

2008 SECURITIES ANALYSTS' MEETING REGIONAL UPDATE – EUROPE, MIDDLE EAST AND AFRICA (EMEA)

/// AUDIO TRANSCRIPT



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Abstract: The 2008 EDS Securities Analysts' Meeting was held on Tuesday, 19 Feb 2008, from 9:00 a.m. ET until 12:30 p.m. ET at the Millennium Broadway Hotel in New York, NY. EDS' executive leadership team provided an update on 2008 financial and operational goals and initiatives, as well as the company's longer-term strategic, operational and financial goals and initiatives. This transcript covers Bill Thomas' regional update for Europe, Middle East and Africa (EMEA).

BILL THOMAS (EDS – EXECUTIVE VICE PRESIDENT, EUROPE, MIDDLE EAST AND AFRICA (EMEA) REGION):

Good morning. My name is Bill Thomas. I've been running EDS in EMEA for about five years. Before that I spent three years running most of our business in the UK. This is a very exciting day for me because even though I come to the US every month, usually I go to Texas so this is a rare day out in New York, so I'm going to enjoy myself. It's a good trip for me.

What I'd like to do is take you through something about the background to our business in Europe. EMEA represents about a third of EDS worldwide and about half of that business in EMEA is headquartered in the UK and serves UK clients. Whilst there is 36 countries in our region, the truth is that nine of those sort of regions and countries are our main focus, and we're strong in most of the main industries that we operate in, particularly so in government, defence, financial services, manufacturing, but with the business that we signed last year with BP and the transactions that we're completing with Shell, that we look to the energy sector to be very important for us as well.

We spent some considerable time over the last five years breaking down some of the barriers between the countries. Charlie spoke about the fact that we organize applications by industry across Europe now. The way we actually run the business operationally is there's nine discrete units, nine units that make sense either from a client perspective or a risk management perspective. And if you look at the sort of bottom of the chart, we work for some very excellent organizations. Those organizations, their constant demands make us much, much better and raise the bar for us year in, year out.

If we look at our current addressable market in Europe, then it's growing at about 6.5%, according to Gartner, and Europe is a very strong market. There's obviously some concern over some softness in the economy, but the truth is that neither infrastructure outsourcing, BPO or applications maintenance are discretionary spends, and what we actually saw in the economic slowdown back in '92 and in 2002, the market for sort of productivity enhancing services, it actually grew. So whilst we're cautious about the market, we know it's very strong in continental Europe, we watch it closely in the UK, we don't see it as any cause to be unduly alarmed. There has been a lot of talk about the threat of the Indian firms, the Indian firms are very active, particularly in the UK market, but what's really emerging there is more of an opportunity as the mainstream players across EMEA. They really develop their own global delivery footprint, some of which is in the Indian subcontinent, some of which is in different parts of the world. So what we're really seeing is a merging of people who have a footprint in India and a presence onshore and also people onshore developing their global footprint out into other places.



If I come closer to home inside EDS, then 2007 was a solid year for EDS in Europe. Our growth trend is in line with market growth over the last three years, around at about 6%, 7%, something like that. Most of that growth actually came to us on the continent where we've got double-digit growth over that period, single-digit growth in the UK, and that's a positive thing for us. We have half our business in the UK, we're still growing the UK, but we want to grow our continental business slightly faster. We've also continued to expand our margin, supported by the growth that we've achieved in the marketplace and fueled by some major restructuring investments that the corporation has made in Europe over recent years. We've used that really to achieve the margin improvement that's shown in that chart. We've also improved our business by driving cash flow in the way that we're structuring deals, particularly but not only around ITO, the way we're managing capital where we've reduced our capital intensity, and by just more timely management and diligence around managing our days sales outstanding. We were also pleased during 2007 to beat our colleagues from IBM on nine out of ten of the mega deals that we engaged on against them.

If I look at our performance highlights from 2007, then 2007 was very important for us. As well as delivering in 2007, we had convince ourselves that our plan for '08, '09 and '10 was based on a solid foundation, and in '07 we demonstrated our competence in the four main areas that underpin our future three-year plan.

The first of them at the top left-hand side of the chart, here are some examples of work that we did around sustainable productivity improvement. We started a very detailed process of organizational reengineering in 2007, and these are some of the examples that we achieved in that. We also made major investments in our Lean Six Sigma program and it's already delivered some very impressive results, a few examples of which are cited there.


Coming down to the left-hand side looking at service excellence and customer satisfaction around the kind of definitions that Jeff shared with you earlier, we made major improvements in customer satisfaction and that in turn drives the propensity to buy extra services from us on our existing business. Our track record continued a three-year trend of improvements in these kind of areas. Our top box service excellence rating more than doubled and our innovation rating, the top score for innovation, we almost doubled that rating. So we made innovation a very, very big focus for our business in Europe last year. It's the biggest indicator we've got of whether a client will renew with us, and we really moved the needle in that area.

If I look to the top right-hand side, then we're looking to grow our higher margin and lower capital-intensity business, and the example that's shown there is our applications business which grew about 14% in terms of annual booked revenue from 2006 to 2007. We did that fueled by a couple of very large deals that we've signed over the last 18 months, the two largest applications deals ever placed in Europe, with Arcandor and with Vodafone Corporation. And then if you'll look down at the bottom right-hand side of the chart, then we expanded our footprint at existing clients. I'll say more about a couple of these later, but we're very encouraged by the fact that we can add new logos to our portfolio of clients, and by raising customer satisfaction by delivering innovation we can expand our footprint at our existing clients.

Perhaps the one to pick out from this chart there is the UK Ministry of Defence and the Defence Information Infrastructure Program which we've been working on for about three years now. It's the largest infrastructure program ever placed in Europe within our industry. And over recent past, the Ministry of Defence have placed an extra \$1.8 billion of incremental business with us, so that's very encouraging in terms of we're delivering against our commitments and they're putting more business into that particular channel.

If you look at the Flemish Government in Belgium, we worked very hard to renew a contract there over the last year, and we were awarded an \$800 million-plus contract just in January. We won that in collaboration with our partners from Telindus that's part of Belgacom now in Belgium. This is the largest contract that had ever been placed in Belgium and it was good to prevail against our colleagues from Accenture – a very strong capability in the area of transformational government. It was good to prevail there and we're also encouraged by the fact that we succeeded with a win structure that was all based around innovation and collaboration.

If I go back to the UK, then Rolls-Royce is a very longstanding client of EDS, and they needed to have a single enterprise view of all their extended global supply chain. Now, this is an extremely important implementation for Rolls-Royce, and given what Charlie shared with you earlier about applications, it's a really important project for us, a doubly so important project because it's around SAP. What our client sees there is the client sees the delivery of the world's largest single instance of SAP, and that's a major success for them. It enables them to manage all their supply chain consistently. For us it's really important because as well as satisfying our client, it's a real proof point that our



plans for the future, which are built around selling SAP to our existing clients, then they're based on reality, they're based on track record, and that's a very important de-risking element of our future business.

The next one is a contract that's been mentioned. It's with an organization called Arcandor. Not everybody has heard of Arcandor. It was previously called KarstadtQuelle and it's the world's largest department store business. Arcandor was one of the biggest new name clients that we added in '07. It was quite important for us because it demonstrated that our commitment to Germany – and we've had a long-term commitment to Germany – that that commitment was going to pay off for us and we could really move the needle in terms of growing our business in Germany. It absorbed a lot of turnaround time attention to do that in Germany, but this deal demonstrated also that our client strategy to grow applications was again founded on a real capability. It also gave us the opportunity to set up a global retail center of excellence based on SAP and a little German business called Itellium that came into EDS at the same time. So for Arcandor, the deal was very strategic as it was their vehicle for modernizing their business and achieving consistent global business process. For us it was significant because it was Germany, because it was SAP, and because it was retail.


So, if we look to the future now, so that's all about the past year and it's the four main planks that our strategy for the future is based on. If we look at our plan for the next three years, I've been inside EDS for about 19 years now and, as I said, I've been running Europe for about five years. We have by far and away the most detailed, granular plan that we've ever had for how we're going to run our business over the next three years. It's based in terms of service delivery. It's based around a major transformation of our organization. It builds upon the work that we've done on Lean Six Sigma and it's targeted on raising each one of our delivery business processes to EDS best practice. Now we've made a solid start in '07, and the movement from the left-hand side of each of these histograms to the middle is what we achieved in '07.

What lies ahead of us over the next three years is the movement to what is best practice within EDS, and we have extremely detailed plans on what we need to do to achieve that. We've got 150 change agents that we've geared up in Lean Six Sigma, that we've geared up in best practice, that are working day in and day out, rolling out this proven best practice across the corporation whilst others are working in collaboration with people around the world on taking our best practice inside EDS to the next stage. One thing that's very important for us is we are not relying on anything in our operational improvement over the next three years that we're not doing somewhere in our business, somewhere in the world today. Now, a key element to this program, of course, is that we're going to do this whilst we're reducing operational incidents in the fashion that Jeff indicated earlier about reducing Sev 1 and Sev 2s. We're raising service excellence and we're particularly focusing on moving the needle on innovation.

If we look at our three-year sales plan, then our sales plan is based on techniques that we've proven in Europe over the previous years. We've proven that those techniques will grow our business in a cash and capital efficient way. Now, the first element of it is about expanding our footprint with existing clients. The simple truth of it is that our wallet share outside of our top ten clients is only about 6%. So we have ten clients and a huge long tail of clients where our wallet share is only 6%. Our service excellence and innovation ratings with those clients have never ever been higher. But the simple truth is, I've got about 150 sales people across Europe and as the market changes to do more deals of shorter duration, I need to increase that bandwidth of sales, and that's what we're going to make a major investment in. So we will invest in our sales capacity, will take the methods on the sales management and solutioning approach that's been so successful in very large deals, and we'll apply that to that tail and onto smaller deals and we'll achieve major growth with our existing client base.

As to our existing client base, we're also not losing focus on adding new clients to our portfolio. It's very important that we're putting clients in now that in three and four years' time will be very cash generative and increasing our operating margin. So year on year, our new logos have increased by 25% last year. If you look at new logo as a percentage of TCV, then it went up again by 25% last year. We added six new logos worth over \$50 million in the last 12 months, and the latest data that we just got this morning from Forrester shows that in the third quarter of 2007 – it's their data – EDS in Europe signed more business than any of our competitors and on the order of about 23% of the total contract value that was placed in Europe.

If you go down, then if you look in ITO, we are a very, very committed organization and company to our ITO business. In no way are we reducing our appetite for quality long term, large ITO business, ITO mega-deals. We have a very large and growing pipeline of ITO and we're going to convert a great deal of that pipeline in the first quarter, and we have a strong win rate – a win rate that's gone up dramatically last year over the previous year and over



previous years as well. So as well as continuing to improve the capital efficiency of our ITO mega deals, we're going to apply proven solutioning and sales monitoring techniques to increase our win rate on these smaller deals.

If you look in applications, then the two biggest applications deals placed in Europe over the last two years, we've won both of those – one in Germany, one in the UK – and we're going to build on that momentum. We're adding massive scale and capabilities in terms of our sales bandwidth in this. We'll hire 400 people that will be a combination of client-facing sales and solutioning people over the next three years in terms of increasing our sales bandwidth to grow this high-margin, high cash-generative kind of business.

If you look in BPO, then we have a very, very simple, straightforward strategy in BPO. We pick three countries, we pick three industries, we pick three service offerings. I have a SWAT team of BPO experts operating at European level and we've seen a major improvement in our pipeline that's up 200%. And amongst those sort of intersections of countries and industries, then we've signed major transactions over the last 12 months in BPO. So we have a very straightforward strategy in BPO, very focused on a tightly-defined number of areas.

If we look at what this will all do for us, '07 we finished with a margin, after restructuring, in the region of about 15.4%, and this is the result of our three-year plan in that margin and our walk from 15.4% up to 17.4%, and there are three major strategies. This is an extremely detailed, very religiously executed organizational reengineering process that we're implementing in all of our delivery organization. There is an amount of work that we're doing in supply-chain management and real estate. Even though we're an outsourcing company, properties come to us in lots of different areas and there's a lot of potential in investing in and rationalizing our real estate. And then on Best Shore we have a modest Best Shore footprint out of EMEA at the moment. It's worth remembering that about 3 out of our \$7 billion of business comes from governments, so we have to be relatively careful about how we approach offshoring. Some of it will come from Best Shoring and then the last area will come from applications growth. So our strategy for adding our 200 basis points to our margin is sort of equally divided between revenue growth initiatives and operational productivity initiatives.

So in summary, over the next three years we're going to continue to expand our margin and grow our business at the rate of the market. We'll keep market share. We're going to continue our execution of a very detailed reengineering plan to raise both our productivity and the quality of our service for clients. We're going to continue to differentiate ourselves with service excellence and we're going to build a reputation for innovation. We made a very good start last year; we have more work to do in that area. Our current sales strategy has been very effective. We're going to augment that strategy to increase our growth of existing clients and in particular to accelerate their applications business.

Thank you very much for your attention, and I'll pass it over to my colleague from Asia Pac, Michael Coomer.

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