed that the operation was small and did not provide a strategic springboard from which to take on the German market. Whilst he believed that Germany was becoming more amenable to outsourcing, the Company was not well positioned to take advantage of this. The business there combined break/fix business (which was in a competitive field and had to operate at low margins in a widely spread out country), retail, and legacy activities. That so, there had been a management change last year, and there was now a new team. Mr. Courtley believed that Germany could do better than forecast by the year end. Nevertheless, he did not predict a break-even this year, although that might be possible next year.

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The Chairman expressed his concern that the problems in Germany were not dissimilar to those in France, including the labour problems. He therefore thought closure should be considered, although he was willing to consider other courses of action. Since he thought the operation was not capable of catching up with Siemens, a possibility might be an alliance with Fujitsu Siemens.

Mr. Christou considered that, if FS wanted to make an impact on the German market, a major acquisition would be needed, involving a price in the hundreds of millions. It was agreed that the Group should investigate selling or closing the business or otherwise transferring it to Siemens.

- Italy – Mr. Courtley's plan for Italy involved changing the management by finding an interim manager to improve and stabilise the situation. In this regard, Mr. Ken Cusack had been sent in on a three month contract.

  Italy had no real strategy and had had a poor management team, which had tolerated bad performance and losses. The new management were now taking a stronger line and better results were coming through. Mr. Christou referred to the difficulty of retaining good management in an operation which was performing badly.

  The Chairman said that, subject to looking after the retail businesses, he considered that the best course was to close the operation. Agreeing, Mr. Christou added that it might be possible to move the management of Italy's retail operations to another country.

- Switzerland – the problem here was, simply, that high administrative costs were incurred to look after two customers. There was no new business coming through. The answer seemed to be to close the operation, although a decision would be needed on how to look after the retail customers. It was noted that Switzerland was a relatively cheap jurisdiction in which to terminate staff.

- Portugal – despite the good management here, it had to be recognised that Portugal was a fairly small country with a fairly small economy. Consideration had been given to managing the Portuguese operation together with Spain, but the countries differed culturally and did not always work well together.

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The Chairman wondered whether prospects for future growth meant that a good price might be available if FS attempted to sell the operation. Mr. Christou thought that more profit would need to be generated to make the business seriously attractive. An alternative might be a sale to the existing management, coupled with an offer to make the Portuguese operation an FS distributor. Another possibility was to find a local purchaser which could remove OPEX and make the business more profitable.

The Chairman wondered how much it would cost to close the Portuguese operation. He was content to leave Portugal as it was, but thought that other possibilities should be investigated. The aim should be to include in the July plan outline proposals for Italy and other cases in the same situation. Mr. Christou observed that there would need to be a trans-European network to deal with customers from closed operations.

- Ireland – Mr. Christou's opinion on this country was that he did not mind whether the Fujitsu operations there were run by FS or FC. What was needed was closer, tighter management. Mr. Escudier thought that the possible solution was to run the businesses as a single FS/FC operation. This also would provide the necessary critical mass.

  The Chairman observed that reorganising the two business streams into one was a course which had not been thought appropriate. He felt, nevertheless, that such a course might be considered now, given that the circumstances were different. He would inform Mr. Hirose in Tokyo. Mr. Christou noted that there were proposals for Mr. Courtley to talk to Alan Baxter of FC on this subject.

- Generally – if these plans were carried out, FS would in twelve month's time have a reasonable business in the Netherlands, which could deal with the maintenance of customers across Europe. The transactions which were proposed were expected to reduce losses and, indeed, to add £30m at the operating profit level. There would, however, as a result of implementing this plan, otherwise be no European business. The feasibility of offering to undertake large outsourcing contracts from FS's UK base would need to be investigated. It would probably mean providing management in the places where FS found its projects – just as EDS does.

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The Chairman commented that the focus now should be on strengthening FS. It was not possible to strengthen countries outside the UK, except in the case of The Netherlands. In his opinion, FS should take steps to get rid of the loss-makers and, instead, to grow UK customers. He suggested that consideration be given to supporting continental Europe from The Netherlands or to getting an outsourcing partner for continental Europe. Overall, he saw the need to downsize in order to make a profit and then expand again. The present was a "time of endurance". Mr. Adachi agreed with this. FS could not afford the luxury of investment: its need was to decrease its losses. FS might indeed, at some future time, grow to European or even global size – but the route to this was to lift perceptions about FS. It would then be possible to raise money to buy more businesses and so to grow by acquisition.

Mr. Christou said that he was looking to the Committee for a direction as to the line to take beyond the end of next year. Such a direction was needed to avoid the possibility that FS would simply become reactive. In general terms, he thought it was necessary to step back in order to spring forward. This meant targeted acquisitions, but not in the present financial year. The Netherlands was the logical place to start. He also thought it worth considering how major outsourcing opportunities could be taken in other countries by establishing a temporary presence there. He believed that it would be useful to develop a strategic plan. Mr. Courtley agreed that a plan was practicable, but pointed out the need to remember that at present the market was simply not there. This might afford opportunities: many companies were suffering and distressed purchases could be available in the short term. Mr. Christou agreed with this, but said that small acquisitions would not help. The size of acquisition needed would be more of the order of £500m. Any small sums available would be better spent on organic growth – for example, in PFI contracts where profitable business was available in return for additional capital investment.

Mr. Courtley (and Mr. Escudier)

The Chairman concluded that in the present year, the aim must be to consolidate and establish FS as a profitable company.

As a footnote, Mr. Hirata noted that in Ireland there had been identified fifteen software people whom Fujitsu Limited were prepared to take.

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02/07 Invia

Mr. Christou provided an update for the Meeting. Preparations had now been made for the buy-out of the minority shareholders at a price of €1.50 per share. If this Meeting approved the buy-out, an announcement would be made later in the day that FS was making an offer to the minority. Such offer was conditional on sufficient acceptances to give FS 90% or more of the shares. Provided this level of acceptance was attained, FS could then compel dissentient shareholders to sell their shares. In practical terms, the acquisition should be concluded by September 2002, although the transaction should largely be achieved in June. If less than 90% of the shareholders accepted the offer, it would lapse in two week's time. But Mr. Christou had conferred with the minority shareholders and established that they were content to accept the offer.

Before the offer could be made, Invia had to publish its results and, in that respect, had had to agree a goodwill impairment at €67m. The result of this was that Invia would have negative net assets. Under Finnish company law, the parent was required to restore the equity in such a company either through a subscription for shares or by the creation of a capital loan (what would be called a subordinated loan in the UK). In the case of Invia, all that was required at this stage was an announcement of FS's intention to restore the equity within a period of twelve months. It was likely that FS would elect to do this partly by a subscription for new shares and partly by a subordinated loan and that these steps would be taken shortly after all the minority had been bought out, i.e. some time between June and September. Meanwhile, FS had agreed to provide further support for Invia, and Mr. Christou was writing to customers selected by Invia's Managing Director, Henry Ehrstedt.

Questions and answers for employees and the press on this acquisition have been settled with Mr. Tokuda in Tokyo.

Most of the shareholders would be paid at the end of June.

The proceeds of the sale of Beaumont would provide most of the cash for this acquisition.

It was noted that there had been leaks in Finland and some newspaper reports. The Financial Times was also interested but was being managed. The minority shareholders had, Mr. Christou thought, no interest in

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making difficulties.

Mr. Christou

It was RESOLVED that the Invia acquisition be approved and Mr. Christou was directed to progress it.

The meeting then turned to the question of a long term strategy for Invia, and reference was made to the CEO's report. The real problem was that the Invia management did not have a full grip of their business or financial issues. It was thought that the Financial Director, who had now been in place for eight months, had not done well, and Mr. Adachi had expressed his displeasure. Although the business was reasonably well run in Finland, the management had failed to run the businesses in Sweden, Denmark and Norway effectively. It had therefore been concluded that FS must take a much closer management interest, making sure that the business was as profitable as possible, controlling costs and making the most of the operations in Sweden, Denmark and Norway. Mr. Courtley was considering operational measures including removing cost and also splitting the operation so that the management in Finland ran only the Finnish business and a much stronger interim manager was identified to run the Scandinavian businesses from Sweden. This should be beneficial for Finland, which had the requisite critical mass and ought – like The Netherlands – to do well. On the other hand, Norway, which was very small and had only one or two substantial customers, ought to be closed.

Moving beyond the measures to stabilise these businesses, Mr. Christou made the point that any proposals to sell Invia would be premature without an understanding of how the businesses were currently positioned and possession of sufficient information about them.

A general discussion followed, to which Mr. Courtley, Mr. Adachi, Mr. Hirata and the Chairman contributed. Concerns were expressed about the accuracy of forecasting, the capability of the Invia CFO, morale, the leak of information and communications between Helsinki, London and Tokyo. Mr. Christou explained the background to the desire of the Finnish business to have autonomy and the loss of morale when the proposed float failed. In his opinion, Invia had lost its way even if it was solely viewed as a Finnish operation: it had lost market share and was much less profitable. Although the Finnish management would dislike the imposition of the same disciplines as applied in FS, Mr. Christou thought that such a regime would help Invia's performance. If, on the other hand, Invia were left

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alone, its results would not improve. Indeed, if the same approach were allowed to continue, there would be no point in buying out the minority shareholders.

A discussion ensued about the best way to exert influence on Invia, and the Chairman concluded that Invia should report directly to FS with Mr. Adachi or Mr. Hirata as additional directors. The Chairman asked Mr. Christou and Mr. Courtley to ensure that they were kept well informed and in a position to assess risks in future. Mr. Christou confirmed that he would arrange for Mr. Adachi to spend more time with Invia in future.

On the question whether Invia should be sold, Mr. Christou repeated that the first step was to stabilise the operations there. Investigations would be made and recommendations drawn up, but this was unlikely to happen until late August or early September 2002. **Mr. Christou**

Whilst agreeing with this, the Chairman said that the overriding need was to improve FS, and this meant finding a potential buyer for Invia. He was content for any thorough investigations to take place, but the end result must be the sale of Invia.

02/08 MCD

Mr. Christou reported progress on the proposed disposal.

Investigation of the purchase price that could be attained was proceeding. Morgan Stanley, acting for FS, were investigating the financial position with a view to preparing a valuation.

Their provisional conclusion was that the performance last year of MCD had been so poor that there must be some doubt about the saleability of the division. In Mr. Christou's opinion it was, however, better to sell this business than to continue to hold it. There was a risk that multivendor reselling was being squeezed out of the market. He thought that net asset value and a little more was the best price that could be looked for.

This year's trading was also looking unsatisfactory. Mr. Courtley was working on a plan for securing a profit improvement in the business. **Mr. Courtley**

02/09 Pensions FSMC/02/09

Mr. Christou referred in part to his CEO's report. There were two issues, which were entirely separate. The first related to the way in which FS would be required from March 2004 to account for pension liabilities in its

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corporate accounts. The second related to the question of whether the pension fund had sufficient assets over the long term to meet the long term liabilities that the fund had to its members.

On the question of corporate accounting, the current accounting convention (SSAP24) calculated whether the assets of the fund were currently larger than its liabilities or less than its liabilities. In each case the company was required to amortise the surplus or the deficit over the future projected life of the members. For most practical purposes this was usually considered as 10 years. The new accounting standard (FRS17) required roughly the same calculation to decide whether there was a surplus or a deficit but it then required the company to add that surplus to its assets or deduct the deficiency from its assets as at the date the calculation was made. This calculation was made each year as at the end of the relevant fiscal year. Given that the market value of the assets was used in determining their value and this valuation was made as at the date on which the relevant fiscal year ends, there was considerable fluctuation, from year to year, in the surplus or deficit, so that the net assets of the company would also fluctuate from year to year in a fairly unpredictable way depending on the market values of the pension fund assets at the end of the relevant fiscal year. (In contrast, under the old SSAP24 this variation was calculated only once every three years and was smoothed or spread out over the period of 10 years as described above.) Where a company had large net assets in relation to the value of the assets in the pension fund this was of little consequence. For instance if a company had net assets of £1bn and the assets in its pension fund were currently valued at £100m, the fluctuations in the future valuations of those assets (even if they halve in value) was of little overall consequence.

Unfortunately, in Fujitsu Service's case its net assets were small but the assets in the pension fund were large (over £1bn compared to net assets of somewhere around £250m). This means that fluctuations in the value of the pension fund assets could easily throw up a deficiency which materially impacted Fujitsu Service's net assets and in extreme cases could turn them into negative assets. The consequences of this for a wholly owned subsidiary and indeed on Fujitsu's consolidated accounts would have to be considered as an issue of corporate accounting. However, it was important to realise that these calculations did not directly affect FS' operating performance or cash flows nor were they necessarily a true reflection of the solvency of the

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pension fund.

To consider the true situation of the pension fund the question to ask was whether, over the life of the fund, it would have enough assets, and income from those assets or from contributions, to satisfy the liabilities which it had to pay out to its members. The actuary was obliged to carry out valuations to decide this issue every three years, not every year as was the case with FRS17.

Cash to satisfy those liabilities could only come from three sources, contributions from the employer and the employees, income on assets held, or the proceeds of selling assets. When deciding whether the fund could pay out sufficient cash to cover its liabilities, the actuary, using somewhat different assumptions to those under FRS17, would decide the stream of cash that was necessary to satisfy future liabilities during the life of the fund. To the extent that the market value of the current assets (at the date of the actuary's calculations), plus the income that the actuary forecasts they would generate, was not sufficient to pay out the liabilities, the deficit must be matched by cash paid into the fund either by the employer or the employees. By producing discounted cash flows, the actuary could decide on the net present value of the amount of cash that the employer and employees must contribute over the life of the fund in order to satisfy any gap that was left after taking account of the capital value of the assets and the income they would generate. However it was not necessary to pay any of that net present value into the fund immediately.

The actuary would calculate first of all the expected income stream from employees' contributions over the life of the fund and then would satisfy the balance by setting a level of employer contributions which created a stream of cash over the life of the fund which covered the remaining deficit.

Thus the employers' level of contributions would rise in the event that there was a deficiency and could be reduced in the event that there was a surplus. Any effect of a deficit in the plan (so far as cash flow was concerned) was reflected for the employer in a larger level of contributions to the fund in each year until the value of the investments in the fund rose sufficiently (together with their projected income) that there was no need for further deficit funding. The P&L effect of this funding deficit was an increase in the employer's labour costs associated with employing those employees who were members of that fund.

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In the past ICL had been able to pay no employers' contributions because the level of assets was sufficiently high to make this unnecessary. At present, FS was paying pension contributions at 18.3% and if there was a deficit with contributions at this level then that percentage would need to be increased until the situation changed.

It was thus important to realise that the calculations used for the purpose of corporate accounts under SSAP24 or FRS17 did not determine the level of deficiency or surplus in the fund over the long term nor did they require that the company pay into the fund each year the amount in cash of any deficit thrown up by the calculation under FRS17.

It was useful to have a further discussion and to understand the effect on the corporate accounts but, so far as paying further cash or changing the contribution rate into the pension fund for the employer, this should await a full and careful valuation of the fund and its liabilities by the actuaries, which would take place in April 2003. Until then there would not be sufficient data to take any particular decision on the subject, although the Group was considering an interim valuation and a number of options for dealing with this issue.

The Chairman asked whether there would be a deficit in the fund and, if so, whether it would be a big one. Mr. Christou said that he did not know. It depended on where equities stood in April 2003. He thought it was likely that there would be a deficit, but he did not know what size it would be.

Mr. Leek attended the Meeting and reported on his conversations with Mr. Okada. The plan was that, from now until September, alternative strategies would be worked up. Thereafter, the actuaries, Watson Wyatt, would take three to four months to do the valuation. It should then be possible to suggest a way forward. Mr. Adachi asked what, if the deficit identified was of the order of £300m, would be the solution. Mr. Christou said that, if the deficiency arose under FRS 17 and the Company had negative net assets, the solution would be the injection of further capital. If the deficiency was in the pension fund, the employer's contributions would need to be increased. An alternative would be to wind up the fund, or to put cash into the fund (although there was no obligation to do the latter). Another possibility was to operate the fund as a completely closed scheme, paying cash to top up benefits. The level of the deficit would determine what needed to be done. Yet another alternative would be to sell the fund to a large insurance company, but such a course should only be taken when

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values were high. In conclusion, this was not a desperate situation but it needed to be managed thoroughly.

02/10 Customer Issues FSMC/02/04

Mr. Courtley referred to his report. The main points to which he wished to draw attention were as follows:

- Irrelevant

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- Irrelevant

Mr. Christou added that he would be reluctant to lose this business and, provided it was profitable, he thought FS should proceed with it.

The Chairman noted that a thorough study was being made. He thought that a longer term view of this project should be taken. On the question of FS involvement in the US, the Chairman was discussing such operations with Mr. Nagano and, though European business should have priority, he thought FS should capitalise on all its existing relationships. Mr. Kodama referred to his own involvement in due

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diligence for Fujitsu Limited and through his role in relation to software servicing. He wondered whether Fujitsu Limited could help. Mr. Courtley thought that it could. He believed this particular contract could be the base line or basis for future business. He did not wish to discourage the FS sales team.

Mr. Christou noted that due diligence ended on the 26th June 2002. He felt that the analysis should proceed.

The Chairman asked about the quality of people in data centres and whether costs could be reduced by 15-20%. Mr. Courtley said that the operation was not badly run at present, but it could be better. The key was getting the right quality of management in place. He had taken steps to achieve this and also to get the right information and to ensure it was analysed properly to secure the best result. Mr. Adachi said that FS was doing the necessary calculations but would appreciate Fujitsu Limited's input. The new management team should inspire confidence and FS needed to stand on its own feet in this.

The Chairman commented that, as FC would be the prime contractor in this matter, risk was very much uppermost in Mr Madarome's mind. That is why he had requested proper due diligence. Mr. Adachi indicated a concern about sending US business through FS.

- Irrelevant - Mr. Courtley said that FS would know at the end of June whether it would win this project.
- Pathway – agreement had not yet quite been reached on the new network banking contract. However, the customer was meanwhile paying FS on a time and materials basis to do the work in any event. The customer had ordered hardware etc. At present it was hoped to close this matter in mid-June. Meanwhile, discussions were continuing with the customer about extensions and variations.
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months ago inviting Mr. Christou to cause FS to share the pain on an £18m overrun with a view to renegotiating the contract. Mr. Christou also referred to the fact that the former Project Director, Angela Thomas, had been criticised by Mr. DeKozan for sticking to the letter of the contract instead of being accommodating. This had resulted in FS putting in another Director. Mr. Christou believed that, as Mr. DeKozan has been unable to persuade him to share the pain on the contract, he had decided with EDS and Transys to do a new deal with LT which would cut FS out of the project without payment whilst conceding around £7m to LT. This could mean that there had been a kind of conspiracy to deprive FS of its rights under the contract.

On the question whether FS had performed its duties as sub-sub-contractor, a report obtained from the independent expert, Charteris, said that the delay resulted materially from failures by Cubic and London Transport to perform dependencies and that this contributed seriously to the delay caused. In short, Mr. Christou felt that FS had been badly dealt with by Cubic. If FS did what Cubic now wanted, it would have to give up its IPRs, give up its invoiced charges of £7.7m and possibly pay compensation to Cubic as well.

The present position was that FS had refused to hand over its IPRs, which had annoyed both London Transport and Cubic. Mr. Christou had had a meeting with Jay Walden, the second-in-command at London Transport. The latter had asked about FS's position and FS had indicated its willingness to help London Transport but felt it was in the right. A meeting was being set up between Mr. Christou and Mr. Courtley on the hand and the LT Project Director, and this would take place. There would no doubt be frank discussions, and the question was where they would lead. It was possible that action would have to be taken against any one or more of CTS, Cubic Corporation, Mr. Walter Zabel, LT and EDS. At present it was impossible to say whether such proceedings would be necessary. Whilst Mr. Christou was reluctant to take that sort of action, he could not contemplate FS giving up many millions of pounds simply to be seen as acting co-operatively with Cubic. Mr. Christou mentioned that Cubic Corporation often engaged in litigation and appeared to have a poor record. He commented that Fujitsu Limited might well receive more letters from Mr. Zabel.

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Overall, FS's position was that it was willing to help London Transport and would be happy to do a deal with them. It would expect to get compensation and help with the other sub-sub-contract with EDS on support. This was not an operations issue but a commercial/legal issue.

The Chairman noted that the other party's perception of this dispute might be that FS were to blame. He hoped that FS would find a way to resolve the matter, although he added that FS should not capitulate. He referred to the Fujitsu Limited semi-conductor relationship with Cubic. If FS wished, discussions could be escalated to the Fujitsu Limited level.

Mr. Christou reiterated that he did not wish to litigate with the other parties to the project, but felt he might have to do so. He added that Mr. Shiraiwa of Fujitsu Legal had been in touch with Richard Allnutt and Mr. Hirata.

02/11 Items for Noting and Questions **FSMC/02/05 FSMC/02/06 FSMC/02/07 FSMC/02/08 FSMC/02/10**

Mr. Christou said that he thought most of these points had already been dealt with during earlier discussions.

As regards Africa, he was taking steps to dispose of or close the African businesses. As regards the countries outside South Africa, the closures would take place by the end of H2. The operations in South Africa itself and Botswana would be more difficult and expensive to shut down, because of customer obligations. It would not be easy to sell the operations.

Mr. Courtley was intending to stabilise the operations with a view to seeing whether break-even could be achieved in H2. Mike Stairs, who had until recently been dealing with France, was now dealing with Africa.

The other items were either self-explanatory or had been dealt with above.

The Chairman asked that further details on the HR Manpower report be passed to Mr. Kodama.

Mr. Christou

The Chairman asked what measures were to be taken for the non-core countries. Mr. Christou confirmed that he would clarify this by the middle or end of July: the work had already been started and was fairly far

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advanced.

There being no further business, the meeting ended.

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Chairman