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**EDS REPORTS THIRD QUARTER 2004 RESULTS**

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**PLANO, Texas** – EDS today reported a third quarter 2004 net loss of \$153 million, or 30 cents per share, driven by a \$375 million (\$233 million, after-tax), or 46 cent per share, asset impairment charge associated with the company’s Navy Marine Corps Intranet (NMCI) contract. These results compare to a restated loss of \$16 million, or 3 cents per share, in last year’s third quarter.

EDS’ pro forma net income of \$57 million, or 11 cents per share, includes a provision of 3 cents per share related to a reserve established against pre-petition US Airways receivables but excludes the NMCI asset impairment, restructuring charges, discontinued operations, divestiture gains and the reversal of a portion of a second quarter charge. The results compare to pro forma loss per share of 2 cents posted in last year’s third quarter, excluding a divestiture gain, restructuring charges and discontinued operations.

“Our third quarter results reflect a company that is operationally solid and delivering for its clients,” said Mike Jordan, chairman and CEO. “As we complete 2004, we can turn our full attention to investing in our technology platform and service offerings and aligning our global resources and work force for growth.”

The company said the Audit Committee had completed its investigation of the company’s quarterly bonus plan accruals and other adjustments. The Audit Committee found that there had been no improper activities or conduct with respect to such accruals and other adjustments. The company and its auditor also agreed to the timing and amount of the NMCI asset impairment reflected in today’s

earnings results. The company noted, however, that its auditor identified two significant deficiencies that it considered material weaknesses in the company's internal controls, as described in the company's third quarter Form 10-Q, which has been filed with the SEC today.

In addition, the company's auditors advised the company that it should restate its results for each quarterly period in 2003 to reflect a more appropriate allocation of bonus expense among the periods. The company's auditors also noted a transaction recorded in the third quarter of 2003 in which the company recognized revenue of \$9 million based on management's judgment regarding the ultimate outcome of ongoing settlement discussion with a client. The company's auditors advised the company that such revenue should not have been recognized until the settlement agreement was signed. Accordingly, the company has restated its financial results for the third and fourth quarters of 2003 to reflect the revised timing of recognition of this revenue. The company's results of operations for the full year 2003 are not affected by this restatement.

"We moved quickly to deal with our auditor's questions and believe these issues are behind us. Now we can focus on building our business," said Jordan.

EDS signed \$3.3 billion in contracts in the third quarter, up 4 percent from \$3.2 billion in the third quarter a year ago. Through the first three quarters of 2004, EDS signed contracts totaling \$11 billion, up 21 percent from the same period a year ago, and is targeting 25 percent signings growth for the full year, excluding UGS PLM Solutions.

Third quarter revenue was \$4.95 billion, down 1 percent from \$5 billion a year ago and in line with guidance (down 4 percent on an organic basis, which excludes the impact of currency fluctuations, acquisitions and divestitures). The decrease in revenue primarily reflects the continuing decline in GM revenue and the termination of the U.K. Inland Revenue contract.

Non-GM revenue was \$4.48 billion versus \$4.46 billion in the same period a year ago (down 3 percent on an organic basis). GM revenue decreased 12 percent versus the year-ago quarter to \$467 million (down 14 percent in constant currency).

EDS posted free cash flow<sup>1</sup> of \$314 million, versus a free cash outflow of \$304 million in the third quarter last year, driven by solid core earnings, working capital improvements and lower capital expenditures.

### **GAAP to Pro Forma Net Income Walk**

EDS' pro forma third quarter net income of \$57 million, or 11 cents per share, excludes:

- an after-tax asset impairment charge of \$233 million, or 46 cents per share, related to the NMCI contract;
- an after-tax gain of \$18 million, or 3 cents per share, on the sale of EDS' North American mobile telecommunications clearinghouse business;
- the after-tax positive impact of \$16 million, or 3 cents per share, primarily from a true-up adjustment to the second quarter gain on the sale of UGS PLM Solutions;
- the after-tax positive impact of \$11 million, or 2 cents per share, from the reversal of a portion of the second quarter charge related to the termination of EDS' "other commercial contract;" and
- after-tax restructuring charges of \$22 million, or 4 cents per share, related to productivity improvement efforts.

The NMCI asset impairment was driven by a more conservative timeline for meeting modified performance service levels, a deceleration in customer satisfaction improvement rates, delays in signing certain contract modifications and additions, and the failure to meet seat cutover schedules during the quarter. The company noted that the full level of potential upside opportunities from new service level agreements, contract modifications and add-on business were not reflected in the cash flow forecast used to calculate the asset impairment.

The pro forma net loss in the 2003 third quarter of \$11 million, or 2 cents per share, excludes an after-tax divestiture gain of \$77 million, or 16 cents per share; after-tax restructuring charges of \$100 million, or 21 cents per share; and \$19 million, or 4 cents per share, in income from discontinued operations.

## Financial Foundation

EDS improved its net debt position by some \$3.7 billion in the first three quarters of the year and ended the third quarter with \$4.2 billion in unrestricted cash and marketable securities. (Net debt is a measure of total debt minus unrestricted cash and marketable securities.)

EDS' pro forma operating margin improved to 3.1 percent (5.4 percent, excluding the NMCI contract), up sequentially from 1.7 percent in the second quarter of 2004, reflecting improved performance of critical focus accounts and rising productivity.

"We continue to improve EDS' core financial and operating metrics, enhancing our competitiveness," said Bob Swan, executive vice president and chief financial officer. "Our strengthened balance sheet and improving cost position provide the foundation to serve our current clients well and win new ones."

## Third Quarter Results by Geography/Market Segment

- **Americas:** Third quarter 2004 revenue totaled \$2.15 billion, down 4 percent from the same period a year ago, reflecting lower GM revenue. Operating profit was \$313 million, up 17 percent, driven by growth in the financial services and communications sectors and the impact of the termination of EDS' "other commercial contract."
- **EMEA:** Quarterly revenue declined 10 percent to \$1.25 billion. Operating profit was down 5 percent to \$177 million. The results reflect the termination of the Inland Revenue contract.
- **Asia:** Quarterly revenue rose 19 percent to \$293 million, while operating profit jumped 75 percent to \$29 million on growth in the government and financial services sectors.
- **U.S. Government:** Third quarter revenue totaled \$728 million, down 8 percent versus the third quarter in 2003 (up 1 percent, excluding NMCI from both periods). The unit posted an operating profit of \$6 million for the quarter. Excluding NMCI from both periods, the unit posted operating profit of \$111 million, down 9 percent year-over-year, as strong U.S. Federal government revenue was offset by state government runoff.
- **A.T. Kearney:** Third quarter 2004 revenue was \$188 million, down 2 percent versus the same period last year, while operating profit was \$3 million. The high-end management and technology consulting services market continues to stabilize.

(Note: All comparisons are in constant currency and exclude NMCI asset impairment, discontinued operations, gain on sale of clearinghouse business, restructuring charges, and the reversal of a portion of the “other commercial contract” charge. Geography/U.S. Government results exclude A.T. Kearney.)

### **Earnings Guidance/Outlook**

EDS reiterated its prior full-year 2004 guidance of \$20 billion – \$21 billion in revenue and free cash flow of \$200 million – \$300 million. The company increased its full-year 2004 pro forma earnings guidance to 23 cents – 31 cents per share, reflecting lower fourth quarter depreciation expense from the NMCI contract as a result of the asset impairment.<sup>2</sup>

### **Conference Call**

EDS’ securities analysts’ conference call will be broadcast live on the Internet tomorrow at 7:30 a.m. CT (8:30 a.m. ET). To access the call and view related financial information, go to [www.eds.com/call](http://www.eds.com/call). You need Windows MediaPlayer or Real Player to listen. The call also will be archived for 30 days at [www.eds.com/call](http://www.eds.com/call).

<sup>1</sup> EDS defines free cash flow as net cash provided by operating activities, less capital expenditures. Capital expenditures is the sum of (i) net cash used in investing activities, excluding proceeds from sales of marketable securities, proceeds from divested assets, payments related to acquisitions, net of cash acquired, and payments for purchases of marketable securities, and (ii) capital lease payments.

<sup>2</sup>2004 earnings guidance excludes gains on divestitures, previously disclosed restructuring charges, discontinued operations (UGS PLM Solutions), charges related to the termination of EDS’ “other commercial contract”, NMCI asset impairment and an anticipated fourth quarter charge related to the ERO. Pro forma earnings guidance from our “core” (excluding NMCI) operations is \$0.83 - \$0.87 per share. Pro forma earnings guidance for the NMCI contract is a loss of \$0.56 - \$0.60 per share.

### **About EDS**

**EDS provides a broad portfolio of business and technology solutions to help its clients worldwide improve their business performance. EDS’ core portfolio comprises information-technology, applications and business process services, as well as information-technology transformation services. EDS’ A.T. Kearney subsidiary is one of the world’s leading high-value management consultancies. With 2003 revenue of more than \$20 billion, EDS is ranked 87th on the *Fortune 500*. The company’s stock is traded on the New York (NYSE: EDS) and London stock exchanges. Learn more at [eds.com <<http://www.eds.com>>](http://www.eds.com).**

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The statements in this press release that are not historical statements, including statements regarding future financial performance, anticipated cost savings, and the value of new business signed and forecasted to be signed, are 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. These include, but are not limited to the performance of current and future client contracts in accordance with our cost, revenue and cash flow estimates, including our ability to achieve any

operational efficiencies in our estimates; our ability to recover our investment in certain client contracts, including in particular contracts involving the construction of new computer systems and communications networks or the development and deployment of new technologies for which there may exist substantial performance risk and with respect to which some or all elements of service delivery may be dependent upon our successful completion of the development, construction and deployment phases; for contracts with U.S federal government clients, including our Navy Marine Corps Intranet contract, the government's ability to cancel the contract or impose additional terms and conditions due to changes in government funding, or deployment schedules, military action or otherwise; our ability to access the capital markets, including our ability to obtain capital leases, surety bonds and letters of credit, to arrange new client supported financing transactions or similar facilities and continue to access existing facilities; the impact of rating agency actions on our business, including our ability to access capital and our cost of capital as well as the impact of such actions on our agreements that contain debt rating triggers; the impact of third-party benchmarking provisions in certain client contracts; the impact on a historical and prospective basis of accounting rules and pronouncements; the impact of claims, litigation and governmental investigations; the success of our strategic reorganization and cost cutting initiatives and the timing and amount of any resulting benefits; the impact of acquisitions and divestitures; our ability to attract and retain highly skilled personnel; a reduction in the carrying value of our assets; the impact of a bankruptcy or the financial difficulty of a significant client on the financial and other terms of our agreements with that client; the expiration or termination of a significant client contract, including our contract with GM; with respect to the funding of our pension plan obligations, the performance of our investments relative to our assumed rate of return; changes in tax laws and interpretations, competition in the industries in which we conduct business and the impact of competition on pricing, revenues and margins; the impact of general economic and other conditions on the discretionary spend of our existing clients and our ability to obtain new business; the degree to which third parties continue to outsource IT and business processes and failure to obtain treaty relief from double taxation; failure to obtain or protect intellectual property rights; and fluctuations in foreign currency, exchange rates and interest rates. We disclaim any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as may be required by law.