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COMPANY SECRET **DRAFT**

FUJITSU SERVICES HOLDINGS PLC
FUJITSU SERVICES LIMITED
FUJITSU SERVICES (INVESTMENTS) LIMITED
(the "Companies")

Minutes of a Meeting of the Fujitsu Services Management Committee of the Boards of Directors of the Companies

Held at 9.00 am on Tuesday, 20th August 2002
At Fujitsu Limited, Irrelevant
Irrelevant

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

ACTION

02/12 Minutes of Meeting held on 29th May 2002

The Minutes of the last meeting held on 29th May 2002 were approved as a correct record.

02/13 Matters Arising **FSMC/02/11**

Mr Christou ran through the matters arising. He assured the Committee that the majority of the actions had been completed but that the cost reduction plan and head count plan were being continually monitored and would be covered in more detail by Mr Adachi in the CFO Report. It was noted that the Strategic Plan for outsourcing in EMEA was being continually reviewed and that Mr Courtley would cover this in his report.

02/14 CEO's Report **FSMC/02/12**

Mr Christou commented on his report and highlighted a number of points.

The current market is very difficult and most analysts do not predict recovery in the near future. This view has been supported by discussions with industry leaders over the last few months and it cannot be emphasised enough how difficult things are, the industry as a whole was in a loss position.

However, despite these conditions, Fujitsu Services broke even at the operating profit level last fiscal year, therefore performing better than many IT companies in the UK. Further we are planning a PbT and operating level profit this year, therefore our performance will be sensible in relation to other IT companies in the UK. Further that Fujitsu Services is in the right sector, public, outsourcing and infrastructure, which is the sector that is showing some, if only modest, growth. However, public spending will increase and there will be opportunities that we are well placed to take advantage of.

Additionally, we reduced costs last year and were quicker to act than other UK companies, which are now starting to take the actions we put in place last year. Our cost savings are now coming through and helping our bottom line, although revenue is still causing problems.

Mr Christou did not feel optimistic but was reasonably confident that Fujitsu Services had been positioned correctly and performance this year would improve. However he stressed that did not mean that there were not more costs to be taken out or carefully controlled.

Looking to the future he anticipated the long-term problem would be the consolidation taking place in the European IT sector. Fujitsu Services is finding it increasingly difficult to find partners for the transformation part of our infrastructure services business. Sadly Fujitsu Consulting does not have sufficient strength to be credible as a partner, while it is suitable for smaller projects, it cannot replace the likes of PWC on deals such as DVLC. Mr Christou recognises this as a weakness and acknowledges that it gives cause for concern.

Mr Christou went on to raise the question as to whether we should be looking more at business process outsourcing as opposed to simply IT infrastructure services. This was something to be considered in the future, alongside examining partnering possibilities, not just by Fujitsu Services but also by Fujitsu in Europe.

Summing up, Mr Christou felt reasonably confident despite the hard market but recognised that Fujitsu Services faced medium term challenges.

Mr Christou then moved on to consider specific areas for concern and made the following points:

- With regards to EMEA. We are working very hard to shut down African operations, other than South Africa, and EMEA non-core countries. EMEA as a whole was suffering from the same market issues as the rest of the world and the UK. However, the Committee could take comfort from the fact that our businesses are very small and the margins are so low that the effects do not impact on the bottom line as much as they might. France appeared to be stabilising, and a possible disposal would be covered in detail in a later paper. Generally EMEA was not causing excessive concern, Tim Escudier has stabilised the situation but it is making a loss so the situation is not satisfactory.

- The current year performance would be covered in detail by the CFO. Although actuals to date are showing that cost savings are dropping through to the bottom line we still need to be concerned about revenue. Mr Courtley would outline what we are trying to do to address this. It was important to note the very good work by Fujitsu Services staff, including that done to enable the LIBRA contract to be signed. A significant effort has been made and we have managed to turn our problems around.

- In Invia we have bought back the majority of shares from the minority shareholders and we are currently going through the legal process to ensure that by the end of this calendar year and any that remain will be squeezed out. It was noted that Mr Christou had spent time with Henry Ehrstedt to stabilise the situation and agree incentive packages. In short, Finland was doing well but Scandinavia was doing badly, especially Denmark, which should be disposed of immediately. Mr Christou was reluctant to begin the process to dispose of Invia until an advisor had been formally appointed, it was noted that even if Invia was not sold it would still need to be rationalised. Henry Ehrstedt had been asked to start putting together a business plan, including rationalisation, which would be reviewed by Mr Adachi and his team. **TA**

- The sale of MCD was progressing and would be covered in more detail by Mr Adachi. It was unlikely that it would be disposed of before the half year end and it was possible that there would be some write-off which would be better taken in the second half.

- KnowledgePool was progressing and a number of opportunities were outlined in Mr Christou's paper.

- Zensar shares continued to fall. It was noted that we were trying to arrange a sale to another shareholder or a venture capitalist.

- A separate meeting had been arranged to discuss pensions, however Mr Christou stressed that the issue must be handled very carefully or it was liable to cause major disruption to the business and trigger trade union and employee involvement.

In response to questions Mr Christou went on to say, that a modest recovery could be expected in the next fiscal year and by the end of the first quarter of 2004 the situation should have improved.

Mr Christou explained that there was business to be won, but there was likely to be only 6-7% growth, but that this would be won at the expense of the competition. As far as new projects were concerned, they would not start coming through until 2004.

There would not be time for a separate meeting to look at Invia but Mr Adachi informed the Committee that over the next two weeks the Invia business plan would be reviewed, potential investors approached and professional advisors sought.

Mr Tokuda was most optimistic about the value of the online billing business. Mr Christou informed the Committee that it had been valued at 90million euro in the days when dotcom businesses were of value, however in the current market we would be lucky if it was worth 10 or 20 million euro. It was noted that this business was not closely connected to the rest of Invia and the sale could be made public without damaging Invia. Hewlett Packard had been identified as the most likely buyers and would be approached.

Moving on to MCD, Mr Adachi warned that it would take time to arrange a sale and pressure was being applied to Morgan Stanley, the advisors, to ensure that it was sold as soon as possible

It was stressed that care must be taken to ensure that Pension liability was not increased further.

02/15 CFO'S REPORT FSMC/02/13

Mr Adachi commented that there had been a good start to the Q3 budget, the result being effected by the sale of Beaumont House, which had impacted on the profit and loss by £8.6 million. However, it should also be noted that the summary profit and loss assumes the sale of MCD in Q2.

Net Opex had fallen this year when compared to the previous year which was largely as a result of the HR rationalisation programme. It would continue to fall in the second half because of the assumed sale of MCD which would cause a £12 million reduction.

The operating profit for the first half, although negative, was an improvement on last year especially when the VME issue was taken into consideration. However despite the improvement ratio looking poor it was not so bad as appearances may first suggest.

It was noted that the budgeted first half profit before tax included the sale of MCD in Q2. It had been anticipated at Q2 budget that MCD would generate £8 million operating profit in the second half however they didn't materialise and consequently this accounted for the negative figures in the Q2 budget and Q3 budget.

Within UK Services, there was an aggressive 20% increase in sales between the first and the second half. With regard to the separate businesses within UK Services, Large Projects had been the only area to improve revenue on last year. Given that targets were optimistic Mr Adachi explained that he had included a Task/ Contingency to reduce the full year by £34.7 million.

Moving on to the operating profit for UK Services, it was noted that the expected £12.1 million was considerably less than last year largely due to the VME within Integrators. Aside from the UK all other businesses were making a loss and their disposal was the key to improving the overall profit and loss situation. A judgement of £33.8 million had been added to the operating loss, this has to come from a reduction in operating expenses within the businesses.

Mr Adachi went on to discuss the judgement further in relation to UK Services. It was noted that he considered it to be achievable. The probability of signing new business contracts was raised and Mr Adachi admitted that of the £30.8 million, £8.4 million would probably not be achieved.

Discussion of the revenue analysis for each business followed. An explanation of the judgement figures and probabilities were attached to the potential new businesses and judgements imposed.

Turning to gross costs Mr Adachi pointed out that Q3 budget costs had decreased from Q2 budget and from last year, however, it was noted that within these figures was the proposed sale of MCD. While external costs had been successfully reduced it was still necessary to reduce internal costs further, although there had been an improvement from the original budget. Payroll costs had been kept below the original budget as a result of deferring April and October pay increases. However, if Q3 budget is met then staff would be given a 5% bonus, resulting in a higher reward than if they had been awarded a pay rise and would serve as a motivator.

Moving on to disposals, Mr Adachi outlined the impact on the profit on loss throughout the year. When all the disposals had been taken into account the budget was to break even at the end of the year.

Mr Adachi then drew attention to the Headcount Bridge. Members noted that quarterly movements were indicated by the black and grey bars, black indicating decreases and grey increases in the head count. Employee headcount had dropped from 19,748 at the end of last year to 16,072 and would drop again in the second half to 14,951. The two main reductions were accounted for, firstly by the transfer of staff to Fujitsu Consulting and secondly by the sale of MCD.

Moving on to the balance sheet, it was noted that at March 2002 borrowing stood at £119 million but that would drop to £67.3 million at the end of the year. Without Flexible Finance borrowing would have dropped further. When running through the inventories Mr Adachi drew members' attention to the breakdown on page 18, which gave more detail. He also and pointed out that fixed assets had dropped considerably and reminded them that the sale of MCD was reflected in these figures.

To conclude Mr Adachi turned to the cash flow. He informed the Committee that the disposal of Invia would have a considerable impact on the cash flow. He went on to talk about the impact the disposals would have on the cash flow.

Mr Adachi invited questions from the Committee.

Mr Adachi was asked why the operating profit in the Q3 budget deteriorated by £2 million in Q2 budget. In response he informed members that the emphasis had been changed to bring it in line with target profit before tax.

Mr Kodama then asked how the £33.8 million contingency would be allocated across the businesses to make the savings.

Mr Christou responded that he was keen to change the culture of the company and ensure the current management was more focused on the tasks they faced. He assured the committee that he was confident the savings could be made, he, Mr Adachi, Mr Courtley and Mr Harris had discussed how this amount could be achieved and not, simply, plucked it out of the air.

02/16 How Does Fujitsu Increase Its Revenue FSMC/02/14

Mr Christou spoke of concerns regarding culture and communication with employees but stressed that equally important were the tasks of growing revenue and moving the company forward. He asked Mr Courtley to outline plans for addressing these issues.

Mr Courtley took the Committee through his slides and drew particular attention to the new organisation model. The model would be essential to achieving greater focus on sales, it had been in place since the start of April 2002. It was noted that members should not under estimate the problems that arose from the old model, where responsibilities were unclear and a reliance on maximising revenues from existing customers, instead of developing and maintaining new customers had developed. Essentially the organisation culture was a problem and this was now being addressed.

The new model separated the approach to existing customers and new target customers. The start of the year had seen the introduction of a single, co-ordinated point of responsibility for customers. Account managers were now responsible for developing and protecting relationships and Mr Courtley had introduced a measurement scheme to ensure suitable rewards. There were approximately 100 account managers who had been selected from the existing employee base for this essential and demanding role.

Other changes included the introduction of a standard set of Terms of Reference for account managers, a prescribed format Account Plan which would be produced annually and updated regularly to help develop objectives and relationships. Account managers would be encouraged to share information with customers where appropriate. A review process was in place which ensured that each customer account would be looked at regularly to examine how we can better serve them. Results would not be immediate but over time the way we think and the way our customers perceive us should change.

Proactivity and the speed of response still need to be improved to counter our bureaucratic image. To help achieve this it was important to empower account managers and for those at the top of the organisation to support them to do their job speedily and responsively.

- **Backlog**

Currently there is a great dependence on back log and new business from existing customers and in these areas the account managers are essential. However we need to look at new target customers and how we tackle them.

Historically there has not been a coherent approach and business has been won by chance or referrals. Changes were being made to the sales force, head count had been reduced from 500+ to approximately 120 people. We have, where possible, kept the better people, however we do not have the very best people in all respects, but circumstances dictate that we work with what we have and they are rising to the challenge and developing their territories. A list of target customers that we believe we can develop a relationship with has been compiled. Fujitsu Services have introduced a new incentive scheme for the sales force based on commission and this appears to have gone down well with the employees involved. The business unit directors' main focus is sales to new customers and they have P&L responsibility, but their real challenge is to support and help the sales team develop business.

It has been noted that customers like dealing with senior members of Fujitsu Services. They appreciate that they are valued and that they are dealing with the people able to make decisions, hence it was important that Mr Christou and Mr Courtley continue to make themselves available along with their direct reports. **RC DC**

- **Pipeline**

The paper showed that the backlog business declines over time but that new business is increasing. We do have a reasonable pipeline of business from existing customers. We have taken a factored view of opportunities and we can see where revenue from new customers comes from. Mr Courtley proposed that the use of this form of representation continue in order to draw comparisons and see developments in the future.

Mr Courtley then proceeded to take the Committee through his presentation, looking at the business by vertical sector. It was noted that business with Central Government and the Ministry of Defence was beginning to improve in comparison to a year ago. A solution to the Libra problem was imminent and Government relations were improving. We would be able to continue to grow and exploit relationships when Government expenditure began to increase.

The Retail sector had been strong for ICL in the past, there was a good customer base and it was important that we did not undervalue them. Although traditionally they were difficult customers, we still need to ensure we protect our position. Fujitsu Services also has a

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strong retail customer base in Europe but on a smaller scale, however we must connect what happens in the UK with Europe to give a coherent strategy. We are at a turning point in Retail where we are now talking to customers properly about forward strategy, helping them to retain customers and being innovative in the future.

In the past we have had a very strong relationship with Local Government, born out of the traditional ICL hardware base. However we have now arrived at a point where we have good business across the UK but have begun to lose ground and be seen as a legacy supplier. New entrants such as Capita and ITnet were seen as more exciting and with more solutions. We have examined our strategy and are offering a strict, standard set of solutions that allow us to compete on price and offer consistent service levels. This approach will not suit all local government departments but we are known to this sector and we are hopeful that we will succeed. It is a more proactive approach and already, two or three local councils have signed up.

Moving on to the Financial Services sector it was agreed that ICL was well known in retail banking. The current strategy needed to be examined and someone had been allocated to the task. It has been recognised that customers were not moving forward with new projects in the volume experienced in previous years, consequently the aim is to be easier to do business with and more sympathetic to customer needs.

It was noted that there were a few high spots of activity within the Utilities sector. However, historically there had not been a coherent strategy in place. There was room for improvement in this sector and this could be achieved when we improve our understanding of the industry.

The Telecoms sector was currently difficult and confused. In the UK many businesses were going into liquidation and it had been decided that our best approach would be to develop partnerships with companies such as Cable & Wireless and BT.

The Manufacturing and Energy Sectors were areas where we had not been strong in recent years and these areas would have to be examined.

Mr Courtley then went on to outline the competitive landscape. We are aware that companies such as EDS, IBM and CSC are pushing to enter the BPO area and we understand the implications of this. These companies are recognised as genuine global players, companies who are seen as top quality suppliers, a label to which we aspire.

Competition from the consultancy companies is exemplified by that which we face from Accenture. These companies rely on the quality of their staff and relationships, their strength lies in managing the process element for business which is an area where we are weak, hence we have partnered these companies in the past. However, consultancies are being bought up and are cutting off avenues previously open to us.

Systems Integrators, e.g., Atos, Logica and CMG are public companies which are in or just out of FTSE 100, they are strong in project management and the areas covered by Fujitsu Consulting. They are currently beginning to branch out into our traditional markets and will emerge as competitors in the next few years.

Smaller outsourcers, such as Capita and ITnet, have a reputation for being cheap and ruthless and are also looking to expand into the commercial market place.

Telecoms companies are trying to enter the outsourcing sector via the provision of networks. We are optimistic that they will not succeed but they are very determined and are investing a great deal of effort to compete with traditional suppliers.

If we were not seen to be a global supplier we also run the risk of losing contracts to re-sellers such as Computacentre and Dell. Mr Courtley stressed that the members should not be depressed, but that they must understand that we have vigorous competitors and it is essential that we understand them and what they are doing.

Mr Courtley then went on to outline why we lose business. It is questionable as to whether we are systematic in the way we look at loss analysis but even so it is evident the reasons are various. Although price is a factor, it is not an overriding factor. We are not particularly expensive and we do not necessarily win business on price compared to the competition but we need to be careful. Cause for greater concern are the times when business is lost as a result of the wrong relationship or our not meeting requirements. These elements are within our own control and we must make sure we do not allow these failings to reoccur.

It was also noted that we had lost our sales culture and therefore need to look at the quality of the sales people, the support they get, and ensure we know who is winning the deals. Mr Courtley also felt that traditionally there had been a problem with the support functions, legal, commercial, financial and technical. If these functions saw themselves as policemen we would not win business. It was vital that the functional staff support the sales teams and that there was a team approach. It was noted that Mr Christou and Mr Courtley were determined to lead by example in the future.

- **Key Issues and Actions to Address**

Mr Courtley admitted that the brand was not fully understood. Surveys show that the brand is recognised and there are helpful associations with regard to peoples perceptions, but IBM are still way ahead of us in peoples perception. On a positive note we are pressing ahead with a new ad campaign for Fujitsu that should help both Fujitsu Services and Consulting to ensure customers realise what we stand for.

Our own knowledge of commercial customers needs to be improved along with our strategic relationships and understanding of the relevant sectors of the industry. We also need the right references and enthusiastic customers who will sell on our behalf, such as the DTI who will happily eulogise on our behalf, but we need more like this. We have to continue working on customer satisfaction and account managers have been given targets to make their customer relationship referencable within a short space of time.

We are weak in EMEA and the US. In Europe we struggle to convince customers that we are a global player and Fujitsu Services have to accept this weakness. In the US our representation is weak, but we can demonstrate our capability. However it is difficult to demonstrate how we join with the UK.

The market is tired and companies do not have much spare cash. They have seen that big initiatives have not delivered the value promised so they are reluctant to indulge in huge future expenditure. However, while this is a problem, there is also an advantage in that customers cannot afford to move away from the technology they have invested in and we are trying to understand how we can take advantage of this and preserve and increase VME sales.

Finally, we do need to take a fresh look at the market strategy with regards to Business Process. This market will not disappear and we cannot ignore it. It merits further examination as to what we should do, rather than do nothing.

Mr Courtley stressed the importance of being able to demonstrate a relationship with Fujitsu Ltd and thanked Mr Hirata for his help to date. The days when ICL was a separate part of the Group had gone and he wants to work closely with Fujitsu colleagues at all levels and target Japanese customers operating in Europe. He also hoped to find opportunities to work closely with other companies in the Fujitsu Group and exploit any competitive advantages.

- **Major Bids Report**

Mr Courtley commented on the report circulated prior to the meeting. The Report looks at bids over £50 million but there are many bids between £10 and £50 million that are not mentioned. It was noted that the closure of the network banking deal with the Post Office was a great success for us, work was going well, it was on time, within budget, and a profit should be made in due course. Further there was a large opportunity to extend and expand the contract for a further 8 years, important discussions were ongoing and Mr Christou and Mr Courtley were personally involved.

The contract with Lloyds TSB had suffered as a consequence of the customer delaying decisions. Talks were ongoing with Nokia regarding Project White Bear however Nokia are reluctant to make a decision but Fujitsu Services are still hopeful of a favourable outcome.

The Lattice Group is an existing customer, if we won this contract we would double the business that we do with them, however they are vulnerable to takeover and hence there have been delays. In view of the threat of a takeover we also have to question who we build relationships with.

BMI has approached us and asked us to look after all their IT requirements, the deal would be closed within the next few weeks. This presented a great opportunity that we need to learn from.

Mr Courtley reported that there were two significant opportunities from the large projects arena coming through. If these deals could be closed quickly they would help the year end results.

Despite not being awarded the Inland Revenue "Aspire Project" the Company was carrying on discussions with the remaining bidders and was likely to win business from whoever ultimately won the Project.

Mr Christou went on to add that, with regard to increasing sales, challenges were faced on two levels. Firstly, we must consider what we do over the next six to eighteen months with regard to getting new and existing business. Secondly we will have problems if we do not come to grips with the Business Process Outsourcing area. We must examine the bigger picture and not only concentrate on being profitable. In the long term Mr Christou believed that companies such as Logica, CGN and Atos would be bought by larger companies. In the short term Mr Christou expressed confidence in meeting these challenges.

The Chairman thanked Mr Courtley and members discussed the points he had raised. Those members based in Tokyo agreed that cost cutting alone would not be sufficient. The Chairman asked on which of the sectors, within the vertical sectors mentioned, the most emphasis would be placed. Mr Courtley stressed the need to focus on those sectors in which Fujitsu Services was strong and where additional business was available. We would double our efforts in relation to the Government, Retail and Local Government but historically the other areas were not ones in which we were strong and while we would look for opportunities, they were not areas on which we would concentrate. Other areas in which we had been successful in the past were Utilities and Financial Services, typically with companies who did not want to go the whole outsourcing route but were prepared to embrace partial outsourcing. This is an area in which we are strong and where we would invest time and effort.

Mr Courtley was asked where Fujitsu Services fell with regard to competitive landscape. He said that Fujitsu Services aspired to be within the top category of the global Tier 1 service suppliers. In the UK we were almost there as a consequence of history and the recent turn around. However Fujitsu Services needs to maintain its profile and the attention it has been receiving. If we failed to maintain this position we would become a medium size player, under threat, with no direction. With this in mind it was agreed that it was necessary to prioritise and identify actions.

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EMEA and the US were two problems that needed to be examined and issues needed to be addressed urgently from a global perspective. Mr Kodama's Group were looking at this and at the contribution from Fujitsu Consulting.

When asked to expand on the Global situation Mr Courtley explained that with regard to the provision of desktop services, companies such as BOC require a consistent approach. They see themselves moving globally and need consistency so that their people can work at a desktop anywhere in the world, and all at a reasonable cost. The availability of a consistent universal service would also be attractive for other customers. For instance BP need a global desktop services model and are looking for suppliers to provide it with consistent pricing. All elements of the service required technical and delivery consistency.

Mr Christou added that those in a position to make the decisions with regards to buying, look at reference sites and when dealing with customers in the US we need to increase the number of sites we have in order to win business. It was noted that CSC had considerably more reference sites within the US than Fujitsu Services and that our lack of a credible presence in the US had contributed to our losing the BT Concert contract. Hence it was accepted that while global capability was important it was also essential to have reference sites and capability in the jurisdictions where the decisions are made.

After discussion it was agreed that it was necessary to provide consistent services across the world and it was suggested that a main site as a central point of access could be established in the US. This would be discussed in more detail and considered globally with Mr Kodama. Mr Christou supported this decision and emphasised the need for concrete decisions to be made as soon as possible.

Mr Courtley went on to outline the strategy with regards to Datacentres. All those present agreed that this was important and noted that we were close to reaching a solution which would allow the consolidation of the older centres. Costs were being examined as a key part of our commitment to the future for the company.

Mr Christou was asked to give his opinion of the Datacentre strategy and the shared services provided by it. Mr Christou explained that this depended on what was in the Datacentre and its size. If the Datacentre was large enough it could provide services for the other Fujitsu centres throughout Europe but the charging would have to be correct.

The call desks/help centres were slightly different and their needs throughout Europe were also different, but there were cases where they could be combined. Our internal help desk deals with the needs of employees throughout the company and Richard Reed is considering expanding the service to other companies throughout Europe.

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Mr Courtley added that our call centres had won awards so it is feasible to think about extending the service they provide. In terms of capability, the Datacentre approach would give some limited capacity of high quality that could be utilised throughout Europe.

Mr Hirata explained that building a Datacentre was not the aim, it was a tool to make us profitable. However, if the parent wanted to invest in, buy, or lease an element, that would be possible and was a valid idea. It was agreed that further discussions should be arranged to look at the situation in the US in relation to what is happening in the UK.

Mr Courtley was then asked to expand on the new incentive scheme and clarify when a deal is considered closed.

Mr Courtley explained that the contract was considered closed once it had been signed.

The sales man who won the contract was responsible for it up until the point that it was signed, after that he would be available and involved to a lesser extent but on signing the primary responsibility was passed to the account manager. Half the commission was paid at the time the contract was signed and the other half a year later. This helped ensure continuity and that we passed from sales to delivery smoothly. It also prevented us making payments, as had happened in the past, and then discovering problems and being unable to fulfil the contract as had been anticipated.

The sales team has now been selected, it was crucial that this was done quickly and a great deal of work was done from January through to March. The HR teams and business leaders assessed the people available based on job title, set terms of reference, on our experience of them and their behaviour, potential and past performance. The process was methodical, recorded and documented fairly. Initially it was hard to select people but we now have a process in place to identify more candidates for the future.

Mr Courtley confirmed that account managers are responsible for existing customers and the sales force will approach new customers. The sales team are paid commissions on the business they close and the account managers are paid on the profit contribution and customer satisfaction contributions they make.

It was noted that they were areas which were being focused on, however the question was raised as to what were the obstacles to the revenue being increased.

Mr Courtley countered a comment that revenue from Central and Local Government and Retail were all in decline and explained that, with regard to Central Government when large projects were included revenue was increasing. It is an area in which we are strong and which we must continue to exploit.

With regard to Local Government, we have a great opportunity as a result of our existing base however we have seen a decline. Fujitsu Services have introduced a more dogmatic method for doing business with these customers which involves a "take it or leave it approach" which has worked. We have improved our performance and are offering a standard solution which is low risk and low cost. It is a differentiating strategy and it will attract customers.

We can go forward in the Retail market. We have done a great deal of work in this area in the past but not made much profit. Our current approach is that we need to persevere and work with our partners in a profitable fashion to take us forward. Lastly, we must not underestimate what the potential for business with the Utilities companies, including the Post Office and Centrica.

Mr Christou added, that looking at ICL's history, it has been active in all these areas but not in the outsourcing business. In order to meet this challenge we are changing the way we look at the verticals and not continuing as we have done in the past.

It was noted that meetings would be held that week to look at tackling the Japanese market, looking both at companies in Japan and their European offices. It was agreed that everyone should work together to look at customer requirements and find the best possible solution.

02/17 Relationship with the UK Government

Mr Christou reported that the Government was our biggest customer and it was essential that we had a good relationship with them. Renegotiating Libra had been very stressful and all the permanent secretaries were aware of the negotiations that had taken place. During the last year we had, again, been a topic of conversation as the Pathway and HMCE contracts were being renegotiated.

While these negotiations were ongoing it was important not to be too friendly or else we risked weakening our position. However, we were now able to build on relationships. Mr Christou had visited all the permanent secretaries and he had also joined them on a training weekend. Consequently, although there was room for improvement we are on good terms with them and they are, by and large, all satisfied with the service Fujitsu Services provide.

Mr Christou added that the relationship with the DTI was good. He was having talks with representatives, both in his capacity as a member of various DTI Committees, and also as a service provider. Relationships with the Treasury were also being rebuilt, and on the whole, compared to last year, we hold a reasonably good position, however we can't afford to be complacent. It was noted that work was also being done with the MOD.

The Chairman thanked Mr Christou for all his work with the Government and asked for his support when he visited the UK in October to visit customers. Mr Christou assured the Chairman of his support and that the meetings would give him the chance to meet customers and see that concerns raised in the past had been addressed.

02/18 Pension Fund – Current Status and Future Strategy

It was noted that issues regarding the pension fund would be covered in depth in a separate meeting. However it was emphasised that accounting issues and the effects on the company accounts were taken into consideration. It was noted that actions to reduce future liabilities on accounts had already been taken. Mr Christou and Mr Adachi were working with the actuaries to ensure the right decisions were taken. **RC TA**

02/19 Items for Noting and Questions

Minor Acquisitions and Disposals
There would be a small profit from the disposal of the Smartcity business in Ireland but otherwise there was nothing to add to the report.

EMEA - Withdrawal from non-core countries
An Information Memorandum has been circulated and it was anticipated that responses would start arriving shortly. However it was noted that Mr Christou had spoken to Paul Stodden from Siemens and he was interested in looking at what is available. Mr Christou had agreed to send him the Information Memorandum and hoped there would be co-operation. It may be expensive to get rid of the non-core countries in relation to the loss they contribute so we have to be careful that it is the right decision to dispose of them. Mr Adachi and Mr Christou were looking at the pay-back period and also considering whether there was more risk in these countries than we are aware of. When responses to the Information Memorandum have been received we will then take a final decision based on the potential outcomes.

EMEA - Restructuring of Core Countries

Mr Christou explained that the drastic measures discussed earlier this year could not be taken without affecting the budget very badly. Mr Escudier had tight control over the countries and was working closely with Mr Courtley to keep things running and consequently the risks faced last year had been reduced. In brief, Holland was doing well; Italy would be shut down; Portugal could be sold but was doing well for the time being; Germany was doing better with new management; in Switzerland we are closing down operations but leaving a customer support base. Finally, Belgium would be very expensive to dispose of but this was necessary. It was suggested that the Toyota headquarters in Belgium could be targeted to generate more business in Belgium or that it could be run as a branch from Holland. Mr Courtley and Mr Hirata agreed to explore the possibility of a management buyout, but if all else failed, it would have to be kept running for the time being in order to minimise losses. **DC HH**

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The question remained as to what to do with the mobile engineering work force in the Republic of Ireland. The Irish Smartcity business was being sold and we would merge our Irish operation back with Fujitsu Consulting.

Fujitsu Services France

It was clear from the report that performance was still poor, despite having improved. We had contained losses at the price of further restructuring, but if we could sell or close at the right price we should do so. Discussions were ongoing with Specialist Computer Holdings (SCH), they had questioned us extensively but had not given a formal response.

Mr Adachi stressed that consideration was being given to a number of options in order to find the most sensible solution. Although the sale of the French business was being talked about and investigated, the sales people were not aware of the situation and continued to work on their leads. We continue to pursue profitable contracts, for instance with Cannon and Honda, until we are sure we can sell the business and do not have to lay off staff.

Mr Hirata added that the aim was to minimise risk and losses and not hire new people.

Mr Christou commented that if revenue could be doubled in France it would start to become profitable. New business could not be refused and existing business must be preserved. The same was true for Germany, and we should look hard at Japanese multinationals for new business.

The Chairman suggested that Fujitsu Services needs to develop areas in which it could add value in the areas of ERP, Supply Chain Management and CRM in order to be considered by any Japanese multinational. He agreed to investigate this further on behalf of Fujitsu Services.

Africa - Disposal of Operation

Disposal of non-South African operations was underway and progressing well. We would continue operations in South Africa until the other operations were sold off.

Large Projects

The important elements had been covered earlier but it was noted that things were now on an even keel and in a good state.

Capital Structure- Redemption of Preference Shares

It was noted that this had been completed and Mr Adachi reported that the dividend coupon rate was 6.15% for 3 years.

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Internal Capitalisation

The paper was noted and no objections were raised.

Banking Arrangements

Borrowing stood at £410million, half of this would have been enough, but now we have plenty of head room.

Major Disputes

The Committee was aware of the situation with Transys and Unisys and that it would be ongoing for a very long time, there was nothing we could do, except carry on as we have been.

HR Manpower Report

The reported was noted and it was agreed that Roger Leek had the situation under control and was doing a good job.

Documents Signed and Sealed

The paper was noted and approved

Minutes of the Pension Policy Committee

The Minutes were noted.

Chairman's Closing Remarks

The Chairman stressed that the biggest issue now was the budget and if it was met, Fujitsu Services would be turned around. All issues, such as pensions, had to be addressed in order that we are well prepared for any new problems. He stressed the need for people to talk openly and frankly.

Concerns were expressed regarding Invia and the detail needed to be considered carefully on a one to one basis to find solutions. Referring to Mr Courtley's presentation, the Chairman acknowledged that incentives were important but stressed that revenue needed to improve. He asked that members in Tokyo were given frank information in order that they could give support.

There being no further business, the meeting ended.

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Chairman