FINAL TRANSCRIPT

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PRESENTATION

Greg Smith - *Merrill Lynch - Analyst*

The next company is EDS. I'm very pleased to present Ron Vargo, the CFO. Ron is going to speak for a few minutes and then we'll go right into Q&A. We also have Dave Kost from the IR side. Dave, you want to--

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Dave Kost - *EDS - VP of IR*

Okay, just to start, Safe Harbor statement. The information to be covered today which is not historical in nature constitutes forward-looking statements within the meaning of the Federal Securities Laws. These statements are subject to numerous risks and uncertainties, many of which are beyond our control which could cause actual results to differ materially from such statements. For information concerning these risks and uncertainties, see the Risk Factors section in our most Recent 10-K. Ron?

Ron Vargo - *EDS - CFO*

Great, thanks, Dave. And welcome to everybody. Good morning. I'm happy to be here. I'm the CFO of EDS and I plan on just walking you through a few comments about the company and then we'll turn it over to Q and A. So I'm going to start with the obligatory who is EDS and what are we all about. We used this slide at a major analyst conference earlier this year, so let me just kind of talk briefly about the company. I'm sure you know us, I don't know how well many of you know us. But EDS is a large IT outsourcing company with tremendous global reach. We're in 66 countries around the globe. We're known primarily as a leader in infrastructure technology outsourcing, and we are, but we also have a significant applications business which is about $7 billion, much larger than of course many of the Indian competitors and also significant compared to any other competitor.

We have a tremendously strong culture and heritage at the Company. It was founded in the early 1960s and in fact we founded the outsourcing business in the 1960s. We're known for our service orientation and for being able to tackle some of the toughest global, complex projects that you've seen in this industry and we continue to see very good signings of large complex contracts in today's environment.

Our clients are Blue Chip. We have 20% of the global Fortune 500 and 20% of the U.S. Fortune 1000 in our client mix. It's a broad client mix and very diverse across industries and across types of business.

Financially, very strong balance sheet. We ended 2007 with over $3 billion in cash. We ended the first quarter with about $2.8 billion in cash. Over the past several years you've seen some steadily increasing financial metrics in the Company and we continue to, as we should, drive our decisions based on shareholder value including activities like share repurchase programs.

We actually look at the business and our strategy and built that around five major planks. Three major business segments, ITO, or infrastructure technology outsourcing, applications, and BPO or business process outsourcing. In terms of mix of the company.

And I'll get to this a little bit later as well and probably in the Q and A, ITO makes up over half the company, applications a little under a third, and BPO about 15%. And the IT positions that we have with our core clients create numerous opportunities for us in both BPO and applications as well. We've managed this business around common go to market frameworks and a common theme in terms of general management and our approach to the business. There is tremendous focus on standardization across the business, across our clients, and leveraging the core capabilities of the company across both Best Shore, which is our approximately 43,000 offshore employees in low labor cost areas, and also leveraging a lot of investments we've made in technology to provide standardized platforms across our client mix.

A couple of key initiatives. I mentioned ITO 55% of the business in the first quarter revenues of 2008, applications 30%, BPO 15%. We have been and will continue to invest heavily in the applications side of the business. We're developing new practices, we're hiring key people to run those practices. We've signed some alliances with some of the major players in the industry like SAP and Oracle. And over the next couple of years you should expect to see the applications mix of our business growing and IT declining. I wouldn't say ITO is declining on a top line basis, we still expect that to grow 3% to 5%, but we would expect applications to grow at double those rates or 6% to 8% approximately, while BPO is a business that encompasses a lot of different types of practices. For example, we're one of the leading healthcare claims processors in the world. We also process a number of credit card transactions, primarily outside of the U.S. We also have a significant business in HR and other areas. That business we expect to remain approximately flat over the next couple of years but we will invest more heavily and grow certain parts of that business where we see the opportunities.

Another significant thrust is labor mix. We made an acquisition, the majority ownership of an Indian company called MphasiS, in 2006. And we continue to grow offshore presence through MphasiS where they have approximately 27,000 of those 43,000 people in our Indian operations, both MphasiS and the former EDS India. The other 16,000, or what we call Best Shore employees, though, are in other countries like Argentina, Brazil, China, Malaysia, and Eastern Europe. So while India is and will continue to be our dominant offshore presence, we feel it's important to have diversity around the globe in our offshore labor mix.

And our non-labor, non-government labor mix, because about 30% of our business is with the government, the biggest clients UK and U.S. governments, if you look at the non-government labor mix, we're trending towards a 50% plus target of employees Best Shore over the next several years.

We've been investing in growth in areas like SAP where we recently signed an agreement with SAP. We've also signed agreements with, as I mentioned, some major providers like Oracle and Microsoft. Microsoft in the CRM space. Network management, we've invested several hundred million dollars over the last several years to build out a large global network and we think that gives us advantage in managing our clients and we'll continue to use that advantage in building out a global network business. And we also made a recent investment in a security company in the UK. So these are all what I would call capabilities that we're investing in to grow revenues and margins over time.

Finally, first quarter, we had our first quarter announcement a couple of weeks ago. We reported revenues of $5.4 billion and earnings of $0.12 a share. Both of those exceeded the guidance. We had a very good quarter in signings of $5.6 billion. We now report ACV as well as TCV and the ACV was $2 billion, a record high for our first quarters, and it's been increasing kind of sequentially kind of quarter to quarter. Even with the strong reported signings in the quarter, we ended the first quarter with our pipeline of qualified opportunities up 7% year over year. And we increased our full year 2008 revenue guidance and earnings guidance.

So with those kind of introductory comments--

QUESTIONS AND ANSWERS

Greg Smith - *Merrill Lynch - Analyst*

Great. Well, if anybody has any questions, please raise your hand. I'll certainly kick it off, but please get ready with some other questions. Ron, you did just win this Royal Dutch Shell contract which actually, $1 billion contract, but it was only over five years. So is that actually one of your largest contracts at this point?

Ron Vargo - *EDS - CFO*

Yes, the contract you're referring to, Greg, is we signed in March a contract with Royal Dutch Shell, approximately $1 billion in TCV. They awarded three contracts and we were one of the three providers. We're going to do what we call all of their end user compute work, so managing their desktops, their mobile devices and so on. I think importantly, one of the things that makes this a great deal, notwithstanding the fact that it's a great client and a great opportunity for us, is that it's another role where we can play a global integrator role where we will integrate for Shell the work being done by the other companies who were awarded outsourcing contracts. We've done that with a large U.S. commercial client, we also do that with a large UK government client. And so Shell looks to us not only for the end user compute part of the business, but they're looking to us for kind of helping them manage the complex IT environment around some of their other outsourcing providers. So it's a good win for us and a good win for the Asia Pacific region, although we report that as a European win because of the home Shell Anglo Dutch company. It's also going to create a lot of opportunity for us in Asia Pacific.

Greg Smith - *Merrill Lynch - Analyst*

And is there any reason why it was only a five year deal? I mean, that just seems unusual for a deal of that size.

Ron Vargo - *EDS - CFO*

Yes, a lot of the large IT outsourcing deals are up to seven years I'd say, but it's not uncommon to see five to seven years. I think it was just Shell's preference to award for five years. As you know, and many of you know, typically if you, and we do, perform well on contracts, you'd expect a high renewal rate on contracts that are signed as well.

Unidentified Participant

I was curious since Ron Rittenmeyer came on board as the CEO, if you've changed the way you go about bidding on large deals. In other words, how do you look at, how did you go about bidding, evaluating whether or not you could make money on a deal in the pre-Rittenmeyer era and how are you doing it now?

Ron Vargo - *EDS - CFO*

Yes, so the question is -- has Ron Rittenmeyer, who is our CEO, kind of changed the approach that we take to bidding on new contracts? We have a process in place and I think it's a very robust process where we look at transaction and, like every company, there's a hierarchy of which transactions actually make it to what we call the office of the chairman for final approval, the largest deals, the most complicated deals, the deals that might have the most risk to them. We have a very robust risk module is what we call it that looks across a number of dimensions of transactions. Has Ron Rittenmeyer kind of influenced that? I'd say sure. Ron has probably focused more attention on free cash flow, on early year margins of transactions, and I think Ron is a very strong operating CEO, very hands-on operating CEO. So he becomes engaged very much on these deal discussions.

But I think the basis of the structure that we look at transactions I think hasn't changed dramatically. But I think there's a lot more focus on, as I said earlier, free cash flow, early year margins. And probably the other significant factor is the linkage between sales and delivery to button down all of the delivery programs that would go into meeting the requirements of the contract. And Ron came, his early years with the company, when he had only been with the company a few years, were on the delivery side.

Greg Smith - *Merrill Lynch - Analyst*

Maybe if you could talk a little bit, Ron, about the applications business. Sort of what did you bring together to sort of form the unit that you're calling applications? I mean as far as the acquisition, what else was done to form this unit? And then also, who are you actually competing with in apps broadly?

Ron Vargo - *EDS - CFO*

So I mentioned applications is about a $7 billion business, it's a very large business for us. It's been dominated by applications maintenance as opposed to applications development for us. So we maintain a lot of the legacy systems for our core clients. We see tremendous opportunity to grow in applications development with those core clients and with other clients. So we have structured our applications business more around industries where we compete against many of the other large applications competitors, Indian companies as well as other global competitors. We have been investing in both practices and in industries, so we've been hiring key people. I mentioned the alliance that we signed with Microsoft. In some areas we've also been working very closely with SAP. Last year we signed a pretty significant partnership with SAP where we get access to SAP resources, we've hired a new leader of our SAP practice in both Europe and globally. And so there is a lot of opportunity because I think even within our own client base over the past several years we've missed opportunities in applications development because we didn't have all the resources or capabilities to actually even sometimes go sell into those opportunities.

And as I mentioned, we see that as a growing portion of the business over time and it's going to be driven by the investments we're making in both people and capabilities and the industry focus as well.

Unidentified Participant

I have one more follow up on the bidding process. Sorry about that.

Ron Vargo - *EDS - CFO*

It's okay.

Unidentified Participant

I'm assuming in the risk module that you have when you go out and make a bid, one of the components is probably return on capital. And that's not been a strength of the company historically and the fact that you're now looking for higher operating margins and better free cash flow quickly, probably removes the risk a little bit. But my question is, what has been, has there been any common errors or any common obstacles to big contracts or even medium sized contracts realizing your profitability and return on capital goals? In other words, can we say that you've made mistakes A or B that have seemed to be common or that you won't be repeating? Because I think people want to understand that better so we can get visibility into the 7% goal for '08, for '09 and beyond.

Ron Vargo - *EDS - CFO*

Yes, fair enough. So when I mentioned free cash flow and margin, I think the underlying theme of that is return on invested capital for large IT outsourcing deals. So if you look at the deal with Shell, if you look at the recent transaction we signed with the government of Singapore, we build into those transactions a structure where we, to the best we can, mitigate the cash flow requirements of those contracts in early years. How do we do that? We do it by kind of matching payments to milestones, we do it by trying to put capital in the hands of our, back in the hands of our customer, or finance capital with third parties. And those are geared towards driving our return on invested capital.

We also compensate our sales people around the net present value of the cash flows on a contract. I think in prior years there's probably more emphasis on top line growth and less on NPV of cash flows. So those are some more themes around what we're doing in the bidding process. Has there been any common mistakes or approaches that we've seen arise as issues down the road? I would say given-- as I look at the contract mix that we have today and the contracts that we've signed over the past couple of years, I don't see anything that stands out to me as, hey, we're not doing this well, we've got to do this better. You can always do things better. And there are-- not every contract runs perfectly from day one. I think probably in this industry, it's probably the delivery, getting the delivery right, more contracts today probably have offshore components to the delivery, getting the timing of that right, getting the execution of that right. And I think there's a lot of focus in this Company on getting those things right and Ron makes sure there's focus on those things.

Unidentified Participant

Can you talk about just the acquisition outlook? It seems like we've always kind of been waiting for maybe you guys to do something bigger, you did the MphasiS deal. Any chance we'll see anything larger or any specific air holes you're looking to fill?

Ron Vargo - *EDS - CFO*

So I would say we view acquisitions as supportive of our strategy, not in and of themselves a strategy. So if you look at the acquisitions we've made in the past 18 months or so, we bought a U.S. based state and local government BPO and applications, primarily BPO supplier, in the fourth quarter of last year. We bought two SAP related companies, one-- both small Indian companies, one built around SAP, the other around more testing than SAP. This year we made two small acquisitions, one is a company, U.K. company called By Storm which is a security company where they have both standalone security products and tools and software that we can imbed in some of our offerings. And we bought a small network services company also UK based this year.

So I think the common theme across all those is they were relatively small and secondly they're helping us build out practices, enhance capabilities, and give us more capabilities that we can bring to the marketplace. I think if you hark back, we did I think in early last year, talked about maybe being more aggressive in the acquisition market. Last year, as you know, was a very tough year to be aggressive in the acquisition market, especially the first half of the year, because prices were inflated and there was a lot of competition from the private equity market. I wouldn't say we're out of the acquisition market, but I think you'd expect them to be more around the lines that we've been doing in the last 12 months or so.

Greg Smith - *Merrill Lynch - Analyst*

Sure. Anything else from the audience? Can you talk just about the pipeline and kind of where you're seeing the most demand? Has it shifted given the little more challenging economic environment? And does the pipeline look any different than your kind of breakout of the business as you've showed where it's still a little more than 50% ITO and then a mix of apps and BPO?

Ron Vargo - *EDS - CFO*

So we reported at the end of the first quarter that our pipeline was up year over year about 7% and that was after three quarters of what I would call pretty healthy signings including $5.6 billion of signings in the first quarter. So in general I'd characterize the pipeline as pretty good following three strong quarters of signings. It's up pretty much across the board. We see a good, healthy supply of ITO pipeline qualified deals as well as BPO and apps. The general economic environment, at least in some of the data that we've seen and the results that we've reported in the first quarter, hasn't had much of an effect on us. Does that imply that we're out of the woods and everyone else is out of the woods? No, not necessarily. But strong pipeline, got off in the second quarter to a good start by signing a very large transaction in the month of April that we kind of briefly eluded to in our first quarter earnings call. And applications where we are, as I said, putting more effort and more investment as a company, also reported both a very significant year over year increase in signings and we're seeing a pretty healthy applications pipeline as well.

If I had to say where there's a little bit of weakness, I'd say maybe on the consumer retail side. But that's not a big industry for us. We do have some important clients in that industry, but in terms of revenues, it's not as significant as government and some of the other areas. So in general we're still optimistic but cautious in this environment about the future.

Greg Smith - *Merrill Lynch - Analyst*

What about just competition broadly? Are you seeing anybody kind of entering your new, or entering your kind of core playground ITO area? And then as you expand into apps more broadly, are you definitely competing with new entities at this point?

Ron Vargo - *EDS - CFO*

It's-- there are a handful or two of companies who can compete in the IT space with us and I think that becomes less than a handful when you start talking about large complex global IT projects. So we continue to be extremely well positioned in those complex global IT transactions. But smaller, more regional transactions, you'd expect to see the European players or some of the larger U.S. players as well, U.S. based players.

The Indian players are starting to make themselves known in the IT space. I think it's still early days. We see them and we've kind of talked about this, I think we talked about this at our analyst meeting, remote infrastructure management is one area where they play. But again, I think we differentiate ourselves in a key way from them in that we can provide kind of end to end IT services. We have a legacy of doing that. We do remote infrastructure monitoring. We do it in India, we do it in Malaysia, we do it in Argentina. So we feel we can be price competitive, but we feel that we actually bring a product offering that is more complete, goes beyond monitoring, goes into managing, and we've had good success I think going head to head with anybody in that area as well.

Greg Smith - *Merrill Lynch - Analyst*

Sure. Did you have a -- we can always repeat it on the mike.

Unidentified Participant

Can you talk a little bit about your buyback (inaudible)-- in the first quarter I think you completed 211 million of the billion or so that you planned. Can you talk about how quickly you might go through that buyback?

Ron Vargo - *EDS - CFO*

Yes. What we've said publicly is, and by the way, the buyback that we're talking about, the board authorized a $1 billion buyback in December of 2007 over 18 months and that followed up a $1 billion buyback that was announced in February that we completed, February of '06, that was completed in less than 18 months even though it was an 18 month kind of buyback. So we're kind of on schedule to do a prorated 18 month buyback and that's kind of what we've said publicly. And I think we've done about 270 million through the end of the first quarter as we reported in our 10-Q.

Greg Smith - *Merrill Lynch - Analyst*

Then as the CFO, just of EDS, very large, complex company, a lot of moving pieces, where's your kind of key focus? Is it on bookings? Is it on deal structure or just overall execution? Where do you spend the majority of your time?

Ron Vargo - *EDS - CFO*

Interesting question. There's-- probably need more time like most CFOs do. There's a lot of effort going on right now in the company on cost reduction and process improvements. And we've talked about that publicly that the margin improvement that we want to drive and will drive in this company is built around margin improvement that we want to drive and will drive in this Company is built around contract performance and margin improvements are driven by cost reductions as well. So I spend a lot of time on kind of performance management at the business level and expense management across the board in the company. And that's probably where the focus is right now.

Greg Smith - *Merrill Lynch - Analyst*

And then in sort of the, I guess the BPO bucket or what I'd kind of call the other businesses, you mentioned credit card processing, you've got Medicaid. Are there other kind of crown jewels within there that you can really build on and are any of those things you may look to divest potentially?

Ron Vargo - *EDS - CFO*

BPO is, I call it kind of a confederation of different businesses, right? So we are in the healthcare claims processing business. We have 22 states, I think it's 22 states, approximately 22 in the U.S., where we manage their state Medicare/Medicaid. We are if not largest, one of the largest claims processors in the country. That's very good business. We recently announced that we won the state of Georgia and that business was held by someone else, so we're actually taking market share in that business, not just renewing business. It's good business and we'll continue to do that.

We are investing in CRM and consumer direct business. We signed an agreement with Microsoft recently where it gives them I think entrance and access to our enterprise customers with their very high quality CRM software. We think that is a very attractive area. I mentioned credit card processing We do that outside of the United States. We're one of the largest in the world but we just don't get a lot of attention for that. We have the Oyster Card in the UK. If you ever travel on the tube and use the card, we do that processing for them. So it's-- and we have an HR business which is built off of an acquisition in a joint venture that we formed with Towers Perrin.

So we do a lot of different things. I'd say we're going to focus a little bit more going forward. Does that mean we're going to divest? We haven't made any decisions to divest anything at this point, but some of the businesses clearly have less scale than I think is, not required, but probably could get us a better business. So we've probably got to make some decisions down the road around scaling up or scaling down in some of those businesses. That said, some of it is performing and doing quite well for us and I think you'll continue to see us invest in those areas.

Unidentified Participant

Just following up on the cost reduction program, and EDS occasionally says that they have line of sight to the 7% EBIT margin goal in 2009. And if you could share with us some of what you see that give you confidence that 7% is achievable in '09, that would be helpful.

Ron Vargo - *EDS - CFO*

Yes, I think what we've said is this year we're seeing the effects of certainly the Verizon falloff which we've made very public in the fact that that was a contract termination payment that's going to drop both revenues and margins, and margins a full percent this year. We have said this year we're going to be spending $200 million to $250 million on what we call severance and workforce management costs. Some of that is simply headcount reduction, some of that is off shoring related work where we're off shoring a number of positions. As I showed you earlier, we're trending towards 60,000 offshore jobs in two to three years. So a significant amount of the margin improvement that we would expect to see in this company is going to come from continuing to manage costs and manage labor costs as well.

Secondly, just contract performance at the contract level. I think there's a lot of focus right now on just improved performance at the contract level. And that's not to say that we've got a bunch of contracts that are problems. I think what we have done over the last couple of years is we've invested a lot of money into automation, new tools around the management of these contracts, so we're deploying these tool and these contracts. You'll see more automation. That helps, that frankly drives some of the headcount numbers as well. So I'd say those are probably the two primary drivers as well as a return to some top line growth in 2009 over 2008.

Greg Smith - *Merrill Lynch - Analyst*

Okay. I think we'll end on that note. So thank you very much, Ron.