2008 SECURITIES ANALYSTS' MEETING
FINANCIAL PERSPECTIVE

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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 Ron Vargo's Financial Perspective.

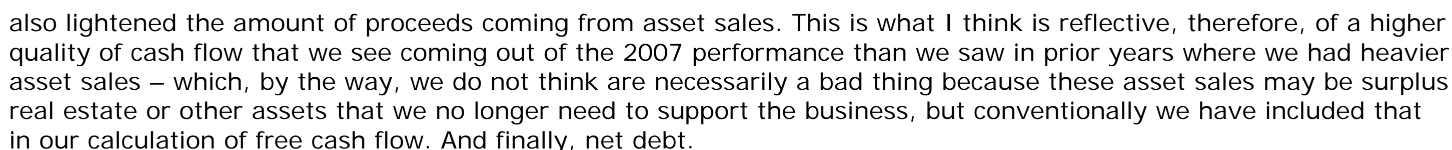
RON VARGO (EDS – EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER): Good morning. I plan to cover a number of topics with you today. I am going to start by briefly recapping our 2007 results. I'll talk a bit about our financial position going into 2008 and our 2008 outlook which we shared with you on our earnings call a couple of weeks ago. I want to talk a bit about capital deployment because we enter '08, like we did in '07, with an extremely strong balance sheet. And then I will bring it all together and talk about the prior presentations and how they fit into a 2009 - 2010 timeframe.

So let's start with our summary of 2007. Very briefly, revenues were up 4% year over year driven by the broad geographical mix that we have as a company, but flat organically due to runoff and signings that we mentioned were back-end loaded. Our adjusted GAAP earnings and our adjust earnings were each up over 50%, driven by a significant margin improvement of 1.9% year over year. Free cash flow roughly flat at approximately $900 million, $892, and signings of $19.5 billion.

Let's go back, as we have earlier in the presentation, but talk a bit about where we have come from over the past three years starting with revenue by portfolio. This chart shows you our percentage of revenue from each of our portfolio lines in 2005, 2006 and 2007. As you can see in 2007, we did achieve 30% of our revenue from our applications business, 15% from BPO and 55% from ITO, and we will talk a little bit later about where that will be going over time, driven by applications investment and two very big deals that Bill Thomas talked about that we won in EMEA in the applications area. BPO, which is a confederation of different businesses for us, was helped by our strong Medicare/Medicaid wins over the past several years and, of course, ITO remains the core of the company's business.

Adjusted earnings, up from $0.42 to $1.56, driven by strong contract performance over this three-year period. Focus on quality and cost improvement across all regions, across all service lines, and offset by investments that we have continued to make into the business to become more competitive and position ourselves for 2008 and beyond. And workforce charges, which were peaking in 2006, came down in '07, and we will talk a little bit about what we are going to be doing in '08.

Operating cash flow and free cash flow over the three years – operating cash flow $2.0 billion in 2007, up materially from 2005 and up $100 million from last year, and free cash flow at $892. I think importantly here, the cash from earnings obviously is up because of the higher margins, but we have been containing our capital expenditures while we have been seeing some pretty severe volatility in the working capital line and, in fact, working capital was a big user of funds in 2007 and that will turn around to be a small use of funds in 2008. During this time period, we have



also lightened the amount of proceeds coming from asset sales. This is what I think is reflective, therefore, of a higher quality of cash flow that we see coming out of the 2007 performance than we saw in prior years where we had heavier asset sales – which, by the way, we do not think are necessarily a bad thing because these asset sales may be surplus real estate or other assets that we no longer need to support the business, but conventionally we have included that in our calculation of free cash flow. And finally, net debt.

Our net debt remains below $500 million at year-end 2007, and the drivers, of course, of maintaining that level of net debt have been the free cash flow improvement over the years. But also during this time, we have funded $1.4 billion of acquisitions and $1.1 billion of share buybacks and maintained the net debt below $500 million.

Liquidity – This is a walk of our liquidity in 2007, showing both our cash and marketable securities balance and our bank lines. We increased our cash to $3 billion at the end of the year, and it would have been higher but we funded $390 million of share repurchases and $460 million of acquisitions during the year. The bar showing net share repurchases of $235 is the net of what we actually paid in the marketplace for buying shares back versus what came in from employees from our stock compensation plan. I will talk a bit more about our current repurchase program, where we are and where we see that going.

And finally, the balance sheet. Ninety-five percent of our cash is what we call unrestricted, and our long-term debt is $3.4 billion, but we have no large debt maturities coming up until October of 2009, so a very strong balance sheet entering the year.

Rating agency status – we continue to make progress. As you can see, during 2007 our outlook was upgraded by Standard & Poors to stable, and Moody's has us under review currently for an upgrade which we expect to be resolved sometime here in the first or second quarter.

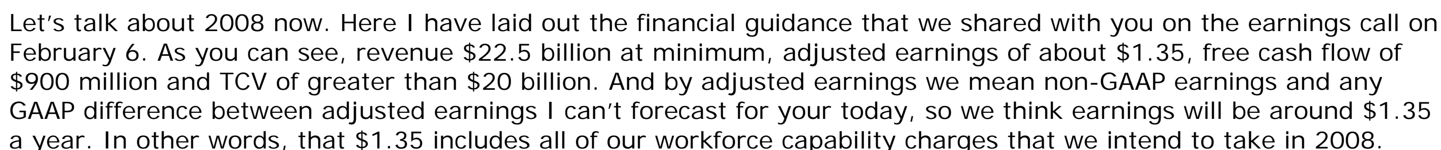
Ron talked earlier about the fact that we're an $18 stock, and we were an $18 stock back about four years ago, and so I want to amplify a few of his points around the financial position of the company as well as some of the competitiveness that we have achieved during that time period and compare that to where we were in 2004. So he showed you this, dramatically improved our earnings over this four-year period from negative to positive, free cash flow up nearly three times, and we've generated $2.4 billion during the 2005 through 2007 time frame. And finally, TCV up to just below $20 billion last year and, more importantly, if you look at new logo wins, we achieved over $3.5 billion of our TCV last year from new logo wins versus $1.5 billion in 2004. So on financial measures, sales measures, very clear, we do not need to probably make the point anymore today, we are extremely better than we were in 2004. But let's talk about some of the other things that we've done as a company which I would call removing clouds, improving the competitiveness of the company.

Go back again to '04. We had some pretty big clouds over us. Since then, we have won some very significant recompetes – the GM and MCI, very well known. We also went out and did an early extension of our Department of Works and Pensions contract in the UK. We fixed the Navy contract. It is a significant generator of earnings and free cash flow for the company, and we continue to see good customer satisfaction results and good achievement on our SLAs on that contract. And we signed another very large contract with the UK Ministry of Defence upon which we are executing very well.

SEC and shareholder-related legal issues. Since that time, we resolved our SEC investigation and shareholder litigation dating from 2002.

And finally, if you look at our operational effectiveness and our competitiveness, we have built out the global network. We have built out an enterprise service management capability and implemented it and are working it across clients. We are a much stronger company in applications with SAP investments, investments in people and resources, in applications and testing capabilities. And finally, we have invested selectively in some of our key BPO businesses and have won very good business in those areas. We grew our offshore presence from a relatively miniscule amount of people in the 2004 time frame to over 41,000, and we dramatically improved the operational effectiveness of the company through reducing Sev-1 and Sev-2 outages, all the while winning very important new logos.

So in summary, I just wanted to make it clear that it is a different company. We have made great strides, and I think we are entering 2008 in a much different competitive and operational position than we were in several years ago.



Let's talk about 2008 now. Here I have laid out the financial guidance that we shared with you on the earnings call on February 6. As you can see, revenue $22.5 billion at minimum, adjusted earnings of about $1.35, free cash flow of $900 million and TCV of greater than $20 billion. And by adjusted earnings we mean non-GAAP earnings and any GAAP difference between adjusted earnings I can't forecast for your today, so we think earnings will be around $1.35 a year. In other words, that $1.35 includes all of our workforce capability charges that we intend to take in 2008.

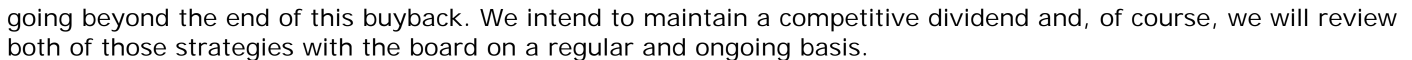
So what's driving these numbers? First, top-line growth of revenue up about 2%. TCV, as I mentioned, $20 billion or more, but we are offsetting a Verizon loss of over $225 million of revenue as well as runoff and pricing impacts that you heard Bill Thomas talk about. A bit of a heavier year than normal in 2007 when it came to renewals in the Americas, and a larger number of deals and shorter-term application wins as part of the mix in top-line growth. Operating margin, around 5.5% driven by productivity including the benefits of the ERO that Jeff talked about, improved contract performance and growth across all regions, offsetting the Verizon loss, runoff and pricing reductions as well as higher workforce management costs. We expect the workforce management costs still to be in the $200 to $250 million range in 2008. 2007 workforce management costs were about $100 million, so an increase of $100 to $150 million on a year-over-year basis. All the while, as Bill and Jeff and Michael said, we continue to invest in sales to take advantage of the great opportunities that we see in the marketplace. And finally, free cash flow roughly flat to 2007as we expect working capital improvements to offset higher net capital expenditures, which I'll talk about a bit in a minute, primarily due to expansion of some of our physical facilities as well as lower asset sales.

So the margin components – We have used this slide with you in the past, and what this slide does is on the top half of the bars we look at what we call an account contribution margin. So it is the margin on revenues before taking into account SG&A and investments including workforce capacity management. So we expect the account contribution margin to be up on a year-over-year basis by about a half a percent to a percent, but as I mentioned, we will be offsetting that with higher workforce management costs, a little bit higher sales costs and moderating SG&A and moderating investments that we have been making back into the business for capabilities. So on a net basis, we expect the margin to come in at around 5.5%, down slightly from 2007.

Free cash flow – again, a model that we have taken you through in the past where we look at cash from earnings, working capital changes and capital expenditures. In this case, cash from earnings down slightly with the lower margin. Working capital, which I mentioned was a use of funds of over 2% of revenues in 2007, should be 1 to 2% better than that in 2008. A couple of drivers there. One is we had extremely high accrued liabilities coming into 200, funded those. Many of those were related to 2006 workforce management costs that were accrued on the books in '06 and paid in '07. We also expect our DSO, which came in in the mid 50s, to remain in the mid 50s on a year-over-year basis, but we expect payables to improve across the board, driving additional improvement in working capital. Net capital may look a little high at 6 to 6.5%, and when we say net capital this is our capital net of any financing that we do as a company. Typically, we have financed around 2% or so of the capital that we spend in a year, but in prior years, as I mentioned, we also have netted against that number asset sales. And as we look out into 2007, we don't see any material asset sales. We had about 120 to 130 of asset sales hitting the capital in 2008. Free cash flow, therefore, around 4% yield on revenues which we expect to be roughly flat with 2007, and maintaining approximately $900 million in cash flow.

I want to speak a minute about capital deployment now. And as we think about this model going forward, we have shown on the right-hand side of this a graph of our capital structure or actually our cash and debt capacity going forward at investment-grade credit ratings. We have shown that we would retain $1 billion of cash at minimum each year. We plan on generating a sustained $1 billion of free cash flow in 2009 and beyond. And we have debt obligations, as I mentioned, in '09, and I put on a convertible security in 2010 that are included in these estimates on the right. And finally, our $1 billion share repurchase program. So what we are showing you is that we ended the year with what we would call $2 billion of excess cash above what we feel we need just to keep with the company going forward. That will grow over time to $4 billion, and then you tack on top of that $2 billion of debt capacity given the improved capital structure of the company, as well as the improved financial performance of the company. The share repurchase program that we have committed to will erode about $1 billion, actually about $950 million from year-end '07 of that excess cash over the time period. So we look at this as a great picture for financial flexibility all the while maintaining investment-grade ratings during that time period.

So how do we think about capital deployment? I laid out here four buckets. The first, share repurchase and dividends. We plan to complete our billion-dollar program. I said in the earnings call that you might want to think about that as being achieved on a pro rata basis over the next 15 months or so. I think we will reserve the right to be more or less aggressive in buying shares back during that period and we will do so. And we would expect to remain share neutral



going beyond the end of this buyback. We intend to maintain a competitive dividend and, of course, we will review both of those strategies with the board on a regular and ongoing basis.

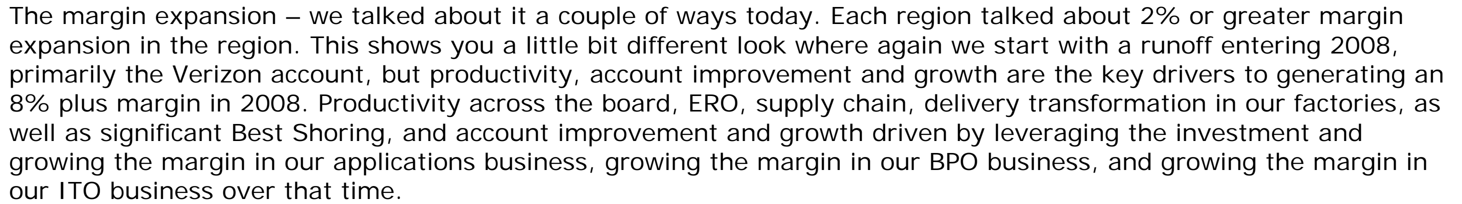
Debt-free payment and pension funding. Frankly, with the capital structure that we have, early debt reduction doesn't make any sense at all. And our pensions, we have always funded statutorily what we are required to fund. Our pensions ended 2007 in very good positions, and we would look at pre-funding pensions on an opportunistic basis where we can capture economic value. We have not included any of that in the forecast of the capital going forward though.

Organic investments – I will put those in kind of two categories. One is those investments that drive new business opportunities, a lot more focus around the company on return on investment, on those types of spendings. In the second bucket I would put more around just our base capital. And I do want to make the point, as I did earlier, that we have traditionally funded about 2% plus of our capital in the financing markets with capital leases, operating leases and CFTs. We even financed a little bit of software as well. We will continue to do that. We think it's beneficial to the company for a couple of reasons. One is we can transfer risks on some of our CFTs back to the client or the financial institution; two, we can conserve our own capital for other uses; and three, it often on large projects allows us to better match the cash outflows especially in large development projects or in large refreshes of capital. If we can finance that through creative but very upfront financing alternatives, some not too creative like capital leases or operating leases, we will do that and we think it makes sense to match those cash flows.

And finally, acquisitions and divestitures – Joe talked earlier about acquisitions, and Ron did as well, as being important to the strategy but not the strategy, and that's how we are viewing them. If we can accelerate growth and value creation in a strategically-aligned acquisition like Saber, we will do that and will continue to do that over the years. We will also, however, consider divestitures where we have an ability to capture value and improve the focus of the company.

So, let's put the story together now. You heard from three of our geographical leaders today. You've heard from two of our EDS leaders in the areas of ITO and Applications. Kevin Torgerson discussed EDS' global end-to-end delivery model and a relentless focus on operational excellence and differentiators in ITO like our network management capabilities, our enterprise service management and our mission-control critical security that we deploy on major clients like the US Navy and the UK Ministry of Defence. And you also heard that the focus in this business is going to be on improving economics. We will still enter into large ITO deals, but the economics are going to be the key drivers as they always will and always should be. In Applications, you heard from Charlie Feld on how we have a very strong foundation of a strong maintenance business, and we intend to and are moving up-stack, expanding the services model, employing a Designed for Run approach with our clients, and all the while growing our Best Shore capabilities. So as I look at this business going forward, a tremendous opportunity for growth and margin expansion. And you heard from Jeff, Bill and Michael talk about managing the regions for value, client management, innovation, productivity, the greater focus on deal economics, free cash flow and ROIC, more focus on industry investments. I think you will hear more about free cash flow and ROIC. These are not only aligned with everything we are doing in terms of investment decisions, but they are also kind of the underpinnings of management compensation as well. And finally on the corporate side, Joe talked about moving to a more efficient G&A model, all the while improving and increasing our sales capabilities by growing sales across all regions to take advantage of what we see are tremendous opportunities. So we believe the organization is completely aligned to drive financial performance for the company and the incentive goals for the management team are completely aligned as well.

So our financial objectives are resulting in a picture on the next couple of slides here. We see 2010 revenue of $25 billion plus, a CAGR of 4%, and I will talk about that later, of 4% plus, an operating margin of 8% plus or a growth rate of 10% over the three years, and free cash flow growing at 8% plus over the three years as improving margins across all regions and business lines drive the financial improvement. Revenue, $22.1 to $25.0. Keep in mind that we guided you in 2008 to about a 1% organic revenue walk, so we see 4% to 5% over this three-year time frame driven by 3% to 5% in the ITO business as we focus on improving economics and offset runoff in that business, 6% to 8% growth in applications through higher penetration rates, growing up-stack and growing our practices. And finally BPO, it will be a much more focused business going forward in terms of our investments and in terms of the growth, growing at 3% to 5%, but improving substantially in terms of financial performance. We think these are reasonable expectations, and any significant acquisitions that use what we showed you as an extremely strong balance sheet would be additive to these numbers.



The margin expansion – we talked about it a couple of ways today. Each region talked about 2% or greater margin expansion in the region. This shows you a little bit different look where again we start with a runoff entering 2008, primarily the Verizon account, but productivity, account improvement and growth are the key drivers to generating an 8% plus margin in 2008. Productivity across the board, ERO, supply chain, delivery transformation in our factories, as well as significant Best Shoring, and account improvement and growth driven by leveraging the investment and growing the margin in our applications business, growing the margin in our BPO business, and growing the margin in our ITO business over that time.

And finally, free cash flow – Free cash flow has averaged about $1.43 a share in the 2005 - 2006 time frame, $1.67 in the '07 - '08 time frame, and will be above $2 and will be above $1.1 billion in the 2009-2010 time frame.

So finally, just to wrap, 2007 another year of significantly increased financial performance on a year-over-year basis. We have a very rock-solid position entering 2008, both financially and competitively, and we will continue to invest in the business because we see opportunities for growth in top-line earnings and free cash flow in 2009 and beyond. Thank you.

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