

I N V E S T I N G I N G R O W T H



>> 2004 ANNUAL REPORT





5400 Legacy Drive
Plano, Texas 75024

To Our Shareholders,

EDS emerged from 2004 a new company: stable, financially sound and positioned for growth.

Today, we are investing for growth and market leadership. Our company has a compelling technology vision built on a distinctive view of the marketplace. We have launched a differentiating technology plan that not only addresses current market dynamics, but is designed to help EDS and our clients stay ahead of the curve. Moreover, EDS is building this vision on a foundation of proven operational excellence that drives business impact now.

Business highlights

Last year was about fixing our business, and we made dramatic progress on many fronts.

We stabilized and improved our core business. We enhanced the profitability of our portfolio and improved overall competitiveness through a \$1 billion reduction of our cost structure.

We evolved a broader business footprint. Our acquisition of The Feld Group strengthens our information technology outsourcing (ITO) strategy with a full range of transformational services. Additionally, the recent formation of a jointly owned company with Towers Perrin, combining EDS' human resources (HR) outsourcing business with Towers Perrin's benefits administration services business, establishes us as a leader in HR outsourcing.

We strengthened our balance sheet. We ended the year with \$4.4 billion in liquidity. We bolstered our cash position, reduced our debt by nearly \$2 billion and further divested ourselves of non-core businesses.

We brought increased stability and productivity to the Navy Marine Corps Intranet (NMCI) account. We improved on overall execution, while advancing our prospects for better economics on the contract.

We entered 2005 with a strong operational base, supported by our best-in-class delivery capabilities, a solid management team, and financial resources to fund new business and invest for the future.

Engaging the strategic use of technology

Market forces are placing new demands on businesses and governments. Clients need more business value from their technology investments. We get it, and we're investing to help clients and EDS meet those demands and leapfrog the competition.

Among the many market forces in play, we believe:

Global commerce is here to stay. The ability to do business globally is imperative – whether a company operates in more than one region or country – or its supply chain passes through Taiwan, Germany and Mexico.

The explosion of technology is pushing demands on business to the "edge." The growing number of "always-on" devices – such as personal digital assistants (PDAs), mobile phones, toll tags and radio frequency identification (RFID) chips – is increasing the need for scale, speed and flexibility.

There is a shift in how work is done. As more usage begins to come in at the edge, it changes how products and services are bought and delivered – whether it's using a debit card to pay for a drink at a vending machine or a global positioning system that locates your car for emergency roadside assistance.

Business ecosystems will dominate. Most companies don't need to own everything – their supply chain is made up of many different companies that span the globe. Companies are removing inventories, warehouses and administrative support as they participate more in an overall business ecosystem.

Forty years of legacy systems can't participate. More and more enterprises will need help to unravel the hard-wired, rigid infrastructures resulting from 40 years of information technology sprawl. And they will need help from those who are experts in both the old and new technologies, and who know how to apply them to solve industry issues.

Businesses and governments, for their part, are asking technology service providers for:

- Ongoing cost-competitiveness, high-quality service delivery and the ability to drive real business value.
- Global consistency across all geographies because their businesses run in multiple regions or countries.
- Network reliability and embedded security to accommodate employees and customers on both sides of the firewall.
- Always-on resiliency so that their multipartner supply chains continue to deliver the products and services they need when they need them.
- Scalability and surge capacity to cover unexpected business peaks and provide access to an unprecedented number of users and edge devices.
- Deep business domain and industry knowledge to develop relevant business solutions.

Our strategic response: investing and partnering to win

In 2005 alone, EDS is investing \$1 billion in technology, infrastructure, new capabilities and competitiveness to meet client needs and emerging market demands.

The backbone of our technology strategy is the EDS Agile Enterprise Platform. It comprises a network-centric utility infrastructure that has at its core all of our data centers and people connected to a globally secure services grid.

Built on global standards, this advanced technology architecture will ensure our clients consistently receive the same high-quality service wherever they do business. New cost-competitive offerings based on this platform are being developed to help clients manage the proliferation of technology and increased demands on their systems.

We are joined in building this new platform by market-leading technology companies Cisco Systems, Dell, EMC, Microsoft, Oracle, SAP, Siebel, Sun Microsystems and Xerox. Named the EDS Agility Alliance, this federation combines the collective brainpower, research and development, and market reach of some of the world's top businesses in our industry.

Leveraging this standard delivery platform, we can provide clients a new level of business process outsourcing (BPO) services and further extend our business footprint. The new company we formed with Towers Perrin, ExcellerateHRO, also gives us new capabilities in HR outsourcing, the fastest growing segment of BPO. ExcellerateHRO begins with 400 clients and \$600 million in annual revenue.

Additionally, we will use our highly flexible technology foundation and global best practices to deliver innovative, industry-based solutions. These solutions maximize our infrastructure, applications and BPO offerings with an industry-specific focus. They meet our clients' issues head-on, enabling them to bring more value to their customers while reducing costs and improving business performance.

Beyond these moves, we are aligning our work force to address clients' business needs and ensure service delivery excellence. We are reskilling up to 20,000 of our technical professionals in 2005 as part of our plan to provide more than a million hours of training to employees across the globe.

Judging by the initial response, our new technology strategy has struck a resonant chord with our employees, industry analysts and clients.

Positioned for long-term growth and market leadership

EDS is ready to compete and win in the marketplace. The investments we are making this year are designed to position us for long-term growth and market leadership.

EDS got off to a strong start in 2005 with some important contract wins. Chief among them was a 10-year contract with the UK Ministry of Defence, which has a total budget in the region of £2.3 billion (about \$4 billion). This contract marks our single largest win since 2002 and strengthens our leading position in the UK government and defense markets. It also demonstrates our ability to leverage our in-depth experience and lessons learned on the NMCI account to win new business.

As one of only two truly global technology services companies, we believe EDS is better positioned than ever to provide businesses and governments the leverage and speed they need to move their operations into the 21st century.

At our very core, EDS is a services company. Our people are committed to operational excellence and delivering client results. We've proved that for the last four decades.

You can take confidence in the fact the past two years have been spent laying the foundation for future growth and profitability. We believe these investments will pay off in 2005 and beyond for our shareholders.

Sincerely,

A handwritten signature in black ink, reading "Michael H. Jordan". The signature is written in a cursive, flowing style.

Michael H. Jordan
Chairman and Chief Executive Officer



ELECTRONIC DATA SYSTEMS CORPORATION

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON APRIL 22, 2005**

The Annual Meeting of Shareholders of Electronic Data Systems Corporation ("EDS") will be held on Friday, April 22, 2005, at 1:00 p.m. local time, at the offices of EDS, 5400 Legacy Drive, Plano, Texas 75024. The purpose of the meeting is to:

- elect two directors for a three-year term (or a one-year term if the proposal to repeal EDS' classified board structure is approved);
- ratify the appointment of KPMG LLP as independent auditors;
- approve the Board of Directors' proposal to amend the Certificate of Incorporation to repeal the classified board structure and provide for the annual election of all directors commencing with the 2006 annual meeting of shareholders;
- approve the Board of Directors' proposal to amend the Certificate of Incorporation to eliminate all supermajority voting requirements; and
- act upon such other matters as may properly be presented at the meeting.

Only EDS shareholders of record at the close of business on March 1, 2005, will be entitled to vote at the meeting.

Your vote is important. Whether or not you plan to attend the meeting, please complete and return the enclosed proxy card in the accompanying envelope or vote through the telephone or Internet voting procedures described on the proxy card. Your completed proxy, or your telephone or Internet vote, will not prevent you from attending the meeting and voting in person should you so choose.

Please let us know if you plan to attend the meeting by marking the appropriate box on the enclosed proxy card or, if you vote by telephone or Internet, indicating your plans when prompted. If you are a shareholder of record, please bring the top portion of the proxy card to the meeting as your admission ticket. If your shares are held in street name (by a bank or broker, for example), you may bring a recent account statement to the meeting in lieu of the admission ticket.

By order of the Board of Directors,

Bruce N. Hawthorne
Secretary

March 24, 2005

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**PROXY STATEMENT
FOR THE ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD APRIL 22, 2005**

The Board of Directors of EDS is soliciting proxies to be used at the 2005 Annual Meeting of Shareholders (the "Meeting"). Distribution of this Proxy Statement and a proxy form is scheduled to begin on March 31, 2005. The mailing address of EDS' principal executive offices is 5400 Legacy Drive, Plano, Texas 75024.

About the Meeting

Who Can Vote

Record holders of EDS Common Stock at the close of business on March 1, 2005, may vote at the Meeting. On that date, 517,645,921 shares of Common Stock were outstanding. Each share is entitled to cast one vote.

How You Can Vote

If you return your signed proxy, or vote by telephone or the Internet, before the Meeting, we will vote your shares as you direct. You can specify whether your shares should be voted for all, some or none of the nominees for director. You can also specify whether you approve, disapprove or abstain from each of the other proposals. Proposals 1 through 4 will be presented at the Meeting by management.

If a proxy is executed and returned but no instructions are given, the shares will be voted according to the recommendations of the Board of Directors. The Board of Directors recommends a vote FOR Proposals 1 through 4.

If you participate in the EDS Stock Purchase Plan, the Common Stock fund under the EDS 401(k) Plan, the 2003 EDS Incentive Plan or a dividend reinvestment program, you may receive one proxy card for all shares registered in the same name. If your accounts are not registered in the same name, you will receive a separate proxy card for your individual plan shares. Generally, shares in these plans cannot be voted unless the proxy card is signed and returned, although shares held in the 401(k) Plan may be voted in the discretion of the plan trustee.

Revocation of Proxies

You can revoke your proxy at any time before it is exercised by: (1) delivering a written notice of revocation to the Corporate Secretary; (2) delivering another proxy that is dated later than the original proxy; or (3) attending the Meeting and voting by ballot.

Vote Required

The holders of a majority of the shares entitled to vote who are either present in person or represented by proxy at the Meeting will constitute a quorum for the transaction of business at the Meeting.

A plurality of the votes cast is required for the election of directors. This means that the director nominee with the most votes for a particular slot is elected to that slot. A proxy that has properly withheld authority with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although it will be counted for purposes of determining whether there is a quorum.

For Proposal 2, the affirmative vote of the holders of a majority of the Common Stock represented in person or by proxy and entitled to vote on the proposal will be required for approval. An abstention with respect to this proposal will not be voted, although it will be counted for purposes of determining whether there is a quorum. Accordingly, an abstention will have the effect of a vote against this proposal.

For Proposals 3 and 4, the affirmative vote of the holders of at least 80% of the outstanding Common Stock will be required for approval. Although an abstention with respect to Proposals 3 or 4 will not be voted, because these proposals must be approved by the affirmative vote of the holders of at least 80% of the outstanding Common Stock an abstention will have the effect of a vote against these proposals.

Under New York Stock Exchange (“NYSE”) rules, if your broker holds your shares in its name, the broker is permitted to vote your shares on the election of directors and on Proposals 2 and 3, even if it does not receive voting instructions from you. Proposal 4 is “non-discretionary,” meaning that brokers who hold shares for the accounts of their clients and who have not received instructions from their clients do not have discretion to vote on that proposal. When a broker votes a client’s shares on some but not all proposals at the Meeting, the missing votes are referred to as “broker non-votes.” Those shares will be included in determining the presence of a quorum at the Meeting but would not be considered “present” for purposes of voting on a non-discretionary proposal. Because Proposal 4, the only non-discretionary proposal, must be approved by the affirmative vote of the holders of at least 80% of the outstanding Common Stock, a broker non-vote will have the effect of a vote against Proposal 4.

Other Matters to be Acted Upon at the Meeting

We do not know of any other matters to be validly presented or acted upon at the Meeting. Under our Bylaws, no business besides that stated in the meeting notice may be transacted at any meeting of shareholders. If any other matter is presented at the Meeting on which a vote may properly be taken, the shares represented by proxies will be voted in accordance with the judgment of the person or persons voting those shares.

Expenses of Solicitation

EDS is making this solicitation and will pay the entire cost of preparing, assembling, printing, mailing and distributing these proxy materials and soliciting votes. If you choose to access the proxy materials and/or vote over the Internet, you are responsible for any Internet access charges you may incur. Our officers and employees may, but without compensation other than their regular compensation, solicit proxies by further mailing or personal conversations, or by telephone, facsimile or e-mail. We will, upon request, reimburse brokerage firms and others for their reasonable expenses in forwarding proxy materials to beneficial owners of Common Stock. We have retained MacKenzie Partners, Inc. to assist in soliciting proxies for a fee of \$12,500 plus reasonable out-of-pocket expenses.

Shareholders with Multiple Accounts

Shareholders who previously have elected not to receive an annual report for a specific account may request EDS to promptly mail its 2004 Annual Report to that account by writing EDS Investor Relations, 5400 Legacy Drive, Mail Stop H1-2D-05, Plano, Texas 75024, or by calling (888) 610-1122 or (972) 605-6661.

Multiple Shareholders Sharing the Same Address

We have adopted a procedure approved by the Securities and Exchange Commission (“SEC”) called “householding,” which reduces our printing costs and postage fees. Under this procedure, shareholders of record who have the same address and last name and do not participate in electronic delivery of proxy materials will receive only one copy of our annual report and proxy statement unless one or more of these shareholders notify us that they wish to continue receiving individual copies. Shareholders who participate in householding will continue to receive separate proxy cards.

If a shareholder of record residing at such an address wishes to receive a separate document in the future, he or she may contact our transfer agent at 1-800-937-5449 or write to American Stock Transfer & Trust Company, 59 Maiden Lane - Plaza Level, New York, NY 10038. Shareholders of record receiving multiple copies of our annual report and proxy statement may request householding by contacting us in the same manner. If you own your shares through a bank, broker or other nominee, you can request householding by contacting the nominee.

Corporate Governance and Board Matters

Board of Directors

The Board of Directors is elected by and accountable to the shareholders and is responsible for the strategic direction, oversight and control of EDS. Regular meetings of the Board are generally held five or six times per year and special meetings are scheduled when necessary. The Board held nine meetings in 2004. All directors continuing in office following the Meeting attended at least 75% of the meetings of the Board and the Board committees of which they were members during 2004, other than W. Roy Dunbar, who was appointed to the Board in October 2004. Scheduling conflicts identified prior to Mr. Dunbar's appointment to the Board prevented him from attending one of the two Board meetings scheduled for the remainder of 2004.

Corporate Governance Guidelines

The Board of Directors believes that sound governance practices and policies provide an important framework to assist it in the performance of its duties and the exercise of its responsibilities to shareholders. Since the establishment of the current Board structure in 1996, the Board has continually reviewed and updated its governance practices and policies. The EDS Corporate Governance Guidelines, initially adopted in February 2003 and periodically supplemented thereafter, formally incorporate the practices and policies under which the Board has operated since its inception as well as significant additional practices and policies to assist the Board in the performance of its duties and to comply with NYSE listing rules and other legal requirements. The Guidelines cover the following principal subjects:

- *Expectations of individual directors*, including understanding EDS' businesses and markets, review and understanding of materials provided to the Board, objective and constructive participation in meetings and strategic decision-making processes, regular attendance at Board and Board committee meetings, and attendance at annual shareholder meetings.
- *Board selection and composition*, including Board size, independence of directors, process for determination of director independence, number of independent directors, nomination and selection of directors, service on other boards, director retirement, separation of the Chairman and Chief Executive Officer positions, director orientation and a mandatory continuing director education program.
- *Board operations*, including number of meetings, requirement for executive sessions of non-management directors, Board access to management, annual Chief Executive Officer evaluation, annual Board and Committee evaluation, management development and succession planning, retention of independent advisors and operation and composition of Board committees.
- *Other matters*, including director compensation and stock ownership, prohibition on consulting agreements with directors, restrictions on charitable contributions to director-affiliated organizations, procedures for avoidance or minimization of conflicts of interest, and the Board's policy regarding shareholder rights plans described below.

The Guidelines are posted on our website at www.EDS.com/investor/governance. Shareholders may also request a copy of the Guidelines by writing EDS Investor Relations, 5400 Legacy Drive, Mail Stop H1-2D-05, Plano, Texas 75024, or by calling (888) 610-1122 or (972) 605-6661.

The Guidelines are reviewed periodically and as necessary by the Governance Committee, and any proposed additions or amendments are presented to the full Board for its approval.

Rights Plan Policy

The Board of Directors redeemed EDS' shareholder rights plan, sometimes referred to as a "poison pill," in February 2005. The Board also adopted a policy to obtain shareholder approval prior to adopting any shareholder rights plan in the future unless the Board in the exercise of its fiduciary duties determines that, under the circumstances then existing, it would be in the best interest of EDS and its shareholders to adopt a rights plan without prior shareholder approval. The Board's policy further provides that if a rights plan is adopted by the Board without prior shareholder approval, the plan must provide that it shall expire within one year of adoption unless ratified by shareholders. The Corporate Governance Guidelines have been amended to incorporate this policy.

Executive Sessions

The EDS Corporate Governance Guidelines require the non-employee directors to meet in executive session without management present from time to time, and at least twice per year. Executive sessions are a normal part of the Board's deliberations and activities. One of these meetings is devoted to the evaluation of the Chief

Executive Officer and the recommendations of the Compensation and Benefits Committee regarding his compensation. The executive sessions are chaired on a rotating basis by the Chairpersons of the Board's three standing Committees (a "Presiding Director"). The Chairman of the Governance Committee, Roger A. Enrico, serves as the Presiding Director through the date of the Meeting, and the Chairman of the Compensation and Benefits Committee, C. Robert Kidder, will serve as the Presiding Director thereafter until the 2006 Annual Meeting of Shareholders.

Communications with the Board

Individuals may communicate with the Presiding Director by submitting an e-mail to BoardCommunications@eds.com or sending a written communication to the following address:

Presiding Director of the EDS Board
c/o Corporate Secretary
5400 Legacy Drive, Mail Stop H3-3A-05
Plano, Texas 75024

Communications intended for any other non-management director should also be sent to the above address. Further information regarding the procedures for communications with the Presiding Director is posted on our website at www.EDS.com/investor/governance.

Director Independence

The Board assesses the independence of each non-employee director not less frequently than annually in accordance with the EDS Corporate Governance Guidelines. Under the Guidelines for Assessing Independence of EDS' Directors (the "Independence Guidelines"), a director cannot be independent unless the Board affirmatively determines that he or she has no material relationship with EDS, either directly or as a partner, shareholder or officer of an organization that has a relationship with EDS, and has none of the other relationships listed in the guidelines that would disqualify the director from being independent under the rules of the NYSE. As contemplated by the NYSE rules, the Board also adopted categorical standards to assist in determining whether any material relationship with EDS exists. Directors who have any of the relationships outlined in such categorical standards are considered to have relationships that require a "full facts and circumstances review" by the Board in order to determine whether it constitutes a material relationship with EDS for purposes of his or her independence. The Independence Guidelines, including such categorical standards, are posted on our website at www.EDS.com/investor/governance.

In February 2005, the Board assessed the independence of each non-employee director under the Independence Guidelines. The Board determined, after careful review, that all non-employee directors (Mr. Dunbar, Mr. Enrico, Mr. Fisher, Mr. Kangas, Ms. Hancock, Mr. Hunt, Mr. Groves, Mr. Kidder, Dr. Rodin and Mr. Trujillo) are independent. There were no relationships outlined in the categorical standards with any non-employee director that required a "full facts and circumstances review" by the Board. In February 2004, the Board undertook a "full facts and circumstances review" of relationships in 2003 with two separate entities affiliated with Mr. Hunt reported in our 2004 proxy statement. Such facts indicated that the relationships were not material and there was no reasonable likelihood that the relationships would cause Mr. Hunt to be unduly influenced by management, to have conflicting loyalties with the interests of EDS or to be unable to critically analyze management's approaches or recommendations. There were no payments by EDS in 2004 to either of those two entities.

In connection with its assessment of the independence of each non-employee director, the Board also determined that each member of the Audit Committee meets the additional independence standards of the NYSE and SEC applicable to Audit Committee members. Such standards require that the director not be an affiliate of EDS and cannot accept from EDS, directly or indirectly, any consulting, advisory or other compensatory fee, other than fees for serving as a director.

EDS Code of Business Conduct

EDS is committed to conducting its business ethically and with integrity. We believe that integrity is the sum of the ethical performance of the people of EDS and fosters successful long-term relationships with clients, a better overall work environment and a culture of compliance with both the letter and spirit of the law that ultimately brings value to our shareholders. The EDS Code of Business Conduct, first adopted over a decade ago, has been continually updated to reflect the values we expect of the directors, officers and employees of the entire EDS family of companies. Today the EDS Code of Business Conduct meets the standards for a "code of ethics" applicable to our principal executive officer, principal financial officer, and principal accounting officer or controller for purposes of the rules adopted by the SEC, and satisfies the requirements of the NYSE for a code of business conduct applicable to all directors, officers and employees. The EDS Code of Business Conduct is posted on our website at www.EDS.com/investor/governance/code.aspx. Shareholders may also request a copy of the Code of Business Conduct by writing EDS Investor Relations, 5400 Legacy Drive, Mail Stop H1-2D-05, Plano, Texas 75024, or by

calling (888) 610-1122 or (972) 605-6661. We will disclose any amendment or waiver of a provision of the Code of Business Conduct that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or that relates to any element of the definition of a “code of ethics” under applicable SEC rules, as well as any amendment or waiver of the Code for any of our directors or any other executive officer, on our website at www.EDS.com/investor/governance/code.aspx not later than five business days following the date of the amendment or waiver.

Committees of the Board

The Board of Directors has established three Committees to assist it in discharging its responsibilities: the Audit Committee; the Compensation and Benefits Committee; and the Governance Committee. Each committee is composed entirely of independent directors. The Board has adopted a written charter for each committee. Copies of these charters are posted on our website at www.EDS.com/investor/governance. Shareholders may also request a copy of any committee charter by writing EDS Investor Relations, 5400 Legacy Drive, Mail Stop H1-2D-05, Plano, Texas 75024, or by calling (888) 610-1122 or (972) 605-6661.

Audit Committee. The Audit Committee, which met 14 times in 2004, is composed of Ray J. Groves (Chairman), W. Roy Dunbar, Edward A. Kangas and Solomon D. Trujillo. Mr. Kangas was appointed to this committee in November 2004 and Messrs. Dunbar and Trujillo were appointed to this committee in January 2005. Roger A. Enrico and Ray L. Hunt served on this committee until February 2005. The Board of Directors has determined that Messrs. Groves and Kangas are audit committee financial experts within the meaning of SEC regulations, and that all members of the Audit Committee are independent within the meaning of the NYSE’s listing standards. The Audit Committee assists the Board in fulfilling its responsibilities for oversight of the integrity of EDS’ financial statements, EDS’ compliance with legal and regulatory requirements, the independent auditors’ qualifications and independence, and the performance of EDS’ internal audit function and independent auditors. Among other things, the Audit Committee appoints and determines the compensation of EDS’ independent auditors; reviews and evaluates the performance and independence of the independent auditors; reviews the scope and plans for the external and internal audits; reviews and discusses reports from the independent auditors regarding critical accounting policies, alternative treatments of financial information and other matters; reviews significant changes in the selection or application of accounting principles; reviews the internal control report of management, any issues regarding the adequacy of internal controls and any remediation efforts; reviews legal matters that could materially impact EDS’ financial statements; reviews the EDS Code of Business Conduct to determine whether it complies with applicable law and discusses reports from the Office of Ethics and Business Conduct concerning compliance with the Code of Business Conduct; and reviews EDS’ guidelines and policies with respect to risk assessment and risk management. The Committee also reviews with management and the independent auditors EDS’ quarterly and annual financial statements and other public financial disclosures prior to their public release. The report of the Audit Committee is included below.

Compensation and Benefits Committee. The Compensation and Benefits Committee, which met seven times in 2004, is composed of C. Robert Kidder (Chairman), Roger A. Enrico and Ellen M. Hancock. Richard Fisher and Judith Rodin served on this committee until February 2005, at which time Mr. Enrico was appointed to the committee. This committee reviews and approves annual goals and objectives relevant to the Chief Executive Officer’s compensation and evaluates the Chief Executive Officer’s performance against such goals and objectives. The committee also approves all salary and other compensation of our other executive officers and approves performance goals for all performance-based executive plans. It also reviews and approves all new benefit and equity compensation plans and programs, as well as amendments to existing plans and programs, and reviews and makes recommendations to the Board regarding director compensation.

Governance Committee. The Governance Committee, which met six times in 2004, is composed of Roger A. Enrico (Chairman), Ellen M. Hancock, Ray L. Hunt and C. Robert Kidder. Judith Rodin served on this committee until February 2005, at which time Mr. Hunt was appointed to the committee. The Governance Committee develops, and makes recommendations to the Board for approval of, our policies and practices related to corporate governance, including the EDS Corporate Governance Guidelines. In addition, the committee develops the criteria for the qualification and selection of candidates for election to the Board, including the standards and processes for determining director independence, and makes recommendation to the Board regarding such candidates as well as the appointment of directors to serve on Board committees. The committee is also responsible for the development and oversight of the company’s director orientation and education programs. The committee recommends to the Board the election of the Chairman and the Chief Executive Officer, reviews the Chief Executive Officer’s recommendations regarding the election of other principal officers, reviews and develops with the Chief Executive Officer management succession plans, and makes recommendations regarding shareholder proposals. The procedures for submission by a shareholder of a director nominee or other proposal are described under “Shareholder Proposals and Nomination of Directors” below.

Director Qualifications

The Governance Committee will select nominees for director on the basis of their integrity, experience, achievements, judgment, intelligence, personal character, ability to make independent analytical inquiries, willingness to devote adequate time to Board duties, and the likelihood that they will be able to serve on the Board for a sustained period. To be recommended by the Governance Committee for election to the Board, a nominee must also meet the expectations for individual directors set forth in the EDS Corporate Governance Guidelines, including understanding EDS' businesses and the marketplaces in which it operates. In addition, a nominee must not have conflicts or commitments that would impair his or her ability to attend scheduled Board meetings or annual shareholders meetings, not hold positions that would result in a violation of legal requirements, and meet any applicable legal or regulatory requirements for directors of government contractors. In selecting nominees, the Governance Committee will also consider the nominee's global experience, experience as a director of a large public company and knowledge of particular industries.

Identification and Evaluation of Director Candidates

The Governance Committee uses a variety of means for identifying nominees for director, including third-party search firms and recommendations from current Board members and shareholders. In determining whether to nominate a candidate, the Governance Committee considers the current composition and capabilities of serving Board members, as well as additional capabilities considered necessary or desirable in light of existing needs, and then assesses the need for new or additional members to provide those capabilities. In most instances, all members of the Governance Committee, as well as one or more other directors, will interview a prospective candidate. The Governance Committee will also contact any other sources, including persons serving on another board with the candidate, it deems appropriate to develop a well-rounded view of the candidate. Reports from the interview with the candidate and/or Governance Committee members with personal knowledge and experience with the candidate, information provided by other contacts, the candidate's resume, and any other information deemed relevant by the Governance Committee will be considered in determining whether a candidate should be nominated.

In evaluating whether to nominate a director for re-election, the Governance Committee will consider the following: the director's attendance at Board and Board Committee meetings; the director's review and understanding of the materials provided in advance of meetings and other materials provided to the Board from time to time; whether the director actively, objectively and constructively participated in such meetings and in the company's strategic decision-making process in general; the director's compliance with the EDS Corporate Governance Guidelines; and whether the director continues to possess the qualities and capabilities expected of Board members discussed above. The Governance Committee will also consider input from other Board members concerning the performance and independence of that director. Generally, the manner in which the Governance Committee evaluates nominees for director recommended by a shareholder will be the same as that for nominees from other sources. However, the Governance Committee will also seek and consider information concerning the relationship between a shareholder's nominee and that shareholder to determine whether the nominee can effectively represent the interests of all shareholders.

There is one nominee this year who had not previously been elected to the Board by shareholders. W. Roy Dunbar was appointed by the Board as a director in October 2004 upon recommendation of the Governance Committee. He had been recommended to the Governance Committee by a third-party search firm.

Shareholder Proposals and Nomination of Directors

Shareholders may submit proposals, including director nominations, for consideration at future shareholder meetings.

Shareholder Proposals. For a shareholder proposal to be considered for inclusion in EDS' proxy statement for the 2006 Annual Meeting of Shareholders, the written proposal must comply with the requirements of SEC Rule 14a-8 regarding the inclusion of shareholder proposals in company-sponsored proxy materials. Proposals should be addressed to:

Corporate Secretary
Electronic Data Systems Corporation
5400 Legacy Drive, Mail Stop H3-3A-05
Plano, Texas 75024
Fax: (972) 605-5610

Our 2006 Annual Meeting of Shareholders is currently scheduled for April 19, 2006. Under SEC rules, shareholder proposals to be considered for inclusion in EDS' proxy statement for the 2006 Annual Meeting of Shareholders must be received by the Corporate Secretary not later than December 1, 2005.

Our By-laws provide for certain procedures that shareholders must follow to introduce an item of business at an annual meeting. These provisions, which are described under “By-law Procedures” below, are separate from and in addition to the SEC Rule 14a-8 requirements that a shareholder must satisfy to have a shareholder proposal included in our proxy statement.

Nomination of Director Candidates. The Governance Committee will consider candidates recommended by shareholders who beneficially own not less than 1% of the outstanding Common Stock. Eligible shareholders wishing to make such recommendations to the Governance Committee for its consideration may do so by submitting a completed “Shareholder Recommendation of Candidate for Director” form to the Secretary of the Governance Committee by e-mail to DirectorNominations@eds.com or by mail to the following address:

Secretary of the Governance Committee
Electronic Data Systems Corporation
5400 Legacy Drive, Mail Stop H3-3A-05
Plano, Texas 75024

This form is posted on our website at www.EDS.com/investor/governance/nominations.aspx. A copy of the form may also be requested from the Secretary of the Governance Committee. Eligible shareholders who wish to recommend a nominee for election as director at the 2006 annual meeting should submit a completed form not earlier than October 1, 2005, and not later than December 1, 2005. Generally, candidates recommended by an eligible shareholder will be evaluated by the Governance Committee under the same process described above. However, the Governance Committee will not evaluate a shareholder-recommended candidate unless and until the potential candidate has indicated a willingness to serve as a director, comply with the expectations and requirements for Board service described above and provide all information required to conduct an evaluation.

Shareholders who wish to nominate a person for election as a director at the next annual meeting may do so in accordance with the By-law procedures described below, either in addition to or in lieu of making a recommendation to the Governance Committee.

By-law Procedures. Our By-laws provide for certain procedures that shareholders must follow to introduce an item of business at an annual meeting or nominate persons for election as a director. These requirements are separate from and in addition to the SEC Rule 14a-8 requirements that a shareholder must satisfy to have a shareholder proposal included in our proxy statement. These requirements are also separate from the procedures described above that a shareholder must follow to recommend a director candidate to the Governance Committee. Generally, our By-laws require that a shareholder notify the Corporate Secretary of a proposal not less than 90 days nor more than 270 days before the scheduled meeting date. The notice must include the name and address of the shareholder and of any other shareholders known by such shareholder to be in favor of the proposal, as well as a description of the proposed business and reason for conducting the proposed business at the annual meeting. If the notice relates to a nomination for director, it must also set forth the name, age, principal occupation and business and residence address of any nominee(s), the number of shares of Common Stock beneficially owned by the nominee(s) and such other information regarding each nominee as would have been required to be included in a proxy statement filed pursuant to the SEC’s proxy rules.

Our By-laws are posted on our website at www.EDS.com/investor/governance. Shareholders may also contact the Corporate Secretary at the above address for a copy of the relevant By-law provisions.

Compensation of Non-employee Directors

Non-employee directors receive an annual cash retainer fee of \$200,000 and an additional \$15,000 for serving as chairperson of one of the Board’s three standing committees. No additional fees are paid for attending Board or Board committee meetings. Non-employee directors are also reimbursed for actual travel and out-of-pocket expenses incurred in connection with their service. Director compensation is paid annually in advance at the commencement of the director compensation period. If a director’s Board service terminates prior to the end of the director compensation period, EDS does not seek to recover any portion of the director’s compensation for that period.

The Board believes it is important to align the interests of directors with those of shareholders and for directors to hold equity ownership positions in EDS that are meaningful in their individual circumstances. Accordingly, the Board strongly encourages all non-employee directors to elect to take a significant portion of their compensation in the form of EDS equity, and has adopted director stock ownership guidelines requiring directors to hold EDS equity valued at not less than \$400,000 following a designated period.

Non-employee directors have been able to elect to receive stock options and/or shares of restricted stock in lieu of all or part of their annual cash retainer, although for director compensation periods following the 2005 shareholders meeting directors will no longer be able to elect to receive stock options in lieu of any part of their cash

retainer. In addition, directors may defer, in a cash account or phantom stock account, all or a portion of their annual cash retainer until up to five years after separation from the Board pursuant to the Deferred Compensation Plan for Non-employee Directors. Compensation deferred to the cash account earns interest at a rate equal to 120% of the applicable federal long-term rate published by the IRS. Compensation deferred to the phantom stock account is deemed to have purchased shares of Common Stock on the effective date of the deferral at the then fair market value of the stock. For director compensation periods following the 2004 shareholders meeting, EDS will contribute to the director's phantom stock account an additional 10% of the number of shares of Common Stock deemed to have been purchased. The number of shares credited to the phantom stock account is adjusted periodically to reflect the payment and reinvestment of dividends on the Common Stock.

EDS does not provide retirement benefits to non-employee directors. Upon conclusion of their Board service, charter members of the Board (non-employee directors who have served on the Board since EDS became a public company in June 1996) receive a commemorative gift valued at approximately \$3,500.

For director compensation periods prior to the 2004 shareholders meeting, each non-employee director received an annual cash retainer fee of \$35,000, \$5,000 for service as a committee chairperson, \$2,500 for attendance at each Board or Board committee meeting, and an annual grant under the EDS Incentive Plan of 4,000 stock options and 500 shares of restricted stock that vested ratably over a three-year period. Under the terms of the Incentive Plan, any such options or restricted stock that have not vested at the time of the non-employee director's resignation from the Board will automatically vest upon the Board's acceptance of such resignation. Such automatic vesting has occurred with respect to all former non-employee directors upon the termination of their Board service.

Report of the Audit Committee

The Audit Committee reviewed and discussed with management of the company and KPMG LLP, independent auditors for the company, the audited financial statements to be included in the Annual Report on Form 10-K for the year ended December 31, 2004.

The Audit Committee discussed with KPMG LLP the matters required to be discussed by Statement on Auditing Standards No. 61, "Communications with Audit Committees", as amended.

The Audit Committee received the written disclosures and the letter from KPMG LLP required by Independence Board Standard No. 1, "Independence Discussions With Audit Committees", and has discussed with KPMG LLP its independence from the company.

In reliance on the reviews and discussions with management of the company and KPMG LLP referred to above, the Audit Committee has recommended to the Board of Directors that the audited financial statements be included in the company's Annual Report on Form 10-K for the year ended December 31, 2004, for filing with the Securities and Exchange Commission.

The Audit Committee reviewed management's process to assess the adequacy of the company's system of internal control over financial reporting and management's conclusions on the effectiveness of the company's internal control over financial reporting. The Audit Committee also discussed with KPMG LLP the company's internal control assessment process, management's assessment with respect thereto and KPMG LLP's evaluation of the company's system of internal control over financial reporting.

It is the responsibility of the company's management to plan and conduct audits and determine that the company's financial statements are complete and accurate and in accordance with generally accepted accounting principles. In giving its recommendation to the Board of Directors, the Audit Committee has relied on management's representation that such financial statements have been prepared in conformity with generally accepted accounting principles, and the reports of the company's independent accountants with respect to such financial statements.

Audit Committee

Ray J. Groves, Chairman

W. Roy Dunbar

Edward A. Kangas

Solomon D. Trujillo

PROPOSAL 1: ELECTION OF DIRECTORS

The Board of Directors is currently divided into three classes, the terms of which expire alternately over a three-year period. The Board currently has 12 directors. Richard Fisher will resign from the Board effective March 31, 2005, and Judith Rodin will not continue in office following the Meeting. Accordingly, immediately following the Meeting, the Board is expected to have 10 directors. The Board has nominated W. Roy Dunbar and Michael H. Jordan to be elected at the meeting to serve until the annual meeting in 2008 or until their successors have been duly elected and qualified, or until the earliest of their death, resignation or retirement. However, if the Board's proposal to declassify the Board (Proposal 3 below) is approved by shareholders at the Meeting, the term of all our directors, including these two nominees, will expire at our 2006 annual meeting.

We will vote your shares as you specify in your proxy. If you sign, date and return your proxy but do not specify how you want your shares voted, we will vote them FOR the election of the nominees listed below. If due to unforeseen circumstances (such as death or disability) a nominee should become unavailable for election, the Board may either reduce the number of directors or substitute another person for the nominee, in which event your shares will be voted for that other person.

The following information regarding the nominees for director and each current director continuing in office is as of March 1, 2005.

The Board of Directors recommends a vote FOR each of the nominees for director.

Nominees for Director for Terms Expiring in 2008 (or 2006 if Proposal to Declassify the Board is Approved by Shareholders)

W. Roy Dunbar, 43



President Global Technology and Operations of Master Card International since September 2004. Mr. Dunbar had been president, intercontinental operations of Eli Lilly and Company, responsible for its Asia, Africa/Middle East, Latin America and the Confederation of Independent States operations from January 2004 to September 2004, and was a member of Eli Lilly's senior management forum. He had served as vice president of information technology and chief information officer of Eli Lilly since 1999. Mr. Dunbar joined Eli Lilly in 1990. He has been a director of EDS since 2004.

Michael H. Jordan, 68



Chairman and Chief Executive Officer of EDS since March 2003. Mr. Jordan was Chairman and Chief Executive Officer of CBS Corporation (formerly Westinghouse Electric Corporation) from July 1993 until December 1998. Prior to joining Westinghouse, he was a principal with the investment firm of Clayton, Dubilier and Rice from September 1992 through June 1993, Chairman of PepsiCo International from December 1990 through July 1992 and Chairman of PepsiCo World-Wide Foods from December 1986 to December 1990. Mr. Jordan has been chairman of the board of directors of eOriginal, Inc. (electronic document services) since June 1999. He is also a director of Aetna Inc.

Continuing Directors Whose Terms Expire in 2006

Ray J. Groves, 69



Senior Advisor to Marsh Inc., the insurance brokerage and risk management subsidiary of Marsh & McLennan Companies, Inc., since October 2004. Mr. Groves served as Chairman and Chief Executive Officer of Marsh Inc. from July 2003 to October 2004, President and Chief Executive Officer of Marsh Inc. from January 2003 to June 2003, and President and Chief Operating Officer of Marsh Inc. from October 2001 to January 2003. Mr. Groves served as Chairman of Legg Mason Merchant Banking, Inc. from March 1995 to September 2001. He retired as Chairman and Chief Executive Officer of Ernst & Young LLP in September 1994, which position he held since 1977. Mr. Groves is a director of Boston Scientific Corporation and The Gillette Company. Mr. Groves has been a director of EDS since 1996.

Jeffrey M. Heller, 65



Rejoined EDS in March 2003 as President and Chief Operating Officer and a director. Mr. Heller retired from EDS in February 2002 as Vice Chairman, a position he had held since November 2000. He had served as President and Chief Operating Officer of EDS from 1996 to November 2000, Senior Vice President from 1984 to 1996, and Chairman of Unigraphics Solutions Inc. (then a subsidiary of EDS) from January 1999 to February 2001. Mr. Heller joined EDS in 1968 and has served in numerous technical and management capacities. Mr. Heller is a director of Trammell Crow Company, Temple Inland Corp. and Mutual of Omaha.

Ray L. Hunt, 61



Chairman of the Board, President and Chief Executive Officer of Hunt Consolidated Inc. and Chief Executive Officer of Hunt Oil Company for more than five years. Mr. Hunt is a director of Halliburton Company and PepsiCo, Inc., a manager of Verde Group, LLC and Chairman of the Board of the Federal Reserve Bank of Dallas. He has been a director of EDS since 1996.

Edward A. Kangas, 60



Retired Chairman and Chief Executive Officer of Deloitte Touche Tohmatsu. Mr. Kangas was Chairman and Chief Executive Officer of Deloitte Touche Tohmatsu from 1989 to 2000 and Managing Partner of Deloitte & Touche (USA) from 1989 to 1994. Mr. Kangas began his career as a staff accountant at Touche Ross in 1967, where he became a partner in 1975. After his retirement from Deloitte in 2000, Mr. Kangas served as a consultant to Deloitte until 2004. He is currently the Chairman of the National Multiple Sclerosis Society and a director of Eclipsys Corporation, Hovnanian Enterprises Inc. and Tenet Healthcare Corporation (for which he has served as non-executive Chairman since July 2003). Mr. Kangas has been a director of EDS since 2004.

Continuing Directors Whose Terms Expire in 2007 (or 2006 if Proposal to Declassify Board of Directors is Approved by Shareholders)

Roger A. Enrico, 60



Chairman of the Board of DreamWorks Animation SKG, Inc. since October 2004 and former Chairman and Chief Executive Officer of PepsiCo, Inc. As Chairman of DreamWorks, Mr. Enrico is involved in its investor relations, corporate strategic planning, marketing and promotional strategy, succession planning and employee development and oversees matters related to its corporate governance and Sarbanes-Oxley compliance. Mr. Enrico was Chief Executive Officer of PepsiCo, Inc. from April 1996 to April 2001, Chairman of the Board from November 1996 to April 2001, and Vice Chairman from April 2001 to April 2002. He joined PepsiCo, Inc. in 1971, became President & CEO of Pepsi-Cola USA in 1983, President & CEO of PepsiCo Worldwide Beverages in 1986, Chairman & CEO of Frito-Lay, Inc. in 1991, and Chairman & CEO of PepsiCo Worldwide Foods in 1992. Mr. Enrico was Chairman and CEO, PepsiCo Worldwide Restaurants, from 1994 to 1997. He is a director of Belo Corporation, DreamWorks Animation SKG, Inc., Target Corporation and The National Geographic Society. Mr. Enrico has been a director of EDS since 2000.

Ellen M. Hancock, 61



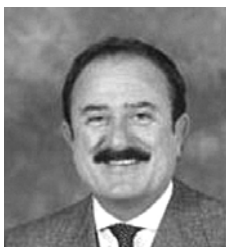
Former Chairman and Chief Executive Officer of Exodus Communications, Inc., a computer network and internet systems company. Ms. Hancock was Chairman of Exodus from June 2000 to September 2001, Chief Executive Officer from September 1998 to September 2001 and President from March 1998 to June 2000 (Exodus filed a voluntary petition under Chapter 11 of the federal bankruptcy laws in September 2001). She was Executive Vice President, Research and Development, Chief Technology Officer of Apple Computer Inc. from July 1996 to July 1997. Ms. Hancock previously was Executive Vice President and Chief Operating Officer of National Semiconductor and a Senior Vice President and Group Executive of International Business Machines Corporation. She is a director of Aetna Inc., Colgate-Palmolive Company and Watchguard Technologies, Inc. Ms. Hancock has been a director of EDS since 2004.

C. Robert Kidder, 60



Principal of Stonehenge Partners, Inc., a private investment firm, since April 2004. Mr. Kidder was Chairman of the Board of Borden Chemical, Inc. (formerly Borden, Inc.), a forest products and industrial chemicals company, from 1995 to April 2004 and Chief Executive Officer of Borden Chemical, Inc. from 1995 to March 2002. He served as Chairman and Chief Executive Officer of Borden Capital, Inc., a company which provided financial and strategic advice to the Borden family of companies, from November 2001 through March 2003. Mr. Kidder is a director of Morgan Stanley. He has been a director of EDS since 1996.

Solomon D. Trujillo, 53



Former Chief Executive Officer of Orange SA, a telecommunications company. Mr. Trujillo was Chief Executive Officer and a director of Orange SA from February 2003 to March 2004. He served as Chairman, President and Chief Executive Officer of US West, a telecommunications company, from 1998 to 2000. In November 2000, he was elected Chairman, President and Chief Executive Officer of Graviton, Inc., a wireless communication technology company, positions he held until February 2003. He is a director of Gannett Co., Inc., PepsiCo, Inc. and Target Corporation. Mr. Trujillo has been a director of EDS since January 2005.

Stock Ownership of Management and Certain Beneficial Owners

Stock Ownership of Directors and Executive Officers. The following table sets forth certain information regarding the beneficial ownership of Common Stock as of February 14, 2005, by each director and nominee for director, the Chief Executive Officer, the executive officers named in the Summary Compensation Table in this Proxy Statement, and all current directors and executive officers as a group. Each of the individuals/groups listed below is the owner of less than one percent of the outstanding Common Stock.

Name	Amount and Nature of Beneficial Ownership
W. Roy Dunbar	5,757 (b)
Roger A. Enrico	65,477 (a)(b)
Richard W. Fisher	6,994 (b)
Ray J. Groves	64,150 (a)(b)
Ellen M. Hancock.....	6,778 (a)(b)
Ray L. Hunt.....	123,698 (a)(b)
Edward A. Kangas.....	5,075 (b)
C. Robert Kidder	60,198 (a)(b)
Judith Rodin	53,395 (a)(b)
Solomon D. Trujillo	4,600
Michael H. Jordan	97,471 (a)(c)(d)(e)
Jeffrey M. Heller	989,763 (a)(c)(d)(e)
Charles S. Feld	165,308 (a)(c)(d)(e)
Robert H. Swan	259,904 (a)(c)(d)(e)
Stephen F. Schuckebrock	115,883 (a)(c)(d)(e)
Directors and executive officers as a group (19 persons).....	2,141,414 (a)-(e)

- (a) Includes shares of Common Stock which may be acquired on or before April 15, 2005, through the exercise of stock options as follows: Mr. Enrico—21,126 shares; Mr. Groves—27,383 shares; Ms. Hancock—360 shares; Mr. Hunt—33,617 shares; Mr. Kidder—39,602 shares; Dr. Rodin—23,019 shares; Mr. Jordan—40,500 shares; Mr. Heller—500,870 shares; Mr. Feld—107,935 shares; Mr. Swan—155,500 shares; Mr. Schuckebrock—80,951 shares; and all current directors and executive officers as a group—1,121,738 shares. Does not include shares subject to options with a scheduled vesting date after April 15, 2005, regardless of whether such options provide for vesting prior to that date in the event the share price appreciates to specified levels.
- (b) Includes compensation deferrals treated as phantom stock under the Non-Employee Director Deferred Compensation Plan as follows: Mr. Dunbar—2,882 shares; Mr. Enrico—4,185 shares; Mr. Fisher—6,994 shares; Mr. Groves—34,541 shares; Ms. Hancock—6,418 shares; Mr. Hunt—26,232 shares; Mr. Kangas—5,075 shares; Mr. Kidder—10,972 shares; and Dr. Rodin—26,629 shares.
- (c) Excludes unvested restricted stock units granted under the Incentive Plan as follows: Mr. Jordan—150,000 units; Mr. Heller—267,000 units; Mr. Feld—83,658 units; Mr. Swan—46,282 units; Mr. Schuckebrock—51,244 units; and all executive officers as a group—701,152 units. The units vest (subject to earlier vesting based on EDS' achievement of performance goals) during the period from 2004 through the earlier of normal retirement or 2009, subject to earlier vesting under the terms of the agreements with certain executives described below.
- (d) Includes vested compensation deferrals treated as invested in Common Stock under the Executive Deferral Plan as follows: Mr. Jordan—6,633 shares; Mr. Heller—103,181 shares; Mr. Feld—6,027 shares; Mr. Swan—78,936 shares; Mr. Schuckebrock—580 shares; and all current executive officers as a group—205,423 shares.
- (e) Includes vested compensation deferrals treated as invested in Common Stock under the 401(k) Plan as follows: Mr. Jordan—338 shares; Mr. Heller—430 shares; Mr. Feld—156 shares; Mr. Swan—105 shares; Mr. Schuckebrock—189 shares; and all current executive officers as a group—4,612 shares.

Stock Ownership of Certain Beneficial Owners. Based on a review of filings with the SEC, we are aware of the following beneficial owners of more than 5% of the outstanding Common Stock at December 31, 2004:

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Common Stock Outstanding
Dodge & Cox One Sansome St. San Francisco, CA 94104.....	64,312,369 (a)	12.5%
Pacific Financial Research Inc. 9601 Wilshire Blvd Beverly Hills, CA 90210.....	44,033,466 (b)	8.5%
Hotchkiss and Wiley Capital Management, LLC 725 S. Figueroa St Los Angeles, CA 90017.....	37,166,500 (c)	7.2%
Capital Research and Management Company 333 South Hope Street Los Angeles, CA 90071.....	36,899,850 (d)	7.2%
State Street Bank and Trust Company 225 Franklin Street Boston, MA 02110.....	29,113,382 (e)	5.6%

(a) Dodge & Cox reported sole voting power over 60,247,969 shares, shared voting power over 993,800 shares, and sole dispositive power over all shares beneficially owned.

(b) Pacific Financial Research reported sole voting power over 41,413,466 shares, no voting power over 2,620,000 shares, and sole dispositive power over all shares beneficially owned.

(c) Hotchkiss and Wiley reported sole voting power over 27,875,700 shares and sole dispositive power over all shares beneficially owned.

(d) Capital Research and Management reported sole or shared voting power over no shares and sole dispositive power over all shares beneficially owned.

(e) State Street reported sole voting power over 13,422,548 shares, shared voting power over 15,691,284 shares, and shared dispositive power over all shares beneficially owned.

Executive Compensation and Other Information

Compensation and Benefits Committee Report on Executive Compensation

The Compensation and Benefits Committee of the Board of Directors (the “Committee”) determines the compensation of EDS’ Chief Executive Officer (“CEO”) and other executive officers and oversees the administration of the company’s compensation and benefit plans for all employees of the organization. Specifically, all salary, equity-based compensation and other remuneration or benefits for executive officers, as well as the performance goals for any performance-based plans in which executive officers participate, are reviewed and approved by the Committee. In addition, the Committee annually reviews and approves corporate goals and objectives related to the CEO’s compensation, evaluates the CEO’s performance in light of such goals and objectives and sets the CEO’s compensation based on such performance. Each member of the Committee is an independent director, and no former employees of EDS serve on the Committee. The Committee met seven times in 2004 and routinely reported to the Board on its activities.

Executive Compensation Philosophy

We are committed to paying executive officers performance-oriented compensation competitive with the market in which EDS competes for talent. Our primary goals are to attract and retain accomplished executives, motivate and reward those executives responsible for driving our long-term strategic objectives, and create sustainable shareholder value.

The market for EDS’ executive talent is broader than the information technology (“IT”) services industry. Accordingly, we review survey data for two distinct comparator groups prepared by an independent third-party consulting firm. One group consists of large global corporations similar in revenue and market capitalization to EDS, most of which are outside the IT services industry, with a sector weighting similar to the composition of the S&P 500 companies. The second group consists of companies in the IT services and related industries, without regard to revenue or market capitalization. The Committee periodically reviews these comparator groups to determine whether they are a representative cross-section of the companies with which EDS competes for executive talent.

Our strategy is to target the overall level of our salary, annual bonus opportunity and long-term incentive compensation to be competitive with the 50th percentile of compensation at peer companies. Moreover, because we believe it is important to place a significant portion of each executive officer’s total compensation at risk, we seek to design our total compensation package to pay above the 50th percentile when EDS exceeds its goals and below the 50th percentile when EDS fails to meet its goals.

Components of Executive Compensation

In addition to benefit plans and programs generally available to all U.S. employees, the following are principal components of executive officer compensation:

- Base salary
- Annual bonus opportunity
- Long-term equity-based incentive awards
- Perquisites

Base Salary. We target base salaries for executive officers at the 50th percentile for similar positions at companies in the comparator groups described above. We review and approve base salaries annually relative to market survey data, individual performance and the executive's contribution to EDS' overall performance. An executive's base salary may be higher or lower than the 50th percentile for his or her position depending on a combination of factors, including his or her performance, responsibilities and experience, and his or her annual bonus opportunity and long-term incentive awards.

Annual Bonus. Annual bonus compensation reflects our philosophy that a significant portion of each executive's annual compensation be contingent upon EDS' performance and the executive's contribution to that performance. We review annual bonus targets used by the comparator groups in setting executive bonus targets. For 2004, annual bonus target opportunity levels were lowered to more closely align with the 50th percentile of the comparator groups. For 2005, we will maintain the realigned annual bonus targets established in 2004.

The CEO and other executive officers were eligible for a bonus in respect of 2004 financial performance under a Corporate Bonus Plan ("CBP") established under the 2003 EDS Incentive Plan. The CBP, which also covers senior leadership employees of EDS who are not executive officers, replaces several annual bonus plans used for executive officers and other leadership groups prior to 2004 (including the Executive Bonus Plan), and allows for a common design across the organization. Bonus funding was based on cascaded metrics for corporate and functional or regional performance, with executive officer bonus funding based 100% on corporate performance metrics and funding for other participants generally based 50% on corporate performance metrics and 50% on functional or regional performance metrics. Individual bonuses for executive officers were established based on the actual achievement of results relative to a participant's specific performance metrics, which were then adjusted +/- 50% based on our assessment of individual performance against specific objectives and goals established at the beginning of the performance year. These goals and objectives varied among executive officers depending upon the executive's position and the operation or function for which he or she was responsible. The corporate metrics included earnings per share ("EPS"), free cash flow and total contract value of new business signings. Functional or regional metrics included unit contribution, achieving standard costs and use of capital.

In February 2005, we reviewed EDS' financial results for 2004 to determine whether such results satisfied the financial criteria previously established under the CBP. As part of the review and as permitted under the CBP, in establishing 2004 financial results for plan purposes we adjusted reported results to reflect certain events, including gains from divestitures, earnings from discontinued operations, restructuring charges, and the write-downs related to EDS' "other commercial contract" and NMCI asset impairment. For 2004, the CBP funded at 91.7% of the targeted payout, and bonuses will be paid to executive officers in March 2005. Although the bonus is payable in 2005, because it will be paid in respect of 2004 performance, it is reported as 2004 bonus in the Summary Compensation Table included in this Proxy Statement.

Long-Term Incentive Compensation. Long-term incentive opportunities are an important and significant element of the total compensation package for EDS executives. Similar to most IT services companies, in recent years EDS has generally awarded long-term compensation in the form of annual stock option grants, although from time to time it has awarded restricted stock and deferred stock units to a limited number of senior executives as a recruitment or retention incentive. Most stock-based awards to executives are made under the Incentive Plan (which authorizes awards of stock options, stock appreciation rights, restricted stock and other stock-based awards), the Executive Deferral Plan (which authorizes employer matching awards and discretionary awards of deferred stock units), or the Transition Inducement Plan (which is similar to the Incentive Plan, but is used exclusively for inducement grants to newly hired or transitioned employees). In granting stock-based awards, we consider the long-term incentive compensation paid for similar executive positions by the comparator groups, the number of unvested equity-based awards held by the executive and the executive's performance. The number of shares of Common Stock we make available through equity-based awards is also influenced by expected shareholder dilution attributable to our equity award programs.

Since 2001, EDS has generally awarded to executives on an annual basis stock options that vest ratably over four years and have a 10-year term. In support of the Committee's goal to strengthen the performance-oriented nature of its long-term incentive compensation, the 2003 and 2004 stock option grants vest 100% in four years, with accelerated vesting if EDS' stock price appreciates to specified levels. Specifically, following the one-year

anniversary of each grant date, one-half of the options may vest if the stock price closes at 130% of the grant price for 10 consecutive trading days, and after the two-year anniversary, the remaining half of the options may vest if the stock price closes at 150% of the exercise price for 10 consecutive trading days.

The primary purpose of long-term incentive compensation is to encourage executives to improve the performance and value of the company and, ultimately, create shareholder wealth. Furthermore, we believe successful long-term incentive plans should require sustained performance in order for executives to be rewarded. These fundamental principles, in addition to recent shareholder input, new accounting regulations and the competitive environment surrounding executive compensation, led us to review the continued use of employee stock options at EDS. During 2004, the Committee launched a project with management to consider long-term incentive compensation alternatives. The following were our objectives in this project:

- Focus executives on long-term metrics that create shareholder value;
- Address shareholder concerns regarding the use of stock options and shareholder dilution;
- More efficient alignment between cost to EDS and perceived value of awards;
- Recognize the impact of the Financial Accounting Standards Board’s stock-based compensation expense recognition project;
- Attract and retain top executive talent globally; and
- Remain competitive with changes in compensation practices.

As a result of our project, the Committee intends to significantly limit the use of annual stock option grants and instead provide annual grants of performance-vesting restricted stock units ("Performance RSUs"), commencing with our 2005 long-term incentive grant. We expect to continue to use stock options as a component of the long-term incentive compensation of our senior executives along with Performance RSUs, and to completely replace the use of stock options in favor of Performance RSUs for all other Incentive Plan participants. The vesting of Performance RSUs will be tied to EDS’ performance as measured by operating margin, asset utilization and top-line revenue growth over multiple year periods. The Committee believes the use of Performance RSUs will provide improved alignment of long-term incentive compensation with EDS’ strategic direction.

Perquisites. The Committee’s strategy is to limit the use of perquisites offered to executives. EDS provides two global executive perquisites: the Executive Physical Program designed to promote the executive’s physical health and well-being; and the Executive Financial Counseling Program intended to maximize the value of remuneration provided by EDS and minimize an executive’s time spent managing personal affairs.

Other Executive Arrangements. EDS has generally entered into severance and change-in-control employment agreements with its executive officers. Such agreements have also been provided on a limited basis to senior executives who are not executive officers, either as approved by the Committee or within guidelines established by the Committee. Over the last two years, we have standardized the terms of new and replacement severance and change of control agreements, which now must include an expiration or “sunset” provision, subject to extension with Committee approval. Additional information related to these and other arrangements with EDS’ “named executive officers” is set forth under “Employment Agreements” below. The Committee has also established a policy limiting executive severance and change-in-control benefits to 2.99 times annual target cash compensation (base salary plus bonus).

In an effort to provide more consistent treatment among senior executives, EDS now offers the Supplemental Executive Retirement Plan, or SERP, to all U.S. Vice President & General Manager level executives and above. This new policy replaces a discretionary selection process used previously. Additional information regarding the SERP is provided under “Retirement Plans” below.

Stock Ownership Guidelines

We encourage stock ownership for executive officers and other senior executives and have implemented the following stock ownership guidelines expressed as a multiple of annual base salary.

Executive Level	Stock Ownership Multiple
CEO/COO	5 times annual salary
Executive Vice President	3 times annual salary
Senior Vice President	2 times annual salary
Vice President & General Manager	2 times annual salary
Division Vice President	2 times annual salary
Vice President (Level 3)	1 times annual salary

The stock ownership multiple must be achieved by the later of December 31, 2008, or five years from an executive’s change in status.

EDS' compensation program provides executives with multiple methods to accumulate EDS stock. These include a non-qualified deferred compensation plan that allows executives to defer base salary and annual bonus compensation into deferred EDS stock units (U.S. and UK only). The plan also provides a 401(k) make-up matching contribution, in the form of deferred EDS stock units, with respect to certain cash compensation deferred under the plan. The Committee also has the ability to award additional deferred stock units to executives under the deferred compensation plan.

Chief Executive Officer Compensation

Michael H. Jordan was appointed Chairman and Chief Executive Officer in March 2003. The principal terms of Mr. Jordan's employment arrangements are described under "Employment Agreements" below. To establish CEO pay, we use the same principles as we do for other executive officers of the company, in addition to consideration of Section 162(m) of the Internal Revenue Code. We believe Mr. Jordan's total compensation for 2004 is consistent with the size and mix of total compensation provided to CEOs of the comparator group companies, and appropriate for his contributions during the year.

Base Salary. Mr. Jordan has been paid an annual base salary of \$1,000,000 since joining EDS, but is eligible for increases at the Committee's discretion. For both 2004 and 2005, we determined that Mr. Jordan's annual base salary will remain at \$1,000,000 with a greater emphasis on the long-term incentive component of his compensation package.

Annual Bonus. For 2004, Mr. Jordan was awarded a cash bonus of \$1,100,000, which was slightly higher than the 91.7% overall bonus funding under the CBP. We determined this payment was appropriate in light of his contributions to the company's achievements during 2004. These include the company's strengthened balance sheet, more competitive cost structure, improved account management and stabilization of problem contracts.

Long-Term Incentive Compensation. The Committee expects that Mr. Jordan's 2005 long-term incentive award will be a combination of Performance RSUs and stock options, consistent with the changes to our overall long-term incentive compensation strategy for executive officers described above.

Retirement Benefits. Mr. Jordan does not participate in the EDS Supplemental Executive Retirement Plan, or SERP. The Committee believes, in light of the meaningful retirement benefits Mr. Jordan had already earned from prior employers, that his compensation package should be even more heavily weighted toward incentive compensation than is generally the case for other executives. Mr. Jordan does participate in the EDS Retirement Plan and EDS Benefit Restoration Plan. A description of his retirement benefits is set forth under "Retirement Benefits" below.

Section 162(m)

Section 162(m) of the Internal Revenue Code generally limits the deductibility of compensation to the CEO and the four other most highly compensated officers in excess of \$1 million per year, provided, however, that certain "performance-based" compensation may be excluded from such \$1 million deduction limitation. Our goal is to structure annual bonus awards and long-term incentive compensation in a manner such that they qualify as "performance-based" to the extent practicable. However, certain forms and amounts of compensation may exceed the \$1 million deduction limitation from year to year. For 2004, the annual bonus paid to the CEO and the four other most highly compensated officers may not qualify as "performance-based" as a result of the adjustments made to reported results to reflect certain events as described above. We anticipate the \$1 million level will be exceeded in 2005 with respect to the CEO and certain other executive officers as a result of restricted stock grants and other benefits previously granted to such persons.

The foregoing report on executive compensation is provided by the undersigned members of the Compensation and Benefits Committee of the Board of Directors.

Compensation and Benefits Committee

C. Robert Kidder, Chairman
Roger A. Enrico
Ellen M. Hancock

Summary Compensation Table

The following table sets forth information with respect to the compensation for the last three years of the Chief Executive Officer and each of the four other most highly compensated executive officers of EDS as of the end of 2004 (the “named executive officers”).

Name and Principal Position During 2004	Year	Annual Compensation			Long-Term Compensation Awards		All Other Compensation (e)
		Salary	Bonus (a)	Other Annual Compensation(b)	Restricted Stock Awards (c)	Number of Options (d)	
Michael H. Jordan <i>Chairman of the Board and Chief Executive Officer</i>	2004	\$1,000,000	\$1,100,000	\$117,273	—	1,100,000	\$3,075
	2003	780,768	540,000	93,615	\$2,337,000	1,040,500	38,651
Jeffrey M. Heller <i>President and Chief Operating Officer (f)</i>	2004	775,000	735,000	—	—	300,000	78,188
	2003	546,538	344,933	—	779,000	275,870	32,240
	2002	139,847	—	—	—	—	1,675
Charles S. Feld <i>Executive Vice President, Portfolio Management</i>	2004	650,000	525,000	—	550,965	369,838	33,024
	2003	5,000	—	942,071	2,791,076	—	—
Robert H. Swan <i>Executive Vice President and Chief Financial Officer</i>	2004	650,000	475,000	—	—	200,000	134,824
	2003	594,423	740,000	—	3,000,000	293,000	131,569
Stephen F. Schuckebrook <i>Executive Vice President, Global Sales & Client Solutions</i>	2004	600,000	470,000	—	—	302,379	9,817
	2003	4,615	—	706,551	2,093,301	—	—

(a) 60% of targeted bonuses for 2003 was paid in the form of options to purchase Common Stock. Mr. Swan’s bonus for 2003 includes a \$500,000 sign-on bonus.

(b) For Mr. Jordan, includes: \$62,842 and \$36,893 for personal use of corporate aircraft in 2004 and 2003, respectively; \$28,032 and \$33,532 for reimbursement of financial planning and tax return preparation expenses in 2004 and 2003, respectively; and \$26,399 and \$23,190 in estimated personal use of car and driver provided by EDS in 2004 and 2003, respectively. The value of the personal use of corporate aircraft is based on EDS’ direct operating cost (see below for a description of this methodology). Mr. Jordan has been requested for security purposes to use an EDS provided car and driver for ground transportation in the Dallas area. EDS has estimated Mr. Jordan’s personal use of the car and driver at 25% of total usage. Accordingly, the amounts reported above represent 25% of the total cost of such car and driver (including driver’s salary, vehicle lease cost, fuel expense and smaller variable costs).

For Messrs. Feld and Schuckebrook, represents a cash payment used to satisfy applicable tax withholdings related to restricted stock grants on December 30, 2003. See “Certain Transactions and Relationships” below.

During 2004 EDS owned and operated three airplanes and a helicopter to facilitate business travel of senior executives in as safe a manner as possible and with the best use of their time. Mr. Jordan is required by EDS to use corporate aircraft for all air travel. Certain other named executive officers (and other key executives) use the corporate aircraft for business travel and on a very limited basis for personal travel. The value of personal aircraft usage reported above is based on EDS’ direct operating cost. This methodology calculates our incremental cost based on the average weighted cost of fuel, on-board catering, aircraft maintenance, landing fees, trip-related hangar and parking costs, and smaller variable costs. Since the corporate aircraft are used primarily for business travel, the methodology excludes fixed costs which do not change based on usage, such as pilots’ and other employees’ salaries, purchase costs of the aircraft and non-trip-related hangar expenses. On certain occasions, an executive’s spouse or other family member may accompany the executive on a flight. No additional direct operating cost is incurred in such situations under the foregoing methodology.

(c) For Messrs. Jordan and Heller, includes 150,000 and 50,000, respectively, restricted stock units awarded on March 20, 2003, upon commencement of their employment, which vest on the third anniversary of the grant date and may be sold in increments of one-third each on the vesting date and first and second anniversaries thereof.

For Mr. Swan, includes 92,564 restricted stock units and 92,564 deferred stock units, each granted on February 10, 2003, and vesting 25% annually on the first through fourth anniversaries of the grant date.

2003 restricted stock awards to Messrs. Feld and Schuckebrook include 113,875 and 85,406 shares, respectively, awarded on December 30, 2003, in connection with the sale of their interest in Feld Partners Investments, L.P. to EDS. See “Certain Transactions and Relationships” below for a description of such transaction as well as the vesting terms for such restricted stock. The value reported above is based on the value of the Common Stock on the grant date. For purposes of the acquisition agreement for such transaction, such awards were valued at \$2,791,076 and \$2,093,301, respectively.

At December 31, 2004, the number and fair market value of unvested restricted stock and restricted and deferred stock units held by the named executive officers were: Mr. Jordan, 150,000 shares, \$3,465,000; Mr. Heller, 267,000 shares, \$6,167,700; Mr. Feld, 129,208 shares, \$2,984,705; Mr. Swan, 138,846 shares, \$3,207,343; and Mr. Schuckenbrock, 85,406 shares, \$1,972,879.

Dividends or dividend equivalents are paid on restricted and deferred stock units reported above in the amount and at the time dividends are paid on the Common Stock.

- (d) For Messrs. Feld and Schuckenbrock, includes 269,838 and 202,379, respectively, stock options issued on January 9, 2004, in connection with the sale of their interest in Feld Partners Investments, L.P. See “Certain Transactions and Relationships” below for a description of the vesting and other terms of such options.
- (e) We provide the named executive officers with certain group insurance and other non-cash benefits generally available to all salaried employees, which are not included in this column pursuant to SEC rules. The amounts shown in this column include the following:
- For Mr. Jordan: matching award under the Executive Deferral Plan (“EDP”) of \$35,651 for 2003; and matching contributions under the 401(k) Plan of \$3,075 for 2004 and \$3,000 for 2003.
 - For Mr. Heller: matching awards under the EDP of \$75,113 for 2004 and \$29,240 for 2003; and matching contributions under the 401(k) Plan of \$3,075, \$3,000 and \$1,675 for 2004, 2003 and 2002, respectively.
 - For Mr. Feld: matching award under the EDP of \$30,836 for 2004 and matching contributions under the 401(k) Plan of \$2,188 for 2004.
 - For Mr. Swan: matching awards under the EDP of \$56,656 for 2004 and \$33,899 for 2003; matching contributions under the 401(k) Plan of \$3,075 for 2004 and \$1,642 for 2003; reimbursement of relocation expenses of \$75,093 and \$75,279 for 2004 and 2003, respectively; and \$20,749 for installation of a home security system for 2003.
 - For Mr. Schuckenbrock: matching awards under the EDP of \$6,742 for 2004 and matching contributions under the 401(k) Plan of \$3,075 for 2004.
- (f) Mr. Heller retired as Vice Chairman effective April 15, 2002, and rejoined EDS as President and Chief Operating Officer effective March 20, 2003.

Option Grants in 2004

The following table contains information regarding awards of stock options to the named executive officers in 2004 and the potential realizable value of such options. The hypothetical value of the options as of their grant date has been calculated using the Black-Scholes option pricing model based on the assumptions identified below. This model is only one method of valuing options, and the use of this model should not be interpreted as an endorsement of its accuracy or a forecast of possible future appreciation, if any, in the price of the Common Stock. The actual value of the options may be significantly different, and the value actually realized, if any, will depend upon the excess of the market value of the Common Stock over the option exercise price at the time of exercise.

Name	Number of Securities Underlying Options Granted	% of Total Stock Options Granted to Employees in 2004	Exercise or Base Price Per Share	Expiration Date	Hypothetical Value at Grant Date (c)
Michael H. Jordan.....	1,100,000	3.27%	(a)	03/23/14	\$8,816,500
Jeffrey M. Heller.....	300,000	0.89%	(a)	03/23/14	\$2,404,500
Charles S. Feld.....	369,838	1.10%	(b)	(b)	\$3,764,536
Robert H. Swan.....	200,000	0.59%	(b)	03/23/14	\$1,652,000
Stephen F. Schuckenbrock..	302,379	0.90%	(b)	(b)	\$3,029,907

- (a) One-half of the options granted to Messrs. Jordan and Heller have an exercise price of \$19.175 (fair market value on March 24, 2004, the date of grant) and one-half have an exercise price of \$24.9275 (130% of such amount). These options vest on the third anniversary of the grant date and, once vested, may be exercised in increments of one-third each on the vesting date and first and second anniversaries thereof.
- (b) Of the options granted to Messrs. Feld and Schuckenbrock, 269,838 and 202,379, respectively, were granted on January 9, 2004, in respect of their interest in Feld Partners Investments, and have an exercise price of \$23.955. See “Certain Transactions and Relationships” below for a description of the vesting and other terms of such options. The remaining options granted to such executives, and all options granted to Mr. Swan, were granted on March 24, 2004, and have an exercise price of \$19.175. These options are scheduled to vest four years from the date of grant (provided that any time following the one-year anniversary of the grant date, one-half may vest if the Common Stock closes at a price of \$24.9275 for 10 consecutive trading days and following the two-year

anniversary of the grant date, the remaining half may vest if the Common Stock closes at a price of \$28.7625 for 10 consecutive trading days) and have a term of 10 years from the grant date.

- (c) Calculated using a variation of the Black-Scholes option pricing model based upon the following assumptions: for options granted at fair market value to Messrs. Jordan and Heller, estimated time until exercise of four years, volatility rate of 67.985%, risk-free interest rate of 2.41% and dividend yield of 3.13%; for options granted at a 30% premium to Messrs. Jordan and Heller, estimated time until exercise of four years, volatility rate of 67.985%, risk-free interest rate of 2.41% and dividend yield of 2.41%; for options granted to Messrs. Feld and Schuckenbrock in respect of their interest in Feld Partners Investments, estimated time until exercise of four years, volatility rate of 67.985%, risk-free interest rate of 2.41%, and dividend yield of 2.50%; and for all other options granted to Messrs. Feld and Schuckenbrock and all options granted to Mr. Swan, estimated time until exercise of five years, volatility rate of 61.402%, risk-free interest rate of 2.84% and dividend yield of 3.13%.

Aggregated Option Exercises in 2004 and Option Values at December 31, 2004

The following table contains information about stock options exercised in 2004 by the named executive officers and the number and value of stock options held by such persons at December 31, 2004. In accordance with SEC rules, the value of unexercised options is calculated by subtracting the exercise price from \$23.10, the closing price of the Common Stock on the New York Stock Exchange on December 31, 2004.

Name	Number of Shares Underlying Options Exercised	Value Realized	Number of Shares Underlying Unexercised Options		Value of Unexercised, In-the-Money Options	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Michael H. Jordan	—	—	40,500	2,100,000	\$ 304,560	\$ 7,341,750
Jeffrey M. Heller	—	—	500,870	1,050,000	194,542	1,884,500
Charles S. Feld	—	—	21,587	348,251	—	392,500
Robert H. Swan	—	—	155,500	337,500	1,072,173	1,733,063
Stephen F. Schuckenbrock ..	—	—	16,190	286,189	—	392,500

Retirement Plans

The following table indicates the estimated annual benefits payable as a single life annuity to the named executive officers, other than Mr. Jordan, upon normal retirement for the specified compensation and years of service classifications under the combined formulas of the Amended and Restated EDS Retirement Plan (the “Retirement Plan”), the EDS Benefit Restoration Plan (the “Restoration Plan”) and the EDS 1998 Supplemental Executive Retirement Plan (the “Supplemental Plan”). The Restoration Plan is a non-qualified, unfunded retirement plan intended to pay benefits to employees whose compensation and benefits under the Retirement Plan are limited under the Internal Revenue Code. The Supplemental Plan is also a non-qualified, unfunded retirement plan, intended to pay benefits to certain executive level employees whose benefits under the Retirement Plan are limited under the Internal Revenue Code. The Supplemental Plan benefit provides a target retirement income based on final average earnings (base salary plus bonus) during a 60 consecutive month period prior to retirement which is not affected by the statutory limits applicable to tax-qualified plans like the Retirement Plan. The amount of the target retirement benefit paid by the Supplemental Plan will be offset by the benefit payments received from the Retirement Plan and the Restoration Plan.

Estimated Annual Single Life Annuity Payable at Age 65

Final Average Earnings	Years of Service					
	5	10	15	20	25	30
\$500,000	\$44,000	\$89,000	\$133,000	\$177,000	\$222,000	\$266,000
\$750,000	\$67,000	\$134,000	\$202,000	\$269,000	\$336,000	\$403,000
\$1,000,000	\$90,000	\$180,000	\$271,000	\$361,000	\$451,000	\$541,000
\$1,250,000	\$113,000	\$226,000	\$339,000	\$452,000	\$565,000	\$678,000
\$1,500,000	\$136,000	\$272,000	\$408,000	\$544,000	\$680,000	\$816,000
\$1,750,000	\$159,000	\$318,000	\$477,000	\$635,000	\$794,000	\$953,000
\$2,000,000	\$182,000	\$364,000	\$546,000	\$727,000	\$909,000	\$1,091,000
\$2,250,000	\$205,000	\$409,000	\$614,000	\$819,000	\$1,023,000	\$1,228,000
\$2,500,000	\$228,000	\$455,000	\$683,000	\$911,000	\$1,138,000	\$1,366,000

As of December 31, 2004, the final average earnings for the highest five consecutive years over the last 10-year period and the eligible years of credited service for the named executive officers, other than Mr. Jordan, were as follows: Mr. Heller, \$2,483,737—35 years; Mr. Feld, \$655,000—12 years; Mr. Swan, \$1,012,710—1 year;

and Mr. Schuckenbrock, \$604,615—6 years. The salary and bonus for the most recent year considered in the calculation of final average earnings is found in the Summary Compensation Table above. Under the terms of his employment agreement, Mr. Swan was awarded an additional nine years of service for purposes of the Supplemental Plan that will become effective for vesting and benefit calculation purposes when he attains age 55. Mr. Heller, who originally retired from EDS in 2002, continues to draw monthly benefits from the Retirement Plan, the Restoration Plan, and the Supplemental Plan of \$9,903.24, \$41,898.75 and \$45,829.60, respectively, all payable as a 75% joint and survivor annuity, and may be eligible for increased benefit payments upon his subsequent retirement.

“Compensation” under the Retirement Plan generally refers to total annual compensation (up to \$205,000 for 2004 as limited by the Internal Revenue Code), together with any salary reduction contributions to the EDS 401(k) Plan and EDS Flexible Benefits Plan, and excludes benefits under the Incentive Plan and extraordinary compensation (such as moving allowances). Effective July 1, 1998, the Retirement Plan was converted to a “cash balance” plan eliminating the final average earnings formula and replacing it with a career-average earnings formula. The annual benefit payable under the Supplemental Plan for normal retirement will generally equal (i) 55% of the average of the participant’s total Compensation (based on the highest five consecutive years within the last 10 years of employment) less (ii) the maximum offset allowance that can be deducted from final average earnings. The resulting benefit is then offset by any benefit accrued under the Retirement Plan and the Restoration Plan. Supplemental Plan benefits are payable in the form of a single or joint survivor life annuity, unless otherwise elected, and can be reduced, suspended or eliminated at any time by the Compensation and Benefits Committee.

Mr. Jordan does not participate in the Supplemental Plan but does participate in the Retirement Plan and the Restoration Plan. Benefits under the Retirement Plan provide for accruals, which are expressed as monthly credits added to participants’ “personal pension accounts,” or PPA. The Restoration Plan provides for a supplemental benefit to employees equal to the amount they would have received under the Retirement Plan if compensation and annual accruals were not limited under the Internal Revenue Code. Under the Restoration Plan, EDS maintains a “restoration account,” or RA, reflecting benefit and interest credits made on behalf of a participant. Monthly credits are based on a participant’s credited years of service together with age, divided by 12. The resulting quotient is the monthly allocation percentage, which is multiplied by the participant’s monthly earnings to determine the monthly amount credited to the PPA and RA. Participants receive additional credits (i) if annual compensation exceeded \$87,900 (Social Security wage base) and generally (ii) if the participant was hired or rehired by EDS after age 35. The following table indicates the estimated annual benefits payable upon retirement to Mr. Jordan for the specified compensation and years of service classifications under the Retirement Plan and the Restoration Plan. The table below shows the total credits added to Mr. Jordan’s PPA and RA in 2004, and the total PPA and RA credits as of December 31, 2004. The table also estimates the value of the December 31, 2004, PPA and RA balance converted to an annual single life annuity payable immediately. As of December 31, 2004, Mr. Jordan had one year of credited service for purposes of the Retirement Plan and Restoration Plan.

<u>Name</u>	<u>Total PPA and RA Balance as of 12/31/03</u>	<u>Total PPA and RA Credits Added from 1/1/04 - 12/31/04</u>	<u>Total PPA and RA Balance as of 12/31/04</u>	<u>Total Estimated Annual Single Life Annuity as of 12/31/04</u>
Michael H. Jordan	\$99,960	\$212,196	\$312,156	\$31,216

Employment Agreements

Michael H. Jordan. Mr. Jordan was appointed Chairman and Chief Executive Officer on March 20, 2003. Under the terms of his employment agreement now in effect, if his employment is involuntarily terminated without Cause (as defined), he voluntarily terminates his employment after his replacement as Chief Executive Officer is designated by the Board or becomes subject to Total Disability (as defined) or dies, he would be entitled, as his sole remedy, to a payment equal to the pro rata portion (through his termination date) of any cash bonus payable under the company’s bonus plan if and at such time as payment is made to other plan participants, and immediate vesting of the stock options and restricted stock granted upon commencement of his employment, subject to the restrictions on exercise and sale described in the Summary Compensation Table above. However, if at any time he is involuntarily terminated for Cause or voluntarily terminates his employment before his replacement as Chief Executive Officer is designated by the Board, Mr. Jordan will not be entitled to receive any of the foregoing payments and will immediately forfeit all then unvested stock options and restricted stock.

Jeffrey M. Heller. Mr. Heller rejoined EDS as President and Chief Operating Officer on March 20, 2003. Under the terms of Mr. Heller’s employment agreement now in effect, if he is involuntarily terminated without Cause (as defined), voluntarily terminates his employment after Mr. Jordan’s replacement as Chief Executive Officer is designated by the Board or becomes subject to Total Disability (as defined) or dies, he would be entitled, as his sole remedy, to a payment equal to the pro rata portion (through his termination date) of any cash bonus payable under the company’s bonus plan if and at such time as payment is made to other executives participating in that plan, and the immediate vesting of the stock options and restricted stock granted upon commencement of his

employment, subject to the restrictions on exercise and sale described in the Summary Compensation Table above. However, if at any time Mr. Heller is involuntarily terminated for Cause or voluntarily terminates his employment before Mr. Jordan's replacement as Chief Executive Officer is designated by the Board, Mr. Heller will not be entitled to receive any of the foregoing payments and will immediately forfeit all then unvested stock options and restricted stock. Mr. Heller's agreement also provides that his service will not result in a decrease in the retirement benefit he had been entitled to receive from EDS at the time he rejoined the company.

Charles S. Feld and Stephen F. Schuckenbrock. Mr. Feld was appointed Executive Vice President - Portfolio Management and Mr. Schuckenbrock was appointed Executive Vice President - Global Sales & Client Solutions immediately following the purchase by EDS of The Feld Group, Inc. ("TFG") in January 2004, which is described under "Certain Transactions and Relationships" below. Pursuant to an agreement with each executive dated December 30, 2003, Mr. Feld received an initial base salary of \$650,000 and had an annual bonus target of 70% of his base salary, with a minimum bonus for 2004 of \$455,000, and Mr. Schuckenbrock received an initial base salary of \$600,000 and had an annual bonus target of 70% of his base salary, with a minimum bonus for 2004 of \$420,000. In addition, EDS agreed to grant to each executive options to purchase 100,000 shares of Common Stock in connection with the company's 2004 long-term incentive grant, which options would vest 100% in four years from the grant date with half eligible for vesting after 12 months and the other half after 24 months if the stock price increased from the grant price by 30% and 50% respectively. The agreements also provided for Messrs. Feld and Schuckenbrock to receive retention payments of \$709,237 and \$531,928, respectively, payable as follows: (i) one-third on the later to occur of the one-year anniversary of the executive's hire date or the first date thereafter on which the trading price of the Common Stock exceeds \$25.7463; (ii) one-third on the later to occur of the two-year anniversary of the executive's hire date or the first date thereafter on which the trading price of the Common Stock exceeds \$27.0396; and (iii) one-third on the later to occur of the three-year anniversary of the executive's hire date or the first date thereafter on which the trading price of the Common Stock exceeds \$28.3808. In each case, payment is contingent on the executive's remaining employed by EDS at the time of payment, unless the executive's employment had been terminated by EDS without Cause or by the executive for Good Reason or due to death or Disability (in each case as such term is defined in the executive's option award agreement). The executives also received the restricted stock and options described under "Certain Transactions and Relationships" below.

Robert H. Swan. Mr. Swan was appointed Executive Vice President and Chief Financial Officer effective February 10, 2003. Under the terms of his employment agreement, Mr. Swan received the sign-on bonus and deferred and restricted stock grants reported for 2003 in the Summary Compensation Table above, and EDS agreed to award him a grant of at least 200,000 options at the same time and under the same terms as EDS' 2004 long-term incentive compensation grant. Mr. Swan was also credited with an additional nine years of service for purposes of the Supplemental Plan, to become effective for vesting and benefit calculation purposes when he attains age 55. On December 21, 2004, we entered into an Executive Severance Benefit Agreement with Mr. Swan which replaced a prior severance agreement that had been scheduled to expire on December 31, 2004. Under the terms of this agreement, if Mr. Swan is involuntarily terminated without "cause" or resigns for "good reason" (as such terms are defined in the agreement) on or before December 31, 2007, he would be entitled to receive a payment equal to two times the sum of his final annual base salary and annual performance bonus target for the year in which the termination occurred. In addition, a portion of the "target award" of any unvested performance based restricted stock units awarded to him in 2005 or thereafter (prorated based on the number of months of the performance period elapsed through the termination date) will be eligible for vesting at the end of the performance period based on EDS' actual performance relative to pre-established targets. All other then outstanding equity-based awards will immediately vest and, with respect to options, become exercisable for a period of one year following the date of termination. The agreement also provides for eligibility for up to \$7,500 in financial planning/counseling services for one year following the termination date and a waiver of premiums for health care coverage for up to 18 months.

Other Executives. EDS has also entered into Executive Severance Benefit Agreements with a limited number of other executives who are not "named executive officers." Such agreements have terms generally similar to the agreement with Mr. Swan described above, but with severance payments ranging from one to two times the sum of the executive's base salary and bonus target, depending on the executive. An officer entitled to receive benefits following a termination of employment under an Executive Severance Benefit Agreement or a Change of Control Employment Agreement described below may elect to receive benefits under either agreement, but not both.

Change of Control Employment Agreements

For purposes of the Change of Control Employment Agreements with the named executive officers described below, a "Change of Control" generally includes the occurrence of any of the following: (i) any person, other than exempt persons, becomes a beneficial owner of more than 50% of EDS' voting stock; (ii) a change in a majority of the Board, unless approved by a majority of the incumbent board members; (iii) the approval by shareholders of a reorganization, merger or consolidation in which (x) existing EDS shareholders would not own more than 50% of the common stock and voting stock of the resulting company, (y) a person would own 50% or

more of the common or voting stock of the resulting company or (z) less than a majority of the board of the resulting company would consist of the then incumbent members of the EDS Board; or (iv) the approval by shareholders of a liquidation or dissolution of EDS, except as part of a plan involving a sale to a company of which following such transaction (x) more than 50% of the common stock and voting stock would be owned by existing EDS shareholders, (y) no person (other than exempt persons) would own more than 50% of the common stock or voting stock of such company and (z) at least a majority of its board of directors would consist of the then incumbent members of the EDS Board. For purposes of Mr. Swan's agreement, a "Potential Change of Control" generally includes: (i) the commencement of a tender or exchange offer that, if consummated, would result in a Change of Control; (ii) EDS entering into an agreement which, if consummated, would constitute a Change of Control; (iii) the commencement of an election contest subject to certain proxy rules; or (iv) the occurrence of any other event that the Board determines could result in a Change of Control.

In February 2004, at the request of the Compensation and Benefits Committee, Messrs. Jordan, Heller and Swan each agreed to amend the terms of their agreements to provide for the more restrictive definition of "Change of Control" described in the preceding paragraph. Prior to such amendments, a Change of Control would be deemed to have occurred for purposes of their agreements upon the acquisition by any person of more than 15% of EDS' voting stock, rather than 50% as in the amended agreements. The agreements entered into with Messrs. Feld and Schuckenbrock described below also have the more restrictive definition of Change of Control. Although there remain in effect Change of Control Agreements with a small number of non-executive officers that have the prior, less restrictive definition of the term, it is the intent of the Compensation and Benefits Committee that any future agreements reflect the more restrictive definition of that term.

Michael H. Jordan and Jeffrey M. Heller. EDS has entered into a limited Change of Control Agreement with each of Mr. Jordan and Mr. Heller. Under the terms of those agreements, upon the consummation of a Change of Control all outstanding deferred and restricted stock and stock options held by them would immediately vest and be free of any restrictions on sale (other than the restrictions on sale covering the restricted stock and options awarded upon the commencement of their employment, which would continue), and such awards shall be exercisable for a period of one year from the accelerated vesting (or any longer term set forth in the applicable award). The Change of Control Agreements with Messrs. Jordan and Heller do not provide for the payment of any salary or bonus with respect to the period following the Change of Control. The agreements provide that the executives would be entitled to receive a payment sufficient to pay the after-tax cost of any excise tax due as a result of the Change of Control. In February 2004, at the request of the Compensation and Benefits Committee, the agreements with each of these executives were amended to provide for the more restrictive definition of "Change of Control" described below. Such amendments also provided for the vesting of all deferred and restricted stock and stock options held by the executive upon the consummation of a Change of Control as described above. Prior to that amendment, only the restricted stock and options awarded upon the commencement of these executives' employment would have vested upon a Change of Control.

Robert H. Swan. EDS has entered into a Change of Control Employment Agreement with Mr. Swan dated February 4, 2003, having terms similar to agreements entered into with executive officers and certain other persons prior to 2003. Under that agreement, upon the occurrence of certain events involving a "Potential Change of Control" or a "Change of Control," Mr. Swan's employment will be continued for an "employment period" of three years. Following a Potential Change of Control, the employment period may terminate (but the agreement will remain in full force and a new employment period will apply to any future Change of Control or Potential Change of Control) if the Board determines that a Change of Control is not likely or Mr. Swan elects to terminate his employment period as of any anniversary of the Potential Change of Control. Throughout the employment period, Mr. Swan's position, authority and responsibilities will not be diminished from the most significant held at any time during the 90-day period immediately prior to the commencement of the employment period, and his compensation will continue on a basis no less favorable than it had been during that period. The employment period may terminate (i) upon his death or after 180 days of continuing disability, (ii) at EDS' option if he is terminated for Cause (as defined) and (iii) at Mr. Swan's option for any reason during the 180-day period beginning 60 days after a Change of Control (a "window period") or at any time for Good Reason (as defined). If during the employment period Mr. Swan's employment is terminated by EDS other than for Cause or Disability, or by him for any reason during a window period or for Good Reason at any time, he may receive the following: (i) his then current salary and bonus throughout the remainder of the employment period; (ii) the cash value of his retirement and 401(k) benefits to the end of the employment period; (iii) under certain circumstances, a pro rata portion of the equity-based awards he would have received had his employment continued; and (iv) continued coverage under welfare benefit plans until the end of the employment period. In addition, all unvested equity-based awards will immediately vest and become exercisable, and their term will be extended for up to one year following termination of employment (or any longer exercise term set forth in the award). Mr. Swan may also elect to cash out equity-based awards at the highest price per share paid by specified persons during the employment period or the prior six months. In the event of Mr. Swan's death (other than during a window period), his legal representatives will receive his then current salary for one year from the date of death and the continuation of welfare benefits until the end of the employment

period. In addition, all equity-based awards will immediately vest and become exercisable for up to one year following death (or any longer period set forth in the award). Mr. Swan's legal representatives may cash out equity-based awards at the highest price per share paid by specified persons during the employment period or the prior six months. Upon termination due to Disability, Mr. Swan would be entitled to receive the same amounts and benefits as would be provided upon death. If Mr. Swan's employment is terminated, other than during a window period, by EDS for Cause or by him other than for Good Reason, he will be entitled to receive only the compensation and benefits earned as of the date of termination.

Charles S. Feld and Stephen F. Schuckenbrock. EDS entered into a Change of Control Employment Agreement in January 2004 with each of Mr. Feld and Mr. Schuckenbrock. The agreements with these executives reflect significant revisions from the terms of the Change of Control Employment Agreements generally entered into with executives prior to 2003 (including the agreement with Mr. Swan described above), and it is the intent of the Compensation and Benefits Committee that these new agreements serve as the model for any Change of Control Employment Agreements entered into with EDS executives in the future. Specifically, the agreements with Messrs. Feld and Schuckenbrock do not provide for an "employment period" to commence upon a Potential Change of Control but rather only upon the occurrence of a Change of Control. In addition, such agreements do not provide for a "window period" following the Change of Control during which the executive could terminate his employment and still be entitled to benefits under this agreement (unless the executive was able to terminate his employment for Good Reason, which generally includes a reduction in base salary of more than 25% or requiring the executive to be based at a location more than 50 miles from his location prior to the Change of Control). These agreements also have an expiration date of December 31, 2005.

Under the terms of the agreements with Messrs. Feld and Schuckenbrock, in the event of the occurrence of a Change of Control the executive's employment will be continued for an employment period of two years. Throughout the employment period, the executive will continue to receive the same base salary he was receiving immediately prior to the Change of Control and will remain eligible to receive bonuses and other short-term incentive compensation and participate in all long-term, stock-based and other incentive plans and welfare benefit plans generally available to peer executives until the end of the employment period. If during the employment period the executive's employment is terminated by EDS other than for Cause or Disability, or by the executive for Good Reason, the executive may receive his unpaid salary through the date of termination and a lump sum payment equal to 2.99 times the sum of the executive's final annual base salary and annual performance bonus target for the year in which he is terminated. In addition, all deferred and restricted EDS stock units and/or stock options awarded to the executive that are outstanding on the date of termination shall immediately vest, be free of any restrictions on sale or transfer and, with regard to all stock options (other than those awarded as part of the acquisition of TFG, which shall be exercisable for the period of time provided for in the applicable award) shall be exercisable for one year from the date of termination. See "Certain Transactions and Relationships" below for a description of the terms of the options and restricted stock awarded to these executives as part of the acquisition of TFG. If the executive's employment is involuntarily terminated for Cause, death or disability during the employment period, or the executive voluntarily terminates his employment other than for Good Reason, EDS shall pay all accrued but unpaid salary through the date of termination and shall have no other severance obligations to the executive under this agreement.

Certain Transactions and Relationships

On January 9, 2004, EDS acquired all of the capital stock of The Feld Group, Inc. a privately-held technology management consultancy. The aggregate purchase paid for TFG was comprised of the following: (i) to Mobius Venture Capital, which held a 40% interest in TFG, \$37 million in cash and warrants to purchase 898,921 shares of Common Stock at an exercise price of \$23.95 per share, and (ii) to other shareholders and employees of TFG, an aggregate of (a) 939,447 shares of restricted Common Stock, with a value of \$22,567,144 as of the closing date, (b) options to purchase 2,287,363 shares of Common Stock at an exercise price of \$23.955 per share, (c) \$4,501,081 in cash, (d) \$5,197,631 in cash in respect of a portion of the federal income tax obligations of certain selling shareholders arising out of the transaction, and (e) up to \$4,078,112 in the form of a retention bonus, one-third of which would be payable if the trading price of the Common Stock meets or exceeds \$25.75 between the first and fifth anniversaries of the closing date, one-third if that trading price meets or exceeds \$27.04 between the second and fifth anniversaries of the closing date, and one-third if that trading price meets or exceeds \$28.38 between the third and fifth anniversaries of the closing date (a "retention amount").

Charles Feld and Stephen Schuckenbrock were limited partners of Feld Partners Investments, L.P., which held common stock and preferred stock of TFG. Immediately following the transaction, Mr. Feld was appointed Executive Vice President – Portfolio Management of EDS and Mr. Schuckenbrock was appointed Executive Vice President – Global Sales & Client Solutions. The purchase price described above included the following amounts paid or payable to Messrs. Feld and Schuckenbrock in respect of their interest in Feld Partners Investments, L.P.: (a) 113,875 and 85,406 shares, respectively, of restricted Common Stock, with a value of \$2,791,076 and \$2,093,301,

respectively, as of the closing date, (b) options to purchase 269,838 and 202,379 shares of Common Stock, respectively, with an exercise price of \$23.96 per share, (c) \$578,301 and 433,726 in cash, respectively, (d) \$942,070 and \$706,550 in cash, respectively, in respect of a portion of their federal income tax obligations arising out of the transaction, and (e) eligibility for the retention amounts described under "Employment Agreements" above. The restricted stock granted to Messrs. Feld and Schuckenbrock will vest (subject to the executive's continued employment as described below) 40% on January 9, 2005, 30% on January 9, 2006, and 30% on January 9, 2007. The options granted to such executives have a five-year term and will vest (subject to the executive's continued employment as described below) 8% on January 9, 2004, 32% on January 9, 2005, 30% on January 9, 2006, and 30% on January 9, 2007. If the executive's employment is terminated for any reason other than termination by EDS without Cause (as defined), termination by the executive for Good Reason (as defined) or the executive's death or disability, then the executive will forfeit all restricted stock and options that have not yet vested as of the date of termination. If the executive's employment is terminated by EDS without Cause, or by the executive for Good Reason, then any restricted stock or options that are unvested as of the date of termination shall immediately become vested. The restricted stock and options are also subject to forfeiture in connection with certain indemnification obligations under the agreement pursuant to which EDS acquired TFG.

Charles Feld's son, Kenny Feld, became an employee of EDS as a result of the acquisition of TFG in January 2004. Kenny Feld joined TFG in 2002 when TFG acquired Contrado, Inc., a company he co-founded and of which he was Chief Executive Officer from 2000 to 2002. Prior to that time, Kenny Feld was employed by McKinsey and Company from 1991 to 2000. Kenny Feld receives a base salary of \$300,000 per year, which is the same base salary he received at TFG, and received a bonus of \$90,000 in respect of 2004 performance. In addition, he was awarded options to purchase 14,000 shares of Common Stock in connection with our 2004 long-term incentive grant. Charles Feld disclaims any interest in Kenny Feld's compensation. In connection with the acquisition of TFG, Kenny Feld received the following in respect of his interest in Feld Partners Investments, L.P.: 21,838 shares of restricted Common Stock with a value of \$532,615 as of the closing date; options to purchase 53,700 shares of Common Stock with an exercise price of \$23.96 per share; and \$52,855 in cash.

Jeffrey M. Heller's son, Scott Heller, is an employee of EDS. Scott Heller receives an annual base salary of \$180,000, was awarded a bonus of \$25,500 in respect of 2004 performance and received commissions of \$25,000 during the year. Scott Heller has been on medical leave since October 2004. Jeffrey Heller disclaims any interest in Scott Heller's compensation.

Pursuant to the provisions of our Bylaws and indemnification agreements with current and former directors and executive officers, fees and other expenses incurred by such persons in connection with the shareholder litigation (including the consolidated securities and consolidated ERISA actions) and SEC investigation described in our Annual Report on Form 10-K are being advanced by EDS. We advanced \$622,724 for legal fees and expenses related to such shareholder litigation and SEC investigation incurred during 2004 on behalf of such persons, including Ray J. Groves, C. Robert Kidder, William H. Gray, III (who served as a director until May 2004), and Robert H. Swan.

Compensation and Benefits Committee Interlocks and Insider Participation

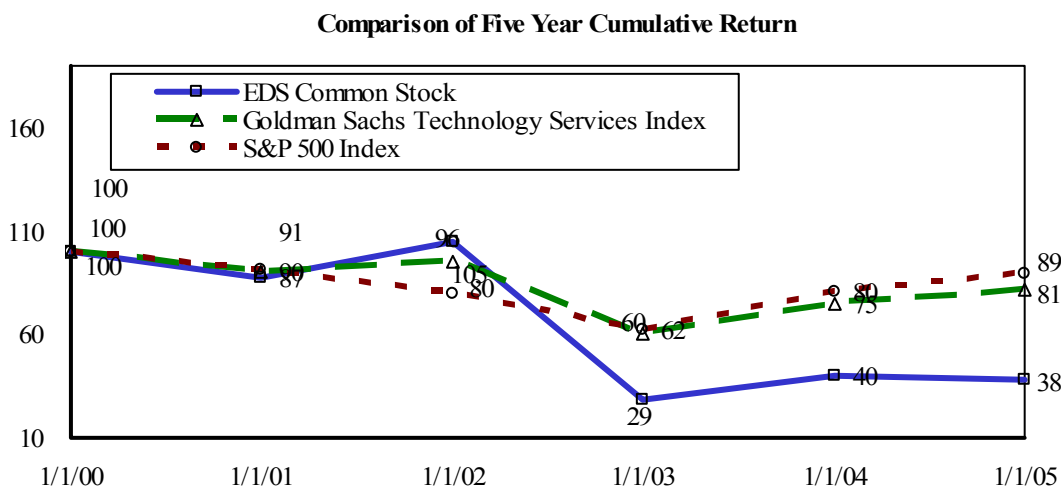
None of the members of the Compensation and Benefits Committee are current or former officers or employees of EDS. No interlocking relationship exists between the members of our Board of Directors or our Compensation and Benefits Committee and the board of directors or compensation committee of any other company, nor has any such interlocking relationship existed in the past.

Section 16(a) Beneficial Ownership Reporting Compliance

Our directors and executive officers are required under the Exchange Act to file with the SEC and the NYSE reports of ownership and changes in ownership in their holdings of Common Stock. We assist such persons with these filings. Based on an examination of these reports and on written representations provided to EDS, we believe that all such reports were timely filed in 2004, other than a Form 4 filing for 1,422 shares withheld from Heinz L. Klein on September 1, 2004, in respect of tax withholding obligations related to the vesting of restricted stock units, which filing was made on September 10, 2004. In addition, the Form 4 filed on behalf of Richard W. Fisher on June 22, 2004, under-reported 506 phantom stock units from the deferral of his annual director fees on June 1, 2004, under the Nonemployee Director Deferred Compensation Plan and five phantom stock units from the June 10, 2004, dividend credit to his account under that plan.

Performance Graph

The following graph compares the cumulative total shareholder return on Common Stock, including reinvestment of dividends, for the last five fiscal years with the cumulative total return of the Standard & Poor's 500 Stock Index and the Goldman Sachs Technology Services Index assuming an investment of \$100 on January 1, 2000. **This graph is presented in accordance with SEC requirements. You are cautioned against drawing any conclusions from this information, as past results are not necessarily indicative of future performance. This graph in no way reflects a forecast of future financial performance.**



Notwithstanding any statement in any of our filings with the SEC that might incorporate part or all of any future filings with the SEC by reference, including this Proxy Statement, the foregoing Report of the Compensation and Benefits Committee on Executive Compensation and the above Performance Graph are not incorporated by reference into any such filings.

PROPOSAL 2: RATIFICATION OF APPOINTMENT OF AUDITORS

The Audit Committee has appointed KPMG LLP (“KPMG”) as EDS’ independent auditors for the year ending December 31, 2005. That firm has been EDS’ auditors since 1984. The Board of Directors is submitting the appointment of that firm for ratification at the Meeting. A representative of KPMG is expected to be present at the Meeting, will be available to respond to appropriate questions and will have the opportunity to make a statement, should he or she so desire.

Fees Billed by Independent Auditors

The following table shows the dollar amount (in millions) of the fees paid or accrued by EDS for audit and other services provided by KPMG in 2004 and 2003.

	<u>2004</u>	<u>2003</u>
Audit Fees	\$19.7	\$10.5
Audit-Related Fees8	.6
Tax Fees	1.1	7.8
All Other Fees	<u>.04</u>	<u>.2</u>
Total	<u>\$21.6</u>	<u>\$19.1</u>

Audit fees represent fees for services provided in connection with the audit of our consolidated financial statements, audit of our internal control over financial reporting, review of our interim consolidated financial statements, local statutory audits, accounting consultations and SEC registration statement reviews. The increase in audit fees in 2004 is primarily due to fees related to KPMG’s audit of our internal control over financial reporting. Audit-related fees consist primarily of fees for audits of employee benefit plans and service organizations. Tax fees include fees for expatriate tax return preparation, domestic and international tax consultations, and international tax

return preparation. Fees associated with expatriate tax return preparation represented the majority of the tax services provided by KPMG in 2003. EDS discontinued using KPMG for such services in 2004. Other services principally include fees for ISO 9000/14000 compliance assessments and consulting services. KPMG rendered no professional services to EDS in 2004 or 2003 with respect to financial information systems design and implementation.

All audit services, audit-related services, tax services and other services were pre-approved by the Audit Committee, which concluded that the provision of such services by KPMG was compatible with the maintenance of that firm's independence in the conduct of its auditing functions. The Audit Committee charter provides for pre-approval of any audit or non-audit services provided to EDS by its independent auditors. However, pre-approval is not necessary for non-audit services if: (i) the aggregate amount of all such non-audit services provided to EDS constitutes not more than 5 percent of the total fees paid by EDS to its independent auditors during the fiscal year in which the non-audit services are provided; (ii) such services were not recognized by EDS at the time of the engagement to be non-audit services; and (iii) such services are promptly brought to the attention of the Audit Committee and approved prior to the completion of the audit by the Audit Committee. The Audit Committee may delegate to one or more of its members pre-approval authority with respect to all permitted audit and non-audit services, provided that any services pre-approved pursuant to such delegated authority shall be presented to the full Audit Committee at its next regular meeting.

The Board of Directors recommends a vote FOR the ratification of the appointment of KPMG as independent auditors for 2005.

PROPOSAL 3: BOARD OF DIRECTORS PROPOSAL TO AMEND CERTIFICATE OF INCORPORATION TO DECLASSIFY BOARD OF DIRECTORS AND PROVIDE FOR ANNUAL ELECTION OF DIRECTORS

Article FIFTH of our Restated Certificate of Incorporation provides that the Board of Directors be divided into three classes, as nearly equal in number as possible, with members of each class serving three-year terms. To implement the annual election of directors our Restated Certificate of Incorporation must be amended.

The Board of Directors has adopted resolutions, subject to shareholder approval, approving and declaring the advisability of an amendment to our Restated Certificate of Incorporation to declassify the Board of Directors. The proposal would allow for the annual election of all directors commencing with the 2006 annual meeting. The proposed amendments to the Restated Certificate of Incorporation are set forth in Annex A, with deletions indicated by strikeout and additions indicated by underline.

If shareholders approve this proposal, the terms for all of our directors would end at the 2006 annual meeting and any director appointed as a result of a newly created directorship or to fill a vacancy would also hold office until the 2006 annual meeting. Beginning with the 2006 annual meeting, directors would be elected for one-year terms at each annual meeting.

If shareholders do not approve this proposal, the Board will remain classified, the directors elected at the Meeting will be elected for a three-year term, and all other directors would continue in office for the remaining term of their class to which they were elected or appointed.

Our classified board structure has been in place since we became a publicly held company in 1996. Classified boards have been widely adopted and have a long history in corporate law. Proponents of classified boards assert they provide continuity and stability in the management of the business and affairs of a company because a majority of directors always have prior experience as directors of the company. Proponents further assert that classified boards may enhance shareholder value by forcing a potential acquirer to negotiate directly with the board of a target company because the acquirer is unable to replace the entire board in a single election. However, many investors and others have begun to view classified boards as having the effect of reducing the accountability of directors. They argue that the election of directors is the primary means for shareholders to influence corporate governance policies and that a classified board structure reduces the accountability of directors because shareholders are unable to evaluate and elect all directors on an annual basis.

The Governance Committee and the full Board of Directors have considered carefully the advantages and disadvantages of maintaining a classified board structure. After this review, the Board of Directors, upon the recommendation of the Governance Committee, has determined that it is an appropriate time to propose declassifying the Board. The Board is committed to principles of corporate democracy and is mindful that in 2004 a shareholder proposal requesting that directors take the steps necessary to declassify the Board was approved by a majority of the votes cast for the proposal. Consistent with our corporate governance policies, the Board welcomes being held accountable to shareholders and allowing them to register their views on the Board's performance on an annual basis.

The Board of Directors has already approved amendments to our Bylaws that, upon approval of this proposal, would make them consistent with the amendments to the Restated Certificate of Incorporation contained in Annex A.

The affirmative vote of at least 80% of all outstanding shares of Common Stock is required for approval of this proposal. An abstention on this proposal is not an affirmative vote and therefore will have the same effect as a negative vote on this proposal. Therefore, it is important that you vote your shares either at the Meeting or by proxy.

The Board of Directors recommends a vote “FOR” the proposal to amend the Restated Certificate of Incorporation to declassify the Board of Directors and provide for annual election of directors.

PROPOSAL 4: BOARD OF DIRECTORS PROPOSAL TO AMEND CERTIFICATE OF INCORPORATION TO ELIMINATE SUPERMAJORITY VOTE REQUIREMENTS

Article EIGHTH of our Restated Certificate of Incorporation requires a supermajority shareholder vote to approve certain business combinations. Article NINTH of our Restated Certificate of Incorporation requires a supermajority shareholder vote to approve amendments to certain provisions of the Restated Certificate of Incorporation or for shareholders to approve any amendment to our Bylaws. The Board of Directors has adopted resolutions, subject to shareholder approval, approving and declaring the advisability of amendments to our Restated Certificate of Incorporation to eliminate these supermajority vote requirements. The proposed amendments to the Restated Certificate of Incorporation are set forth in Annex B, with deletions indicated by ~~strikeout~~ and additions indicated by underline.

Supermajority vote provisions were included in our Restated Certificate of Incorporation at the time we became a publicly traded company in 1996. Such provisions are generally intended to encourage a person making an unsolicited bid for a company to negotiate with the Board of Directors to reach terms that are fair and provide the best results for all shareholders. Without such provisions it may be possible for the holders of a majority of the shares represented at a meeting to take actions that would give them effective control of the company without negotiating with the Board to achieve the best results for other shareholders. However, many investors and others have begun to view these provisions as conflicting with principles of good corporate governance. While these measures can be beneficial, the Board recognizes there are also compelling arguments for having a lower threshold for shareholder votes. The requirement of a supermajority vote can limit the ability of shareholders to effect change by essentially providing a veto to a large minority shareholder or group of shareholders. In addition, a lower threshold for shareholder votes can increase shareholders' ability to effectively participate in corporate governance.

The Governance Committee and the full Board of Directors have considered carefully the advantages and disadvantages of the supermajority vote requirements in our Restated Certificate of Incorporation. After this review, the Board of Directors, upon the recommendation of the Governance Committee, has determined that it is appropriate to propose elimination of these requirements. The Board is committed to principles of corporate democracy and is mindful that a shareholder proposal requesting that directors take the steps necessary to eliminate the supermajority vote requirements has been approved by a majority of the votes cast for the proposal at our annual meetings in recent years. This determination by the Board furthers its goal of maximizing accountability to shareholders.

The proposed amendment would eliminate Article EIGHTH of our Restated Certificate of Incorporation, which applies to certain business combinations involving any person or group that beneficially owns at least 10% of our outstanding voting stock (a “related person”). Article EIGHTH, which is sometimes referred to as a “fair price” provision, requires the affirmative vote of the holders of (i) at least 80% of the outstanding voting stock and (ii) at least 66²/₃% of the outstanding voting stock not beneficially owned by the related person to approve certain transactions between the related person and EDS, including any merger, consolidation, share exchange, sale of assets having a fair market value of at least \$10 million, transfer or issuance of EDS securities, liquidation, recapitalization or certain other transactions, in each case involving the related person. This voting requirement does not apply to certain transactions, including (a) any transaction in which the consideration to be received by the holders of each class of our capital stock is (x) the same in form and amount as that paid in a tender offer in which the related person acquired at least 50% of the outstanding shares of such class and which was consummated not more than one year earlier or (y) not less in amount than the highest per share price paid by the related person for shares or (b) any transaction approved by EDS' Continuing Directors (directors who were directors prior to the time the related person became a related person, and directors recommended for election by such directors).

If Article EIGHTH is eliminated, then under the Delaware General Corporation Law the holders of only a majority of the outstanding company stock entitled to vote for the election of directors would be required to approve the business combinations described above, subject to the following exception. If the transaction constitutes a “business combination” within the meaning of Section 203 of the Delaware General Corporation Law involving a person owning 15% or more of our voting stock (referred to as an “interested stockholder”), then the transaction could not be completed for a period of three years after the date the person became an interested stockholder unless (1) the Board of Directors approved either the business combination or the transaction that resulted in the person becoming an interested stockholder prior to such business combination or transaction, (2) upon consummation of the transaction that resulted in the person becoming an interested stockholder, that person owned at least 85% of our outstanding voting stock (excluding shares owned by persons who are directors and also officers of EDS and shares owned by certain EDS employee benefit plans), or (3) the business combination was approved by the Board and by the affirmative vote of at least $66\frac{2}{3}\%$ of our outstanding voting stock not owned by the interested stockholder.

The proposed amendment would also amend Article NINTH of the Restated Certificate of Incorporation, which currently requires (a) the affirmative vote of at least 80% of our outstanding voting stock to approve any amendment to Articles SIXTH, SEVENTH, EIGHTH or NINTH of the Restated Certificate of Incorporation and (b) the affirmative vote of at least $66\frac{2}{3}\%$ of our outstanding voting stock for shareholders to approve an amendment to our Bylaws. Following such amendment, a simple majority vote would be required to approve such actions. Article FIFTH relates to the Board of Directors, including the classified board and removal of directors. Article SIXTH relates to stockholder action and provides that stockholder meetings may be called only by the Board or the Chairman and that stockholder action must be taken at a meeting. Article SEVENTH provides generally that liability of directors shall be limited to the fullest extent permitted by the Delaware General Corporation Law.

The Board of Directors has already approved an amendment to our Bylaws that, upon approval of this proposal, would eliminate the current supermajority vote required for shareholders to amend the Bylaws in order to make the Bylaws consistent with the amendments to the Restated Certificate of Incorporation proposed hereby.

The affirmative vote of at least 80% of all outstanding shares of Common Stock is required for approval of this proposal. An abstention on this proposal is not an affirmative vote and therefore will have the same effect as a negative vote on this proposal. Therefore, it is important that you vote your shares either at the Meeting or by proxy.

The Board of Directors recommends a vote “FOR” the proposal to amend the Restated Certificate of Incorporation to eliminate supermajority vote requirements.

**PROPOSED AMENDMENTS TO CERTIFICATE OF INCORPORATION
TO DECLASSIFY BOARD OF DIRECTORS AND PROVIDE FOR
ANNUAL ELECTION OF DIRECTORS**

The following provisions reflect the manner in which the applicable sections of the Restated Certificate of Incorporation of EDS (the "Certificate") will be amended if Proposal 3 is approved by shareholders at the Meeting:

1. Amend Paragraph (2)(d) of Article FIFTH to read in its entirety as follows:

(d) ~~(i)~~ Subject to the provisions of this Section 2(d) set forth below, the Directors of the Corporation, other than those who may be elected by holders of shares of one or more outstanding series of Preferred Stock under circumstances as shall be provided by the Restated Certificate of Incorporation or by any provisions established pursuant to Article FOURTH hereof, shall be divided into three classes: Class I, Class II and Class III. Such classes shall be as nearly equal in number of Directors as possible. Each Director of the Corporation shall serve for a term ending on the third annual meeting following the annual meeting at which such Director was elected; provided, however, that the Directors of the Corporation first designated to Class I shall serve for a term expiring at the annual meeting next following the date of their designation as Class I Directors, the Directors of the Corporation first designated to Class II shall serve for a term expiring at the second annual meeting next following the date of their designation as Class II Directors, and the Directors of the Corporation first designated to Class III shall serve for a term expiring at the third annual meeting next following the date of their designation as Class III Directors. At each annual election of Directors of the Corporation, until the annual election of Directors in 2006, such Directors chosen to succeed those whose terms then expire shall be of the same class as the Directors of the Corporation they succeed. The terms of office of all Directors who are in office immediately prior to the closing of the polls for the annual election of Directors in 2006 shall expire at such time. At each annual election of Directors beginning with the 2006 annual election of Directors, the Directors shall not be classified, and the Directors, other than those who may be elected by holders of shares of one or more outstanding series of Preferred Stock under circumstances as shall be provided by the Restated Certificate of Incorporation or by any provisions established pursuant to Article FOURTH, shall hold office until the next annual election of Directors and until their respective successors shall have been duly elected and qualified, subject, however, to prior death, resignation or removal in accordance with the Restated Certificate of Incorporation and the Bylaws of the Corporation.

~~(ii) At each annual election of Directors of the Corporation, such Directors chosen to succeed those whose terms then expire shall be of the same class as the Directors of the Corporation they succeed, unless, by reason of any intervening changes in the authorized number of Directors of the Corporation, the Board of Directors shall designate one or more directorships whose term then expires as directorships of another class in order more nearly to achieve equality of number of Directors of the Corporation among the classes.~~

~~(iii) Notwithstanding that the three classes of Directors of the Corporation shall be as nearly equal in number of Directors as possible, in the event of any change in the authorized number of Directors of the Corporation, each Director of the Corporation then continuing to serve as such shall nevertheless continue as a Director of the class of which he is a member until the expiration of his current term, or his prior death, resignation or removal in accordance with the Restated Certificate of Incorporation and the Bylaws of the Corporation. If any newly created directorship may, consistent with the provision that the three classes shall be as nearly equal in number of Directors of the Corporation as possible, be allocated to one or two or more classes, the Board of Directors shall allocate it to that of the available classes whose terms of office are due to expire at the earliest date following such allocation.~~

2. Amend Paragraph (4) of Article FIFTH to read in its entirety as follows:

(4) *Vacancies.* Unless otherwise provided by the Restated Certificate of Incorporation or by any provisions established pursuant to Article FOURTH hereof with respect to the rights of holders of shares of one or more outstanding series of Preferred Stock, newly created directorships resulting from any increase in the authorized number of Directors of the Corporation and any vacancies on the Board of Directors resulting from death, resignation or removal in accordance with the Restated Certificate of Incorporation and the Bylaws of the Corporation shall be filled only by the affirmative vote of at least a majority of the remaining Directors of the Corporation then in office, even if such remaining Directors constitute less than a quorum of the Board of Directors. Any Director of the Corporation elected in accordance with the preceding sentence shall hold office ~~for the remainder of the full term of the class of Directors of the Corporation in which the new directorship was created or the vacancy occurred and~~ until such Director's successor shall have been elected and qualified or until his earlier death, resignation or removal in accordance with the Restated Certificate of Incorporation and the Bylaws of the Corporation. Unless otherwise provided by the Restated Certificate of Incorporation or by any provisions established pursuant to Article FOURTH hereof with respect to the rights of holders of shares of one or more outstanding series of Preferred Stock, no decrease in the number of Directors of the Corporation constituting the Board of Directors shall shorten the term of any incumbent Director of the Corporation.

**PROPOSED AMENDMENTS TO CERTIFICATE OF INCORPORATION
TO ELIMINATE SUPERMAJORITY VOTING REQUIREMENTS**

The following provisions reflect the manner in which the applicable sections of the Certificate will be amended if Proposal 4 is approved by shareholders at the Meeting:

1. Article EIGHTH of the Certificate is deleted in its entirety:

~~EIGHTH:~~

~~(1) — In addition to any other affirmative vote that may be required by law, the Restated Certificate of Incorporation or the Bylaws of the Corporation, and except as otherwise expressly provided by paragraph (2) of this Article EIGHTH:~~

~~(a) — any merger, consolidation or share exchange of the Corporation or any subsidiary of the Corporation with (i) any Related Person or (ii) any other Person (whether or not itself a Related Person) which is, or after such merger, consolidation or share exchange would be, an Affiliate of a Related Person; or~~

~~(b) — any sale, lease, exchange, mortgage, pledge, transfer or other disposition by the Corporation or any subsidiary of the Corporation to, with or for the benefit of any Related Person or any Affiliate of any Related Person, or by any Related Person or any Affiliate of any Related Person to the Corporation or any subsidiary of the Corporation, of any assets or properties having an aggregate Fair Market Value of \$10,000,000 or more; or~~

~~(c) — any issuance or transfer by the Corporation or any subsidiary of the Corporation of any securities of the Corporation or any subsidiary of the Corporation to any Related Person or any Affiliate of any Related Person (except (i) pursuant to the exercise, exchange or conversion of securities exercisable for, exchangeable for or convertible into shares of any class or series of capital stock of the Corporation or any subsidiary of the Corporation, which securities were acquired by the Related Person prior to becoming a Related Person, or (ii) pursuant to a dividend or distribution paid or made, or the exercise, exchange or conversion of securities exercisable for, exchangeable for or convertible into shares of any class or series of capital stock of the Corporation or subsidiary of the Corporation, which security is distributed pro rata to all holders of shares of any class or series of capital stock of the Corporation subsequent to the time the Related Person became such, and provided in the case of this clause (ii) that there is not an increase of more than 1% in the Related Person's proportionate share of any class or series of capital stock of the Corporation or of the outstanding Voting Stock as a result of such dividend or distribution); or~~

~~(d) — any adoption of any plan or proposal by the Corporation for the liquidation or dissolution of the Corporation voluntarily caused or proposed by or on behalf of a Related Person or any Affiliate of any Related Person; or~~

~~(e) — any reclassification of securities (including any reverse stock split) or recapitalization of the Corporation, or any merger, consolidation or share exchange of the Corporation with any of its subsidiaries or any other transaction (whether or not with or into or otherwise involving a Related Person) which has the effect, either directly or indirectly, of increasing by more than 1% the proportionate share of any outstanding shares of any class or series of capital stock of the Corporation, or the securities convertible into shares of any class or series of capital stock of the Corporation or any subsidiary of the Corporation, that is Beneficially Owned by any Related Person or any Affiliate of any Related Person or otherwise increasing the voting power of any outstanding shares of any class or series of capital stock of the Corporation or any subsidiary of the Corporation possessed by any such Related Person or Affiliate; or~~

~~(f) — any series or combination of transactions having, directly or indirectly, the same effect as any of the foregoing; or~~

~~(g) — any agreement, contract or other arrangement entered into by the Corporation providing, directly or indirectly, for any of the foregoing;~~

shall require the affirmative vote of holders of (x) at least 80% of the then outstanding Voting Stock, voting together as a single class and (y) at least 66 2/3% of the then outstanding Voting Stock not Beneficially Owned, directly or indirectly, by any Related Person with respect to such Business Combination, voting together as a single class. Such affirmative vote shall be required, notwithstanding the fact that no vote may be required by, or that a lesser percentage or separate class vote may be specified in, applicable law, any provision of the Restated Certificate of Incorporation other than this Article EIGHTH, the Bylaws of the Corporation or any agreement with any national securities exchange or otherwise.

(2) — The provisions of paragraph (1) of this Article EIGHTH shall not be applicable to any particular Business Combination, and such Business Combination shall require only such affirmative vote that may be required by applicable law, any provision of the Restated Certificate of Incorporation other than this Article EIGHTH, the Bylaws of the Corporation and any agreement with any national securities exchange or otherwise, if all of the conditions specified in either of the following subparagraphs (a) or (b) are met:

(a) — the cash, property, securities or other consideration to be received per share by holders of shares of each and every outstanding class or series of capital stock of the Corporation in the Business Combination is, with respect to each such class or series, either (i) the same in form and amount per share as that paid by the Related Person in a tender offer in which such Related Person acquired at least 50% of the outstanding shares of capital stock of such class or series and which was consummated not more than one year prior to the date of such Business Combination or (ii) not less in amount (as to cash) or Fair Market Value (as to consideration other than cash) as of the date of the determination of the Highest Per Share Price (as to property, securities or other consideration) than the Highest Per Share Price applicable to such class or series of shares; *provided, however*, that in the event of any Business Combination in which the Corporation survives, any shares retained by holders thereof shall constitute consideration other than cash for purposes of this subparagraph (a); or

(b) — at least a majority of all Continuing Directors shall have expressly approved such Business Combination either in advance of or subsequent to such Related Person's having become a Related Person.

In the case of any Business Combination with a Related Person to which subparagraph (b) above does not apply, at least a majority of all Continuing Directors, promptly following the request of a Related Person, shall determine the Highest Per Share Price for shares of each class or series of capital stock of the Corporation. Such determination shall be announced not less than five (5) days prior to the meeting at which holders of shares vote on the Business Combination. Such determination shall be final, unless the Related Person becomes the Beneficial Owner of additional shares after the date of the earlier determination, in which case at least a majority of all Continuing Directors shall make a new determination as to the Highest Per Share Price for each class or series of shares prior to the consummation of the Business Combination.

A Related Person shall be deemed to have acquired a share at the time that such Related Person became the Beneficial Owner thereof. With respect to shares owned by Affiliates, Associates and other Persons whose ownership is attributable to a Related Person, if the price paid by such Related Person for such shares is not determinable by at least a majority of all Continuing Directors, the price so paid shall be deemed to be the higher of (i) the price paid upon the acquisition thereof by the Affiliate, Associate or other Person or (ii) the share price of the shares in question at the time when the Related Person became the Beneficial Owner thereof.

(3) — For purposes of this Article EIGHTH:

(a) — The term "Affiliate," used to indicate a relationship to a specified Person, shall mean a Person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such specified Person.

(b) — The term "Associate," used to indicate a relationship with a specified Person, shall mean (i) any corporation, firm, partnership, association or other organization (other than the Corporation or any wholly owned subsidiary of the Corporation) of which such specified Person is a director, officer or partner or is, directly or indirectly, the Beneficial Owner of 10% or more of any class of equity securities; (ii) any trust or other estate in which such specified Person has a beneficial interest of 10% or more or as to which such specified Person serves as trustee or in a similar fiduciary capacity; (iii) any Person who is a director or officer of such specified Person or any of its parents or subsidiaries (other than the Corporation or any wholly owned subsidiary of the Corporation); and (iv) any relative or spouse of such specified Person or of any of its

Associates, or any relative of any such spouse, who has the same home as such specified Person or such Associate.

(c) ~~—A Person shall be a "Beneficial Owner" of any shares of any class or series of capital stock of the Corporation (i) which such Person or any of its Affiliates or Associates beneficially owns, directly or indirectly; or (ii) which such Person or any of its Affiliates or Associates has, directly or indirectly, (A) the right or obligation to acquire (whether such right or obligation is exercisable immediately or only after the passage of time or the occurrence of an event), pursuant to any agreement, arrangement or understanding (whether or not in writing) or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise; provided, however, that a Person shall not be deemed the beneficial owner of any stock tendered pursuant to a tender or exchange offer made by such Person or any of such Person's Affiliates or Associates until such tendered stock is accepted for purchase or exchange, or (B) the right to vote or dispose of, including pursuant to any agreement, arrangement or understanding (whether or not in writing); provided, however, that a Person shall not be deemed the beneficial owner of any stock because of such Person's right to vote such stock if the agreement, arrangement or understanding to vote such stock arises solely from a revocable proxy or consent given in response to a proxy or consent solicitation made to ten (10) or more Persons pursuant to, and in accordance with, the applicable provisions of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); or (iii) which is beneficially owned, directly or indirectly, by any other Person (or any Affiliate or Associate thereof) with which such Person or any of its Affiliates or Associates has any agreement, arrangement or understanding (whether or not in writing) for the purpose of acquiring, holding, voting or disposing of such stock; or (iv) of which such Person would be the Beneficial Owner pursuant to the terms of Rule 13d-3 of the General Rules and Regulations under Exchange Act, as in effect on March 12, 1996. Notwithstanding anything in this definition of "Beneficial Owner" to the contrary, neither General Motors Corporation, a Delaware corporation ("GM"), the board of directors of GM, any committee of such board, any member of such board or committee, any pension plan or employee benefit plan sponsored by GM or any of its Affiliates (other than the Hourly Plan (as defined below)), nor any trustee of or other fiduciary with respect to any such other plan (when acting in such capacity) shall be deemed to be the "Beneficial Owner" of, or to "Beneficially Own," any securities held for the benefit of the General Motors Hourly Rate Employees Pension Plan, or any trustee of or other fiduciary with respect to such plan (when acting in such capacity) (collectively, the "Hourly Plan"), or to be an Affiliate or Associate of the Hourly Plan (and the Hourly Plan shall not be deemed to be an Affiliate or Associate of any of the foregoing), solely by virtue of the board of directors of GM or any committee thereof or the management of GM acting under the authority thereof having the right to appoint, or terminate the appointment of, trustees or investment managers for the Hourly Plan or any such other pension plan or employee benefit plan sponsored by GM or any of its Affiliates or to cause any subsidiary of GM that provides investment management services for the Hourly Plan or any such other pension plan or other employee benefit plan sponsored by GM or any of its Affiliates to appoint, or terminate the appointment of, such trustees or investment managers. Stock shall be deemed "Beneficially Owned" by the Beneficial Owner or Owners thereof.~~

(d) ~~—The term "Business Combination" shall mean any transaction which is referred to in any one or more of subparagraphs (a) through (g) of paragraph (1) of this Article EIGHTH.~~

(e) ~~—The term "Continuing Director" shall mean, with respect to a Business Combination with any Related Person, any Director of the Corporation, while a Director of the Corporation, (i) who is unaffiliated with the Related Person, and (ii) who (A) was a Director of the Corporation on or immediately before the date of consummation of the Split Off (as hereinafter defined), or (B) became a Director of the Corporation prior to the time that the Related Person became a Related Person, or (C) was recommended or nominated to become a Director of the Corporation by at least a majority of all then Continuing Directors, acting separately or as a part of any action taken by the Board of Directors or any committee thereof. Without limiting the generality of the foregoing, a Director of the Corporation shall be deemed to be affiliated with a Related Person if such Director (i) is or at any previous time has been an officer, director, employee or general partner of such Related Person; (ii) is or at any previous time has been an Affiliate or Associate of such Related Person; (iii) is or at any previous time has been a relative or spouse of such Related Person or of any such officer, director, general partner, Affiliate or Associate; (iv) performs services for, or is a member, employee, greater than 5% stockholder or other equity owner of any organization (other than the Corporation and its subsidiaries) that~~

performs services for, such Related Person or any Affiliate of such Related Person, or is a relative or spouse of any such Person; or (v) was nominated for election as a Director of the Corporation by such Related Person.

~~(f) — The term "Fair Market Value" shall mean, in the case of securities, the average of the closing sale prices during the thirty (30) day period immediately preceding the date in question of such security on the principal United States securities exchange registered under the Exchange Act on which such security is listed (or the composite tape therefor) or, if such securities are not listed on any such exchange, the average of the closing bid quotations with respect to such security during the thirty (30) day period preceding the date in question on the NASDAQ National Market or any similar system then in use or, if no such quotations are available, the fair market value on the date in question of such security as determined in good faith by at least a majority of all Continuing Directors; and in the case of property other than cash or securities, the fair market value of such property on the date in question as determined in good faith by at least a majority of all Continuing Directors.~~

~~(g) — The term "Highest Per Share Price" shall mean (i) as to shares of any class or series of capital stock of the Corporation of which the Related Person Beneficially Owns 10% or more of the outstanding shares, the highest price that can be determined to have been paid or agreed to be paid for any share or shares of that class or series by such Related Person in a transaction that either (A) resulted in such Related Person Beneficially Owning 10% or more thereof or (B) was effected at a time when such Related Person Beneficially Owned 10% or more thereof, (ii) as to shares of any class or series of capital stock of the Corporation of which the Related Person Beneficially Owns shares, but not 10% or more of the outstanding shares, the highest price that can be determined to have been paid or agreed to be paid at any time by such Related Person for any share or shares of that class or series that are then Beneficially Owned by such Related Person or (iii) as to shares of any other class or series of capital stock of the Corporation, the amount determined by at least a majority of all Continuing Directors, on whatever basis they believe is appropriate, to be the per share price equivalent of the highest price that can be determined to have been paid or agreed to be paid at any time by the Related Person for shares of any such other class or series of capital stock of the Corporation. In determining the Highest Per Share Price, all purchases by the Related Person and its Affiliates and Associates shall be taken into account regardless of whether the shares were purchased before or after the Related Person became a Related Person and the Highest Per Share Price will be appropriately adjusted to take into account (W) distributions paid or payable in stock, (X) subdivisions of outstanding stock, (Y) combinations of shares of stock into a smaller number of shares and (Z) similar events. Additionally, for purposes of this subparagraph (g), the price of any shares of Common Stock received by a stockholder from GM pursuant to a transaction (the "Split Off") in which outstanding shares of Class E Common Stock, par value \$0.10 per share, of GM ("GME Stock") are converted into shares of Common Stock, shall be the price paid for such GME Stock, as appropriately adjusted to account for the number of shares of Common Stock so received for each share of GME Stock.~~

~~(h) — The term "Person" shall mean any individual, firm, corporation, partnership, limited liability company, association, joint venture, trust, estate or other entity or organization.~~

~~(i) — The term "Related Person" shall mean any Person (other than the Corporation or any subsidiary of the Corporation and other than any profit sharing, employee stock ownership or other employee benefit plan of the Corporation or any subsidiary of the Corporation or any trustee of or fiduciary with respect to any such plan when acting in such capacity) who or which (i) is the Beneficial Owner of 10% or more of the aggregate voting power of all outstanding Voting Stock; or (ii) is an Affiliate of the Corporation and, at any time within the two (2) year period immediately prior to the date in question, was the Beneficial Owner of 10% or more of the aggregate voting power of all outstanding Voting Stock; or (iii) is an assignee of or has otherwise succeeded to any shares of any class or series of capital stock of the Corporation which were at any time within the two (2) year period immediately prior to the date in question Beneficially Owned by any Related Person, if such assignment or succession shall have occurred in the course of a privately negotiated transaction rather than an open market transaction. For the purposes of determining whether a Person is a Related Person, the number of shares of any class or series of capital stock of the Corporation deemed to be outstanding shall include shares of such class or series of which the Person is deemed the Beneficial Owner, but shall not include any other shares which may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise~~

~~of conversion rights, exchange rights, warrants or options. Notwithstanding anything in this definition of "Related Person" to the contrary, the Hourly Plan shall not be a Related Person solely as a result of its becoming the Beneficial Owner of any shares of Common Stock in the Split Off but may thereafter become a Related Person if the Hourly Plan or any Affiliate thereof shall after the Split Off purchase or otherwise become the Beneficial Owner of additional shares of any class or series of capital stock of the Corporation constituting 1% or more of the aggregate voting power of all outstanding Voting Stock or any other Person (or Persons) who is (or collectively are) the Beneficial Owner of shares of any class or series of capital stock of the Corporation constituting 1% or more of the aggregate voting power of all outstanding Voting Stock shall become an Affiliate of the Hourly Plan, unless, in either case referred to in this sentence, the Hourly Plan, together with all Affiliates thereof, is not then the Beneficial Owner of 10% or more of the aggregate voting power of all outstanding Voting Stock.~~

~~(4) Nothing contained in this Article EIGHTH shall be construed to relieve any Related Person from any fiduciary obligation imposed by law.~~

2. Article NINTH of the Certificate is renumbered as Article EIGHTH and amended to read in its entirety as follows:

NINTH-EIGHTH:

(1) The Board of Directors is expressly empowered to adopt, amend or repeal the Bylaws of the Corporation. Any adoption, amendment or repeal of the Bylaws of the Corporation by the Board of Directors shall require, in addition to any other affirmative vote that may be required by law, the Restated Certificate of Incorporation or the Bylaws of the Corporation, the affirmative vote of at least a majority of the Whole Board. The stockholders of the Corporation shall also have the power to adopt, amend or repeal the Bylaws of the Corporation at any annual or special meeting, by the affirmative vote of holders of ~~at least 66 2/3%~~ a majority of the then outstanding Voting Stock, voting together as a single class, in addition to any other affirmative vote that may be required by law, the Restated Certificate of Incorporation or the Bylaws of the Corporation.

~~(2) Notwithstanding any other provision of the Restated Certificate of Incorporation or the Bylaws of the Corporation (and in addition to any other affirmative vote that may be required by law, the Restated Certificate of Incorporation or the Bylaws of the Corporation), there shall be required to amend, alter, change or repeal, directly or indirectly, or adopt any provision inconsistent with, the provisions of Article FIFTH hereof, Article SIXTH, Article SEVENTH hereof, Article EIGHTH hereof or this Article NINTH, the affirmative vote of holders of at least 80% of the then outstanding Voting Stock, voting together as a single class.~~

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2004 ANNUAL REPORT

This Annual Report contains an overview of EDS' business as well as information regarding EDS' operations during 2004 and other information that our shareholders may find useful.

BUSINESS

Overview

Electronic Data Systems Corporation, or EDS, is a leading global technology services company that delivers business solutions. EDS founded the information technology outsourcing industry more than 40 years ago. Today, we deliver a broad portfolio of information technology and business process outsourcing services to clients in the manufacturing, financial services, healthcare, communications, energy, transportation, and consumer and retail industries and to governments around the world. A.T. Kearney, a high-value management consultancy, operates as a separate subsidiary of EDS.

As of December 31, 2004, we employed approximately 117,000 persons in the United States and approximately 60 countries around the world. Our principal executive offices are located at 5400 Legacy Drive, Plano, Texas 75024, telephone number: (972) 604-6000.

Our predecessor was incorporated in Texas under the name Electronic Data Systems Corporation in 1962. In 1984, General Motors Corporation, or GM, acquired all of the capital stock of our predecessor, and we remained a wholly owned subsidiary of GM until our split-off in June 1996. As a result of the split-off, we became an independent, publicly held Delaware corporation. Unless the context otherwise requires, references to EDS include its predecessor and subsidiaries.

We make available free of charge on our Web site at www.eds.com/investor our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission, or SEC. We also make available on our Web site other reports filed with, or furnished to, the SEC under the Securities Exchange Act of 1934, including our proxy statements and reports filed by officers and directors under Section 16(a) of that Act. We do not intend for information contained on our Web site to be part of this Form 10-K.

EDS Services

Infrastructure Services. EDS Infrastructure Services delivers hosting, workplace (desktop), storage, security and privacy, and communications services that enable clients to drive down their total cost of ownership and increase the productivity of their information technology ("IT") environment across the globe. Infrastructure Services include:

- *Hosting Services.* EDS Hosting Services address the business and technology needs of our clients in the area of managed hosting services. These services establish the client's infrastructure using a set of highly granular, standard components that can be provisioned quickly and easily, serving as the base to build an integrated business support model from business processes down to application and infrastructure. EDS Hosting Services is composed of 3 principal offerings:
 - *Managed Server.* This service suite combines midrange hosting, application hosting and Web hosting into packaging that spans the data center. Managed Server Hosting offers multiple levels of packaging allowing a client to utilize its current technology within an EDS data center to advance the fundamentals of traditional IT by providing leveraged, high-value services such as standardization, increased automation and virtualization in a utility model.
 - *Managed Mainframe.* These entry level services include migration to a leveraged EDS Service Management center with processing environments for dedicated or shared logical partitions. Higher value services include the z/OS platform which provides the client standardization and increased automation in a utility model.
 - *Infrastructure Transformation.* These transformational state packages rationalize and consolidate IT infrastructure and the applications environment for maximum use through server consolidation, mainframe consolidation and migration services.

- *EDS Workplace Services.* EDS Workplace Services delivers expert management and support of the end user's work environment from the software applications that support the client's business practices to the supporting network communications infrastructure. Workplace services include:
 - *Workplace Management Services.* Offers comprehensive management of a client's total desktop environment. We support PCs, laptops and hand-held computing devices, as well as associated support services such as helpdesks, asset management of hardware and software, and administration of the servers and networks that tie it all together.
 - *Workplace Migration Services.* Provides an end-to-end solution for automating the deployment/version upgrades of desktop and server operating systems, including the associated packaging required to migrate a client's enterprise applications, to computers across an organization quickly and reliably.
 - *Workplace Messaging and Collaboration Services.* Messaging solutions provide mailbox service as a base service to users through a hosted, locally or remotely managed messaging system. This service includes Antivirus and Security, and also includes migrating to more current releases and/or consolidating e-mail systems. Collaboration Services secure Instant Messaging and virtual team workspace to enable an organization to improve collaboration.
 - *Workplace Support Services.* Provides the single point of contact for resolving IT issues in the desktop environment. Help desk services may be accessed by various channels including telephone, the Web, e-mail and facsimile.
- *Managed Storage Services and Mobile Information Protection.* EDS Managed Storage Services delivers agility and reliable data storage from the desktop to the data center. Our array of storage strategy, design, SAN/NAS (Storage Area Networks and Network Attached Storage) architecture, implementation and management services is designed and delivered to enhance security and business continuity. EDS Mobile Information Protection is a managed service that backs up data on desktop and remote/mobile computing devices and restores lost or damaged information without the assistance of a helpdesk or internal support.
- *Security and Privacy.* We offer defined security, privacy and business continuity features embedded at the onset in every EDS offering. These features are the people, tools, processes and controls used by EDS across all portfolio offerings to meet clients' expectations and industry-specific standards and regulations for security, privacy, business continuity management and risk management.
- *Communications Services.* EDS Communications Services delivers comprehensive, secure, flexible network services on a global basis ranging from network support to management of an entire client network. EDS designs, builds, deploys and manages a single seamless network that integrates voice, video and data; improves the effectiveness of data exchange in the supply chain; and delivers secure connectivity and smooth operations over a wired or wireless platform.

Applications Services. EDS Applications Services helps organizations plan, develop, integrate and manage custom applications, packaged software and industry-specific solutions. We offer applications development and management services on an outsourced or project basis. Services range from outsourcing of all applications development and systems integration to the management and implementation of EDS-owned or third-party industry applications. Benefits to clients for these services can include reduced costs, extended value of technology investments, information sharing and enhanced ability to adapt to market changes. Our Applications Services include the following:

- *Applications Development.* We create new applications, providing full lifecycle support through delivery. We define the application requirements, analyze application characteristics, implement to a production environment and monitor performance for a warranted time. Services include custom application development, application testing, mobile applications, workforce enhancement, business exchange services, business intelligence solutions, enterprise application integration, portals, dashboards and Web services.
- *Application Management.* We offer outsourcing support for specific applications or entire applications portfolios, both custom and packaged, including services for enterprise applications and support for SAP®, Siebel®, Oracle® and PeopleSoft®. We assess the specified applications, plan the transition and provide ongoing management to improve client productivity and operating efficiency. We also provide applications rationalization, content management integration and legacy application migration services.
- *Enterprise Application Services.* We engineer and integrate technology-enabled business solutions to optimize clients' processes and help them achieve rapid business results. Our services include transformation in the areas of enterprise resource management, human resources, finance and accounting, procurement and supply chain.
- *Industry-Specific Application Solutions.* These solutions are designed to support industry-specific needs. Our industry solutions span eight vertical industry segments: communications, energy, financial, government, healthcare, manufacturing, retail and transportation.

Applications Services offerings and capabilities are available via the EDS Global Delivery Model, including the EDS Best ShoreSM delivery approach which offers clients the ability to develop and manage applications in one or more of our solution centres strategically located in cost-effective countries. The delivery of our services offers a lifecycle approach to on-shore, near-

shore and offshore applications development and management with globally integrated, consistent work processes and tools and project-sharing at multiple facilities for 24 hours a day, seven days a week development.

Business Process Outsourcing Services. Business Process Outsourcing, or BPO, continues to be one of the fastest growing market segments in the IT services industry and an important element of our strategy to enlarge our business services footprint and grow our revenue base. BPO services help clients to achieve economies of scale by leveraging a shared-services operating model allowing clients to reduce operational risk and control costs.

Enterprise Shared Services, or ESS, are sold across multiple industries and include Human Resources (HR), Finance and Accounting, and Supply Management Services. For each of these services, EDS manages all components from technology, administration and customer service to business intelligence and third-party relationships. Our integrated solutions combine best-practice processes, leading technologies and experienced professionals along with skilled domain partnerships.

EDS BPO Services also delivers industry-specific offerings. One example is our suite of Government BPO Services. For forty years EDS has provided Medicare and Medicaid claims processing to the U.S. federal and state governments helping to lower program costs while increasing efficiency and performance. EDS' offerings to governments also include: fiscal agent services; decision support services; fraud, waste and abuse protection services; integrated pharmacy services; Health Insurance Portability and Accountability Act (HIPAA) compliance services; immunization registry and tracking services; and case management services. We also offer Internet-based enrollment and eligibility inquiry capabilities.

Other industries supported by our industry-specific BPO offerings include Financial Services, Manufacturing, Healthcare, Transportation, Communications, Energy and Consumer/Retail.

Many BPO services are supported by our reusable, multi-client utility platform. This platform is comprised of many of the legacy transaction-based components of the BPO portfolio, including: customer relationship management ("CRM") and call center services; administrative services such as credit services and insurance services; and transaction services, which include payment and settlement, card processing and billing and clearing transactions and content management services.

ExcellerateHRO LLP, our 85% owned joint venture with Towers Perrin, commenced operations on March 1, 2005. ExcellerateHRO combines Towers Perrin's Administration Solutions business, which provides pension and health and welfare administration services, with our existing payroll and related HR outsourcing business. Through this new company, we can offer a comprehensive set of HR outsourcing solutions on a global basis across the core areas of benefits administration, compensation administration, payroll, recruitment and staffing, relocation, work force administration and work force development.

EDS Agile Enterprise

A key component of our multi-year plan is the development of the EDS Agile Enterprise technology platform, a network-based utility architecture intended to create a more flexible, open and cost effective technology foundation for the delivery of a significant portion of our IT outsourcing and BPO services. As part of this strategy, we have established alliance relationships with a number of leading technology companies to develop the Agile Enterprise technology platform. We refer to this "federation" of technology companies as the EDS Agility Alliance. EDS Agility Alliance members currently include Cisco Systems, Dell, EMC, Microsoft, Oracle, SAP, Siebel Systems, Sun Microsystems and Xerox.

See "Factors That May Affect Future Results" in "Management's Discussion of Financial Condition and Results of Operations" below for a discussion of certain risks relating to our multi-year plan.

A.T. Kearney

A.T. Kearney, a leading global management consultancy, became a subsidiary of EDS in 1995. Through its core management consulting business, A.T. Kearney addresses CEO agenda issues by developing and helping to implement innovative strategies that bring results. The firm also provides clients with supply management, maintenance, repair and operations ("MRO") management and executive search services.

A.T. Kearney serves clients through market teams focused on major industries, including: automotive; communications; consumer products and retail; energy; financial institutions; government; high tech; pharmaceuticals/healthcare; and utilities. A.T. Kearney management consulting services are provided through collaboration between industry-oriented market teams and competence teams focused on delivering thought leadership and service excellence in seven broad topic areas:

- Supplier-Driven Value Creation, including strategic sourcing, supplier relationship management and "total cost of ownership" concepts;
- Supply Chain Management, including logistics and manufacturing operations strategies and improvements - the "making and moving" of goods;
- Innovation and Complexity Management, including product de-proliferation, "design to cost" and new product development;
- Growth Strategies, including corporate strategy, organic growth, pricing and portfolio strategy;
- Merger Strategies, including pre-merger due diligence and post-merger integration;

- IT Strategy, including corporate technology strategy and functional technology leverage; and
- Transformation, including business process outsourcing, offshoring, re-engineering and shared services concepts.

A.T. Kearney Supply Management Services leverages A.T. Kearney’s expertise in procurement and strategic sourcing, enhancing clients’ procurement functions and providing deep category expertise and technology support tools. A.T. Kearney MRO Management Services helps clients transform and operate their MRO functions. A.T. Kearney Executive Search offers specialty practice teams in many industries and virtually every functional discipline.

A.T. Kearney works in collaboration with our other businesses. We are reviewing alternatives to allow us to maximize the value of A.T. Kearney, including the possibility of allowing A.T. Kearney principals to obtain an ownership stake in the business. No decision has been made as to whether to proceed with a transaction that reduces our ownership interest in this business or as to the nature of any such transaction, and there is no assurance that we will consummate any such transaction.

TRADING PRICES OF COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Our common stock is listed on the New York Stock Exchange (the “NYSE”) under the symbol “EDS.” The table below shows the range of reported per share sales prices on the NYSE Composite Tape for the common stock for the periods indicated.

Calendar Year	High	Low
2003		
First Quarter.....	\$ 20.85	\$ 14.45
Second Quarter.....	24.20	16.27
Third Quarter.....	23.00	20.06
Fourth Quarter.....	24.56	20.35
2004		
First Quarter.....	\$ 25.44	\$ 18.30
Second Quarter.....	20.66	15.62
Third Quarter.....	20.43	16.43
Fourth Quarter.....	23.38	19.01

The last reported sale price of the common stock on the NYSE on March 23, 2005 was \$20.27 per share. As of that date, there were approximately 122,000 record holders of common stock.

EDS declared quarterly dividends on the common stock at the rate of \$0.15 per share for each quarter of 2003 and the first and second quarters of 2004 and at the rate of \$0.05 per share for the third and fourth quarters of 2004.

EDS did not purchase any common stock during the year ended December 31, 2004 and did not have any authorized share repurchase program in effect during that period.

SELECTED FINANCIAL DATA
(in millions, except per share amounts)

	As of and for the Years Ended December 31,				
	2004⁽¹⁾	2003⁽²⁾	2002⁽²⁾⁽³⁾	2001⁽²⁾⁽³⁾	2000⁽²⁾⁽³⁾
Operating results					
Revenues ⁽¹⁾	\$ 20,669	\$ 20,570	\$ 20,486	\$ 20,292	\$ 18,329
Cost of revenues.....	18,956	19,051	17,186	16,585	15,027
Selling, general and administrative	1,647	1,605	1,567	1,623	1,589
Restructuring and other	174	191	(3)	(17)	(24)
Other income (expense) ⁽⁴⁾	(280)	(266)	(343)	110	(31)
Provision (benefit) for income taxes	(93)	(186)	479	784	621
Income (loss) from continuing operations	(295)	(357)	914	1,427	1,085
Income (loss) from discontinued operations	453	91	202	(40)	58
Cumulative effect on prior years of changes in accounting principles, net of income taxes	—	(1,432)	—	(24)	—
Net income (loss) ⁽¹⁾	158	(1,698)	1,116	1,363	1,143
Per share data					
Basic earnings per share of common stock:					
Income (loss) from continuing operations...	\$ (0.59)	\$ (0.75)	\$ 1.91	\$ 3.04	\$ 2.33
Net income (loss)	0.32	(3.55)	2.33	2.90	2.45
Diluted earnings per share of common stock:					
Income (loss) from continuing operations...	(0.59)	(0.75)	1.87	2.94	2.28
Net income (loss)	0.32	(3.55)	2.28	2.81	2.40
Cash dividends per share of common stock.....	0.40	0.60	0.60	0.60	0.60
Financial position					
Total assets	\$ 17,744	\$ 18,616	\$ 18,880	\$ 16,353	\$ 12,692
Long-term debt, less current portion	3,168	3,488	4,148	4,692	2,585
Shareholders' equity	7,440	5,714	7,022	6,446	5,139

(1) We adopted a new method of accounting for revenue recognition on long-term contracts effective January 1, 2003. Amounts for prior years are reported in accordance with our previous method of accounting for revenue recognition. Revenues for the years ended December 31, 2002, 2001 and 2000 were \$19,259 million, \$19,195 million and \$18,911 million, respectively, on a comparable pro forma basis as if the aforementioned accounting change had been applied to all contracts at inception. Net income for the years ended December 31, 2002, 2001 and 2000 were \$460 million, \$932 million and \$1,424 million, respectively, on a comparable pro forma basis as if the aforementioned accounting change had been applied to all contracts at inception.

(2) Operating results for each of the years in the four year period ended December 31, 2003 have been restated to conform to the current presentation to reflect certain activities as discontinued operations during 2004.

(3) Effective January 1, 2002, we fully adopted Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Intangible Assets. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized. Operating results, including those related to discontinued operations, include goodwill amortization in the pre-tax amounts of \$173 million and \$164 million for the years ended December 31, 2001 and 2000, respectively.

(4) Other income (expense) includes net investment gains (losses) in the pre-tax amounts of \$6 million, \$6 million, \$(119) million, \$344 million and \$118 million for the years ended December 31, 2004, 2003, 2002, 2001 and 2000, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements and related notes that appear elsewhere in this document.

Overview

We are a leading provider of information technology (IT) and business process outsourcing (BPO) services to corporate and government clients around the world. In addition to our core IT and BPO operations, we own A.T. Kearney, a high-value management consultancy.

This section provides an overview of our progress on the initiatives we outlined at the beginning of 2004, the principal factors and events that impacted our 2004 results and the principal risks and opportunities we anticipate going forward. This discussion refers to our core IT and BPO operations, except where we specifically refer to A.T. Kearney.

2004 Highlights

Progress on Initiatives

At the beginning of 2004 we stated that our priorities for the year were to continue to stabilize and improve our core business, strengthen our balance sheet and expand our BPO and transformation capabilities. This discussion outlines our progress on each of these initiatives.

Stabilize and Improve Core Business. Our efforts to stabilize and improve our core IT outsourcing business have focused on stabilizing problem contracts, accelerating our cost reduction initiatives and improving our win rate with prospective clients.

In 2004 we made significant progress in stabilizing the problem contracts that have adversely impacted our earnings and cash flow since late 2002, including the two contracts that generated the greatest losses during this period: our Navy Marine Corps Intranet ("NMCI") contract and the contract we have referred to as the "other commercial contract." We continued to incur significant losses under both the NMCI contract and the "other commercial contract" in 2004 and progress on the NMCI contract in particular was slower than anticipated, resulting in a \$375 million non-cash impairment charge in the third quarter for long-lived assets used on the contract. However, we expect significant reductions in the rate of operating losses under this contract in 2005 as described in more detail below. In addition, during the year we reached an agreement to terminate the "other commercial contract." Further information regarding the NMCI contract and the "other commercial contract" is set forth below.

During 2004, we reduced our cost of revenues (which excludes selling, general and administrative, or SG&A, expenses) by approximately \$1 billion principally through labor cost management, productivity initiatives and improved sourcing, as well as expense reductions achieved due to contract terminations. These cost reduction efforts represent the initial steps of our long-term goal to reduce our cost of revenues by approximately 20% compared to 2003 levels, as described below under "Priorities and Expectations for 2005 and Beyond." In connection with these efforts, in October 2004 we announced additional elements of a comprehensive workforce management program to ensure we have the mix of skills required to meet client needs. The program included a voluntary early retirement offer (ERO) for eligible U.S.-based employees. Approximately 1,500 employees accepted the ERO in 2004. To cover costs of this program, we recorded a pre-tax charge of \$50 million in the fourth quarter of 2004. Approximately \$5 million of that charge relates to cash payments, primarily in 2005 related to the continuation of healthcare benefits, with the remainder related to increased pension liabilities and accelerated vesting of equity compensation.

Strengthen Balance Sheet. During 2004 we improved our unrestricted cash and marketable securities position to approximately \$3.3 billion at year end from approximately \$1.9 billion at the end of 2003 and reduced long-term debt outstanding to \$3.8 billion from \$5.8 billion at December 31, 2003. In addition, we replaced and extended our revolving credit and secured accounts receivable, or A/R, facilities, and had approximately \$1.1 billion available under these facilities at the end of 2004. Our total liquidity, defined as unrestricted cash and marketable securities plus borrowing capacity under existing credit facilities, increased to approximately \$4.4 billion at December 31, 2004 compared to \$3.3 billion at December 31, 2003. The improvement in our cash position during the year was due to the generation of approximately \$1.9 billion from the divestiture of non-core assets, principally the sale of our UGS PLM Solutions business in the second quarter, and approximately \$300 million of free cash flow. We refer you to "Liquidity and Capital Resources" below for a definition and further discussion of free cash flow.

Our improved cash position allowed us the flexibility to repurchase on November 30, 2004 the \$522 million of financial assets from the securitization trust which we had previously used to finance the purchase of capital assets for our NMCI contract. We refer you to "Off Balance Sheet Arrangements and Contractual Obligations" below for a discussion of this facility. Our free cash flow for 2004 reflected approximately \$700 million generated by our operations, excluding NMCI, offset by cash usage of approximately \$400 million for the NMCI contract, not including the discretionary \$522 million repurchase of financial assets.

Expand BPO and Transformational Capabilities. A key element of our strategy is to focus on growing our BPO and business transformation capabilities and providing greater value-add services for our clients' total business. The transformation capabilities we acquired through the acquisition of The Feld Group, Inc. in January 2004 have enabled us to provide greater value-add services to clients. In January 2005, we announced the creation of a joint venture with Towers Perrin to deliver a comprehensive range of human resource (HR) BPO services. The joint venture, known as ExcellerateHRO LLP and owned 85% by EDS, commenced operations on March 1, 2005. ExcellerateHRO combines EDS' payroll and related HR outsourcing business with the pension, health and welfare administration services business formerly operated by Towers Perrin as its TPAS business. The new company enables us to offer a comprehensive set of HR outsourcing solutions across the core areas of benefits, payroll, compensation management, workforce administration and relocation, recruitment and staffing, and workforce development.

NMCI

We provide end-to-end IT infrastructure on a seat management basis to the Department of Navy (the DON), which includes the U.S. Navy and Marine Corps, under a contract that has been extended through September 2007. Seats are ordered on a governmental fiscal year basis, which runs from October 1 through September 30. At December 31, 2004, we had approximately 307,000 computer seats under management that were then billable, and approximately 235,000 of these seats had been transitioned (or cutover) to the new environment. Amounts to be billed per seat are based on the type of seat ordered. In addition, certain milestones must be met before we can bill at a price equal to the full seat price included in the pricing schedule. According to that schedule, seats under management are generally billed at a price of 85% of the associated full seat price until certain service performance levels as defined in the contract are satisfied. Upon meeting such service levels, seats operating under the NMCI environment are billed at a price equal to 100% of the full seat price while those operating under the pre-existing, or "legacy", network environment continue to be billed at a price equal to 85% of the full seat price.

On September 30, 2004, we reached an agreement with the DON to modify service performance levels and to revise certain contract terms related to performance and customer satisfaction incentives effective October 1, 2004. The new agreement also allowed for incremental billing related to service level agreement (SLA) performance in the period June 2004 to September 2004, with an increment of 5% of the full seat price billed for eligible cutover seats. As of December 31, 2004, no seats had been billed at 100%, however some seats had incremental billings at 90%. Based on the timing of the finalization of the performance measurements for the period October 2004 to December 2004, we expect to bill in early 2005 the incremental 15% of seat price with respect to such period for those seats achieving the required service performance levels during the period.

We recorded a non-cash impairment charge of \$375 million in the third quarter of 2004 to write down NMCI contract-related long-lived assets to estimated fair value. The impairment charge is reported as a component of cost of revenues in the consolidated statement of operations. Fair value was measured by probability weighting future contract pre-tax cash flows discounted at a pre-tax risk free discount rate. Assumptions to which probability factors were applied in determining pre-tax cash flows include items such as SLA performance, customer satisfaction and other incentives, new business, claims, legacy billings, and the three year contract extension. The decline in the fair value of these assets is primarily a result of lower estimates of future revenues as a result of several events occurring during the third quarter. These events include a revision of the 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. Remaining long-lived assets and lease receivables associated with the contract totaled approximately \$160 million and \$717 million, respectively, at December 31, 2004. If we do not maintain or exceed current monthly seat cutover rates, or if we do not meet service performance and customer satisfaction levels defined by the agreement signed on September 30, 2004 in accordance with anticipated timelines, estimates of future contract cash flows will continue to decline. We continue to pursue several opportunities to improve the financial performance of this contract, including efforts to increase the average seat price; obtain compensation for services provided to the client (including services related to legacy applications), ensure minimum order obligations under the contract; qualify for performance and customer satisfaction incentives under the contract; improve productivity; extend the contract term through the DON's optional three-year extension period; and seek additional business with this client. In addition, we expect to recover a significant portion of our investment in this contract through the sale of NMCI infrastructure and desktop assets to the client at the end of the contract term.

During 2004, we incurred operating losses associated with the NMCI contract of \$487 million, exclusive of the \$375 million impairment charge referred to above. Free cash flow usage for the year was \$423 million, exclusive of the \$522 million financial asset repurchase referred to above. For 2003, we incurred operating losses under this contract of \$389 million excluding a deferred contract cost write off of \$559 million. Free cash flow usage for 2003 was \$824 million. The increase in certain operating losses in 2004 compared to 2003 is due to the deferral of certain costs throughout 2003 associated with the construction of NMCI infrastructure. Such costs were deemed to be impaired as of December 31, 2003, and were charged to expense. Similar costs were charged to expense as incurred in 2004. This increase in expense is partially offset by increased billings associated with additional seats under management.

Although we continue to have a number of opportunities to improve the performance of the NMCI contract over the longer-term as discussed above, we also face a number of significant risks, including those referred to above as well as the factors that resulted in the impairment of assets in the third quarter of 2004. Due to the significant adverse impact this contract has had on

our earnings and free cash flow, we intend to disclose our earnings and cash flow from this contract separately from our other operations for the foreseeable future. See “Factors That May Affect Future Results” below.

Other Commercial Contract

We have previously referred to a significant commercial contract under which we provided various IT services using the legacy IT systems acquired from the client while developing and deploying a new IT system dedicated to that client. This contract experienced delays in its development and construction phases, and milestones in the contract had been missed. In July 2004, we reached an agreement with the client to terminate the existing contract effective August 1, 2004, provide transition services for a limited period thereafter and settle each party’s outstanding claims. As of December 31, 2004, no significant services were being provided under this agreement, nor do we expect any future services to be significant. During 2004, we recognized pre-tax charges of \$128 million to write-down certain assets to fair value. In addition, we recognized a \$14 million pre-tax charge during 2004 to record contract-related vendor commitments and employee severance obligations associated with the contract. All of the aforementioned amounts associated with this contract are included in cost of revenues in the consolidated statements of operations and are reflected in the results of the Outsourcing segment. In addition to these charges, we incurred contract operating losses of \$173 million in 2004 compared to operating losses of \$255 million in 2003.

US Airways Bankruptcy

We provide IT services to US Airways through a long-term agreement. In September 2004, US Airways filed for protection under Chapter 11 of the United States Bankruptcy Code. The US Airways contract represented approximately \$160 million of our 2004 revenues. Due to uncertainties regarding recoverability of pre-bankruptcy receivables associated with this contract, we recorded net charges totaling \$27 million during 2004. This amount is reflected in cost of revenues in the consolidated statements of operations. At December 31, 2004, we had equipment and other assets with a net book value of approximately \$20 million deployed on the US Airways services agreement. In addition, we may have outstanding receivables under this agreement at any one time of up to approximately \$30 million. If US Airways is not successful in emerging from bankruptcy proceedings and ceases operations, all or a significant portion of these assets and any post-bankruptcy receivables will become impaired.

Disposition of UGS PLM Solutions

On May 27, 2004, we completed the disposition of our UGS PLM Solutions subsidiary for \$2.05 billion. The net results of UGS PLM Solutions, including a gain on sale of \$738 million (\$433 million net of tax), are included in income from discontinued operations in the consolidated statements of operations.

Priorities and Expectations for 2005 and Beyond

Our progress in stabilizing and improving our core business and strengthening our balance sheet since 2003 enables us to shift our focus to a longer-term strategy. This strategy contemplates significant new investments in our infrastructure and in new service offerings intended to improve our cost competitiveness and generate future growth. Although we believe this strategy will result in longer-term revenue and earnings growth, the impact of these investments, together with the impact of previous contract terminations and renegotiations, will adversely impact our earnings in 2005. We expect, however, that much of that impact, however, will be offset by the benefits of productivity improvements undertaken in 2004 and improved operating results of problem contracts.

In 2005 we expect to make significant new investments in our infrastructure and in new service offerings intended to improve our cost competitiveness and generate future growth. This includes investment in expanding our HR BPO capabilities, principally through the creation of our 85% owned joint venture with Towers Perrin discussed above and additional investment in that business and our other BPO offerings. The acquisition of Towers Perrin’s benefits administration business was completed in the first quarter of 2005. The approximately \$420 million in cash we paid at closing of the transaction (which principally represented the purchase price for the business and the right to use the Towers Perrin brand, net of Towers Perrin’s interest in the new company and its share of the cash capital contribution (approximately \$50 million) to the venture) was funded from cash on hand. In addition, we expect to invest or spend approximately \$400 million to improve cost competitiveness in our core business through a more scaleable and streamlined infrastructure and workforce, and approximately \$100 million in technology related to our next generation of “agile enterprise” offerings.

We will continue to focus on improving our cost competitiveness in 2005 as part of our long-term goal to reduce our cost structure (excluding SG&A expense) by approximately 20% compared to 2003 levels. Our key initiatives for 2005 include the following:

- continued improvements in our supply chain through better leveraging of the size of our company and the benefits of increased standardization;
- continuation of labor cost management through increased investment in automation and monitoring tools;
- use of our Best ShoreSM delivery capabilities and consolidation of existing Solution Centre locations;
- enterprise process improvements through reduced variability and greater standardization; and
- production process improvements through improved utilization of data center capacity.

In addition, we are reviewing alternatives to allow us to maximize the value of A.T. Kearney, including the possibility of allowing A.T. Kearney principals to obtain an ownership stake in the business. However, no decision has been made as to whether to proceed with a transaction that reduces our ownership interest in this business or as to the nature of such transaction, and there is no assurance that we will consummate any such transaction.

As a result of a comprehensive review of our space requirements, we believe approximately 20% of our space is underutilized. In connection with our efforts to improve competitiveness and enhance workplace capacity usage, we expect to vacate a significant number of our owned and leased properties over the next three years through sales of owned real estate and subleasing space at certain leased locations or exiting those locations at lease expiration.

We expect 2005 revenues of approximately \$20-\$21 billion, which would represent a decline in organic revenues of 0-3% from 2004. This reflects an anticipated decrease in revenues from contracts terminated in 2004 (including the U.K. Inland Revenue contract and "other commercial contract") and a continued decrease in GM revenues, offset in part by an increase in revenue under the NMCI contract. We refer you to "Results of Operations" below for a definition of organic revenues.

Our earnings per share in 2005 will be impacted by several factors. We expect earnings to be positively impacted by the productivity initiatives described above, improvements in our core business (estimated impact of \$0.45 per share) and reduced interest and other expense (estimated impact of \$0.17 per share). However, earnings will be negatively impacted by run-off of existing business (estimated impact of \$0.25 per share), the previously reported pension charge related to the termination of our U.K. Inland Revenue account (estimated impact of \$0.10 per share), severance expense related to our labor cost management efforts (estimated impact of \$0.10 per share) and expenses attributable to funding the investments in our business described above (estimated impact of \$0.07 per share from investments in BPO capabilities, \$0.12 per share from infrastructure investments and \$0.15 per share from technology investments). We currently expect 2005 earnings of approximately \$0.50-\$0.60 per share (excluding the estimated \$0.25 per share incremental impact of the expensing of stock options and other long-term incentive awards described below), comprised of earnings from our core operations (excluding NMCI) of \$0.65-\$0.75 per share and a loss of approximately \$0.15 per share from NMCI.

We expect free cash flow in 2005 of approximately \$500 to \$700 million, comprised of an estimated \$1.1 to \$1.2 billion of free cash flow from our core operations (excluding NMCI), before the \$500 million of cash usage for investments in the business and severance expense as described above, and estimated free cash flow usage for the NMCI contract between \$0 and \$100 million, assuming seats are cutover within expected timeframes at their planned rate and billed at 100% of the seat price within expected timeframes.

We expect the operating performance of our NMCI contract to improve from a loss of \$0.59 per share in 2004 to a loss of approximately \$0.15 per share in 2005, driven by productivity improvements and the commencement of billing for the majority of cutover seats at 100% of seat price. We expect this contract will no longer generate operating losses beginning in the latter half of the year. We expect free cash flow for this contract to improve from cash usage of \$423 million in 2004 (excluding the \$522 million repurchase of the NMCI financial assets referred to above) to estimated cash usage of between \$0 and \$100 million. An estimated \$230 million of that improvement will be driven by improved lease collections resulting from the repurchase of the financial assets (i.e., lease receivables) with the remainder driven by improvements in the performance of that contract. In addition to focusing on operational improvements to the contract, a key element of management's strategy is to recoup a significant portion of the capital already invested in this contract.

The term of our MSA with GM expires in June 2006, and we expect GM to commence a re-compete process in 2005 covering substantially all of the work we currently perform. GM continues to be our largest single client, accounting for approximately \$1.96 billion, or approximately 9.5%, of total revenue in 2004. However, our GM revenues have steadily decreased in both dollar terms and as a percentage of our total revenue on an annual basis since our split-off from GM in 1996. Although we expect to retain a significant portion of our current GM business following the re-compete, we anticipate our free cash flow from this client will further decrease following termination of the MSA in June 2006. However, we expect improvement in the free cash flow generated by our NMCI contract during this period to more than offset the anticipated decrease in free cash flow from GM. See "Factors That May Affect Future Results" below for a discussion of the potential impact on our revenue and earnings related to termination of our current MSA with GM.

See "Total Contract Value of Contract Signings" below for a discussion of our expectations for new contract signings for 2005.

We intend to adopt the new accounting standard requiring the expensing of stock options effective January 1, 2005. We estimate the expensing of currently outstanding options would have reduced 2004 earnings by approximately \$0.28 per share and will reduce 2005 earnings by approximately \$0.19 per share. In addition, the Compensation and Benefits Committee of our Board of Directors has conducted a comprehensive review of our long-term incentive award strategy. As a result of this review, which considered among other factors the impact of these new accounting rules, we expect the Committee to significantly limit the use of annual stock option grants and instead provide annual grants of performance-vesting restricted stock units ("Performance RSUs"). We expect to continue to use stock options as a component of the long-term incentive compensation of our senior executives along with Performance RSUs, and to completely replace the use of stock options in favor of Performance RSUs for all other incentive plan participants. This change is expected to commence with the long-term incentive grant in March 2005. The vesting of the

Performance RSUs is expected to be tied to our performance as measured by operating margin, net asset utilization and organic revenue growth over multiple year periods. We estimate this change in our long-term incentive compensation strategy will reduce 2005 earnings by approximately \$0.06 per share. We refer you to “New Accounting Standards” below for a further discussion of the impact of this new accounting standard.

In March 2005, a consortium led by EDS was awarded a ten-year contract for the first increment of the United Kingdom Ministry of Defence project to consolidate numerous existing information networks into a single next-generation infrastructure (the Defence Information Infrastructure Future project). We expect to begin work under this contract in April 2005. Due to the size of this contract and the up-front expenditures and capital investment required, this contract will have a material impact on our estimates for 2005 revenue, earnings, free cash flow and total contract value of new business signings set forth in this Management’s Discussion and Analysis of Financial Condition and Results of Operations, which do not reflect the impact of this contract. We intend to update these estimates to reflect such impact in connection with the release of our first quarter 2005 earnings.

The estimates for 2005 financial performance set forth in this Management’s Discussion and Analysis of Financial Condition and Results of Operations rely on management’s current assumptions, including assumptions concerning future events, and are subject to a number of uncertainties and other factors, many of which are outside the control of management, that could cause actual results to differ materially from such estimates. For a discussion of certain of these factors, we refer you to the discussion under “Factors that May Affect Future Results” and “Cautionary Statement Regarding Forward-Looking Statements” below.

Accounting Changes

During the third quarter of 2003, we adopted the provisions of Emerging Issues Task Force (“EITF”) 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*, on a cumulative basis as of January 1, 2003. The adoption of EITF 00-21 resulted in a non-cash adjustment of \$1.42 billion, net of tax, resulting primarily from the reversal of unbilled revenue associated with our IT service contracts which we had been accounting for using the percentage-of-completion method of revenue recognition. The adjustment also reflects the deferral and subsequent amortization of system construction costs which were previously expensed as incurred and included in the percentage-of-completion model for the respective contracts. We refer you to “Results of Operations” below for additional information related to the adoption of this new accounting standard.

The adoption of EITF 00-21 changed the way we recognize revenue and certain expenses on our services contracts. The new method of revenue recognition results in a closer alignment of results of operations with the cash flows generated by our contracts. EITF 00-21 did not allow the restatement of prior period results, however, the “Results of Operations” discussion below presents selected financial information on a pro forma basis as if the accounting change had been applied to all of our contracts from contract inception. In addition, the discussion contained in that section is based upon 2004 and 2003 reported results and historical pro forma results for 2002. We believe the adoption of EITF 00-21 on a cumulative rather than prospective basis enhances the transparency of our financial statements.

Total Contract Value of Contract Signings

A key metric used by management to monitor new business activity is the total contract value, or TCV, of our contract signings. There are no third-party standards or requirements governing the calculation of TCV. The TCV of a client contract represents our estimate at contract signing of the total revenue expected over the term of that contract. Contract signings include contracts with new clients and renewals, extensions and add-on business with existing clients. TCV does not include potential revenues that could be earned from a client relationship as a result of future expansion of service offerings to that client, nor does it reflect option years under non-governmental contracts that are subject to client discretion. TCV reflects a number of management estimates and judgments regarding the contract, including assumptions regarding demand-driven usage, scope of work and client requirements. In addition, our contracts may be subject to currency fluctuations and, for contracts with the U.S. federal government, annual funding constraints and indefinite delivery/indefinite quantity characteristics. Accordingly, the TCV we report should not be considered firm orders or predictive of future operating results.

The following table presents the TCV of contract signings, including contracts signed by A.T. Kearney but excluding contracts signed by UGS PLM Solutions, by quarter for the last five years (in billions):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2000	\$ 4.5	\$ 6.1	\$ 6.2	\$ 15.8	\$ 32.6
2001	7.5	7.0	6.5	9.9	30.9
2002	7.0	5.9	2.8	7.8	23.5
2003	2.8	3.2	3.2	4.0	13.2
2004	3.8	4.0	3.3	3.8	14.9

The TCV of signings in 2004 was approximately \$14.9 billion. Although this was a 13% increase compared to the prior year, our 2004 TCV did not meet our forecast. We expect the TCV of signings in 2005 to increase at a roughly similar rate compared to 2004, excluding the impact of the U.K. Ministry of Defence contract referred to above. The TCV of contract signings

can fluctuate significantly from year to year depending on a number of factors, including the timing of significant new and renewal contracts and the length of those contracts.

The TCV of our signings in 2003 and 2004 was significantly lower than that reported for each of the prior three years. In addition, the TCV of our signings in 2003 and 2004 was lower than our revenues during those years. This decrease in TCV of signings has negatively impacted our revenues since 2003 and will continue to impact our revenues in 2005, as a significant portion of our revenue is generated by long-term IT services contracts. Our ability to achieve revenue growth in the future will be dependent on our ability to increase the TCV of contract signings to a level significantly higher than that of 2003 and 2004. We refer you to the discussion of revenues in “Results of Operations” below.

Results of Operations

From time to time, we present information regarding our net income and margins excluding the impact of certain quantified special items, in addition to presenting such information on a GAAP basis. Net income and margins excluding such items are non-GAAP financial measures and are disclosed to investors to facilitate comparisons of business performance across periods. This information is also used by management to facilitate comparisons of business performance across periods and relative to internal targets.

During the third quarter of 2003, we adopted the provisions of EITF 00-21 on a cumulative basis as of January 1, 2003. EITF 00-21 modified the application of existing contract accounting literature followed by us prior to that date. EITF 00-21 governs how to identify whether goods or services, or both, to be delivered separately in a bundled sales arrangement should be accounted for separately. In most circumstances, EITF 00-21 also limits the recognition of revenue in excess of amounts billed (e.g., unbilled revenue) to the amount that would be received if the client contract were terminated for any reason. The adoption of EITF 00-21 resulted in a non-cash adjustment reported as a cumulative effect of a change in accounting principle of \$1.42 billion (\$2.24 billion before tax). The adjustment resulted primarily from the reversal of unbilled revenue associated with our IT service contracts which had been accounted for as a single unit using the percentage-of-completion method of revenue recognition. The reversal resulted from the fact that typical termination provisions of an IT service contract do not provide for the recovery of unbilled revenue in the event the contract is terminated for our nonperformance. The adjustment also reflects the deferral and subsequent amortization of system construction costs. These costs were previously expensed as incurred and included in the percentage-of-completion model for the respective contracts. See “Application of Critical Accounting Policies” for further discussion of revenue recognition.

The following table reflects financial information for the year ended December 31, 2004 and 2003 as reported in our financial statements, and selected financial information on a pro forma basis for the year ended December 31, 2002 as if the aforementioned accounting change had been applied to all contracts at inception (in millions, except per share amounts):

	As Reported		Pro Forma
	2004	2003	2002
Operating results			
Revenues	\$ 20,669	\$ 20,570	\$ 19,259
Cost of revenues.....	18,956	19,051	16,989
Operating income (loss)	(108)	(277)	707
Other income (expense).....	(280)	(266)	(353)
Provision (benefit) for income taxes	(93)	(186)	96
Income (loss) from continuing operations	(295)	(357)	258
Cumulative effect on prior years of changes in accounting principles, net of income taxes	—	(1,432)	—
Net income (loss).....	158	(1,698)	460
Per share data			
Basic earnings per share of common stock:			
Income (loss) from continuing operations	\$ (0.59)	\$ (0.75)	\$ 0.54
Net income (loss)	0.32	(3.55)	0.96
Diluted earnings per share of common stock:			
Income (loss) from continuing operations	(0.59)	(0.75)	0.53
Net income (loss)	0.32	(3.55)	0.94
Weighted average shares outstanding			
Basic	501	479	479
Diluted	501	479	489

Revenues. The following table displays revenues from contracts with our base (non-GM) clients and revenues from GM as reported in the consolidated statements of operations for the years ended December 31, 2004 and 2003. The table reflects the 2002 financial information on an as reported and comparable pro forma basis as if the 2003 accounting changes (discussed above) had been applied to all contracts at inception (in millions):

	2004	2003	2002
Base Revenues:			
As reported	\$ 18,707	\$ 18,372	\$ 17,964
Pro forma impact of accounting changes	-	-	(1,191)
As reported/pro forma	<u>\$ 18,707</u>	<u>\$ 18,372</u>	<u>\$ 16,773</u>
GM Revenues:			
As reported	\$ 1,962	\$ 2,198	\$ 2,522
Pro forma impact of accounting changes	-	-	(36)
As reported/pro forma	<u>\$ 1,962</u>	<u>\$ 2,198</u>	<u>\$ 2,486</u>
Total Revenues:			
As reported	\$ 20,669	\$ 20,570	\$ 20,486
Pro forma impact of accounting changes	-	-	(1,227)
As reported/pro forma	<u>\$ 20,669</u>	<u>\$ 20,570</u>	<u>\$ 19,259</u>

The following table displays our revenue growth percentages calculated using revenues as reported in the consolidated statement of operations for the years ended December 31, 2004 and 2003 and on a comparable pro forma basis for 2002, and further adjusted for the impact of foreign currency translation, acquisitions and those divestitures not accounted for as discontinued operations (“organic revenue growth”):

	Total		Base		GM	
	2004	2003	2004	2003	2004	2003
Growth in as reported/pro forma revenues.....	-	7%	2%	10%	(11)%	(12)%
Impact of foreign currency changes	(4)%	(6)%	(5)%	(6)%	(2)%	(2)%
Constant currency revenue growth	(4)%	1%	(3)%	4%	(13)%	(14)%
Impact of acquisitions.....	-	-	-	-	-	-
Impact of divestitures	-	1%	-	-	-	-
Organic revenue growth	<u>(4)%</u>	<u>2%</u>	<u>(3)%</u>	<u>4%</u>	<u>(13)%</u>	<u>(14)%</u>

Constant currency revenue growth is calculated by removing from as reported/pro forma revenues the impact of the change in exchange rates between the local currency and the U.S. dollar from the current period and the comparable prior period. Organic revenue growth further excludes revenue growth due to acquisitions in the period presented if the comparable prior period had no revenues from the same acquisition, and revenue decreases due to businesses divested in the period presented or the comparable prior period.

2004 vs. 2003. The decrease in base organic revenues in 2004 was primarily attributable to a \$227 million, or 1%, decrease in our Outsourcing segment and a \$256 million, or 25%, decrease in our NMCI segment. The decrease in the Outsourcing segment was attributable to an \$84 million, or 1%, decrease in the Americas unit, a \$116 million, or 2%, decrease in Europe, Middle East and Africa (EMEA) and a \$35 million, or 2%, decrease in the U.S. Government unit. The decrease in revenues in the NMCI segment was associated with lower product sales which were partially offset by increased service revenue.

The decrease in base organic revenues in the Americas unit was primarily due to contracts with manufacturing clients and contracts with clients in Canada. This decrease was offset by an increase in revenues from contracts with communications and financial services clients. The decrease in base organic revenues in EMEA in 2004 was primarily due to the termination of our contract with the U.K. Government’s Inland Revenue department effective June 30, 2004, and was offset by an increase in revenues from financial services and other government clients. The U.S. Government business experienced reduced revenues in 2004 due to runoff from our state and local business, including the termination of the Medicaid contract with the State of Texas early in the first quarter. The decrease in revenues from our state and local business was offset by an increase in revenues from U.S. federal government contracts.

See “Total Contract Value of Contract Signings” under “Overview” above for a discussion of the impact of the TCV of our contract signings on revenue in 2004 and the anticipated impact in 2005.

The decrease in organic revenues from GM in 2004 was principally due to reduced pricing under the MSA as well as GM’s move towards a multi-vendor strategy. We expect these trends to continue over the remaining term of our MSA with GM which expires in June 2006.

2003 vs. 2002. The increase in base organic revenues in 2003 was primarily attributable to our Outsourcing segment which had organic revenue growth of approximately \$940 million, or 6%, in 2003. Approximately \$820 million of that increase was attributable to the U.S. Government unit, of which \$664 million was attributable to the NMCI contract. The remaining increase in base revenues in 2003 was primarily attributable to contracts in Europe, partially offset by a decrease in revenues of \$169 million in our A.T. Kearney subsidiary.

The decrease in revenues from GM in 2003 was primarily the result of GM's reduction in discretionary IT spending as well as the impact of the renegotiation of the GMNA, GMAC and Global Mainframe Compute sector agreements completed in the second half of 2002.

Gross margin. The following table displays our gross margin percentages [(revenues less cost of revenues)/revenues] based on the results as reported in the consolidated statements of operations for the years ended December 31, 2004 and 2003 and on an as reported and comparable pro forma basis for the year ended December 31, 2002:

	2004	2003	2002
Gross margin percentage:			
As reported	8.3%	7.4%	16.1%
Pro forma impact of accounting changes	—	—	(4.3)%
As reported/pro forma	8.3%	7.4%	11.8%

2004 vs. 2003. Our gross margin in 2004 was adversely affected by asset write-downs and operating losses on the NMCI contract (460 basis points), and operating losses and other charges on our "other commercial contract" (140 basis points). Our gross margin in 2003 was adversely affected by asset write-downs and operating losses on the NMCI contract (510 basis points) and operating losses on our "other commercial contract" (130 basis points), and was favorably impacted by a \$98 million (50 basis point) reversal of MCI receivable reserves.

2003 vs. 2002. Our gross margin in 2003 and 2002 was adversely affected by operating losses and the write-down of deferred costs on the NMCI contract. The NMCI contract had a 510 basis point negative impact on our 2003 gross margin percentage and a 300 basis point negative impact on our 2002 gross margin percentage adjusted on a pro forma basis for accounting changes. Our gross profit in 2003 was favorably impacted by a \$98 million (50 basis point) reversal of MCI receivable reserves and lower operating losses on the "other commercial contract" discussed above (30 basis points). Our gross profit in 2002 was adversely affected by receivable reserves and asset write-downs related to our contractual relationships with MCI and US Airways, both of which filed for bankruptcy during the third quarter of 2002. Such reserves and asset write-downs had a 100 basis point negative impact on our reported 2002 gross margin and on our gross margin adjusted on a pro forma basis for accounting changes. Our gross margin in 2003 was also negatively impacted by declines in our GM business (70 basis points), additional annual pension and healthcare costs (80 basis points), increased software costs (50 basis points) and an increase in costs related to current initiatives for future productivity (30 basis points). The remaining decrease in our gross margin in 2003 was primarily due to declines in higher-margin discretionary IT applications spending by our clients as a result of general economic conditions and an increasingly competitive environment.

We are implementing global productivity initiatives in connection with our restructuring activities described below. We expect these efforts to somewhat offset the impact on gross margins from the factors described above. In addition, our gross margin in the first half of 2005 will be adversely impacted by the recognition of a loss on the final settlement of our pension obligations associated with the transition of our U.K. Inland Revenue workforce to that client's new service provider. We refer you to Note 13 of our consolidated financial statements for further information.

Selling, general and administrative. SG&A expenses as a percentage of revenues were 8.0%, 7.8% and 7.6% in 2004, 2003 and 2002, respectively. The 2002 percentage was 8.1% after adjusting the results on a pro forma basis for the impact of accounting changes. The increase in the 2004 percentage compared to 2003 was due to the decrease in constant currency revenues in 2004. The decrease in the 2003 percentage compared with the pro forma 2002 percentage is primarily due to the restructuring initiatives implemented in 2003.

Restructuring and other. The following table summarizes restructuring and other charges incurred for the years ended December 31, 2004, 2003 and 2002 (in millions):

	2004	2003	2002
Restructuring and other employee reduction activities:			
Employee separation and exit costs	\$ 280	\$ 252	\$ (3)
Asset write-downs	-	36	-
CEO severance	-	48	-
Other activities:			
Pre-tax gain on disposal of businesses:			
U.S. wireless clearing.....	(35)	-	-
Automotive Retail Group.....	(66)	-	-
Credit Union Industry Group.....	-	(139)	-
Other.....	(5)	(6)	-
Total	<u>\$ 174</u>	<u>\$ 191</u>	<u>\$ (3)</u>

During 2004, we continued initiatives to align our workforce with customer demands and utilize technology to generate efficiencies. As a result, 2004 restructuring and other expense includes estimated severance costs of \$80 million related to the involuntary termination of an estimated 1,500 employees throughout the Company in managerial, professional, clerical, consulting and technical positions. In addition, 2004 restructuring and other expense also includes estimated pension expenses of \$50 million related to an early retirement offer in the U.S. to an estimated 1,500 employees. While we plan to continue our efforts to generate efficiencies through technology-driven initiatives in 2005, no future costs are expected to be incurred associated with initiatives implemented during 2004.

During 2003, we began implementation of an initiative to reduce our costs, streamline our organizational structure and exit certain operating activities. These efforts were designed to improve our cost competitiveness and involved the elimination of excess capacity, primarily in Europe, and the consolidation of back-office capabilities. We completed the initiative in 2004. As a result of the initiative, we recorded restructuring charges of \$150 million and \$252 million during 2004 and 2003, respectively. In addition, we recorded asset write-downs of \$36 million during 2003. While we plan to continue our efforts to generate efficiencies through technology-driven initiatives in 2005, no future costs are expected to be incurred associated with initiatives implemented during 2004.

During 2004, we sold our U.S. wireless clearing business and our Automotive Retail Group (“ARG”) which resulted in pre-tax gains of \$101 million. During 2003, we sold our Credit Union Industry Group (“CUIG”) which resulted in a pre-tax gain of \$139 million. The gains resulting from the sales of the U.S. wireless clearing, ARG and CUIG are included in restructuring and other in the consolidated statements of operations. The net results of the U.S. wireless clearing business, ARG and CUIG are not included in discontinued operations due to our level of continuing involvement as an IT service provider to the businesses. Also during 2003, we recognized a one-time severance charge totaling \$48 million related to the termination of employment of our former CEO. This charge was comprised of a \$12 million cash payment, a non-cash charge of \$16 million associated with previously deferred compensation for 344,000 restricted stock units and retirement benefits with a present value of \$20 million.

Other income (expense). Other income (expense) includes interest expense, interest and dividend income, investment gains and losses, minority interest expense, and foreign currency transaction gains and losses. Following is a summary of other income (expense) for the years ended December 31, 2004, 2003 and 2002 (in millions):

	2004	2003	2002
Other income (expense):			
Interest expense.....	\$ (321)	\$ (301)	\$ (258)
Interest income and other, net.....	41	35	(85)
Total	<u>\$ (280)</u>	<u>\$ (266)</u>	<u>\$ (343)</u>

Interest expense in 2004 includes \$36 million in expenses resulting from our debt exchange offer completed in 2004. See Note 8 to our consolidated financial statements for a further discussion of the exchange. Interest expense increased in 2003 due to the increase in our outstanding debt balance. See “Financial Position” and “Liquidity and Capital Resources” for a further discussion of our outstanding debt. Interest income and other in 2004 includes net investment losses of \$28 million, including a write-down of \$34 million relating to our leveraged lease investments, and interest and other income of \$69 million. Interest income and other in 2003 includes net investment gains of \$6 million and other income of \$29 million. Interest income and other in 2002 includes net investment losses of \$119 million and other income of \$34 million. Net investment losses in 2002 include write-downs of \$76 million relating to our leveraged lease investments as a result of the US Airways and United Airlines bankruptcies.

Income taxes. Our effective tax rates on income (loss) from continuing operations were 24.0%, 34.3% and 34.4%, respectively, for the years ended December 31, 2004, 2003 and 2002. The 2004 and 2003 rates were significantly impacted by (i)

the non-recognition of tax benefits for a portion of the restructuring charges incurred in certain foreign tax jurisdictions, (ii) valuation allowances for prior years' losses incurred in certain foreign tax jurisdictions and (iii) non-deductible goodwill attributed to the U.S. wireless clearing business that was sold in September 2004 and the CUIG business that was sold in July 2003. Excluding these items, our effective tax rates would have been 40% and 45% for 2004 and 2003, respectively. See "Application of Critical Accounting Policies" for a discussion of factors affecting income tax expense.

Discontinued operations. Income from discontinued operations, net of income taxes, was \$453 million, \$91 million and \$202 million, respectively, for the years ended December 31, 2004, 2003 and 2002. Discontinued operations is comprised primarily of our UGS PLM Solutions subsidiary sold during the second quarter of 2004. Discontinued operations also includes our European Technology Solutions business sold during the fourth quarter of 2003, our subscription fulfillment business sold during the second quarter of 2003 and our Consumer Network Services unit sold during the fourth quarter of 2002. Income from discontinued operations includes a net after-tax gain (loss) on sale of \$433 million, \$(9) million and \$87 million in 2004, 2003 and 2002, respectively.

Net income (loss). Income (loss) from continuing operations was \$(295) million (\$(0.59) per share) in 2004 compared with \$(357) million (\$(0.75) per share) in 2003 and \$914 million (\$1.91 per basic share and \$1.87 per diluted share) in 2002. Net income (loss) was \$158 million in 2004 compared with \$(1,698) million in 2003 and \$1,116 million in 2002. Basic earnings (loss) per share was \$0.32 in 2004 compared with \$(3.55) and \$2.33 in 2002. Diluted earnings (loss) per share was \$0.32 in 2004 compared with \$(3.55) in 2003 and \$2.28 in 2002.

In addition to the previously disclosed adoption of accounting changes associated with EITF 00-21, we adopted SFAS No. 143, *Accounting for Asset Retirement Obligations*, effective January 1, 2003. SFAS No. 143 requires that the fair value of the liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The majority of our retirement obligations relate to leases which require the facilities be restored to original condition at the expiration of the leases. The adoption of SFAS No. 143 resulted in a reduction of income reported as a cumulative effect of a change in accounting principle of \$25 million (\$17 million after tax). Additionally, the fair value of the liability recorded on January 1, 2003 was \$48 million.

Segment information. We refer you to Note 12 in the notes to our consolidated financial statements for a summary of certain financial information related to our reportable segments for 2004, 2003 and 2002, as well as certain financial information related to our operations by geographical regions for such years.

Financial Position

At December 31, 2004, we held cash and marketable securities of \$3.6 billion, had working capital of \$3.2 billion, and had a current ratio (current assets/current liabilities) of 1.61-to-1. This compares to cash and marketable securities of \$2.3 billion, working capital of \$634 million, and a current ratio of 1.08-to-1 at December 31, 2003. The increase in cash and marketable securities in 2004 resulted primarily from the sale of our UGS PLM Solutions subsidiary which generated gross proceeds of approximately \$2 billion. The improvement in our current ratio was primarily due to the sale of UGS PLM Solutions and the exchange of cash and common stock for certain outstanding debt securities. See Notes 17 and 8 of our consolidated financial statements for further discussion of the sale of UGS PLM Solutions and the debt exchange. Approximately 9% of our cash and cash equivalents and marketable securities at December 31, 2004 were not available for debt repayment due to various commercial limitations on the use of these assets.

Days sales outstanding for trade receivables were 57 days at December 31, 2004 compared to 50 days at December 31, 2003. Days sales outstanding were 57 days at December 31, 2004 compared with 55 days at December 31, 2003 after including other financial assets related to certain collections for the NMCI contract and work in process related to our A.T. Kearney subsidiary. The increase in days sales outstanding was primarily due to the loss of the Inland Revenue contract in 2004 and the decline in the U.S. dollar relative to other currencies during 2004. Days payable outstanding were 20 days at December 31, 2004 and 2003.

Total debt was \$3.8 billion at December 31, 2004 versus \$5.8 billion at December 31, 2003. Total debt consists of notes payable and capital leases. The total debt-to-capital ratio (which includes total debt and minority interests as components of capital) was 33% at December 31, 2004 compared to 49% at December 31, 2003. The decrease in total debt and our debt-to-capital ratio in 2004 was primarily due to the exchange of cash and common stock for certain outstanding debt securities and debt repayment. See Note 8 of our consolidated financial statements for further discussion of the debt exchange.

Off-Balance Sheet Arrangements and Contractual Obligations

During 2001, we established a securitization facility under which we financed the purchase of capital assets for our NMCI contract. Under the terms of the facility, we sold certain financial assets resulting from that contract to a trust ("Trust") classified as a qualifying special purpose entity for accounting purposes. At December 31, 2003, the Trust had external borrowings of \$728 million and our beneficial interest was \$264 million. During 2004, we completed agreements with the Trust's lenders to repurchase financial assets for \$522 million in cash. Upon completion of the transaction, we recognized current lease receivables of \$286 million and non-current lease receivables of \$236 million associated with this purchase.

In connection with certain service contracts, we may arrange a client supported financing transaction (“CSFT”) with our client and an independent third-party financial institution or its designee. The use of these transactions enables us to offer clients more favorable financing terms. These transactions also enable the preservation of our capital and allow us to avoid client credit risk relating to the repayment of the financed amounts. Under these transactions, the independent third-party financial institution finances the purchase of certain IT-related assets and simultaneously leases those assets for use in connection with the service contract. The use of a CSFT on a service contract results in lower contract revenue and expense to EDS over the contract term.

In CSFT transactions, client payments are made directly to the financial institution providing the financing. If the client does not make the required payments under the service contract, under no circumstances do we have an ultimate obligation to acquire the underlying assets unless our nonperformance under the service contract would permit its termination, or we fail to comply with certain customary terms under the financing agreements, including, for example, covenants we have undertaken regarding the use of the assets for their intended purpose. We consider the possibility of our failure to comply with any of these terms to be remote.

At December 31, 2004, the estimated future asset purchases to be financed under existing arrangements were \$5 million. The aggregate dollar values of assets purchased under our CSFT arrangements were \$65 million, \$72 million and \$212 million during 2004, 2003 and 2002, respectively. As of December 31, 2004, there were outstanding an aggregate of \$443 million under CSFTs yet to be paid by our clients. In the event a client contract is terminated due to nonperformance, we would be required to acquire only those assets associated with the outstanding amounts for that contract. Net of repayments, the estimated future maximum amount outstanding under existing financing arrangements is not expected to exceed \$443 million. We believe we have sufficient alternative sources of capital to directly finance the purchase of capital assets to be used for our current and future client contracts without the use of these arrangements.

The following table summarizes CSFT and securitization financing activities since we began using these arrangements in 1995 (in millions):

	Total	CSFT	Securiti- zation
Total estimated draws under financings arranged, net of expirations	\$ 2,823	\$ 1,836	\$ 987
Estimated amounts not yet drawn	5	5	-
Total amounts drawn	2,818	1,831	987
Amounts repaid	(2,375)	(1,388)	(987)
Total outstanding at December 31, 2004	<u>\$ 443</u>	<u>\$ 443</u>	<u>\$ -</u>

Performance guarantees. In the normal course of business, we may provide certain clients, principally governmental entities, with financial performance guarantees, which are generally backed by standby letters of credit or surety bonds. In general, we would be liable for the amounts of these guarantees in the event our nonperformance permits termination of the related contract by our client, the likelihood of which we believe is remote. We believe we are in compliance with our performance obligations under all service contracts for which there is a performance guarantee.

The following table summarizes the estimated expiration of financial guarantees outstanding as of December 31, 2004 (in millions):

	Total	Estimated Expiration Per Period			
		2005	2006	2007	Thereafter
Performance guarantees:					
CSFT transactions	\$ 443	\$ 189	\$ 133	\$ 97	\$ 24
Standby letters of credit, surety bonds and other	665	385	69	28	183
Other guarantees	41	27	12	2	-
Total	<u>\$ 1,149</u>	<u>\$ 601</u>	<u>\$ 214</u>	<u>\$ 127</u>	<u>\$ 207</u>

Contractual obligations. The following table summarizes payments due in specified periods related to our contractual obligations as of December 31, 2004 (in millions):

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Long-term debt, including current portion and interest ⁽¹⁾	\$ 6,036	\$ 873	\$ 700	\$ 1,093	\$ 3,370
Operating lease obligations.....	1,697	407	587	291	412
Purchase obligations ⁽²⁾	3,753	813	1,684	813	443
Total ⁽³⁾	<u>\$ 11,486</u>	<u>\$ 2,093</u>	<u>\$ 2,971</u>	<u>\$ 2,197</u>	<u>\$ 4,225</u>

(1) Amounts represent the expected cash payments (principal and interest) of our long-term debt and do not include any fair value adjustments or bond premiums or discounts. Amounts also include capital lease payments (principal and interest).

(2) Purchase obligations include material agreements to purchase goods or services, principally software and telecommunications services, that are enforceable and legally binding on EDS and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable without penalty. Purchase obligations also exclude our obligation to repurchase minority interests in joint ventures.

(3) Minimum pension funding requirements are not included as such amounts are zero for our U.S. pension plans and have not been determined for foreign pension plans. See Note 13 of the accompanying consolidated financial statements.

Liquidity and Capital Resources

The following table summarizes our cash flows for the years ended December 31, 2004, 2003 and 2002 (in millions):

	2004	2003	2002
Cash flows:			
Net cash provided by operating activities.....	\$ 1,318	\$ 1,386	\$ 2,246
Net cash used in investing activities.....	(798)	(700)	(997)
Net cash used in financing activities.....	(663)	(71)	(166)
Free cash flow.....	304	221	985

Operating activities. The decrease in net cash provided by operating activities in 2004 compared to 2003 was due to a \$373 million decrease in earnings, adjusted to exclude non-cash operating items, offset by a \$305 million change in operating assets and liabilities. The change in operating assets and liabilities resulted primarily from a decrease in vendor prepayments, a decrease in construction costs related to our active construct contracts and a reduction in tax payments, offset by restructuring payments, a decrease in accounts receivable collections and a one-time pension payment of \$119 million associated with the termination of the Inland Revenue contract. Operating cash flows in 2004 were comprised of \$1,557 million in cash provided by our core IT outsourcing and consulting businesses (excluding NMCI), offset by \$239 million in cash used by our NMCI contract. The decrease in net cash provided by operating activities in 2003 compared to 2002 was due to a \$366 million decrease in earnings, as adjusted to exclude non-cash operating items, and a \$494 million change in operating assets and liabilities. The change in operating assets and liabilities is primarily the result of lower net customer prepayments in 2003 as compared to 2002. Operating cash flows in 2003 were comprised of \$2,094 million in cash provided by our core IT outsourcing business (excluding NMCI) and our A.T. Kearney and UGS PLM Solutions subsidiaries, offset by \$708 million in cash used by our NMCI contract.

Investing activities. Net cash used in investing activities in 2004 includes the proceeds from the divestitures of our U.S. wireless clearing business, UGS PLM Solutions and ARG. Divestiture proceeds were somewhat offset by net purchases of marketable securities. Net cash used in investing activities in 2004 also includes a \$522 million cash payment related to the purchase of financial assets associated with the NMCI securitization facility. Excluding this purchase, net proceeds from investments and other assets decreased in 2004 compared to 2003 due primarily to lower securitization proceeds and equipment purchases associated with the NMCI contract. The decrease in net cash used in investment activities in 2003 compared to 2002 was partially due to a reduction in purchases of property and equipment due to an increase in the use of leased equipment, the utilization of the NMCI securitization facility and reduced contract signings relative to prior years. In addition, net proceeds related to investments in marketable securities increased in 2003 due to the sale of securities which had been held as a requirement of our State of Texas Medicaid contract which terminated in 2003. The decrease in net cash used in investing activities in 2003 was somewhat offset by an increase in payments for the purchase of software due primarily to the prepayment of our remaining minimum commitment under a software subscription agreement of \$227 million during 2003.

Financing activities. The increase in net cash used in financing activities was primarily due to an increase in net payments on long-term debt and capital lease obligations, partially offset by proceeds from our common stock issuance associated with a debt exchange and by a reduction in dividend payments. The decrease in net cash used in financing activities in 2003

compared to 2002 was primarily due to the \$380 million purchase of treasury shares in 2002, offset by a decrease in net proceeds from long-term debt and other borrowings in 2003.

Free cash flow. We define 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 other equity investments, and payments for purchases of marketable securities, and (ii) capital lease payments. During 2004, we sold our UGS PLM Solutions subsidiary and repurchased financial assets outstanding under the NMCI contract securitization facility. Due to the significance of these transactions, the calculation of free cash flow for 2004 was adjusted to exclude \$14 million in transaction fees paid during 2004 related to the UGS PLM Solutions disposition, and the \$522 million cash payment related to the repurchase of financial assets associated with the NMCI securitization facility. The calculation of free cash flow for 2004 was also adjusted to include \$85 million in cash generated through utilization of operating tax credits, predominantly related to 2004, to offset income tax associated with the UGS PLM Solutions disposition (such tax credits would otherwise have been available to offset future taxable income generated by operations). Free cash flow is a non-GAAP measure and should be viewed together with our consolidated statements of cash flows.

Free cash flow for the year ended December 31, 2004 reflects net cash provided by operating activities of \$1,318 million, less capital expenditures of \$1,635 million. Free cash flow for the year ended December 31, 2003 reflects net cash provided by operating activities of \$1,386 million less capital expenditures of \$1,165 million. Capital expenditures for the year ended December 31, 2004 are comprised of gross capital requirements of \$1,986 million offset by proceeds from CSFTs, securitization and leasing arrangements of \$351 million. Free cash flow usage of \$945 million for the NMCI contract for the year ended December 31, 2004 reflects net cash used in operating activities of \$239 million less capital expenditures of \$706 million which includes the \$522 million payment related to the repurchase of financial assets associated with the NMCI securitization facility. Gross capital requirements related to the NMCI contract were \$743 million during the year ended December 31, 2004 offset by proceeds from the NMCI securitization and leasing arrangements of \$37 million. We refer you to the discussion of our repurchase of financial assets associated with the NMCI securitization facility under “Off Balance Sheet Arrangements and Contractual Obligations” above.

Credit Facilities. During 2004, we entered into a \$550 million Three-and-One-Half Year Multi Currency Revolving Credit Agreement with a bank group including Citibank, N.A., as Administrative Agent, and Bank of America, N.A., as Syndication Agent. The new facility replaces our five year \$550 million revolving credit facility, which expired in September, 2004. The new facility may be used for general corporate borrowing purposes and the issuance of letters of credit. The aggregate availability under the new facility, together with our \$450 million Three-Year Multi Currency Revolving Credit Agreement entered into in 2003, is \$1.0 billion. As of December 31, 2004, there were no amounts outstanding under either of these facilities and we had issued letters of credit totaling \$286 million under the \$550 million Three-and-One-Half Year Multi Currency Revolving Credit Agreement, thereby reducing the availability under these facilities to \$714 million at such date. The new facility includes financial and other covenants of the general nature contained in the facility it replaced and the \$450 million Three-and-One-Half Year Multi Currency Revolving Credit Facility was amended and restated to include financial and other terms similar to the new facility.

In addition, we have in place a revolving secured financing arrangement collateralized by certain trade receivables. Maximum borrowings under this secured A/R facility vary based on the amount of eligible trade receivables; however, outstanding borrowings under the facility cannot exceed \$400 million. No amounts were outstanding under this facility at December 31, 2004. The facility will expire in December 2005. We have made no decision as to whether we will seek to replace this facility. See Note 8 to the consolidated financial statements in this report for a description of this facility.

Our unsecured credit and secured A/R facilities contain certain financial and other restrictive covenants and representations and warranties that would allow any amounts outstanding under the facilities to be accelerated, or restrict our ability to borrow thereunder, in the event of noncompliance. The financial covenants of our unsecured credit facilities were modified in September 2004 in connection with the replacement of our \$550 million credit facility as discussed above, and include a minimum net worth covenant, a fixed charge coverage requirement and a leverage ratio requirement. The leverage ratio cannot exceed 2.50-to-1 from July 2004 through June 2005, 2.25-to-1 from July 2005 through December 2005, and 2.00-to-1 thereafter. The fixed charge coverage covenant requires us to maintain a fixed charge ratio of no less than 1.10-to-1 through June 2005, 1.15-to-1 from July 2005 through December 2005, and 1.25-to-1 thereafter. We were in compliance with all covenants at December 31, 2004.

The following table presents the financial covenant requirements under our unsecured credit and secured A/R facilities and the calculated amount or ratios at December 31, 2004 (dollars in millions):

	Covenant	Actual
Minimum net worth	\$ 6,269	\$ 7,440
Leverage ratio	2.50	2.02
Fixed charge coverage ratio	1.10	1.66

Credit ratings. The following table summarizes our senior long-term debt credit ratings by Moody’s Investor Services, Inc. (“Moody’s”), Standard & Poor’s Rating Services (“S&P”) and Fitch Ratings at December 31, 2004:

	Moody’s	S&P	Fitch
Senior long-term debt.....	Ba1	BBB–	BBB–
Outlook.....	Negative	Negative	Negative

On July 15, 2004, Moody’s lowered our long-term credit rating to Ba1, with a negative outlook, from Baa3. Also on that date, S&P placed our senior unsecured debt rating of BBB– on CreditWatch with negative implications. On December 2, 2004, S&P removed us from CreditWatch. On November 17, 2004 Fitch removed our BBB– senior long-term debt rating from Rating Watch Negative. Fitch had placed that rating on Rating Watch Negative earlier that month following our announcement that we had postponed the release of our third quarter 2004 earnings. As a result of our Moody’s debt rating, the interest rate payable on \$1.1 billion of our senior unsecured debt was increased from 6.0% to 6.5%. Further downgrades in our credit rating will not affect this rate. However, in the event our credit rating is subsequently increased to Baa3 or above by Moody’s and our S&P credit rating remains at or above BBB–, this rate will return to 6.0%.

These credit rating agencies could take further adverse actions with respect to our ratings. Further negative changes in our credit ratings could increase our cost of capital. At December 31, 2004 we had no recognized or contingent material liabilities that would be subject to accelerated payment due to a ratings downgrade. We do not believe a negative change in our credit rating would have a material adverse impact on us under the terms of our existing client agreements.

Liquidity Goals. At December 31, 2004, we had total liquidity of approximately \$4.4 billion, comprised of unrestricted cash and marketable securities of approximately \$3.3 billion and availability under our unsecured credit and secured A/R facilities of approximately \$1.1 billion. Management intends over the longer-term to maintain liquidity in an amount equal to at least 18 months of forecasted capital expenditures (as defined under “Free Cash Flow” above), interest payments, debt maturities and dividend payments. Our liquidity at December 31, 2004 was significantly greater than such minimum targeted levels.

Change in Dividend Rate. On July 27, 2004, our Board of Directors reduced the quarterly dividend on our common stock from \$0.15 to \$0.05 per share. This reduction will make available an additional \$200 million on an annualized basis to invest in our business and enhance our competitiveness.

Application of Critical Accounting Policies

The preparation of our financial statements in conformity with generally accepted accounting principles in the United States requires us to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Our estimates, judgments and assumptions are continually evaluated based on available information and experience. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates. Areas in which significant judgments and estimates are used include, but are not limited to, revenue recognition, accounts receivable collectibility, accounting for long-lived assets, deferred income taxes, retirement plans, performance guarantees and litigation.

Revenue recognition and associated cost deferral. We provide IT and business process outsourcing services under time-and-material, unit-price and fixed-price contracts, which may extend up to 10 or more years. Services provided over the term of these arrangements may include one or more of the following: IT infrastructure support and management; IT system and software maintenance; application hosting; the design, development, or construction of software and systems (“Construct Service”); transaction processing; and business process management.

If a contract involves the provision of a single element, revenue is generally recognized when the product or service is provided and the amount becomes billable currently or upon any contract termination event. If the service is provided evenly during the contract term but service billings are irregular, revenue is recognized on a straight-line basis over the contract term. However, if the single service is a Construct Service, revenue is recognized under the percentage-of-completion method using a zero-profit methodology. Under this method, costs are deferred until contractual milestones are met, at which time the milestone billing is recognized as revenue and an amount of deferred costs is recognized as expense so that cumulative profit equals zero. If the milestone billing exceeds deferred costs, then the excess is recorded as deferred revenue. When the Construct Service is completed and the final milestone met, all unrecognized costs, milestone billings, and profit are recognized in full. If the contract does not contain contractual milestones, costs are expensed as incurred and revenue is recognized in an amount equal to costs incurred until completion of the Construct Service, at which time any profit would be recognized in full. If total costs are estimated to exceed revenue for the Construct Service, then a provision for the estimated loss is made in the period in which the loss first becomes apparent.

If a contract involves the provision of multiple service elements, total estimated contract revenue is allocated to each element based on the relative fair value of each element. The amount of revenue allocated to each element is limited to the amount that is not contingent upon the delivery of another element in the future. Revenue is then recognized for each element as described above for single-element contracts, except revenue recognized on a straight-line basis for a non-Construct Service will not exceed

amounts currently billable unless the excess revenue is recoverable from the client upon any contract termination event. If the amount of revenue allocated to a Construct Service is less than its relative fair value, costs to deliver such service equal to the difference between allocated revenue and the relative fair value are deferred and amortized over the contract term. If total Construct Service costs are estimated to exceed the relative fair value for the Construct Service contained in a multiple-element arrangement, then a provision for the estimated loss is made in the period in which the loss first becomes apparent.

We also defer and subsequently amortize certain set-up costs related to activities that enable the provision of contracted services to the client. Such activities include the relocation of transitioned employees, the migration of client systems or processes, and the exit of client facilities. Deferred contract costs, including set-up costs, are amortized on a straight-line basis over the remaining original contract term unless billing patterns indicate a more accelerated method is appropriate. The recoverability of deferred contract costs associated with a particular contract is analyzed whenever events or circumstances indicate that their carrying value may not be recoverable using the undiscounted estimated cash flows of the whole contract over its remaining contract term. If such undiscounted cash flows are insufficient to recover the long-lived assets and deferred contract costs, including contract concessions paid to the client, the deferred contract costs and contract concessions are written down by the amount of the cash flow deficiency. If a cash flow deficiency remains after reducing the balance of the deferred contract costs and contract concessions to zero, any remaining long-lived assets are evaluated for impairment. Any such impairment recognized would equal the amount by which the carrying value of the long-lived assets exceeds the fair value of those assets. Other than one construct service element with the U.K. Government for which deferred costs totaled \$277 million, no single contract had deferred contract costs that exceeded \$50 million at December 31, 2004.

Accounts receivable. Reserves for uncollectible trade receivables are established when collection of amounts due from clients is deemed improbable. Indicators of improbable collection include client bankruptcy, client litigation, industry downturns, client cash flow difficulties or ongoing service or billing disputes. Receivables more than 180 days past due are automatically reserved unless persuasive evidence of probable collection exists. Our allowances for doubtful accounts as a percentage of total gross trade receivables, excluding unbilled receivables at December 31, 2002, were 4.3%, 3.8% and 7.7% at December 31, 2004, 2003 and 2002, respectively. The increase in the allowance in 2004 resulted from the recognition of reserves in connection with the US Airways bankruptcy. Excluding those reserves, the allowance percentage was 3.6% at December 31, 2004. The increase in the allowance in 2002 resulted from the recognition of reserves in connection with the WorldCom and US Airways bankruptcies. Excluding these reserves, the allowance percentage was 2.7% at December 31, 2002.

Long-lived assets. Our property and equipment, software and definite-lived intangible asset policies require the amortization or depreciation of assets over their estimated useful lives. An asset's useful life is the period over which the asset is expected to contribute directly or indirectly to our future cash flows. The useful lives of property and equipment are limited to the standard depreciable lives or, for certain assets dedicated to client contracts, the related contract term. The useful lives of capitalized software are limited to the shorter of the license period or the related contract term. The estimated useful lives of definite-lived intangible assets are based on the expected use of the asset and factors that may limit the use of the asset. We may utilize the assistance of a third-party appraiser in the assessment of the useful life of an intangible asset.

Tradename intangibles and goodwill are not amortized, but instead tested for impairment at least annually. The carrying amounts of tradename intangibles are compared to their fair values as determined using a relief-from-royalty approach which estimates the current value of royalties that would have to be paid if the Company did not own the tradename intangibles. Any excess amounts of carrying value over the fair value of tradename intangibles are written off. The first step of the goodwill impairment test is a comparison of the fair value of a reporting unit to its carrying value. The fair value of a reporting unit is the amount at which the unit as a whole could be bought or sold in a current transaction between willing parties. We conducted an annual goodwill impairment test as of December 1, 2004. The goodwill impairment test requires us to identify our reporting units and obtain estimates of the fair values of those units as of the testing date. Our reporting units are comprised of the geographic components of our operating segments that share similar economic characteristics. We estimate the fair values of our reporting units using discounted cash flow valuation models. Those models require estimates of future revenues, profits, capital expenditures and working capital for each unit. We estimate these amounts by evaluating historical trends, current budgets, operating plans and industry data. We utilize our weighted-average cost of capital to discount the estimated expected future cash flows of each unit. The estimated fair value of each of our reporting units exceeded its respective carrying value in 2004 indicating the underlying goodwill of each unit was not impaired.

We plan to conduct our annual impairment test as of December 1st of each year when our budgets and operating plans for the forthcoming year are expected to be finalized. The timing and frequency of additional goodwill impairment tests are based on an ongoing assessment of events and circumstances that would more than likely reduce the fair value of a reporting unit below its carrying value. We will continue to monitor our goodwill balance for impairment and conduct formal tests when impairment indicators are present. A decline in the fair value of any of our reporting units below its carrying value is an indicator that the underlying goodwill of the unit is potentially impaired. This situation would require the second step of the goodwill impairment test to determine whether the unit's goodwill is impaired. The second step of the goodwill impairment test is a comparison of the implied fair value of a reporting unit's goodwill to its carrying value. An impairment loss is required for the amount which the carrying value of a reporting unit's goodwill exceeds its implied fair value. The implied fair value of the reporting unit's goodwill would become the new cost basis of the unit's goodwill.

Deferred income taxes. We must make certain estimates and judgments in determining income tax expense for financial statements purposes. These estimates and judgments occur in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes. We must assess the likelihood that we will be able to recover our deferred tax assets. In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized and adjust the valuation allowances accordingly. Factors considered in making this determination include the period of expiration of the tax asset, planned use of the tax asset, and historical and projected taxable income as well as tax liabilities for the tax jurisdiction in which the tax asset is located. Valuation allowances will be subject to change in each future reporting period as a result of changes in one or more of these factors. A majority of the tax assets are associated with tax jurisdictions in which we have a large scale of operations and long history of generating taxable income, thereby reducing the estimation risk associated with recoverability analysis. However, in smaller tax jurisdictions in which we have less historical experience or smaller scale of operations, the assessment of recoverability of tax assets is largely based on projections of taxable income over the expiration period of the tax asset and is subject to greater estimation risk. Accordingly, it is reasonably possible the recoverability of tax assets in these smaller jurisdictions could be impaired as a result of poor operating performance over extended periods of time or a future decision to reduce or eliminate operating activity in such jurisdictions. Such an impairment would result in an increase in our effective tax rate and related tax expense in the period of impairment.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on our estimate of whether and the extent to which additional taxes will be due. If we ultimately determine the payment for these amounts is unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. We record an additional charge in our provision for taxes in the period in which we determine that the recorded tax liability is less than we expect the ultimate assessment to be.

Retirement plans. We offer pension and other postretirement benefits to our employees through multiple global pension plans. Our largest pension plans are funded through our cash contributions and earnings on plan assets. We use the actuarial models required by SFAS No. 87, *Employers' Accounting for Pensions*, to account for our pension plans. Two of the most significant actuarial assumptions used to calculate the net periodic pension benefit expense and the related pension benefit obligation for our defined pension benefit plans are the expected long-term rate of return on plan assets and the discount rate assumptions.

SFAS No. 87 requires the use of an expected long-term rate of return that, over time, will approximate the actual long-term returns earned on pension plan assets. We base this assumption on historical five-year actual returns as well as anticipated future returns based on our investment mix. Given our relatively young workforce, we are able to take a long-term view of our pension investment strategy. Accordingly, plan assets are weighted heavily towards equity investments. Equity investments are susceptible to significant short-term fluctuations but have historically outperformed most other investment alternatives on a long-term basis. At December 31, 2004, 79% of pension assets were invested in public and private equity and real estate investments with the remaining assets being invested in fixed income securities. Such mix is consistent with that assumed in determining the expected long-term rate of return on plan assets. Rebalancing our actual asset allocations to our planned allocations based on actual performance has not been a significant issue.

An 8.6% weighted-average expected long-term rate of return on plan assets assumption was used for the 2004 pension plan actuarial valuations compared to a 8.7% rate used in 2003. A 100 basis point increase or decrease in this assumption results in an estimated pension expense decrease or increase, respectively, of \$62 million in the subsequent year's pension expense (based on the most recent pension valuation and assuming all other variables are constant).

An assumed discount rate is required to be used in each pension plan actuarial valuation. This rate reflects the underlying rate determined on the measurement date at which the pension benefits could effectively be settled. High-quality bond yields on our measurement date, October 31, 2004, with maturities consistent with expected pension payment periods are used to determine the appropriate discount rate assumption. Such weighted-average maturities are currently estimated to be 17 years. A 5.7% weighted-average discount rate assumption was used for the 2004 pension plan actuarial valuations. The methodology used to determine the appropriate discount rate assumption has been consistently applied. A 100 basis point increase in the discount rate assumption will result in an estimated decrease of approximately \$113 million in the subsequent year's pension expense, and a 100 basis point decrease in the discount rate assumption will result in an estimated increase of approximately \$154 million in the subsequent year's pension expense (based on the most recent pension valuation and assuming all other variables are constant).

Negative financial market returns in 2002 caused our actual pension plan asset returns in that year to be less than the expected returns reflected in our assumptions. Our long-standing policy of making consistent cash pension plan contributions provided some protection against negative short-term market returns. In addition, positive financial market returns in 2004 and 2003 resulted in our actual pension plan asset returns exceeding expected returns reflected in our assumptions. However, despite contributions and positive returns in 2004 and 2003, declining discount rates over the last several years have caused a significant decline in our pension plans' funded status, which as of October 31, 2004, reflected total plan assets of \$5.9 billion and total accumulated benefit obligations under all plans of \$6.9 billion. As a result, under the requirements of SFAS No. 87, we have an

additional minimum pension plan liability of \$841 million at December 31, 2004 with a corresponding reduction, net of tax, in the accumulated other comprehensive loss component of shareholders' equity.

Our weighted-average long-term rate of return assumption for plan assets as of January 1, 2005 is 8.6%. Our 2005 net periodic pension cost is expected to decrease from 2004 exclusive of the expected \$75-\$90 million settlement loss related to the Inland Revenue contract. Our required minimum amount of 2005 contributions will not exceed actual contributions made in 2004. However, we may elect to increase the level of contributions in 2005 over 2004 levels based on a number of factors, including performance of pension investments, changes in interest rates and changes in workforce compensation.

Other Liabilities. In the normal course of business, we may provide certain clients, principally governmental entities, with financial performance guarantees, which are generally backed by standby letters of credit or surety bonds. In general, we would only be liable for the amounts of these guarantees in the event that our nonperformance permits termination of the related contract by our client, the likelihood of which we believe is remote. At December 31, 2004, we had \$665 million of outstanding standby letters of credit and surety bonds relating to these performance guarantees. In addition, we had \$443 million outstanding under CSFT and securitization transactions that are supported by performance guarantees. We believe we are in compliance with our performance obligations under all service contracts for which there is a performance guarantee. In addition, we had \$41 million of other financial guarantees outstanding at December 31, 2004 relating to indebtedness of others.

There are various claims and pending actions against EDS arising in the ordinary course of our business. See Note 15 to the consolidated financial statements for a discussion of current litigation. Certain of these actions seek damages in significant amounts. Among other things, we consider the period in which the underlying cause of the claim occurred, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the loss to determine whether a loss accrual or disclosure in our consolidated financial statements is required. The degree of probability and the loss related to a particular claim are typically estimated with the assistance of legal counsel.

New Accounting Standards

During December 2004, the FASB issued revised SFAS 123, *Share-Based Payment*. This statement requires accounting for the issuance of share-based payments as compensation expense, where the original SFAS 123 allowed accounting for such payments under APB 25. If a company elected to account for share-based payments under APB 25, the notes to the financial statements required pro forma disclosure of compensation expense as if SFAS 123 were used. The new statement is required to be adopted for interim fiscal periods beginning after June 15, 2005. While we are allowed to adopt this standard effective July 1, 2005, we intend to adopt the standard as of January 1, 2005.

Effective for 2005 and subsequent years, we expect to redesign our long-term incentive compensation program to include the use of Performance RSUs and significantly reduce the number of stock options granted. See "Overview – Priorities and Expectations for 2005 and Beyond" above. Compensation expense will be recorded for these Performance RSUs based on the market value of our stock on the date of grant, and will be charged to operations over the vesting period. If vesting of Performance RSUs is conditioned upon the achievement of performance goals, compensation expense during the performance period will be estimated using the most probable outcome of the performance goals, and adjusted as the expected outcome changes.

We have unvested employee stock options outstanding as of December 31, 2004, most of which will vest in the next three years, during which time compensation expense will continue to be recorded as the options vest. Some of these options have exercise prices that are in excess of the current market value of our stock, and it is possible that these options will expire without being exercised.

The pro forma earnings in the table below provide the approximate effect on earnings during the periods covered by this Form 10-K had we adopted the statement as of January 1, 2002 (in millions, except per share amounts):

	2004	2003	2002
Stock-based employee compensation cost included in reported net income (loss), net of related tax effects	\$ 27	\$ 40	\$ 39
Incremental stock-based compensation expense had the Company adopted the new statement on January 1, 2002	138	169	273
Total stock-based employee compensation expense determined under fair value-based method for all awards, net of related tax effects	<u>\$ 165</u>	<u>\$ 209</u>	<u>\$ 312</u>
Compensation expense per share of common stock if statement had been adopted January 1, 2002:			
Basic	\$ 0.33	\$ 0.44	\$ 0.65
Diluted	0.33	0.44	0.64

We expect to record compensation expense in 2005 of approximately \$105 million net of tax, or \$0.19 per share, for stock options granted prior to December 31, 2004. In addition, due to anticipated changes to our long-term incentive compensation strategy, we expect to grant restricted share units in 2005 and record compensation expense for these units of approximately \$27 million net of tax, or \$0.06 per share. We expect to record another \$15 million net of tax, or \$0.03 per share, in 2005 due to vesting

of restricted share units granted prior to December 31, 2004. We recognized \$27 million of compensation expense, net of tax, in 2004 related to these units. The combined expense will result in total share-based compensation of approximately \$147 million net of tax, or \$0.28 per share. However, certain awards granted prior to December 31, 2004, have features that accelerate vesting if our stock price reaches stated levels. If our stock price closes at approximately \$25 per share for ten consecutive trading days, we expect to record incremental compensation expense of approximately \$17 million, net of tax.

Our pro forma compensation expense in the table above is based on an effective tax benefit of 35% which will be achieved by recording a deferred tax asset when compensation expense is recorded. The excess of the market value of our stock over the exercise price at the date of exercise represents the tax deduction to be received. If this deduction is equal to the amount of compensation expense recorded for that option, the entire tax asset is realized. If the deduction is greater than the compensation expense recognized, we will record an increase in additional paid-in capital. However, if the deduction is less than the expense recognized, a portion of the deferred tax asset will not be realized, and the deficiency will be reported as deferred tax expense in the period that options expire or are exercised or forfeited. There are numerous factors that influence the amount of the deferred tax asset that will be realized, including exercise behavior of the employees, future market price of the stock, as well as the stabilization of the volatility used in calculating the fair value of options on the grant date. At this time, we cannot predict the expected realization of the deferred tax asset, therefore the tax benefit could be up to 35%.

Factors That May Affect Future Results

Because of the following factors, as well as other variables affecting our operating results, past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods.

Our engagements with clients may not be profitable. The pricing and other terms of our client contracts, particularly our long-term IT outsourcing agreements, require us to make estimates and assumptions at the time we enter into these contracts that could differ from actual results. These estimates reflect our best judgments regarding the nature of the engagement and our expected costs to provide the contracted services. Any increased or unexpected costs or unanticipated delays in connection with the performance of these engagements, including delays caused by factors outside our control, could make these contracts less profitable or unprofitable, which would have an adverse effect on our profit margin. In addition, a majority of our IT outsourcing contracts contain some fixed-price, incentive-based or other pricing terms that condition our fee on our ability to meet defined goals. Our failure to meet a client's expectations in any type of contract may result in an unprofitable engagement.

Our ability to recover significant capital investments in certain construct contracts is subject to risks. Some of our client contracts require significant investment in the early stages which is recovered through billings over the life of the respective contract. These contracts often involve the construction of new computer systems and communications networks and the development and deployment of new technologies. Substantial performance risk exists in each contract with these characteristics, and some or all elements of service delivery under these contracts are dependent upon successful completion of the development, construction and deployment phases. Contracts with ongoing construct activities had assets, including receivables, prepaid expenses, deferred costs, equipment and software, of approximately \$1.7 billion at December 31, 2004, including approximately \$1.1 billion associated with the NMCI contract and \$290 million associated with one development contract with the U.K. Government. Some of these contracts, including the NMCI and U.K. Government contracts, have experienced delays in their development and construction phases, and certain milestones have been missed. During the third quarter of 2004, we recorded a non-cash impairment charge of \$375 million to write down NMCI contract-related fixed asset and prepaid software license balances to estimated fair value. We refer you to the discussion of the NMCI contract under "Overview - 2004 Highlights" above for further information regarding this impairment charge and our risks under that contract. Remaining long-lived assets and lease receivables associated with the contract totaled \$160 million and \$717 million, respectively, at December 31, 2004.

Impact of Rating Agency downgrades. On July 15, 2004, Moody's lowered our long-term credit rating to Ba1, with a negative outlook, from Baa3. Also on that date, S&P placed our senior unsecured debt rating of BBB- on CreditWatch with negative implications. On December 2, 2004, S&P removed us from CreditWatch. On November 17, 2004 Fitch removed our BBB- senior long-term debt rating from Rating Watch Negative. Fitch had placed that rating on Rating Watch Negative earlier that month following our announcement that we had postponed the release of our third quarter 2004 earnings. Any adverse action by these agencies with respect to our ratings could have an adverse effect on the market price of our securities. Moody's downgrade of our long-term credit rating to below "investment grade" or any further negative change in our credit ratings could materially adversely impact our ability to compete for new business, our cost of capital and our ability to access capital.

A decline in revenues from or loss of significant clients could reduce our revenues and profitability. Our success is to a significant degree dependent on our ability to retain our significant clients and maintain or increase the level of revenues from these clients. We may lose clients due to their merger or acquisition, business failure, contract expiration, conversion to a competing service provider or conversion to an in-house data processing system. We may not be able to retain or renew relationships with our significant clients in the future. As a result of business downturns or for other business reasons, we are also vulnerable to reduced processing volumes from our clients, which can reduce the scope of services provided and the prices for those services.

Our outsourcing segment generates a substantial majority of its revenues from long-term IT outsourcing agreements, including a number of "mega-deals." A number of these outsourcing agreements have terms that expire in coming years, including our MSA with GM which expires in 2006. Our revenues from GM were approximately \$2.0 billion, \$2.2 billion and \$2.5 billion for 2004, 2003 and 2002, respectively. Operating margins from our GM business are expected to decline slightly from current levels based on lower pricing under the MSA as well as GM's move towards a multi-vendor strategy. Furthermore, the loss of GM as an ongoing major customer would have a material adverse effect on our revenue and earnings. The extent of such impact on our earnings will be based in part on our ability to reduce the fixed costs associated with this agreement, including property, equipment and software. In addition, the extension of this agreement, in whole or in part, on terms less favorable to us than current terms would also adversely affect our revenue and earnings.

An ongoing SEC investigation could adversely affect us or the market value of our securities. The SEC staff is conducting a formal investigation of some of our activities and contracts. The investigation is ongoing, and we will continue to cooperate with the SEC staff. We are unable to predict the outcome of the investigation, the scope of matters that the SEC may choose to investigate in the course of this investigation or in the future, the SEC's views of the issues being investigated, or any action that the SEC might take, including the imposition of fines, penalties, or other available remedies. Any adverse development in connection with the investigation, including any expansion of the scope of the investigation, could have a material adverse effect on us, including diverting the efforts and attention of our management team from our business operations, and could negatively impact the market value of our securities.

Pending litigation could have a material adverse effect on our liquidity and financial condition. We and certain of our current and former directors and officers are defendants in numerous shareholder class action suits. We are not able to determine the actual impact of these suits on us or our consolidated financial statements. However, we may be required to pay judgments or settlements and incur expenses in aggregate amounts that could have a material adverse effect on our liquidity and financial condition.

A material weakness in our internal controls could have a material adverse effect on us. A material weakness in our internal control over financial reporting could have a material adverse effect on us. In connection with the review by our independent auditors of our third quarter 2004 results and the on-going procedures related to their audit of internal controls over financial reporting as of December 31, 2004, our independent auditors identified material weaknesses in our internal controls related to the NMCI contract and revenue recognition.

Other material weaknesses in our internal control over financial reporting could occur or be identified in the future. In addition, because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements, and any projections of any evaluation of effectiveness of internal control to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and results of operations could be harmed, we could fail to be able to provide reasonable assurance as to our financial results or meet our reporting obligations, and there could be a material adverse effect on the price of our securities.

Some of our contracts contain benchmarking provisions that could decrease our revenues and profitability. Some of our long-term IT outsourcing agreements contain pricing provisions that permit a client to request a benchmark study by a mutually acceptable third-party benchmarker. Typically, benchmarking may not be conducted during the initial years of the contract term but may be requested by a client periodically thereafter, subject to restrictions which limit benchmarking to certain groupings of services and limit the number of times benchmarking may be elected during the term of the contract. Generally, the benchmarking compares the contractual price of our services against the price of similar services offered by other specified providers in a peer comparison group, subject to agreed upon adjustment and normalization factors. Generally, if the benchmarking study shows that our pricing has a difference outside a specified range, and the difference is not due to the unique requirements of the client, then the parties will negotiate in good faith any appropriate adjustments to the pricing. This may result in the reduction of our rates for the benchmarked services. Due to the enhanced focus of our clients on reducing IT costs, as well as the uncertainties and complexities inherent in benchmarking comparisons, our clients may increasingly attempt to obtain additional price reductions beyond those already embedded in our contract rates through the exercise of benchmarking provisions. Such activities could negatively impact our results of operations or cash flow in 2005 or thereafter to a greater extent than has been our prior experience.

The markets in which we operate are highly competitive, and we may not be able to compete effectively. The markets in which we operate include a large number of participants and are highly competitive. Our primary competitors are IT service providers, large accounting, consulting and other professional service firms, application service providers, packaged software vendors and resellers and service groups of computer equipment companies. We also experience competition from numerous smaller, niche-oriented and regionalized service providers. Our business is experiencing rapid changes in its competitive landscape. We increasingly see our competitors moving operations offshore to reduce their costs as well as direct competition from niche offshore providers, primarily India-based competitors. With lower costs, these competitors may be able to offer lower prices than we are able to offer, which would adversely affect our ability to compete. In addition, negative publicity from our pending litigation, credit ratings downgrade or SEC staff investigation could have a negative effect on our competitive position. Any of these factors may impose additional pricing pressure on us, which could have an adverse effect on our revenues and profit margin.

Our exposure to certain industries and financially troubled customers has adversely affected our financial results. Our exposure to certain industries and financially troubled customers has had, and could in the future have, a material adverse effect on our financial position and our results of operations. For example, we are the leading IT outsourcing provider to the airline industry, which sector has been experiencing significant financial difficulty. In 2003, we amended agreements with certain of those clients, which has resulted in a decrease in revenues and earnings from these clients. Our largest IT agreement in the airline industry is with American Airlines. We had \$48 million in receivables and \$77 million in other operating assets associated with that contract at December 31, 2004. We also provide IT services to US Airways through a long-term agreement. In September 2004, US Airways filed for protection under Chapter 11 of the United States Bankruptcy Code. Due to uncertainties regarding recoverability of pre-bankruptcy receivables associated with the US Airways agreement, we recorded net charges totaling \$27 million during the third quarter of 2004. At December 31, 2004, we had other assets with a net book value of approximately \$20 million deployed on that agreement. We may have outstanding receivables under this agreement at any one time of up to approximately \$30 million. If US Airways is not successful in emerging from bankruptcy proceedings and ceases operations, all or a significant portion of these assets and any post-bankruptcy receivables will become impaired. In addition, our exposure to investments in aircraft leases, which include leases with American, Delta and Continental Airlines, was \$99 million at December 31, 2004.

We may not achieve the benefits we expect from our multi-year plan. Management is implementing a multi-year plan designed to make significant changes in the way we do business. This plan includes the development of a new technology platform for the delivery of our services which we refer to as the “EDS Agile Enterprise” as well as other initiatives intended to substantially reduce our cost structure. We expect to invest significant capital in the implementation of the multi-year plan in 2005. Although management believes this plan will enable us to achieve sustainable, profitable growth over the longer term, there can be no assurance as to the acceptance of our technology initiatives in the marketplace or our ability to recognize a return on our investment. In addition, our ability to achieve the anticipated cost savings and other benefits from these initiatives is subject to many estimates and assumptions, including assumptions regarding the costs and timing of activities in connection with these initiatives. In addition, these estimates and assumptions are subject to significant economic, competitive and other uncertainties that are beyond our control. If these assumptions are not realized, or if other unforeseen events occur, our business and results of operations could be adversely affected and there could be a material adverse effect on the price of our securities.

A significant or prolonged economic downturn could have a material adverse effect on our results of operations. Our results of operations are affected by the level of business activity of our clients, which in turn is affected by the level of economic activity in the industries and markets that they serve. The general economic weakness in the IT industry resulting from, among other things, the decline in discretionary IT spending by our clients and prospective clients, has adversely affected our revenues in recent years. A lack of improvement or continued decline in the level of business activity of our clients could continue to adversely affect our revenues and profitability.

Our services or products may infringe upon the intellectual property rights of others. We cannot be sure that our services and products, or the products of others that we offer to our clients, do not infringe on the intellectual property rights of third parties, and we may have infringement claims asserted against us. These claims may harm our reputation, cost us money and prevent us from offering some services or products. We generally agree in our contracts to indemnify our clients for any expenses or liabilities they may incur resulting from claimed infringements of the intellectual property rights of third parties. In some instances, the amount of these indemnities may be greater than the revenues we receive from the client. Any claims or litigation in this area, whether we ultimately win or lose, could be time-consuming and costly, injure our reputation or require us to enter into royalty or licensing arrangements. We may, in limited cases, be required to forego rights to the use of intellectual property we help create, which limits our ability to also provide that intellectual property to other clients. Any limitation on our ability to provide a service or product could cause us to lose revenue-generating opportunities and require us to incur additional expenses to develop new or modified solutions for future projects.

Cautionary Statement Regarding Forward-Looking Statements

The statements in this Report that are not historical statements are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements regarding estimated revenues, earnings, cash flows, the TCW of new business signings, estimated cost savings and other forward-looking financial information. In addition, we have made in the past and may make in the future other written or oral forward-looking statements, including statements regarding future financial and operating performance, short- and long-term revenue, earnings and cash flow, the timing of the revenue, earnings and cash flow impact of new and existing contracts, liquidity, estimated future revenues from existing clients, the value of new contract signings, business pipeline, industry growth rates and our performance relative thereto, the impact of acquisitions and divestitures, and the impact of client bankruptcies. Any forward-looking statement may rely on a number of assumptions concerning future events and be subject to a number of uncertainties and other factors, many of which are outside our control, that could cause actual results to differ materially from such statements. In addition to the factors outlined under “Factors That May Affect Future Results” above, these factors include, but are not limited to, the following: 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; for contracts with U.S. federal government clients, including our NMCI 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 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 financial difficulty of a significant client on the financial and other terms of our agreements with that client; 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 and failure to obtain treaty relief from double taxation; 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 fluctuations in foreign currencies, 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.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in interest rates, equity prices and foreign currency exchange rates. We enter into various hedging transactions to manage this risk. We do not hold or issue derivative financial instruments for trading purposes. A discussion of our accounting policies for financial instruments, and further disclosure relating to financial instruments, are included in the notes to the consolidated financial statements.

Interest rate risk. Interest rate risk is managed through our debt portfolio of fixed- and variable-rate instruments including interest rate swaps. Risk can be estimated by measuring the impact of a near-term adverse movement of 10% in short-term market interest rates. If these rates average 10% more in 2005 than in 2004, there would be no material adverse impact on our results of operations or financial position. During 2004, had short-term market interest rates averaged 10% more than in 2003, there would have been no material adverse impact on our results of operations or financial position.

Equity price sensitivity. Our financial position is affected by changes in equity prices as a result of certain investments. Risk can be estimated by measuring the impact of a near-term adverse movement of 10% in the value of our equity security investments. If the market price of our investments in equity securities in 2005 were to fall by 10% below the level at the end of 2004, there would be no material adverse impact on our results of operations or financial position. During 2004, declines in the market price of our equity securities did not have a material adverse impact on our results of operations or financial position.

Foreign exchange risk. We conduct business in the United States and around the world. Our most significant foreign currency transaction exposures relate to Canada, the United Kingdom, Western European countries that use the euro as a common currency, Australia and New Zealand. The primary purpose of our foreign currency hedging activities is to protect against foreign currency exchange risk from intercompany financing and trading transactions. We enter into foreign currency forward contracts and currency options with durations of generally less than 30 days to hedge such transactions. We have not entered into foreign currency forward contracts for speculative or trading purposes.

Generally, foreign currency forward contracts are not designated as hedges for accounting purposes and changes in the fair value of these instruments are recognized immediately in earnings. In addition, since we enter into forward contracts only as an economic hedge, any change in currency rates would not result in any material gain or loss, as any gain or loss on the underlying foreign-denominated balance would be offset by the loss or gain on the forward contract. Risk can be estimated by measuring the impact of a near-term adverse movement of 10% in foreign currency rates against the U.S. dollar. If these rates average 10% more in 2005 than in 2004, there would be no material adverse impact on our results of operations or financial position. During 2004, had foreign currency rates averaged 10% more than in 2003, there would have been no material adverse impact on our results of operations or financial position.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MANAGEMENT REPORT

MANAGEMENT RESPONSIBILITY FOR FINANCIAL INFORMATION

Responsibility for the objectivity, integrity, and presentation of the accompanying financial statements and other financial information presented in this report rests with EDS management. The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The financial statements include amounts that are based on estimates and judgments which management believes are reasonable under the circumstances.

KPMG LLP, independent auditors, is retained to audit EDS' consolidated financial statements and management's assessment of the effectiveness of the company's internal control over financial reporting. Its accompanying report is based on audits conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States).

The Audit Committee of the Board of Directors is composed solely of independent, non-employee directors, and is responsible for recommending to the Board the independent auditing firm to be retained for the coming year. The Audit Committee meets regularly and privately with the independent auditors, with the company's internal auditors, and with management to review accounting, auditing, internal control and financial reporting matters.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of EDS is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934. Those rules define internal control over financial reporting as a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. EDS' internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of EDS;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America;
- provide reasonable assurance that receipts and expenditures of EDS are being made only in accordance with authorization of management and directors of EDS; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of EDS' assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

EDS management assessed the effectiveness of EDS' internal control over financial reporting as of December 31, 2004. In making this assessment, management used the criteria described in "*Internal Control – Integrated Framework*" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of EDS' internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of our Board of Directors.

Based on this assessment and those criteria, management believes that EDS maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004.

KPMG LLP, independent registered public accounting firm, who audited and reported on EDS' consolidated financial statements included in this report, has issued an attestation report on management's assessment of internal control over financial reporting.



Michael H. Jordan
CHAIRMAN OF THE BOARD AND
CHIEF EXECUTIVE OFFICER
March 24, 2005



Robert H. Swan
EXECUTIVE VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER
March 24, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Electronic Data Systems Corporation:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Electronic Data Systems Corporation and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in *Internal Control – Integrated Framework* issued by COSO. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control – Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Electronic Data Systems Corporation and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2004, and the related financial statement schedule, and our report dated March 24, 2005 expressed an unqualified opinion on those consolidated financial statements and schedule.

The logo for KPMG LLP, featuring the letters 'KPMG' in a large, bold, stylized font, with 'LLP' in a smaller, simpler font to the right.

KPMG LLP
Dallas, Texas
March 24, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Electronic Data Systems Corporation:

We have audited the accompanying consolidated balance sheets of Electronic Data Systems Corporation and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2004. In connection with our audits of the consolidated financial statements, we have also audited the related financial statement schedule. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Electronic Data Systems Corporation and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, during 2002, the Company adopted the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*, as required for goodwill and intangible assets resulting from business combinations consummated before July 1, 2001. In 2003, the Company adopted the provisions of Emerging Issues Task Force Issue No. 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*, and SFAS No. 143, *Accounting for Asset Retirement Obligations*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Electronic Data Systems Corporation and subsidiaries internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 24, 2005 expressed an unqualified opinion thereon.

The logo for KPMG LLP, featuring the letters 'KPMG' in a large, bold, stylized font, with 'LLP' in a smaller, simpler font to the right.

KPMG LLP
Dallas, Texas
March 24, 2005

ELECTRONIC DATA SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share amounts)

	Years Ended December 31,		
	2004	2003	2002
Revenues	\$ 20,669	\$ 20,570	\$ 20,486
Costs and expenses			
Cost of revenues	18,956	19,051	17,186
Selling, general and administrative	1,647	1,605	1,567
Restructuring and other	174	191	(3)
Total costs and expenses	20,777	20,847	18,750
Operating income (loss)	(108)	(277)	1,736
Interest expense	(321)	(301)	(258)
Interest income and other, net	41	35	(85)
Other income (expense)	(280)	(266)	(343)
Income (loss) from continuing operations before income taxes	(388)	(543)	1,393
Provision (benefit) for income taxes	(93)	(186)	479
Income (loss) from continuing operations	(295)	(357)	914
Income from discontinued operations, net of income taxes (including net gain (loss) on sale of \$433, \$(9) and \$87 in 2004, 2003 and 2002, net of income taxes)	453	91	202
Income (loss) before cumulative effect of changes in accounting principles ..	158	(266)	1,116
Cumulative effect on prior years of changes in accounting principles, net of income taxes	-	(1,432)	-
Net income (loss)	\$ 158	\$ (1,698)	\$ 1,116
Basic earnings per share of common stock			
Income (loss) from continuing operations	\$ (0.59)	\$ (0.75)	\$ 1.91
Income from discontinued operations	0.91	0.19	0.42
Cumulative effect on prior years of changes in accounting principles	-	(2.99)	-
Net income (loss)	\$ 0.32	\$ (3.55)	\$ 2.33
Diluted earnings per share of common stock			
Income (loss) from continuing operations	\$ (0.59)	\$ (0.75)	\$ 1.87
Income from discontinued operations	0.91	0.19	0.41
Cumulative effect on prior years of changes in accounting principles	-	(2.99)	-
Net income (loss)	\$ 0.32	\$ (3.55)	\$ 2.28

See accompanying notes to consolidated financial statements.

As discussed in Note 1, the Company adopted EITF 00-21 during 2003 on a cumulative basis as of January 1, 2003 resulting in a change in the Company's method of recognizing revenue on long-term contracts. Pro forma amounts, assuming the new method of accounting for revenue recognition on long-term contracts were applied retroactively, are presented in Note 1.

ELECTRONIC DATA SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in millions, except share and per share amounts)

	December 31,	
	2004	2003
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,102	\$ 2,197
Marketable securities	1,490	116
Accounts receivable, net	3,360	3,101
Prepays and other	925	1,055
Deferred income taxes	602	196
Assets held for sale	—	1,539
Total current assets	<u>8,479</u>	<u>8,204</u>
Property and equipment, net	2,216	2,818
Deferred contract costs, net	708	870
Investments and other assets	914	1,051
Goodwill	3,657	3,472
Other intangible assets, net	904	1,231
Deferred income taxes	866	970
Total assets	<u>\$ 17,744</u>	<u>\$ 18,616</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 534	\$ 572
Accrued liabilities	2,944	3,332
Deferred revenue	1,062	1,079
Income taxes	58	50
Current portion of long-term debt and secured A/R facility	658	2,275
Liabilities held for sale	—	262
Total current liabilities	<u>5,256</u>	<u>7,570</u>
Pension benefit liability	1,157	1,116
Long-term debt, less current portion	3,168	3,488
Minority interests and other long-term liabilities	723	728
Commitments and contingencies		
Shareholders' equity		
Preferred stock, \$.01 par value; authorized 200,000,000 shares; none issued	—	—
Common stock, \$.01 par value; authorized 2,000,000,000 shares; 522,748,596 and 495,604,217 shares issued at December 31, 2004 and 2003, respectively	5	5
Additional paid-in capital	2,433	917
Retained earnings	5,492	5,812
Accumulated other comprehensive loss	(59)	(131)
Treasury stock, at cost, 7,443,650 and 14,999,431 shares at December 31, 2004 and 2003, respectively	(431)	(889)
Total shareholders' equity	<u>7,440</u>	<u>5,714</u>
Total liabilities and shareholders' equity	<u>\$ 17,744</u>	<u>\$ 18,616</u>

See accompanying notes to consolidated financial statements.

ELECTRONIC DATA SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

(in millions)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Share- holders' Equity
	Shares Issued	Amount				Shares Held	Amount	
Balance at December 31, 2001	496	\$ 5	\$ 962	\$ 7,122	\$ (560)	18	\$(1,083)	\$6,446
Comprehensive income:								
Net income	-	-	-	1,116	-	-	-	1,116
Currency translation adjustment	-	-	-	-	288	-	-	288
Unrealized gains on securities, net of tax effect of \$1, and reclassification adjustment	-	-	-	-	6	-	-	6
Change in minimum pension liability, net of tax effect of \$(217).....	-	-	-	-	(423)	-	-	(423)
Total comprehensive income								987
Dividends	-	-	-	(287)	-	-	-	(287)
Stock issued for acquisition	-	-	-	-	-	(1)	85	85
Issuance of stock purchase contracts (Note 1)	-	-	11	-	-	-	-	11
Stock award transactions.....	-	-	(72)	-	-	(3)	232	160
Purchase of treasury shares.....	-	-	-	-	-	5	(380)	(380)
Balance at December 31, 2002.....	496	\$ 5	\$ 901	\$ 7,951	\$ (689)	19	\$(1,146)	\$7,022
Comprehensive loss:								
Net loss	-	-	-	(1,698)	-	-	-	(1,698)
Currency translation adjustment	-	-	-	-	466	-	-	466
Unrealized losses on securities, net of tax effect of \$(1), and reclassification adjustment	-	-	-	-	(3)	-	-	(3)
Change in minimum pension liability, net of tax effect of \$61....	-	-	-	-	95	-	-	95
Total comprehensive loss.....								(1,140)
Dividends	-	-	-	(287)	-	-	-	(287)
Stock award transactions.....	-	-	16	(154)	-	(4)	257	119
Balance at December 31, 2003.....	496	\$ 5	\$ 917	\$ 5,812	\$ (131)	15	\$(889)	\$5,714
Comprehensive income:								
Net income	-	-	-	158	-	-	-	158
Currency translation adjustment, net of tax effect of \$75	-	-	-	-	256	-	-	256
Unrealized losses on securities, net of tax effect of \$(3)	-	-	-	-	(5)	-	-	(5)
Change in minimum pension liability, net of tax effect of \$(101).....	-	-	-	-	(179)	-	-	(179)
Total comprehensive income.....								230
Dividends	-	-	-	(200)	-	-	-	(200)
Issuance of common stock (Note 8).....	27	-	1,601	-	-	-	-	1,601
Stock award transactions.....	-	-	(85)	(278)	-	(8)	458	95
Balance at December 31, 2004.....	523	\$ 5	\$ 2,433	\$ 5,492	\$ (59)	7	\$(431)	\$7,440

See accompanying notes to consolidated financial statements.

ELECTRONIC DATA SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Years Ended December 31,		
	2004	2003	2002
Cash Flows from Operating Activities			
Net income (loss).....	\$ 158	\$ (1,698)	\$ 1,116
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization and deferred cost charges	1,974	2,529	1,443
Deferred compensation	42	62	59
Cumulative effect on prior years of changes in accounting principles	-	1,432	-
Intangible and fixed asset write-downs.....	537	36	38
Other (including pre-tax gains on sales of businesses of \$844, \$131 and \$175 in 2004, 2003 and 2002, respectively).....	(858)	(135)	(64)
Changes in operating assets and liabilities, net of effects of acquired companies:			
Accounts receivable.....	97	440	(679)
Prepays and other.....	192	(180)	(216)
Deferred contract costs.....	(126)	(540)	-
Accounts payable and accrued liabilities	(466)	31	56
Deferred revenue.....	(51)	(116)	210
Income taxes.....	(181)	(475)	283
Total adjustments	1,160	3,084	1,130
Net cash provided by operating activities.....	1,318	1,386	2,246
Cash Flows from Investing Activities			
Proceeds from sales of marketable securities.....	956	548	60
Proceeds from investments and other assets.....	213	791	217
Proceeds related to divested assets and non-marketable equity investments	2,129	233	301
Payments for purchases of property and equipment	(666)	(703)	(973)
Payments for investments and other assets.....	(741)	(664)	(175)
Acquisitions, net of cash acquired, and non-marketable equity investments	(78)	11	(107)
Purchases of software and other intangibles.....	(302)	(494)	(367)
Purchases of marketable securities.....	(2,337)	(447)	(20)
Other.....	28	25	67
Net cash used in investing activities	(798)	(700)	(997)
Cash Flows from Financing Activities			
Proceeds from long-term debt and secured A/R facility.....	6	1,869	461
Payments on long-term debt and secured A/R facility	(561)	(1,312)	(151)
Net increase (decrease) in borrowings with original maturities less than 90 days	-	(235)	147
Capital lease payments.....	(167)	(120)	(30)
Proceeds from issuance of common stock.....	198	-	-
Purchase of treasury shares.....	-	-	(380)
Employee stock transactions	76	47	89
Dividends paid.....	(200)	(287)	(287)
Other.....	(15)	(33)	(15)
Net cash used in financing activities	(663)	(71)	(166)
Effect of exchange rate changes on cash and cash equivalents.....	48	(60)	38
Net increase (decrease) in cash and cash equivalents	(95)	555	1,121
Cash and cash equivalents at beginning of year.....	2,197	1,642	521
Cash and cash equivalents at end of year.....	\$ 2,102	\$ 2,197	\$ 1,642

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Electronic Data Systems Corporation is a professional services firm that offers its clients a portfolio of related services worldwide within the broad categories of traditional information technology (“IT”) outsourcing, business process outsourcing, solutions consulting and management consulting services. Services include the design, construction or management of computer networks, information systems, information processing facilities and business processes. As used herein, the terms “EDS” and the “Company” refer to Electronic Data Systems Corporation and its consolidated subsidiaries.

Basis of Presentation

The Company adopted a new method of accounting for revenue recognition on long-term contracts effective January 1, 2003. Amounts for prior years are reported in accordance with the Company’s previous method of accounting for revenue recognition. See “Revenue Recognition and Deferred Contract Costs” and “Accounting Changes” below for additional information.

Principles of Consolidation

The consolidated financial statements include the accounts of EDS and its controlled subsidiaries. The Company defines control as a non-shared, non-temporary ability to make decisions that enable it to guide the ongoing activities of a subsidiary and the ability to use that power to increase the benefits or limit the losses from the activities of that subsidiary. Subsidiaries in which other shareholders effectively participate in significant operating decisions through voting or contractual rights are not considered controlled subsidiaries. The Company’s investments in entities it does not control, but in which it has the ability to exercise significant influence over operating and financial policies, are accounted for under the equity method. Under such method, the Company recognizes its share of the subsidiaries’ income (loss) in other income (expense). If EDS is the primary beneficiary of variable interest entities, the consolidated financial statements include the accounts of such entities. No variable interest entities were consolidated during the periods presented.

Earnings Per Share

Basic earnings per share of common stock is computed using the weighted-average number of common shares outstanding during the period. Diluted earnings per share amounts reflect the incremental increase in common shares outstanding assuming the exercise of all employee stock options and stock purchase contracts and the issuance of shares in respect of restricted stock units that would have had a dilutive effect on earnings per share. Diluted earnings per share also assumes that any dilutive convertible debt outstanding was converted at the later of the date of issuance or the beginning of the period, with related interest and outstanding common shares adjusted accordingly. The following is a reconciliation of the number of shares used in the calculation of basic and diluted earnings per share for the years ended December 31, 2004, 2003 and 2002 (in millions):

	2004	2003	2002
Basic earnings per share of common stock:			
Weighted-average common shares outstanding	501	479	479
Effect of dilutive securities (Note 11):			
Restricted stock units	–	–	4
Stock options	–	–	5
Stock purchase contracts	–	–	1
Diluted earnings per share of common stock:			
Weighted-average common and common equivalent shares outstanding	501	479	489

In the computation of diluted earnings per share for 2004 and 2003, all common stock options, restricted stock units, the assumed conversion of convertible debt and the effect of forward purchase contracts were excluded because their inclusion would have been antidilutive. Securities that were outstanding but were not included in the computation of diluted earnings per share because their effect was antidilutive are as follows for the years ended December 31, 2004, 2003 and 2002 (in millions):

	2004	2003	2002
Common stock options.....	75	58	51
Restricted stock units	7	2	–
Convertible debt and forward purchase contracts	28	36	36

Accounting Changes

During the third quarter of 2003, the Company adopted the provisions of Emerging Issues Task Force (“EITF”) Issue No. 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*, on a cumulative basis as of January 1, 2003. EITF 00-21 modified the application of existing contract accounting literature followed by the Company prior to January 1, 2003. EITF 00-21 governs how to identify whether goods or services, or both, that are to be delivered separately in a bundled sales arrangement should be accounted for separately. In most circumstances, EITF 00-21 also limits the recognition of revenue in excess of amounts billed (e.g., unbilled revenue) to the amount that would be received if the client contract was terminated for any reason. The adoption of EITF 00-21 resulted in a non-cash adjustment reported as a cumulative effect of a change in accounting principle of \$1.42 billion (\$2.24 billion before tax). The adjustment resulted primarily from the reversal of unbilled revenue associated with the Company’s IT service contracts which had been accounted for as a single unit using the percentage-of-completion method of revenue recognition. Such reversal resulted from the fact that typical termination provisions of an IT service contract do not provide for the recovery of unbilled revenue in the event the contract is terminated for the Company’s nonperformance. The adjustment also reflects the deferral and subsequent amortization of system construction costs. Such costs were previously expensed as incurred and included in the percentage-of-completion model for the respective contracts.

During the years ended December 31, 2004 and 2003, the Company recognized revenues of approximately \$360 million and \$345 million, respectively, which had been recognized prior to January 1, 2003 and reversed in the cumulative effect adjustment recognized upon adoption of EITF 00-21. These amounts were estimated as the amount for which unbilled revenue would have been reduced in those periods for those contracts impacted by the cumulative adjustment based on the most recent percentage-of-completion models prepared for each contract during 2003. Such revenues have been offset by deferred cost amortization and charges recognized by the Company since January 1, 2003 associated with costs that had been recognized prior to January 1, 2003 and deferred in the cumulative effect adjustment.

The following table reflects pro forma amounts for the years ended December 31, 2002 adjusted for the aforementioned accounting change made on January 1, 2003 (in millions, except per share amounts):

	<u>2002</u>
Income from continuing operations	\$ 259
Net income	460
Basic earnings per share of common stock:	
Income from continuing operations	\$ 0.54
Net income	0.96
Diluted earnings per share of common stock:	
Income from continuing operations	\$ 0.53
Net income	0.94

A summary of the balance sheet at January 1, 2003 reflecting the cumulative accounting change as of such date is as follows (in millions):

Accounts receivable, net	\$ 3,290
Deferred contract costs, net	1,094
Total assets	17,551
Accounts payable and accrued liabilities	3,695
Deferred revenue	1,152
Minority interests and other long-term liabilities	456
Shareholders’ equity	5,530
Total liabilities and shareholders’ equity	17,551

The impact of the EITF 00-21 accounting change in 2003, excluding the effect of the cumulative accounting change, was to decrease the loss from continuing operations and net loss by \$725 million (\$1.51 per share). Because EDS’ accounting records for the second half of 2003 were prepared under EITF 00-21, percentage-of-completion calculations for the period were not subject to EDS’ percentage-of-completion accounting controls and procedures in place in previous periods. Accordingly, the impact of the accounting change referred to above is an estimate.

In January 2003 and December 2003, the Financial Accounting Standards Board (“FASB”) issued and then revised Interpretation No. 46 (“FIN 46”), *Consolidation of Variable Interest Entities*, an interpretation of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*. FIN 46 addresses consolidation by business enterprises of variable interest entities. Under prior practice, consolidation primarily occurred when one enterprise controlled the other through voting interests. FIN 46 explains how to identify variable interest entities and how an enterprise assesses its interests in a variable interest entity to decide whether to consolidate that entity. FIN 46 requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among the parties involved. Variable interest entities that

effectively disperse risks will not be consolidated unless a single party holds an interest or combination of interests that effectively recombines risks that were previously dispersed. The Company is involved in \$443 million of financings under various structures (see Note 15), of which \$241 million involve variable interest entities within the scope of FIN 46. The Company is not the primary beneficiary in the arrangements involving variable interest entities and therefore will not consolidate such entities. The remaining financings of \$202 million involve substantive operating entities, respectively, which are outside the scope of FIN 46.

Effective January 1, 2003, the Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 requires that the fair value of the liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The majority of the Company’s retirement obligations relate to leases which require the facilities be restored to original condition at the expiration of the leases. The adoption of SFAS No. 143 resulted in a reduction of income reported as a cumulative effect of a change in accounting principle of \$25 million (\$17 million after tax). Additionally, the fair value of the liability recorded on January 1, 2003 was \$48 million. Changes in the liability from the date of adoption of SFAS No. 143 and the pro forma impact of adoption on prior periods were not material.

During the fourth quarter of 2004, the Company adopted the provisions of EITF Issue No. 04-8, *The Effect of Contingently Convertible Instruments on Diluted Earnings per Share*, as of January 1, 2002. The Company has outstanding debt that is convertible to common shares if the Company’s stock reaches a target price, or trigger. Under SFAS No. 128, *Earnings per Share*, this contingently convertible debt was excluded from the computation of diluted earnings per share until the price trigger was met. EITF 04-8 requires the inclusion of contingently convertible debt in the computation of diluted earnings per share if the effect is dilutive, regardless of whether the share price trigger has been met. The Company has two such debt issues, the potential conversion of which had no effect on reported earnings per share.

Accounts Receivable

Reserves for uncollectible trade receivables are established when collection of amounts due from clients is deemed improbable. Indicators of improbable collection include client bankruptcy, client litigation, industry downturns, client cash flow difficulties or ongoing service or billing disputes. Receivables more than 180 days past due are automatically reserved unless persuasive evidence of probable collection exists. Accounts receivable are shown net of allowances of \$152 million and \$124 million at December 31, 2004 and 2003, respectively.

Marketable Securities

Marketable securities at December 31, 2004 and 2003 consist of government and agency obligations, corporate debt and corporate equity securities. The Company classifies all of its debt and marketable equity securities as trading or available-for-sale. All such investments are recorded at fair value. Changes in net unrealized holding gains (losses) on trading securities are recognized in income, whereas changes in net unrealized holding gains (losses) on available-for-sale securities are reported as a component of other comprehensive income (loss), net of tax, in shareholders’ equity until realized.

Investments in marketable securities are monitored for impairment and written down to fair value with a charge to earnings if a decline in fair value is judged to be other than temporary. The Company considers several factors to determine whether a decline in the fair value of an equity security is other than temporary, including the length of time and the extent to which the fair value has been less than carrying value, the financial condition of the investee, and the intent and ability of the Company to retain the investment for a period of time sufficient to allow a recovery in value.

Property and Equipment

Property and equipment are carried at cost. Depreciation of property and equipment is calculated using the straight-line method over the shorter of the asset’s estimated useful life or the term of the lease in the case of leasehold improvements. The ranges of estimated useful lives are as follows:

	<u>Years</u>
Buildings	40-50
Facilities	5-20
Computer equipment	3-5
Other equipment and furniture	5-20

The Company reviews its property and equipment for impairment whenever events or changes in circumstances indicate the carrying values of such assets may not be recoverable. For property and equipment to be held and used, impairment is determined by a comparison of the carrying value of the asset to the future undiscounted net cash flows expected to be generated by the asset. If such assets are determined to be impaired, the impairment recognized is the amount by which the carrying value of the assets exceeds the fair value of the assets. Property and equipment to be disposed of by sale is carried at the lower of then current carrying value or fair value less cost to sell.

Investments and Other Assets

Investments in non-marketable equity securities are monitored for impairment and written down to fair value with a charge to earnings if a decline in fair value is judged to be other than temporary. The fair values of non-marketable equity securities are determined based on quoted market prices. If quoted market prices are not available, fair values are estimated based on an evaluation of numerous indicators including, but not limited to, offering prices of recent issuances of the same or similar equity instruments, quoted market prices for similar companies and comparisons of recent financial information, operating plans, budgets, market studies and client information to the information used to support the initial valuation of the investment. The Company considers several factors to determine whether a decline in the fair value of a non-marketable equity security is other than temporary, including the length of time and the extent to which the fair value has been less than carrying value, the financial condition of the investee, and the intent and ability of the Company to retain the investment for a period of time sufficient to allow a recovery in value.

Goodwill and Other Intangibles

The cost of acquired companies is allocated to the assets acquired and liabilities assumed based on estimated fair values at the date of acquisition. Costs allocated to identifiable intangible assets with finite lives, other than purchased software, are generally amortized on a straight-line basis over the remaining estimated useful lives of the assets, as determined by underlying contract terms or appraisals. Such lives range from one to 14 years. Identifiable intangible assets with indefinite useful lives are not amortized but instead tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Intangible assets with indefinite useful lives are impaired when the carrying value of the asset exceeds their fair value. Tradename indefinite-lived intangible assets are written down to fair value with a charge to expense in the period the impairment is identified.

The excess of the cost of acquired companies over the net amounts assigned to assets acquired and liabilities assumed is recorded as goodwill. Goodwill is not amortized but instead tested for impairment at least annually. The first step of the impairment test is a comparison of the fair value of a reporting unit to its carrying value. Reporting units are the Company's lines of business or the geographic components of its lines of business that share similar economic characteristics. The fair value of a reporting unit is estimated using the Company's projections of discounted future operating cash flows of the unit. Goodwill allocated to a reporting unit whose fair value is equal to or greater than its carrying value is not impaired and no further testing is required. A reporting unit whose fair value is less than its carrying value requires a second step to determine whether the goodwill allocated to the unit is impaired. The second step of the goodwill impairment test is a comparison of the implied fair value of a reporting unit's goodwill to its carrying value. The implied fair value of a reporting unit's goodwill is determined by allocating the fair value of the entire reporting unit to the assets and liabilities of that unit, including any unrecognized intangible assets, based on fair value. The excess of the fair value of the entire reporting unit over the amounts allocated to the identifiable assets and liabilities of the unit is the implied fair value of the reporting unit's goodwill. Goodwill of a reporting unit is impaired when its carrying value exceeds its implied fair value. Impaired goodwill is written down to its implied fair value with a charge to expense in the period the impairment is identified. As this impairment test is based on the Company's assessment of the fair value of its reporting units, future changes to these estimates could also cause an impairment of a portion of the Company's goodwill balance.

The Company conducts an annual impairment test for goodwill as of December 1st. The Company determines the timing and frequency of additional goodwill impairment tests based on an ongoing assessment of events and circumstances that would more than likely reduce the fair value of a reporting unit below its carrying value. Events or circumstances that might require the need for more frequent tests include, but are not limited to: the loss of a number of significant clients, the identification of other impaired assets within a reporting unit, the disposition of a significant portion of a reporting unit, or a significant adverse change in business climate or regulations. The Company also considers the amount by which the fair value of a particular reporting unit exceeded its carrying value in the most recent goodwill impairment test to determine whether more frequent tests are necessary.

Purchased or licensed software not subject to a subscription agreement is capitalized and amortized on a straight-line basis, generally over two to five years. Costs of developing and maintaining software systems incurred primarily in connection with client contracts are considered contract costs. Purchased software and certain development costs for computer software sold, leased or otherwise marketed as a separate product or as part of a product or process are capitalized and amortized on a product-by-product basis over their remaining estimated useful lives at the greater of straight-line or the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product. Estimated useful lives of software products to be sold, leased or otherwise marketed range from three to seven years. Software development costs incurred to meet the Company's internal needs are capitalized and amortized on a straight-line basis over three to five years. Software under subscription arrangements, whereby the software provider makes available current software products as well as products developed or acquired during the term of the arrangement, are expensed ratably over the subscription term.

Sales of Financial Assets

The Company accounts for the sale of financial assets when control over the financial asset is relinquished. The Company sold \$51 million, \$668 million and \$142 million of financial assets, primarily lease receivables, during 2004, 2003 and 2002, respectively. In most cases, the Company sold lease receivables to a legally isolated securitization trust. If a trust is not used, the receivables are sold to an independent substantive financial institution. A residual beneficial interest, representing the Company's right to receive certain monthly residual cash flows from the securitization trust, retained by the Company was recorded as a current asset at its fair value of \$264 million at December 31, 2003. The residual beneficial interest was zero at December 31, 2004 due to the Company's repurchase of the financial assets from the securitization trust in 2004 (see Note 15). None of these transactions resulted in any significant gain or loss, or servicing asset or servicing liability.

Revenue Recognition and Deferred Contract Costs

The Company provides IT and business process outsourcing services under time-and-material, unit-price and fixed-price contracts, which may extend up to 10 or more years. Services provided over the term of these arrangements may include one or more of the following: IT infrastructure support and management; IT system and software maintenance; application hosting; the design, development, and/or construction of software and systems ("Construct Service"); transaction processing; business process management and consulting services.

If a contract involves the provision of a single element, revenue is generally recognized when the product or service is provided and the amount becomes billable either currently or upon any contract termination event. If the service is provided evenly during the contract term but service billings are irregular, revenue is recognized on a straight-line basis over the contract term. However, if the single service is a Construct Service, revenue is recognized under the percentage-of-completion method using a zero-profit methodology. Under this method, costs are deferred until contractual milestones are met, at which time the milestone billing is recognized as revenue and an amount of deferred costs is recognized as expense so that cumulative profit equals zero. If the milestone billing exceeds deferred costs, then the excess is recorded as deferred revenue. When the Construct Service is completed and the final milestone met, all unrecognized costs, milestone billings, and profit are recognized in full. If the contract does not contain contractual milestones, costs are expensed as incurred and revenue is recognized in an amount equal to costs incurred until completion of the Construct Service, at which time any profit would be recognized in full. If total costs are estimated to exceed revenue for the Construct Service, then a provision for the estimated loss is made in the period in which the loss first becomes apparent.

If a contract involves the provision of multiple service elements, total estimated contract revenue is allocated to each element based on the relative fair value of each element. The amount of revenue allocated to each element is limited to the amount that is not contingent upon the delivery of another element in the future. Revenue is then recognized for each element as described above for single-element contracts, except revenue recognized on a straight-line basis for a non-Construct Service will not exceed amounts currently billable unless the excess revenue is recoverable from the client upon any contract termination event. If the amount of revenue allocated to a Construct Service is less than its relative fair value, costs to deliver such service equal to the difference between allocated revenue and the relative fair value are deferred and amortized over the contract term. If total Construct Service costs are estimated to exceed the relative fair value for the Construct Service contained in a multiple-element arrangement, then a provision for the estimated loss is made in the period in which the loss first becomes apparent.

The Company also defers and subsequently amortizes certain set-up costs related to activities that enable the provision of contracted services to the client. Such activities include the relocation of transitioned employees, the migration of client systems or processes, and the exit of client facilities. Deferred contract costs, including set-up costs, are amortized on a straight-line basis over the remaining original contract term unless billing patterns indicate a more accelerated method is appropriate. The recoverability of deferred contract costs associated with a particular contract is analyzed on a periodic basis using the undiscounted estimated cash flows of the whole contract over its remaining contract term. If such undiscounted cash flows are insufficient to recover the long-lived assets and deferred contract costs, including contract concessions paid to the client, the deferred contract costs and contract concessions are written down by the amount of the cash flow deficiency. If a cash flow deficiency remains after reducing the balance of the deferred contract costs and contract concessions to zero, any remaining long-lived assets are evaluated for impairment. Any such impairment recognized would equal the amount by which the carrying value of the long-lived assets exceeds the fair value of those assets.

During 2002, under the Company's previous revenue recognition policy, revenue was recognized when the client may have been billed under time-and-material and certain unit-price and fixed-price contracts under which costs were generally incurred in proportion with contracted billing schedules. For other unit-price and fixed-price contracts, revenue was recognized on the percentage-of-completion method, as measured by the proportion of incurred contract costs as of the reporting date to total estimated contract costs after giving effect to the most recent estimates of total cost. Risks relating to service delivery, usage, productivity and other factors were considered in the estimation process. If sufficient risk existed, a zero-profit methodology was applied to a specific client contract's percentage-of-completion model whereby the amount of revenue recognized was limited to the amount of costs incurred until such time as the risks had been partially or wholly mitigated through performance. The effect of changes to total estimated contract revenue and costs, including changes resulting from the cessation of the use of the zero-profit

methodology, were recognized in the period such changes were determined. Provisions for estimated losses on individual contracts were made in the period in which the loss first became apparent.

The Company's software licensing arrangements typically include multiple elements, such as software products, post-contract customer support, consulting and training. The aggregate arrangement fee is allocated to each of the undelivered elements in an amount equal to its fair value, with the residual of the arrangement fee allocated to the delivered elements. Fair values are based upon vendor-specific objective evidence. Fees allocated to each software element of the arrangement are recognized as revenue when the following criteria have been met: a) a written contract for the license of software has been executed, b) the Company has delivered the product to the customer, c) the license fee is fixed or determinable, and d) collectibility of the resulting receivable is deemed probable. If evidence of fair value of the undelivered elements of the arrangement does not exist, all revenue from the arrangement is deferred until such time evidence of fair value does exist, or until all elements of the arrangement are delivered. Fees allocated to post-contract customer support are recognized as revenue ratably over the support period. Fees allocated to other services are recognized as revenue as the service is performed.

Deferred revenue of \$1,062 million and \$1,079 million at December 31, 2004 and 2003, respectively, represented billings in excess of amounts earned on certain contracts.

Currency Translation

Assets and liabilities of non-U.S. subsidiaries whose functional currency is not the U.S. dollar are translated at current exchange rates. Revenue and expense accounts are translated using an average rate for the period. Translation gains and losses are not included in determining net income (loss), but are reflected in the comprehensive income (loss) component of shareholders' equity. Cumulative currency translation adjustment gains (losses) included in shareholders' equity were \$482 million (net of deferred tax of \$75 million), \$226 million and \$(240) million at December 31, 2004, 2003 and 2002, respectively. Net currency transaction losses, net of income taxes, are included in determining net income (loss) and were \$13 million, \$32 million and \$23 million, respectively, for the years ended December 31, 2004, 2003 and 2002.

Financial Instruments and Risk Management

The following table presents the carrying amounts and fair values of the Company's significant financial instruments at December 31, 2004 and 2003 (in millions):

	2004		2003	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Available-for-sale marketable securities (Note 2).....	\$ 1,453	\$ 1,453	\$ 74	\$ 74
Trading marketable securities (Note 2).....	37	37	42	42
Investments in securities, joint ventures and partnerships, excluding equity method investments (Note 5)	15	15	18	18
Long-term debt and secured A/R facility (Note 8).....	(3,826)	(4,025)	(5,763)	(5,707)
Foreign currency forward contracts, net liability	(19)	(19)	(22)	(22)
Interest rate swap agreements, net liability	(37)	(37)	(75)	(75)

Current marketable securities are carried at their estimated fair value based on current market quotes. The fair values of certain long-term investments are estimated based on quoted market prices for these or similar investments. For other investments, various methods are used to estimate fair value, including external valuations and discounted cash flows. The fair value of long-term debt is estimated based on the quoted market prices for the same or similar issues or based on the current rates offered to the Company for instruments with similar terms, degree of risk and remaining maturities. The fair value of foreign currency forward and interest rate swap contracts represents the estimated amount to settle the contracts using current market exchange or interest rates. The carrying values of other financial instruments, such as cash equivalents, accounts and notes receivable, and accounts payable, approximate their fair value.

The Company makes investments, receives revenues and incurs expenses in many countries and has exposure to market risks arising from changes in interest rates, foreign exchange rates and equity prices. The Company has also invested in start-up companies to gain access to technology and marketplaces in which the Company intended to grow its business. The Company's ability to sell these investments may be constrained by market or other factors. Derivative financial instruments are used to hedge against these risks by creating offsetting market positions. The Company does not hold or issue derivative financial instruments for trading purposes.

The notional amounts of derivative contracts, summarized below as part of the description of the instruments utilized, do not necessarily represent the amounts exchanged by the parties and thus are not necessarily a measure of the exposure of the Company resulting from its use of derivatives. The amounts exchanged by the parties are normally calculated on the basis of the notional amounts and the other terms of the derivatives.

Foreign Currency Risk

The Company has significant international sales and purchase transactions in foreign currencies. The Company hedges forecasted and actual foreign currency risk with purchased currency options and forward contracts that expire generally within 30 days. These derivative instruments are employed to eliminate or minimize certain foreign currency exposures that can be confidently identified and quantified. Generally, these instruments are not designated as hedges for accounting purposes, and changes in the fair value of these instruments are recognized immediately in other income (expense). The Company's currency hedging activities are focused on exchange rate movements, primarily in Canada, the United Kingdom, Western European countries that use the euro as a common currency, Australia and New Zealand. At December 31, 2004 and 2003, the Company had forward exchange contracts to purchase various foreign currencies in the amount of \$1.9 billion and \$859 million, respectively, and to sell various foreign currencies in the amount of \$1.5 billion and \$1.4 billion, respectively.

Securities Price Risk

The Company has used derivative instruments to eliminate or reduce market price risk associated with strategic equity investments. Securities selected for hedging are determined after considering market conditions, up-front hedging costs and other relevant factors. Once established, hedges are generally not removed until maturity. The Company was not party to any such instruments at December 31, 2004.

Interest Rate Risk

The Company enters into interest rate swap agreements that convert fixed-rate instruments to variable-rate instruments to manage interest rate risk. The derivative financial instruments are designated and documented as fair value hedges at the inception of the contract. Changes in fair value of derivative financial instruments are recognized in earnings as an offset to changes in fair value of the underlying exposure which are also recognized in other income (expense). The impact on earnings from recognizing the fair value of these instruments depends on their intended use, their hedge designation, and their effectiveness in offsetting the underlying exposure they are designed to hedge.

At December 31, 2004 and 2003, the Company had interest rate swap fair value hedges outstanding in the notional amounts of \$1.8 billion and \$2.3 billion, respectively, in connection with its long-term notes payable (see Note 8). Under the swaps, the Company receives fixed rates ranging from 6.00% to 7.125% and pays floating rates tied to the London Interbank Offering Rate ("LIBOR"). The weighted-average floating rates were 4.40% and 3.43% at December 31, 2004 and 2003, respectively. At December 31, 2004 and 2003, the Company had \$700 million and \$1.2 billion, respectively, of swaps and related debt which contained the same critical terms. Accordingly, no gain or loss relating to the change in fair value of the swap and related hedged item was recognized in earnings. At December 31, 2004, \$1.1 billion of the interest rate swaps contained different terms than the related underlying debt. Accordingly, the Company recognized in earnings the change in fair value of the interest rate swap and underlying debt which amounted to a gain of \$1.5 million during 2004. Such gain is included in interest expense and other, net in the accompanying consolidated statement of operations.

Other Financial Risk Management Activities

During 2001, the Company initiated a program to manage the future stock issuance requirements of its employee stock incentive plans (see Note 11) by utilizing equity investment contracts for EDS stock. At December 31, 2001, the Company owned equity contracts to purchase 539,000 shares of EDS common stock at a weighted-average price of \$70.14. The Company also had put obligations covering 821,000 shares of EDS common stock at a weighted-average price of \$70.73. During 2002, the Company entered into additional equity investment contracts to purchase 2,142,000 shares of EDS common stock at a weighted-average price of \$59.74 and additional put obligations covering 1,938,000 shares of EDS common stock at a weighted-average price of \$60.59. The Company settled all of these contracts in 2002 through a series of purchases of 5.4 million cumulative treasury shares of EDS common stock for \$340 million at a weighted-average exercise price of \$62.73 per share. The principal source of funding for these purchases was proceeds from commercial paper borrowings. Amounts paid upon the purchase of the underlying shares, net of put premiums received in 2001 and 2002 of \$17 million, were recorded as a component of shareholders' equity. No equity investment contracts issued under this program were outstanding at December 31, 2004 and 2003.

Comprehensive Income (Loss) and Shareholders' Equity

Comprehensive income (loss) includes all changes in equity during a period, except those resulting from investments by and distributions to owners. For the years ended December 31, 2004, 2003 and 2002, reclassifications from accumulated other comprehensive loss to net income (loss) of net gains (losses) recognized on marketable security transactions were \$1 million, \$4 million and \$(3) million, net of the related tax expense (benefit) of \$0.4 million, \$1 million and \$(1) million, respectively.

The following table presents changes within each classification of accumulated other comprehensive loss for the years ended December 31, 2004 and 2003 (in millions):

	Cumulative Translation Adjustments	Unrealized Gains (Losses) on Securities	Minimum Pension Liability Adjustment	Accumulated Other Compre- hensive Loss
Balance at December 31, 2002	\$ (240)	\$ 5	\$ (454)	\$ (689)
Change.....	466	(3)	95	558
Balance at December 31, 2003	226	2	(359)	(131)
Change.....	256	(5)	(179)	72
Balance at December 31, 2004	\$ 482	\$ (3)	\$ (538)	\$ (59)

In connection with its employee stock incentive plans, the Company issued 7.6 million and 3.7 million shares of treasury stock at a cost of \$458 million and \$257 million during 2004 and 2003, respectively. The difference between the cost and fair value at the date of issuance of such shares has been recognized as a charge to retained earnings of \$278 million and \$154 million in the consolidated balance sheet and statement of shareholders' equity and comprehensive income (loss) during 2004 and 2003, respectively.

Income Taxes

The Company provides for deferred taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed. The deferral method is used to account for investment tax credits. Valuation allowances are recorded to reduce deferred tax assets to an amount whose realization is more likely than not. Income taxes payable are recorded whenever there is a difference between amounts reported by the Company in its tax returns and the amounts the Company believes it would likely pay in the event of an examination by taxing authorities. The Company accrues interest on such amounts and includes the associated expense in provision (benefit) for income taxes in the accompanying consolidated statements of operations. Income taxes payable are classified in the accompanying consolidated balance sheets based on their estimated payment date.

Statements of Cash Flows

The Company considers the following asset classes with original maturities of three months or less to be cash equivalents: certificates of deposit, commercial paper, repurchase agreements and money market funds.

Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates. Areas in which significant judgments and estimates are used include, but are not limited to, cost estimation for Construct Service elements, projected cash flows associated with recoverability of deferred contract costs, contract concessions and long-lived assets, liabilities associated with pensions and performance guarantees, loss accruals for litigation, and receivables collectibility. It is reasonably possible that events and circumstances could occur in the near term that would cause such estimates to change in a manner that would be material to the consolidated financial statements.

Concentration of Credit Risk

Net operating receivables from General Motors ("GM") and its affiliates totaled \$125 million and \$334 million as of December 31, 2004 and 2003, respectively. In addition, the Company has several large contracts with major U.S. and foreign corporations, each of which may result in the Company carrying a receivable balance between \$50 million and \$100 million at any point in time. At December 31, 2004 and 2003, the Company had net operating receivables of \$152 million and \$167 million, respectively, and investments in leveraged leases of \$99 million and \$139 million, respectively, associated with travel-related industry clients, primarily airlines. Other than operating receivables from GM and aforementioned contracts, concentrations of credit risk with respect to accounts receivable are generally limited due to the large number of clients forming the Company's client base and their dispersion across different industries and geographic areas.

The Company is exposed to credit risk in the event of nonperformance by counterparties to derivative contracts. Because the Company deals only with major commercial banks with high-quality credit ratings, the Company believes the risk of nonperformance by any of these counterparties is remote.

Stock-Based Compensation

The Company recognizes compensation cost associated with stock-based awards under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. The difference between the quoted market price as of the date of the grant and the contractual purchase price of shares is charged to operations over the vesting period on a straight-line basis. No compensation cost has been recognized for fixed stock options with exercise prices equal to the market price of the stock on the dates of grant and shares acquired by employees under the EDS Stock Purchase Plan or Nonqualified Stock Purchase Plan. Pro forma net income and earnings per share disclosures as if the Company recorded compensation expense based on fair value for stock-based awards have been presented in accordance with the provisions of SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*, and are as follows for the years ended December 31, 2004, 2003 and 2002 (in millions, except per share amounts):

	2004	2003	2002
Net income (loss):			
As reported.....	\$ 158	\$ (1,698)	\$ 1,116
Stock-based employee compensation cost included in reported net income (loss), net of related tax effects	27	40	39
Total stock-based employee compensation expense determined under fair value-based method for all awards, net of related tax effects	(165)	(209)	(312)
Pro forma	<u>\$ 20</u>	<u>\$ (1,867)</u>	<u>\$ 843</u>
Basic earnings per share of common stock:			
As reported.....	\$ 0.32	\$ (3.55)	\$ 2.33
Pro forma	0.04	(3.90)	1.76
Diluted earnings per share of common stock:			
As reported.....	\$ 0.32	\$ (3.55)	\$ 2.28
Pro forma	0.04	(3.90)	1.73

The weighted-average fair value of options granted was \$8.60, \$4.70 and \$19.59 for 2004, 2003 and 2002, respectively. The fair value of each option is estimated at the date of grant using a modified Black-Scholes option pricing model, with the following weighted-average assumptions for 2004, 2003 and 2002, respectively: dividend yields of 2.9%, 3.6% and 1.1%; expected volatility of 61.7%, 45.9% and 42.7%; risk-free interest rate of 2.7%, 2.7% and 4.5%; and expected lives of 4.8 years, 4.2 years and 3.8 years.

Reclassifications

Certain reclassifications have been made to the 2003 and 2002 consolidated financial statements to conform to the 2004 presentation.

NOTE 2: MARKETABLE SECURITIES

Trading securities at December 31, 2004 and 2003 had carrying amounts of \$37 million and \$42 million, respectively. Changes in net unrealized holding gains (losses) on trading securities included in earnings were \$3 million, \$8 million and \$(8) million for the years ended December 31, 2004, 2003 and 2002, respectively.

The following is a summary of current available-for-sale marketable securities at December 31, 2004 and 2003 (in millions):

	2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government and agency obligations	\$ 226	\$ –	\$ –	\$ 226
Obligations of states and political subdivisions	12	–	–	12
Corporate debt securities.....	359	–	(1)	358
Mortgage-backed securities	381	–	(2)	379
Asset-backed securities	438	–	(3)	435
Total debt securities	1,416	–	(6)	1,410
Equity securities	42	1	–	43
Total current available-for-sale securities	<u>\$ 1,458</u>	<u>\$ 1</u>	<u>\$ (6)</u>	<u>\$ 1,453</u>

	2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government and agency obligations	\$ 25	\$ 1	\$ -	\$ 26
Other debt securities	5	-	-	5
Total debt securities	30	1	-	31
Equity securities	42	1	-	43
Total current available-for-sale securities	<u>\$ 72</u>	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 74</u>

The amortized cost and estimated fair value of current available-for-sale debt securities at December 31, 2004, by contractual maturity, are shown below (in millions). Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to repay obligations without prepayment penalties.

	Amortized Cost	Estimated Fair Value
Debt securities:		
Due in one year or less	\$ 155	\$ 155
Due after one year through five years	413	412
Due after five years through ten years	7	7
Due after ten years	22	22
Mortgage-backed securities	381	379
Asset-backed securities	438	435
Total debt securities	<u>\$ 1,416</u>	<u>\$ 1,410</u>

The following table summarizes sales of available-for-sale securities for the years ended December 31, 2004, 2003 and 2002 (in millions). Specific identification was used to determine cost in computing realized gain or loss.

	2004	2003	2002
Proceeds from sales	\$ 956	\$ 548	\$ 60
Gross realized gains	3	3	-
Gross realized losses	(4)	(3)	(30)

NOTE 3: PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at December 31, 2004 and 2003 (in millions):

	2004	2003
Land	\$ 118	\$ 116
Buildings and facilities	1,862	1,991
Computer equipment	4,939	5,613
Other equipment and furniture	529	600
Subtotal	7,448	8,320
Less accumulated depreciation	(5,232)	(5,502)
Total	<u>\$ 2,216</u>	<u>\$ 2,818</u>

The Company recorded a non-cash impairment charge of \$375 million in 2004 to write-down long-lived assets used on the Company's Navy Marine Corps Intranet ("NMCI") contract to estimated fair value. The impairment charge is reported as a component of cost of revenues in the consolidated statement of operations and is reflected in the results of the NMCI segment. Fair value was measured by probability weighting future contract pre-tax cash flows discounted at a pre-tax risk free discount rate. The decline in the fair value of these assets is primarily a result of lower estimates of future revenues as a result of several events occurring during 2004. Such events include the failure to meet seat cutover schedules, a revision of the timeline for meeting performance service levels contained in a contract amendment signed September 30, 2004, a deceleration in customer satisfaction improvement rates, and delays in signing certain anticipated contract modifications and additions. Remaining long-lived assets and lease receivables associated with the contract totaled approximately \$160 million and \$717 million, respectively, at December 31, 2004.

The Company had a significant commercial contract under which it provided various IT services using the legacy IT systems acquired from the client while developing and deploying a new IT system dedicated to that client. This contract experienced delays in its development and construction phases, and milestones in the contract had been missed. Throughout the contract period, the Company negotiated with the client to resolve critical issues, including those associated with the pricing and

technical specifications for the new IT system. In July 2004, the Company and the client reached an agreement to terminate the existing contract effective as of August 1, 2004, provide transition services for a limited period thereafter and settle each party's outstanding claims. During 2004, the Company recognized charges of \$128 million to write-down certain assets to fair value. In addition, the Company recognized a \$14 million charge during 2004 to record contract-related vendor commitments and employee severance obligations associated with the contract. All of the aforementioned amounts associated with this contract are included in cost of revenues in the consolidated statements of operations and are reflected in the results of the Outsourcing segment.

NOTE 4: DEFERRED CONTRACT COSTS

In connection with changes in accounting policy adopted as of January 1, 2003, the Company began deferring certain costs relating to construction and set-up activities on client contracts (see Note 1). The following is a summary of deferred costs at January 1, 2003 and December 31, 2004 and 2003 (in millions):

	Deferred Costs	Accumulated Amortization	Total
Balance at January 1, 2003	\$ 1,507	\$ (413)	\$ 1,094
Additions	540	(295)	245
Other	(519)	50	(469)
Balance at December 31, 2003	1,528	(658)	870
Additions	126	(298)	(172)
Other	158	(148)	10
Balance at December 31, 2004	<u>\$ 1,812</u>	<u>\$ (1,104)</u>	<u>\$ 708</u>

During 2003, the Company recorded a write-down of \$559 million of deferred costs in cost of revenues associated with its contract with the Department of Navy to install a fully dedicated intranet and related infrastructure. Future estimated cash flows to be generated by the contract were no longer sufficient to recover such costs. The "other" line item in the table above includes changes associated with foreign currency translation adjustments and asset write-downs, including the NMCI contract deferred cost write-downs in 2003.

Estimated amortization expense related to deferred costs at December 31, 2004 for each of the years in the five-year period ending December 31, 2009 and thereafter is (in millions): 2005 – \$170; 2006 – \$137; 2007 – \$127; 2008 – \$97; 2009 – \$87 and thereafter – \$90.

NOTE 5: INVESTMENTS AND OTHER ASSETS

The following is a summary of investments and other assets at December 31, 2004 and 2003 (in millions):

	2004	2003
Lease contracts receivable (net of principal and interest on non-recourse debt)	\$ 65	\$ 76
Estimated residual values of leased assets (not guaranteed)	25	37
Unearned income, including deferred investment tax credits	(35)	(43)
Total investment in leveraged leases (excluding deferred taxes of \$18 million and \$30 million at December 31, 2004 and 2003, respectively)	55	70
Leveraged lease partnership investment	99	139
Investments in equipment for lease	411	253
Investments in securities, joint ventures and partnerships	50	27
Deferred pension costs	59	320
Other	240	242
Total	<u>\$ 914</u>	<u>\$ 1,051</u>

The Company holds interests in various equipment financing leases financed with non-recourse borrowings at lease inception accounted for as leveraged leases. The Company's investment in leveraged leases is comprised of a fiber optic equipment leveraged lease with a subsidiary of MCI entered into in 1988. During 2003, the Company reached an agreement with MCI on amended terms that do not differ materially from the previous lease agreement. For U.S. federal income tax purposes, the Company receives the investment tax credit (if available) at lease inception and has the benefit of tax deductions for depreciation on the leased asset and for interest on the non-recourse debt. All non-recourse borrowings have been satisfied in relation to these leases.

The Company holds an equity interest in a partnership which holds leveraged aircraft lease investments. The Company accounts for its interest in the partnership under the equity method. During 2004, the Company recorded a write-down of \$34 million of its investment in the partnership due to a reduction in the expected cash flows from the partnership. This reduction includes a renegotiation of leases with a U.S. airline. During 2002, the Company recorded write-downs totaling \$76 million to its investment in the partnership due to uncertainties regarding the recoverability of the partnership's investments with US Airways

and United Airlines, both of which filed for bankruptcy in 2002. These write-downs are reflected in other income (expense) in the Company's consolidated statements of operations. At December 31, 2004, the partnership's remaining leveraged lease investments involve leases with Delta Airlines, Continental Airlines, American Airlines and one international airline. The Company's ability to recover its remaining investment in the partnership is dependent upon the continued payment of rentals by the lessees. In the event such lessees are relieved from their obligation to pay such rentals as a result of bankruptcy, the investment in the partnership would likely be further impaired.

Investments in securities, joint ventures and partnerships includes investments accounted for under the equity method of \$35 million and \$9 million at December 31, 2004 and 2003, respectively. The Company recognized impairment losses totaling \$1 million in 2004 and \$22 million in 2002 due to other than temporary declines in the fair values of certain non-marketable equity securities. These losses are reflected in other income (expense) in the Company's consolidated statements of operations.

Investments in equipment for lease is comprised of equipment to be leased to clients under long-term IT contracts and net investment in leased equipment associated with such contracts. The net investment in leased equipment associated with the NMCI contract was \$717 million and \$128 million at December 31, 2004 and 2003, respectively. At December 31, 2004, future minimum lease payments to be received under the NMCI contract are \$677 million. In addition, the unguaranteed residual values accruing to EDS are \$74 million. Unearned interest income related to these leases is \$34 million. At December 31, 2004, the net lease receivable balance is classified as components of prepaids and other and investments and other assets. At December 31, 2004, future minimum lease payments to be received are as follows: 2005 – \$362 million; 2006 – \$222 million; 2007 – \$93 million.

NOTE 6: GOODWILL AND OTHER INTANGIBLE ASSETS

The following is a summary of changes in the carrying amount of goodwill by segment for the years ended December 31, 2004 and 2003 (in millions):

	Outsourcing	A.T. Kearney	Total
Balance at December 31, 2002	\$ 3,088	\$ 21	\$ 3,109
Additions	17	–	17
Deletions	(33)	–	(33)
Other	379	–	379
Balance at December 31, 2003	3,451	21	3,472
Additions	54	–	54
Deletions	(11)	–	(11)
Other	146	(4)	142
Balance at December 31, 2004	<u>\$ 3,640</u>	<u>\$ 17</u>	<u>\$ 3,657</u>

The Company changed its segment reporting during 2003 and 2002 to conform to new organizational structures (see Note 12). Goodwill was reassigned to the new reporting segments based on the relative fair value of each segment to the aggregate fair value of those segments affected by the reorganization.

Goodwill additions resulted from acquisitions completed in 2004 (see Note 16) and include adjustments to the preliminary purchase price allocations. Goodwill deletions resulted from divestitures completed in 2004 and 2003 (see Notes 17 and 19). Other changes to the carrying amount of goodwill were primarily due to foreign currency translation adjustments. The Company conducted its annual goodwill impairment tests as of December 1, 2004 and 2003. No impairment losses were identified as a result of these tests.

Intangible assets with definite useful lives are amortized over their respective estimated useful lives to their estimated residual values. Effective January 1, 2002, intangible assets with indefinite useful lives are not amortized but instead tested for impairment at least annually. The following is a summary of intangible assets at December 31, 2004 and 2003 (in millions):

	2004		
	Gross Carrying Amount	Accumulated Amortization	Total
Definite Useful Lives			
Software.....	\$ 2,355	\$ 1,777	\$ 578
Customer accounts.....	294	174	120
Other.....	300	227	73
Total.....	<u>\$ 2,949</u>	<u>\$ 2,178</u>	771
Indefinite Useful Lives			
Tradename.....			133
Total intangible assets.....			<u>\$ 904</u>
	2003		
	Gross Carrying Amount	Accumulated Amortization	Total
Definite Useful Lives			
Software.....	\$ 2,569	\$ 1,682	\$ 887
Customer accounts.....	287	141	146
Other.....	248	183	65
Total.....	<u>\$ 3,104</u>	<u>\$ 2,006</u>	1,098
Indefinite Useful Lives			
Tradename.....			133
Total intangible assets.....			<u>\$ 1,231</u>

The Company recorded a \$38 million asset impairment provision during 2002 related to its decision to exit the subscription fulfillment business included in the Outsourcing segment. This amount is reflected in discontinued operations in the Company's consolidated statements of operations. The impairment provision was calculated as the difference between carrying value of the net assets of the subscription fulfillment business and its estimated selling price, and resulted in the write-off of certain customer accounts intangible assets totaling \$28 million.

In connection with the divestiture of Technology Solutions, \$8 million of customer accounts intangibles allocated to this business were included in the \$9 million net loss on sale recorded in discontinued operations in the year ended December 31, 2003.

Amortization expense related to intangible assets, including amounts pertaining to discontinued operations, was \$591 million and \$579 million for the years ended December 31, 2004 and 2003, respectively. Estimated amortization expense related to intangible assets subject to amortization at December 31, 2004 for each of the years in the five-year period ending December 31, 2009 and thereafter is (in millions): 2005 – \$370; 2006 – \$219; 2007 – \$77; 2008 – \$30; 2009 – \$18; and thereafter – \$57.

NOTE 7: ACCRUED LIABILITIES

The following is a summary of accrued liabilities at December 31, 2004 and 2003 (in millions):

	2004	2003
Accrued liabilities relating to:		
Contracts.....	\$ 789	\$ 1,013
Payroll.....	695	800
Restructuring activities.....	209	179
Property, sales and franchise taxes.....	367	347
Other.....	884	993
Total.....	<u>\$ 2,944</u>	<u>\$ 3,332</u>

NOTE 8: LONG-TERM DEBT AND SECURED ACCOUNTS RECEIVABLE FACILITY

The following is a summary of long-term debt and secured accounts receivable, or A/R, facility at December 31, 2004 and 2003 (in millions):

	2004		2003	
	Amount	Weighted-Average Rate	Amount	Weighted-Average Rate
Secured A/R facility	\$ —		\$ —	
Long-term debt:				
Senior notes due 2013	\$ 1,085	6.50%	\$ 1,084	6.00%
Convertible notes due 2023	690	3.88%	690	3.88%
Senior notes due 2009	700	7.12%	700	7.12%
Notes payable due 2005 to 2029	1,047	6.93%	1,348	6.99%
Other, including capital leases	304	—	331	—
Senior notes due 2004	—	—	1,610	5.78%
Total	3,826		5,763	
Less current portion of long-term debt	(658)		(2,275)	
Long-term debt	<u>\$ 3,168</u>		<u>\$ 3,488</u>	

During September 2004, the Company entered into a \$550 million Three-and-One-Half Year Multi Currency Revolving Credit Agreement with a bank group including Citibank, N.A., as Administrative Agent, and Bank of America, N.A., as Syndication Agent. The new facility replaces the Company's five year \$550 million revolving credit facility, which expired in September 2004. The new facility may be used for general corporate borrowing purposes and the issuance of letters of credit. The aggregate availability under the new facility, together with the Company's \$450 million Three-Year Multi Currency Revolving Credit Agreement entered into in September 2003, is \$1.0 billion. As of December 31, 2004, there were no amounts outstanding under either of these facilities and the Company had issued letters of credit totaling \$286 million under the \$550 million Three-and-One-Half Year Multi Currency Revolving Credit Agreement. The new facility includes financial and other covenants of the general nature contained in the facility it replaced and the \$450 million Three-Year Multi Currency Revolving Credit Agreement was amended and restated to include financial and other terms similar to the new facility. The Company pays annual commitment fees of 0.35% of the \$450 million facility and 0.30% of the \$550 million facility.

In June 2001, the Company completed the public offering of 32.2 million units of a security, initially referred to as Income PRIDES, each with a stated price of \$50 before underwriting discount. Each unit initially consisted of \$50 principal amount of EDS senior notes due August 2006 and a purchase contract which obligated the investor to purchase \$50 of EDS common stock no later than August 17, 2004 at a price ranging from \$59.31 to \$71.47 per share. On May 12, 2004, the Company completed an offer to exchange 0.843 shares of EDS common stock plus \$1.58 in cash for each validly tendered and accepted Income PRIDES. The Company accepted all of the 28.2 million Income PRIDES tendered pursuant to the offer and issued 23.8 million shares plus \$45 million in cash to the holders. The notes relating to the 4.0 million units not tendered totaling \$198 million were remarketed on May 12, 2004 at an interest rate of 6.334% per annum and mature on August 17, 2006. Investors who did not tender their Income PRIDES in the exchange offer were obligated to purchase EDS common stock on August 17, 2004. On that date, the Company issued 3.3 million shares of common stock for consideration of \$198 million.

As a result of the exchange, the Company increased shareholders' equity by \$1,403 million in 2004 for the fair value of the purchase contracts and the fair value of the common stock issued. The remaining consideration was accounted for as an extinguishment of debt. Accordingly, the Company decreased liabilities by \$1,418 million for the carrying value of the notes exchanged and the unpaid portion of contract adjustment payments that were recorded when the units were originally issued. In addition, the Company paid cash of \$50 million and recognized a loss on debt extinguishment of \$36 million in interest expense as a result of the exchange in 2004.

In June 2003, the Company completed a private offering of \$1.1 billion aggregate principal amount of 6.0% unsecured Senior Notes due 2013. Interest on the notes is payable semiannually. In the event the credit ratings assigned to the notes fall to below the Baa3 rating of Moody's or the rating BBB- of S&P, the interest rate payable on the notes will be increased to 6.5%. On July 15, 2004, Moody's lowered the Company's long-term credit rating to Ba1 from Baa3. As a result of Moody's rating action, the interest rate payable on \$1.1 billion of the Company's senior unsecured debt was increased from 6.0% to 6.5%. Further downgrades in the Company's credit rating will not affect this rate. However, in the event the Company's credit rating is subsequently increased to Baa3 or above by Moody's and its S&P credit rating remains at or above BBB-, this rate will return to 6.0%. The Company may redeem some or all of the notes at any time prior to maturity. In conjunction with the issuance of the Senior Notes, the Company entered into interest rate swaps with a notional amount of \$1.1 billion under which the Company

receives fixed rates of 6.0% and pays floating rates equal to the six-month LIBOR (2.78% at December 31, 2004) plus 2.275% to 2.494%. These interest rate swaps are accounted for as fair value hedges (see Note 1).

In June 2003, the Company completed a private offering of \$690 million aggregate principal amount of 3.875% unsecured Convertible Senior Notes due 2023. Interest on the notes is payable semiannually. Contingent interest is payable during any six-month period beginning July 2010 in which the average trading price of a note for the applicable five trading day reference period equals or exceeds 120% of the principal amount of the note as of the day immediately preceding the first day of the applicable six-month period. The five trading day reference period means the five trading days ending on the second trading day immediately preceding the relevant six-month interest period. The notes are convertible by holders into shares of the Company's common stock at an initial conversion rate of 29.2912 shares of common stock per \$1,000 principal amount, representing an initial conversion price of \$34.14 per share of common stock, under the following circumstances: a) during any calendar quarter, if the last reported sale price of EDS common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the previous calendar quarter is greater than or equal to 120% or, following July 15, 2010, 110% of the conversion price per share of EDS common stock on such last trading day; b) if the notes have been called for redemption; c) during any period in which the credit ratings assigned to the notes by either Moody's or S&P is lower than Ba2 or BB, respectively, or the notes are no longer rated by at least one of these rating services or their successors; or d) upon the occurrence of specified corporate transactions. The Company may redeem for cash some or all of the notes at any time on or after July 15, 2010. Holders have the right to require the Company to purchase the notes at a price equal to 100% of the principal amount of the notes plus accrued interest, including contingent interest and additional amounts, if any, on July 15, 2010, July 15, 2013 and July 15, 2018 or upon a fundamental change in the Company's ownership, control or the marketability of the Company's common stock prior to July 15, 2010.

In December 2002, EDS Information Services, LLC, a wholly owned subsidiary of EDS, contributed to the capital of and sold certain trade receivables to Legacy Receivables, LLC, a limited liability company of which it is the sole member (the "LLC"), which then entered into a \$500 million revolving secured financing arrangement collateralized by those trade receivables. The secured A/R facility was reduced to \$400 million during 2003. There was no balance outstanding under this facility at December 31, 2004 and 2003. Maximum borrowings under the facility vary based on the eligible trade receivables held by the LLC, however outstanding borrowings under the facility cannot exceed \$400 million. The facility will expire in December 2005. In the event certain stated criteria are not complied with and a waiver is not granted, the facility may be terminated and amounts outstanding would be repaid through collection of the collateralized trade receivables. Events of termination under the facility include, but are not limited to, events or collection trends materially negatively impacting the collateral. The Company does not expect to utilize this facility for the foreseeable future. In March 2004, such facility was amended to remove events of termination related to the Company's long-term debt rating and incorporate the financial covenants included in the Company's secured credit facilities. The Company pays an annual commitment fee of 0.85% on this facility.

In October 2001, the Company completed the public offering of zero-coupon convertible senior notes due October 10, 2021. During October 2003, the Company redeemed \$733 million outstanding principal amount of its zero-coupon convertible notes at the request of the holders of such notes and in accordance with the terms thereof. During October 2004, the Company redeemed \$35 million outstanding principal amount of the notes. The remaining \$4 million principal amount of such notes may be redeemed at the option of the holders thereof in October 2006 and periodically thereafter.

The Company's unsecured credit and secured A/R facilities and the indentures governing its long-term notes contain certain financial and other restrictive covenants that would allow any amounts outstanding under the facilities to be accelerated, or restrict the Company's ability to borrow thereunder, in the event of noncompliance. The financial covenants of the Company's unsecured credit facilities were modified in September 2004 with the renewal of its \$550 million credit facility discussed above, and include a minimum net worth covenant, a fixed charge coverage requirement and a leverage ratio requirement. The leverage ratio requirement limits the Company's leverage ratio to not exceed 2.75-to-1 through June 2004, 2.50-to-1 from July 2004 through June 2005, 2.25-to-1 from July 2005 through December 2005, and 2.00-to-1 thereafter. The fixed charge coverage covenant requires the Company to maintain a fixed charge ratio of no less than 1.10-to-1 through June 2005, 1.15-to-1 from July 2005 through December 2005, and 1.25-to-1 thereafter. The Company was in compliance with all covenants at December 31, 2004.

In addition to compliance with these financial covenants, it is a condition to our ability to borrow under both our unsecured credit and secured A/R facilities that our representations and warranties under those facilities, including among others our representation regarding no material adverse change in our business, be true and correct as of the date of the borrowing. The Company's unsecured credit facilities, the indentures governing its long-term notes, its secured A/R facility and certain other debt instruments also contain cross-default provisions with respect to a default in any payment under, or resulting in the acceleration of, indebtedness greater than \$50 million.

Expected maturities of long-term debt for years subsequent to December 31, 2004 are as follows (in millions):

2005	\$ 658
2006	290
2007	48
2008	20
2009	732
Thereafter	2,078
Total	<u>\$ 3,826</u>

NOTE 9: MINORITY INTERESTS AND OTHER LONG-TERM LIABILITIES

Other long-term liabilities were \$539 million and \$562 million at December 31, 2004 and 2003, respectively. Other long-term liabilities include liabilities related to the Company's purchased or licensed software, tax liabilities and interest rate swap agreements. Minority interests were \$184 million and \$166 million at December 31, 2004 and 2003, respectively.

NOTE 10: INCOME TAXES

Total income tax expense for the years ended December 31, 2004, 2003 and 2002 was allocated as follows (in millions):

	2004	2003	2002
Income (loss) from continuing operations	\$ (93)	\$ (186)	\$ 479
Income (loss) from discontinued operations.....	319	47	96
Cumulative effect on prior years of changes in accounting principles	-	(829)	-
Shareholders' equity	(20)	68	(227)
Total	<u>\$ 206</u>	<u>\$ (900)</u>	<u>\$ 348</u>

The provision for income tax expense on income (loss) from continuing operations is summarized as follows for the years ended December 31, 2004, 2003 and 2002 (in millions):

	United States		Non-U.S.	Total
	Federal	State		
2004				
Current	\$ (374)	\$ 1	\$ 156	\$ (217)
Deferred	32	(6)	98	124
Total	<u>\$ (342)</u>	<u>\$ (5)</u>	<u>\$ 254</u>	<u>\$ (93)</u>
2003				
Current	\$ 46	\$ 13	\$ (160)	\$ (101)
Deferred	(336)	(72)	323	(85)
Total	<u>\$ (290)</u>	<u>\$ (59)</u>	<u>\$ 163</u>	<u>\$ (186)</u>
2002				
Current	\$ (94)	\$ 6	\$ 342	\$ 254
Deferred	390	5	(170)	225
Total	<u>\$ 296</u>	<u>\$ 11</u>	<u>\$ 172</u>	<u>\$ 479</u>

Income (loss) from continuing operations before income taxes included the following components for the years ended December 31, 2004, 2003 and 2002 (in millions):

	2004	2003	2002
U.S. income.....	\$ (803)	\$ (841)	\$ 964
Non-U.S. income	415	298	429
Total	<u>\$ (388)</u>	<u>\$ (543)</u>	<u>\$ 1,393</u>

A reconciliation of income tax expense using the statutory U.S. federal income tax rate of 35.0% to the actual income tax expense follows for the years ended December 31, 2004, 2003 and 2002 (dollars in millions):

	2004	2003	2002
Statutory federal income tax	\$ (136)	\$ (190)	\$ 488
State income tax, net	(3)	(31)	7
Foreign losses	77	71	5
Nondeductible goodwill	—	8	—
Research and experimentation credits	(45)	(46)	(51)
Other	14	2	30
Total	<u>\$ (93)</u>	<u>\$ (186)</u>	<u>\$ 479</u>
Effective income tax rate	<u>24.0%</u>	<u>34.3%</u>	<u>34.4%</u>

The tax effects of temporary differences and carryforwards, which result in a significant portion of the deferred tax assets and liabilities, are as follows as of December 31, 2004 and 2003 (in millions):

	2004		2003	
	Assets	Liabilities	Assets	Liabilities
Leasing basis differences	\$ —	\$ 186	\$ 12	\$ 239
Other accrual accounting differences	423	19	476	214
Employee benefit plans	309	33	160	19
Depreciation/amortization differences	365	270	451	244
Net operating loss and tax credit carryforwards	876	—	602	—
Employee-related compensation	215	—	250	—
Other	271	250	374	253
Subtotal	<u>2,459</u>	<u>758</u>	<u>2,325</u>	<u>969</u>
Less valuation allowances	<u>(233)</u>	<u>—</u>	<u>(146)</u>	<u>—</u>
Total deferred taxes	<u>\$ 2,226</u>	<u>\$ 758</u>	<u>\$ 2,179</u>	<u>\$ 969</u>

Net deferred tax assets in the table above classified within assets or liabilities held for sale were \$44 million for the year ended December 31, 2003.

The net changes in the valuation allowances for the years ended December 31, 2004 and 2003 were increases of \$87 million and \$26 million, respectively. Of the net change in 2004, \$40 million was a change in valuation allowances for prior years' losses incurred in certain foreign tax jurisdictions, which increased current year income tax expense from continuing operations. Approximately one-half of the Company's net operating loss and tax carryforwards expire over various periods from 2005 through 2024, and others are unlimited.

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized and adjusts the valuation allowance accordingly. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible. Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, the Company believes it is more likely than not it will realize the benefits of the deductible differences, net of existing valuation allowances at December 31, 2004. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

U.S. income taxes have not been provided on \$625 million of undistributed earnings of certain foreign subsidiaries, as such earnings have been permanently reinvested in the business. As of December 31, 2004, the unrecognized deferred tax liability associated with these earnings amounted to approximately \$84 million. On October 22, 2004, the President signed the American Jobs Creation Act of 2004 (the "Act"). The Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85 percent dividends received deduction for certain dividends from controlled foreign corporations. The Company has not determined whether, and to what extent, it might repatriate foreign earnings that have not yet been remitted to the U.S. Based on analysis to date, it is possible that the Company may repatriate up to \$500 million of such earnings, thereby creating a respective tax liability of up to \$20 million.

NOTE 11: STOCK PURCHASE AND INCENTIVE PLANS

Stock Purchase Plan

Under the Stock Purchase Plan, eligible employees may purchase EDS common stock at the end of each fiscal quarter at a purchase price equal to 85% of the lower of the market price on the first or last trading day of the quarter, through payroll deductions of up to 10% of their compensation, not to exceed \$25,000 per year in market value. Shares of EDS common stock purchased under the plan may not be sold or transferred within one year of the date of purchase. At December 31, 2004, the number of shares available for future sale under the EDS Stock Purchase Plan was 42.6 million.

PerformanceShare and EDS Global Share Plans

PerformanceShare and Global Share are “broad-based” plans that permit the grant of stock options to any eligible employee of EDS or its participating subsidiaries other than executive officers. As of December 31, 2004, options for 16.0 million shares had been granted under PerformanceShare (principally in a broad-based grant in May 1997) and options for 25.9 million shares had been granted under Global Share (principally in two broad-based grants in July 2000 and February 2002). The number of shares originally authorized for issuance under PerformanceShare and Global Share is 20 million and 27 million, respectively. As of December 31, 2004, no shares were available for issuance under these plans.

Incentive Plan

The Incentive Plan is authorized to issue up to 136.5 million shares of common stock. The Incentive Plan permits the granting of stock-based awards in the form of stock grants, restricted shares, restricted stock units, stock options or stock appreciation rights to eligible employees and non-employee directors. The exercise price for stock options granted under this plan must be equal to or greater than the fair market value on the date of the grant. The maximum number of shares for which additional awards may be granted under this plan was 61.1 million at December 31, 2004.

During the years ended December 31, 2004, 2003 and 2002, 0.2 million, 0.6 million and 0.2 million restricted stock units, respectively, were granted. A restricted stock unit is the right to receive shares. Units granted are generally scheduled to vest over periods of three to 10 years. The weighted-average fair values of the restricted stock units granted were \$19.03, \$17.29 and \$39.73 for the years ended December 31, 2004, 2003 and 2002, respectively. The quoted market price of common stock as of the date of grant is charged to operations over the vesting period. The total number of unvested units outstanding at December 31, 2004 was 2.5 million.

During the years ended December 31, 2004, 2003 and 2002, non-employee directors were granted a total of 10,199; 4,532 and 1,820 restricted shares, respectively, of EDS common stock that vest over a three-year period. The quoted market price of common stock on the date of grant is charged to expense over the vesting period.

Transition Incentive Plan

The Transition Incentive Plan permits the grant of nonqualified stock options to eligible employees. This plan was intended to be used exclusively for the grant of stock options to former employees of Structural Dynamics Research Corporation (“SDRC”), which was acquired in August 2001, and UGS PLM Solutions Inc., which became a wholly owned subsidiary in September 2001, and has been used exclusively for that purpose. UGS PLM Solutions (which was the successor by merger to SDRC) was sold by the Company in May 2004. Such options have an exercise price equal to the fair market value per share of common stock on the grant date, vest ratably over four years and have a term of 10 years from the grant date. The number of options originally authorized for issuance under this plan is 3.7 million. At December 31, 2004, no options were available for issuance under the plan.

Transition Inducement Plan

The Transition Inducement Plan permits awards in the form of nonqualified stock options, stock appreciation rights, restricted stock units, restricted stock awards or stock grants to eligible employees. This plan was adopted in October 2002 in anticipation of then proposed New York Stock Exchange rules which provide that awards issued to induce new employment or in exchange for awards under an “acquired” plan are not subject to shareholder approval. All options granted under this plan must have an exercise price not less than the fair market value per share of common stock on the grant date. The maximum number of shares that can be issued under this plan is 7.0 million, of which not more than 2.0 million are available for awards other than in the form of stock options. During the year ended December 31, 2004, 1.0 million restricted stock units with a weighted-average fair value of \$23.07 were granted under this plan. As of December 31, 2004, 1.2 million shares were available for issuance under this plan.

A summary of options activity under PerformanceShare, Global Share, Incentive Plan, Transition Incentive Plan and Transition Inducement Plan during the years ended December 31, 2004, 2003 and 2002, is presented below (shares in millions):

	2004		2003		2002	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Fixed Options:						
Outstanding at beginning of year	50.3	\$38	73.9	\$53	57.1	\$51
Granted.....	33.7	\$20	22.5	\$17	26.5	\$59
Exercised.....	(2.9)	\$16	—	—	(0.7)	\$44
Forfeited.....	(10.2)	\$34	(46.1)	\$52	(9.0)	\$56
Outstanding at end of year.....	<u>70.9</u>	\$31	<u>50.3</u>	\$38	<u>73.9</u>	\$53
Exercisable.....	<u>31.6</u>	\$41	<u>22.1</u>	\$55	<u>21.4</u>	\$51

A summary of options outstanding by exercise price range at December 31, 2004 is presented below (shares in millions):

	Shares Outstanding			Shares Exercisable	
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Period	Shares	Weighted-Average Exercise Price
\$14 to \$20	43.3	\$18	6 years	12.0	\$17
\$21 to \$29	3.3	\$24	6 years	0.4	\$23
\$30 to \$46	7.6	\$41	5 years	3.7	\$40
\$47 to \$58	2.7	\$55	5 years	2.1	\$56
\$59 to \$69	14.0	\$61	1 year	13.4	\$61
Total.....	<u>70.9</u>			<u>31.6</u>	

During 2003, the Company's Board of Directors authorized and its shareholders approved a program designed to offer certain employees that held certain stock options with exercise prices greater than \$33.00 per share an opportunity to exchange all of their eligible options for the right to receive a lesser number of new options at a later date, assuming continued employment. The option exchange offer, which extended from August 24, 2003 through September 23, 2003, permitted such employees to receive new options with a theoretical value equivalent to the value of the forfeited options, generally one new option for every 1.5 to 3.0 options forfeited. Upon completion of the offer in September 2003, options to purchase 39.1 million shares were tendered, and new options for 17.6 million shares were issued in March 2004 in respect of the exchanged options, more than six months and one day from the date of forfeiture. The new options have an exercise price equal to the fair market value of the common stock on the date of the grant and were issued under the Incentive Plan.

Executive Deferral Plan

The Executive Deferral Plan is a nonqualified deferred compensation plan established for a select group of management and highly compensated employees which allows participants to contribute a percentage of their cash compensation and restricted stock units into the plan and defer income taxes until the time of distribution. The plan is a nonqualified plan for U.S. federal income tax purposes and as such, its assets are part of the Company's general assets. The Company makes matching contributions on a portion of amounts deferred by plan participants that are invested in EDS stock units. Matching contributions vest upon contribution. The fair market price of common stock on the date of matching contributions is charged to operations in the period made. The Company also makes discretionary contributions that vest over periods up to five years as determined by the Board of Directors. The fair market price of common stock on the date of discretionary contributions is charged to operations over the vesting period. During the years ended December 31, 2004, 2003 and 2002, employer contributions to the plan were 0.04 million, 0.6 million and 0.3 million shares, respectively, with a weighted-average fair value of \$23.10, \$16.71 and \$18.13, respectively. The plan is authorized to issue up to 8.2 million shares of common stock, of which 4.8 million was available for issuance at December 31, 2004.

NOTE 12: SEGMENT INFORMATION

During 2003, the Company completed the transition of its Operations Solutions and Solutions Consulting lines of business to a unified IT outsourcing business. The new operating model provides the Company's clients a single point of accountability, unifies the Company's global service delivery capabilities and aligns development of innovative solutions with market demands. A.T. Kearney, the Company's high-value management consulting subsidiary continues to operate as a separate subsidiary under the new operating model. The accompanying segment information is stated in accordance with the new organizational structure and excludes the net results of UGS PLM Solutions which are included in income from discontinued operations in the consolidated statements of operations (see Note 17). Operating segments that have similar economic and other characteristics have been aggregated to form the Company's reportable segments. Prior period segment data has been reclassified to conform to the current period segment presentation. Amounts shown for 2002 have not been restated to give effect to accounting changes for asset retirement obligations or revenue recognition on long-term contracts adopted in 2003 (see Note 1).

The Company uses operating income (loss), which consists of segment revenues less segment costs and expenses (before restructuring and other), to measure segment profit or loss. Revenues and operating income (loss) of non-U.S. operations are measured using fixed currency exchange rates in all periods presented. The "all other" category includes differences between fixed and actual exchange rates, corporate expenses and assets held for sale.

The following is a summary of certain financial information by reportable segment, including components of the Outsourcing segment, for the years ended December 31, 2004, 2003 and 2002 (in millions):

	2004		
	Revenues	Operating Income (Loss)	Total Assets
Outsourcing:			
Americas	\$ 10,804	\$ 1,396	\$ 3,880
EMEA	5,527	846	2,768
Asia Pacific	1,106	74	331
Other	2	(514)	1,864
Total	17,439	1,802	8,843
NMCI	761	(862)	1,097
A.T. Kearney	806	(10)	438
All other	1,663	(1,038)	7,366
Total	\$ 20,669	\$ (108)	\$ 17,744
	2003		
	Revenues	Operating Income (Loss)	Total Assets
Outsourcing:			
Americas	\$ 11,325	\$ 1,609	\$ 4,567
EMEA	5,644	803	2,954
Asia Pacific	1,098	105	336
Other	-	(448)	2,243
Total	18,067	2,069	10,100
NMCI	1,017	(948)	1,071
A.T. Kearney	846	(7)	466
All other	640	(1,391)	6,979
Total	\$ 20,570	\$ (277)	\$ 18,616

	2002		
	Revenues	Operating Income (Loss)	Total Assets
Outsourcing:			
Americas	\$ 11,789	\$ 1,676	\$ 5,488
EMEA	5,875	837	3,550
Asia Pacific	1,144	109	404
Other	–	(271)	2,695
Total	18,808	2,351	12,137
NMCI	1,022	6	1,871
A.T. Kearney	1,005	52	710
All other	(349)	(673)	4,162
Total	<u>\$ 20,486</u>	<u>\$ 1,736</u>	<u>\$ 18,880</u>

The following is a summary of depreciation and amortization and deferred cost charges included in the calculation of operating income (loss) above for the years ended December 31, 2004, 2003 and 2002 (in millions):

	2004	2003	2002
Outsourcing.....	\$ 1,353	\$ 1,342	\$ 1,127
NMCI	184	818	84
A.T. Kearney	13	20	21
All other	389	276	148
Total	<u>\$ 1,939</u>	<u>\$ 2,456</u>	<u>\$ 1,380</u>

The following presents information about the Company's operations in different geographic regions as of and for the years ended December 31, 2004, 2003 and 2002 (in millions):

	2004		2003		2002	
	Revenues	Property and Equipment	Revenues	Property and Equipment	Revenues	Property and Equipment
United States.....	\$ 10,513	\$ 1,194	\$ 11,052	\$ 1,652	\$ 11,486	\$ 1,769
United Kingdom	3,341	281	3,319	360	3,419	411
All other	6,815	741	6,199	806	5,581	792
Total.....	<u>\$ 20,669</u>	<u>\$ 2,216</u>	<u>\$ 20,570</u>	<u>\$ 2,818</u>	<u>\$ 20,486</u>	<u>\$ 2,972</u>

Revenues and property and equipment of non-U.S. operations are measured using fixed currency exchange rates in all periods presented. Differences between fixed and actual exchange rates are included in the "all other" category.

The following presents the Company's revenues by its service lines for the years ended December 31, 2004, 2003 and 2002 (in millions):

	2004	2003	2002
Infrastructure services	\$ 10,729	\$ 10,962	\$ 10,792
Applications services.....	5,019	5,378	6,171
Business process outsourcing services.....	2,452	2,744	2,867
A.T. Kearney	806	846	1,005
All other	1,663	640	(349)
Total	<u>\$ 20,669</u>	<u>\$ 20,570</u>	<u>\$ 20,486</u>

Revenues of non-U.S. operations are measured using fixed currency exchange rates in all periods presented. Differences between fixed and actual exchange rates are included in the "all other" category.

For the years ended December 31, 2004, 2003 and 2002, revenues from contracts with GM and its affiliates totaled \$2.0 billion, \$2.2 billion and \$2.5 billion, respectively. Revenues from contracts with GM were reported in each of the Company's reportable segments with the exception of the NMCI segment.

NOTE 13: RETIREMENT PLANS

The Company has several qualified and nonqualified pension plans (the "Plans") covering substantially all its employees. The majority of the Plans are noncontributory. In general, employees become fully vested upon attaining two to five years of service, and benefits are based on years of service and earnings. The actuarial cost method currently used is the projected unit credit cost method. The Company's U.S. funding policy is to contribute amounts that fall within the range of deductible contributions for U.S. federal income tax purposes.

The following tables provide a reconciliation of the changes in the Plans' benefit obligations and fair value of assets (using October 31, 2004 and 2003 measurement dates), and a statement of the funded status as of December 31, 2004 and 2003 (in millions):

	2004	2003
Reconciliation of Benefit Obligation		
Benefit obligation at beginning of year	\$ 6,544	\$ 5,154
Service cost	321	290
Interest cost	413	353
Plan amendments	-	(5)
Actuarial loss	354	372
Foreign currency exchange rate changes	317	384
Benefit payments	(186)	(157)
Special termination benefit	48	20
Other	26	133
Benefit obligation at end of year	<u>\$ 7,837</u>	<u>\$ 6,544</u>
Reconciliation of Fair Value of Plan Assets		
Fair value of plan assets at beginning of year	\$ 4,897	\$ 3,739
Actual return on plan assets	575	702
Foreign currency exchange rate changes	213	259
Employer contributions	366	271
Benefit payments	(186)	(157)
Settlements	(5)	(1)
Other	35	84
Fair value of plan assets at end of year	<u>\$ 5,895</u>	<u>\$ 4,897</u>
Funded Status		
Funded status at December 31	\$ (1,942)	\$ (1,647)
Unrecognized transition obligation	13	13
Unrecognized prior-service cost	(212)	(240)
Unrecognized net actuarial loss	1,771	1,542
Adjustments from October 31 to December 31	98	83
Net amount recognized on the consolidated balance sheets (as described below)	<u>\$ (272)</u>	<u>\$ (249)</u>

The following table summarizes the assets and liabilities reflected on the Company's balance sheets for pension benefits as of December 31, 2004 and 2003 (in millions):

	2004	2003
Prepaid benefit cost	\$ 32	\$ 288
Accrued benefit liability	(1,145)	(1,121)
Intangible asset	27	32
Accumulated other comprehensive income	814	552
Net amount recognized	<u>\$ (272)</u>	<u>\$ (249)</u>

The Company has additional defined benefit retirement plans outside the U.S. not included in the tables above due to their individual insignificance. These plans collectively represent an additional benefit obligation of approximately \$30 million and plan assets of approximately \$20 million.

The accumulated benefit obligation for all defined benefit pension plans was \$6,946 million and \$5,697 million at October 31, 2004 and 2003, respectively.

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were \$7,282 million, \$6,480 million and \$5,328 million, respectively, at December 31, 2004, and \$6,055 million, \$5,298 million, and \$4,410 million, respectively, at December 31, 2003.

The following table provides the components of net periodic pension cost recognized in earnings for the years ended December 31, 2004, 2003 and 2002 (in millions):

	2004	2003	2002
Service cost	\$ 321	\$ 290	\$ 287
Interest cost	413	353	277
Expected return on plan assets.....	(440)	(339)	(355)
Amortization of transition obligation.....	2	1	1
Amortization of prior-service cost	(32)	(32)	(32)
Amortization of net actuarial loss	66	81	17
Net periodic benefit cost	330	354	195
Curtailment loss (gain).....	3	-	(18)
Special termination benefit	48	20	-
Settlement loss	2	-	4
Net periodic benefit cost after curtailments and settlements.....	\$ 383	\$ 374	\$ 181

Prior-service costs are amortized on a straight-line basis over the average remaining service period of active participants. Gains or losses in excess of 10% of the greater of the benefit obligation and the market-related value of assets are amortized over the average remaining service period of active participants.

The Company recorded a special termination benefit of \$48 million during 2004 related to an early retirement offer in the U.S. This charge is included in restructuring and other in the consolidated statement of operations (see Note 19). The Company recorded a special termination benefit of \$20 million during 2003 related to contractual obligations to its former Chief Executive Officer (see Note 19). The Company recorded a curtailment gain of \$18 million and a settlement loss of \$4 million during 2002 related to the conversion of one of the international plans to a defined contribution plan. As a result of the termination of the Company's service contract with the U.K. Government's Inland Revenue department, the contract's workforce transitioned to the new IT provider in July 2004. Most of the pension liability associated with this workforce will also transition to the new provider, resulting in the recognition of a settlement loss of \$75 million to \$90 million. The actual amount of the loss will be determined and recognized in the Company's statement of operations upon final settlement of the obligation, which is expected to occur in 2005.

At December 31, 2004 and 2003, the Plans' assets consisted primarily of equity securities and, to a lesser extent, government obligations and other fixed income securities. The U.S. pension plan is a cash balance plan that uses a benefit formula based on years of service, age and earnings. Employees are allocated the current value of their retirement benefit in a hypothetical account. Monthly credits based upon age, years of service, compensation and interest are added to the account. Upon retirement, the value of the account balance is converted to an annuity. Effective January 1, 2000, the Company allowed employees to elect to direct up to 33% of their monthly credits to the EDS 401(k) Plan. The Company contributed \$3 million, \$3 million and \$6 million to the EDS 401(k) Plan related to these elections during the years ended December 31, 2004, 2003 and 2002, respectively. These amounts are not included in net periodic pension cost shown in the table above.

The following table summarizes the weighted-average assumptions used in the determination of the Company's benefit obligation for the years ended December 31, 2004, 2003 and 2002:

	2004	2003	2002
Discount rate at October 31	5.7%	6.0%	6.4%
Rate of increase in compensation levels at October 31	3.4%	3.3%	3.5%

The following table summarizes the weighted-average assumptions used in the determination of the Company's net periodic benefit cost for the years ended December 31, 2004, 2003 and 2002:

	2004	2003	2002
Discount rate at October 31	6.0%	6.4%	6.4%
Rate of increase in compensation levels at October 31	3.3%	3.5%	3.5%
Long-term rate of return on assets at January 1.....	8.6%	8.7%	9.6%

The following table provides the weighted-average asset allocation of all plan assets at December 31, 2004 and 2003, by asset category:

	2004	2003
Equity securities	78%	78%
Debt securities	14%	14%
Cash and cash equivalents	1%	1%
Real estate	1%	1%
Other	6%	6%
Total	<u>100%</u>	<u>100%</u>

In determining pension expense recognized in its statements of operations, the Company utilizes an expected long-term rate of return that, over time, should approximate the actual long-term returns earned on pension plan assets. The Company derives the assumed long-term rate of return on assets based upon the historical return of actual plan assets and the historical long-term return on similar asset classes as well as anticipated future returns based upon the types of invested assets. The type and mix of invested assets are determined by the pension investment strategy, which considers the average age of the Company's workforce and associated average periods until retirement. Since the average age of the Company's workforce is relatively low and average periods until retirement exceed fifteen years, plan assets are weighted heavily towards equity investments. Equity investments, while susceptible to significant short-term fluctuations, have historically outperformed most other investment alternatives on a long-term basis. The Company utilizes an active management strategy through third-party investment managers to maximize asset returns. As of December 31, 2004, the weighted-average target asset allocation for all plans was 76% equity; 15% fixed income; 1% cash and cash equivalents; 1% real estate; and 7% other. The Company expects to contribute \$150-\$250 million to its pension plans during fiscal year 2005, including discretionary and statutory contributions.

Estimated benefit payments, which include amounts to be earned by active plan employees through expected future service for all pension plans over the next ten years are: 2005 – \$150 million; 2006 – \$161 million; 2007 – \$176 million; 2008 – \$193 million; 2009 – \$219 million; and 2010 through 2014 – \$1,524 million.

In addition to the plans described above, the EDS 401(k) Plan provides a long-term savings program for participants. The EDS 401(k) Plan allows eligible employees to contribute a percentage of their compensation to a savings program and to defer income taxes until the time of distribution. Participants may invest their contributions in various publicly traded investment funds or EDS common stock. The EDS 401(k) Plan also provides for employer-matching contributions, in the form of EDS common stock, which participants may elect to transfer to another investment option within the EDS 401(k) Plan after two years from the date of contribution. During the years ended December 31, 2004, 2003 and 2002, employer-matching contributions totaled \$40 million, \$41 million and \$39 million, respectively.

NOTE 14: COMMITMENTS AND RENTAL EXPENSE

Total rentals under cancelable and non-cancelable leases of tangible property and equipment, including amounts relating to discontinued operations, included in costs and charged to expenses were \$872 million, \$960 million and \$919 million for the years ended December 31, 2004, 2003 and 2002, respectively. Commitments for rental payments under non-cancelable operating leases of tangible property and equipment net of sublease rental income are: 2005 – \$407 million; 2006 – \$345 million; 2007 – \$242 million; 2008 – \$164 million; 2009 – \$127 million; and all years thereafter – \$412 million.

The Company has signed certain service agreements with terms of up to ten years with certain vendors to obtain favorable pricing and commercial terms for services that are necessary for the ongoing operation of its business. These agreements relate to software and telecommunications services. Under the terms of these agreements, the Company has committed to contractually specified minimums over the contractual periods. The contractual minimums are: 2005 – \$813 million; 2006 – \$819 million; 2007 – \$865 million; 2008 – \$411 million; 2009 – \$402 million; and all years thereafter – \$443 million. Amounts paid under these agreements were \$821 million, \$1,364 million and \$762 million during the years ended December 31, 2004, 2003 and 2002, respectively. To the extent that the Company does not purchase the contractual minimum amount of services, the Company must pay the vendors the shortfall. The Company believes that it will meet the contractual minimums through the normal course of business.

NOTE 15: CONTINGENCIES

During 2001, the Company established a securitization facility under which it financed the purchase of capital assets for its NMCI contract. Under the terms of the facility, the Company sold certain financial assets resulting from that contract to a trust ("Trust") classified as a qualifying special purpose entity for accounting purposes. At December 31, 2003, the Trust had external borrowings of \$728 million and the Company's beneficial interest was \$264 million. During 2004, the Company completed agreements with the Trust's lenders to repurchase financial assets for \$522 million in cash. Upon completion of the transaction, the Company recognized current lease receivables of \$286 million and non-current lease receivables of \$236 million associated with this purchase.

In connection with certain service contracts, the Company may arrange a client supported financing transaction ("CSFT") with a client and an independent third-party financial institution or its designee. Under CSFT arrangements, the financial institution finances the purchase of certain IT-related assets and simultaneously leases those assets for use in connection with the service contract.

In the CSFT, all client contract payments are made directly to the financial institution providing the financing. After the predetermined monthly obligations to the financial institution are met, the remaining portion of the customer payment is made available to the Company. If the client does not make the required payments under the service contract, under no circumstances does the Company have an ultimate obligation to acquire the underlying assets unless nonperformance under the service contract would permit its termination, or the Company fails to comply with certain customary terms under the financing agreements, including, for example, covenants the Company has undertaken regarding the use of the assets for their intended purpose. The Company considers the likelihood of its failure to comply with any of these terms to be remote. In the event of nonperformance under applicable contracts which would permit their termination, the Company would have no additional or incremental performance risk with respect to the ownership of the assets, because it would have owned or leased the same or substantially equivalent assets in order to fulfill its obligations under its service contracts. Performance under the Company's service contracts is generally measured by contract terms relating to project deadlines, IT system deliverables or level-of-effort measurements.

As of December 31, 2004, an aggregate of \$443 million was outstanding under CSFTs yet to be paid by the Company's clients. The Company believes it is in compliance with performance obligations under all service contracts for which there is a related CSFT and the ultimate liability, if any, incurred in connection with such financings will not have a material adverse effect on its consolidated results of operations or financial position.

In the normal course of business, the Company may provide certain clients, principally governmental entities, with financial performance guarantees, which are generally backed by standby letters of credit or surety bonds. In general, the Company would only be liable for the amounts of these guarantees in the event that nonperformance by the Company permits termination of the related contract by the Company's client, which the Company believes is remote. At December 31, 2004, the Company had \$665 million outstanding standby letters of credit and surety bonds relating to these performance guarantees. The Company believes it is in compliance with its performance obligations under all service contracts for which there is a financial performance guarantee, and the ultimate liability, if any, incurred in connection with these guarantees will not have a material adverse effect on its consolidated results of operations or financial position. In addition, the Company had \$41 million of other financial guarantees outstanding at December 31, 2004 relating to indebtedness of others.

At December 31, 2004, the Company had net deferred contract and set-up costs of \$708 million, of which \$377 million related to 15 contracts with active construct activities. These active construct contracts had other assets, including receivables, prepaid expenses, equipment and software, of \$208 million at December 31, 2004. No contract or set-up costs associated with the NMCI contract have been deferred during 2004. Some of the Company's client contracts require significant investment in the early stages which is recovered through billings over the life of the respective contracts. These contracts often involve the construction of new computer systems and communications networks and the development and deployment of new technologies. Substantial performance risk exists in each contract with these characteristics, and some or all elements of service delivery under these contracts are dependent upon successful completion of the development, construction and deployment phases. Some of these contracts, including the NMCI contract, have experienced delays in their development and construction phases, and certain milestones have been missed.

In July 1998, the Company converted its U.S. Retirement Plan benefit formula to a cash balance benefit formula. The Company believes that cash balance plans are legal and do not violate age discrimination laws. However, in July 2003, the U.S. District Court for the Southern District of Illinois ruled that IBM's cash balance conversion violated the age discrimination provisions of the Employee Retirement Income Security Act ("ERISA"). IBM has announced it will appeal the decision. Based on the Company's understanding of the facts associated with the case, the Company believes this decision will ultimately be overturned and cannot currently estimate the financial impact of any adverse ruling on this matter. No legal proceedings have been commenced to date alleging that the Company's U.S. Retirement Plan is age discriminatory.

The Company provides IT services to US Airways through a long-term agreement. On September 12, 2004, US Airways filed for protection under Chapter 11 of the United States Bankruptcy Code. The US Airways contract represented approximately \$160 million of the Company's revenues for the year ended December 31, 2004. Due to uncertainties regarding recoverability of pre-bankruptcy receivables associated with the US Airways contract, the Company recorded net charges totaling \$27 million during 2004. This amount is reflected in cost of revenues in the consolidated statements of operations. At December 31, 2004, the Company had equipment and other assets with a net book value of approximately \$20 million deployed on the US Airways services agreement. In addition, the Company may have outstanding receivables under this agreement at any one time of up to approximately \$30 million. If US Airways is not successful in emerging from bankruptcy proceedings and ceases operations, all or a significant portion of these assets and any post-bankruptcy receivables will become impaired.

The Company has received tax assessments from various taxing authorities and is currently at varying stages of appeals regarding these matters. The Company has provided for the amounts it believes will ultimately result from those proceedings. The U.S. Internal Revenue Services ("IRS") has completed its audit of the Company's consolidated federal income tax returns through 1998. The IRS has proposed certain disallowances of research tax credits, and the Company has protested the disallowance to the Appeals Office of the IRS. If the Company is unable to resolve this matter with the Appeals Office of the IRS, a decision would be made at that time as to whether the Company will litigate the IRS position and the choice of venue, which could impact the amount and timing of the cash payments. The Company believes its position is appropriate under existing U.S. Treasury Regulations.

Pending Litigation and Proceedings

The Company and certain of its former officers are defendants in numerous purported shareholder class action suits filed from September through December 2002 in response to its September 18, 2002 earnings pre-announcement, publicity about certain equity hedging transactions that it had entered into, and the drop in the price of EDS common stock. The cases allege violations of various federal securities laws and common law fraud based upon purported misstatements or omissions of material facts regarding the Company's financial condition. In addition, five purported class action suits were filed on behalf of participants in the EDS 401(k) Plan against the Company, certain of its current and former officers and, in some cases, its directors, alleging the defendants breached their fiduciary duties under the Employee Retirement Income Security Act ("ERISA") and made misrepresentations to the class regarding the value of EDS shares. The Company's motions to centralize all of the foregoing cases in the U.S. District Court for the Eastern District of Texas have been granted.

Representatives of two committees responsible for administering the EDS 401(k) Plan notified the Company of their demand for payment of amounts they believe are owing to plan participants under Section 12(a)(1) of the Securities Act of 1933 (the "Securities Act") as a result of an alleged failure to register certain shares of EDS common stock sold pursuant to the plan during a period of approximately one year ending on November 18, 2002. The committee representatives have asserted that plan participants to whom shares were sold during the applicable period are entitled to receive a return of the amounts paid for the shares, plus interest and less any income received, upon tender of the shares to EDS. The Company believes it can assert arguments and defenses that could significantly reduce or eliminate any liability. However, some of the legal principles involved in these arguments and defenses are subject to significant uncertainties.

On July 7, 2003, the lead plaintiff in the consolidated securities action described above and the lead plaintiffs in the consolidated ERISA action described above each filed a consolidated class action complaint. The amended consolidated complaint in the securities action alleges violations of Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), Rule 10b-5 thereunder and Section 20(a) of the Exchange Act. The plaintiffs allege that the Company and certain of its former officers made false and misleading statements about the financial condition of EDS, particularly with respect to the NMCI contract and the accounting for that contract. The class period is alleged to be from February 7, 2001 to September 18, 2002. The consolidated complaint in the ERISA action alleges violation of fiduciary duties under ERISA by some or all of the defendants and violation of Section 12(a)(1) of the Securities Act by selling unregistered EDS shares to plan participants. The named defendants are EDS and, with respect to the ERISA claims, certain current and former officers of EDS, members of the Compensation and Benefits Committee of its Board of Directors, and certain current and former members of the two committees responsible for administering the plan. The Company's motions to dismiss the consolidated securities action and the consolidated ERISA action were denied by the U.S. District Court for the Eastern District of Texas. On November 8, 2004, the U.S. District Court for the Eastern District of Texas certified a class in the ERISA action on certain of the allegations of breach of fiduciary duty, of all participants in the EDS 401(k) Plan and their beneficiaries, excluding Defendants, for whose accounts the plan made or maintained investments in EDS stock through the EDS Stock Fund between September 7, 1999 and October 9, 2002. Also on November 8, 2004, the U.S. District Court for the Eastern District of Texas certified a class in the ERISA action on the allegations of violation of Section 12(a)(1) of the Securities Act of all participants in the Plan and their beneficiaries, excluding the Defendants, for whose accounts the Plan purchased EDS stock through the EDS Stock Fund between October 20, 2001 and November 18, 2002. The Company filed a petition to the U.S. Fifth Circuit Court of Appeal on November 23, 2004 requesting that the Court hear and reverse the trial court's class certification order as to the class certified in the ERISA action. On December 29, 2004, the Fifth Circuit Court of Appeal granted the Company's petition to appeal the class certification order from the District Court. That court also granted the Company's motion to expedite the appeal, and oral arguments are scheduled to be heard on the appeal during the week of April 4, 2005. On February 11, 2005, the U.S. District Court for the Eastern District of Texas certified a class in the consolidated securities action of all persons and entities, excluding defendants, who purchased or otherwise acquired EDS securities between February 7,

2001 through September 18, 2002 and who were damaged thereby. A trial commencement date of September 26, 2005 has been established for the consolidated securities action and the consolidated ERISA action. The Company intends to defend these actions vigorously.

In addition, there are three derivative complaints filed by shareholders in the District Court of Collin County, Texas against the Company's directors and certain former officers and naming EDS as a nominal defendant. The actions allege breach of fiduciary duties, abuse of control and gross mismanagement based upon purported misstatements or omissions of material facts regarding the Company's financial condition similar to those raised in the purported class actions described above. These cases have been consolidated into a single action in the District Court of Collin County, Texas. This action will be defended vigorously.

On February 25, 2004, a derivative complaint was filed by a shareholder against certain current and former directors of the Company in the U.S. District Court for the Eastern District of Texas. The plaintiff relies upon substantially the same factual allegations as the consolidated securities action discussed above. However, the plaintiff brings the suit on behalf of EDS against the named defendants claiming that they breached their fiduciary duties by failing in their oversight responsibilities and by making and/or permitting material, false and misleading statements to be made concerning the Company's business prospects, financial condition and expected financial results which artificially inflated its stock and resulted in numerous class action suits. Plaintiff seeks contribution and indemnification from the defendants for the claims and litigation resulting from the defendants' alleged breach of their fiduciary duties. This action has been stayed pending the outcome of the above referenced securities action. This action will be defended vigorously.

On October 15, 2004 and on October 18, 2004, two derivative complaints were filed by shareholders against certain current and former directors of the Company, and the Company's external auditors, in the U.S. District Court for the Eastern District of Texas. The actions allege against the Company breach of fiduciary duties, abuse of control, gross mismanagement, constructive fraud, waste and unjust enrichment based upon purported misstatements or omissions of material facts regarding the Company's financial condition similar to those raised in the purported class actions described above. Plaintiffs seek damages, disgorgement by individual defendants, governance reforms, and punitive damages. The actions have also been stayed pending resolution of the above referenced securities action. These actions will be defended vigorously.

The Company is not able to determine the actual impact on its consolidated financial statements. However, it is reasonably possible that the Company may be required to pay judgments or settlements and incur expenses in aggregate amounts that could have a material adverse effect on its liquidity and financial condition.

The SEC staff is conducting a formal investigation relating to the Company's purchase and settlement of forward contracts in connection with its program to manage the future stock issuance requirements of its employee stock incentive plans, customer contracts that contain prepayment provisions, the events leading up to its third quarter 2002 earnings guidance announcement and events associated with the Company's NMCI contract. The SEC has deposed members of the Company's management and the account team regarding the NMCI contract. The SEC staff's investigation is ongoing and the Company will continue to cooperate with the SEC staff. The Company is unable to predict the outcome of the investigation, the SEC's views of the issues being investigated or any action that the SEC might take.

In July 2004, the Company voluntarily reported to the SEC staff a matter regarding a transaction with a third party. The transaction was not material to the Company. In September 2004, Delphi Corporation reported that in August 2004 it had received a formal order of investigation from the SEC indicating the staff had commenced an inquiry regarding, among other things, payments made and credits given by the Company to Delphi during 2000 and 2001 and certain payments made by Delphi to the Company for system implementation services in 2002 and in early 2003. In addition, Delphi reported that the staff was also reviewing the accounting treatment of other suppliers of IT services to Delphi. The Company has confirmed that Delphi was the third party in the voluntarily reported transaction. In addition, the SEC has formally requested documents relating to these transactions with Delphi. The Company has been cooperating with the SEC staff regarding this matter and will continue to do so.

There are other various claims and pending actions against the Company arising in the ordinary course of its business. Certain of these actions seek damages in significant amounts. The amount of the Company's liability for claims and pending actions at December 31, 2004 was not determinable. However, in the opinion of management, the ultimate liability, if any, resulting from such claims and pending actions will not have a material adverse effect on the Company's consolidated results of operations or financial position.

NOTE 16: ACQUISITIONS

On March 1, 2005, the Company acquired the pension, health and welfare administration services business of Towers Perrin. The acquired business was combined with the Company's payroll and related human resources ("HR") outsourcing business to create a new company, known as ExcellerateHRO LLP. Towers Perrin holds a 15% minority interest in the new company. The Company paid approximately \$420 million in cash at closing of the transaction, which principally represented the purchase price for the business and the right to use the Towers Perrin brand, net of Towers Perrin's interest in the new company and its share of the cash capital contribution to the new company. ExcellerateHRO LLP will deliver a comprehensive set of HR

outsourcing solutions across the core areas of benefits, payroll, compensation management, workforce administration and relocation, recruitment and staffing, and workforce development.

On January 9, 2004, the Company acquired The Feld Group, a privately held technology management firm that specialized in reorganizing and realigning technology organizations to better meet the needs of their enterprises. The acquisition enhanced the Company's offerings and expertise in the transformational business process outsourcing/business transformation services market and enabled the Company to finalize appointments to its executive management team. The aggregate purchase price of The Feld Group was \$53 million, comprised of \$50 million in cash payments and warrants with a fair value of \$3 million. In addition, the Company issued contingent warrants with a fair value of \$4 million in connection with the acquisition. The aggregate purchase price of The Feld Group will be adjusted if and when the contingencies associated with these warrants are resolved. The excess of the aggregate purchase price over the fair value of acquired assets and assumed liabilities of \$47 million was allocated to goodwill in the Outsourcing segment. The Company also issued restricted stock awards and options to acquire EDS common stock with an aggregate fair value of \$40 million to certain employee shareholders of The Feld Group who became employees of the Company. Such awards and options vest over three years and are contingent upon the continuing employment of these individuals.

On August 16, 2002, the Company acquired the managed hosting business of Loudcloud, Inc. (now known as Opware Inc.) for \$63.5 million in cash. In addition, the Company entered an agreement to license its Web hosting automation software Opware™ for a fee of \$52.0 million over three years. The acquisition and licensing agreement strengthen the Company's position in the Web hosting market and provide a foundation for automation of service delivery and applications management.

NOTE 17: DISCONTINUED OPERATIONS

During 2004, the Company sold its equity interest in its UGS PLM Solutions subsidiary for \$2.05 billion in connection with its efforts to focus on its core IT outsourcing business. Following is a summary of assets and liabilities of UGS PLM Solutions at December 31, 2003 which are reflected in the consolidated balance sheet as "held for sale" (in millions):

	2003
Accounts receivable, net	\$ 228
Prepays and other.....	26
Property and equipment, net	40
Investments and other assets	7
Goodwill.....	970
Other intangibles, net.....	225
Deferred income taxes	43
Assets held for sale	<u>\$ 1,539</u>
Accounts payable.....	\$ 13
Accrued liabilities.....	109
Deferred revenue.....	98
Income taxes	33
Pension benefit liability.....	5
Minority interests and other long-term liabilities	4
Liabilities held for sale	<u>\$ 262</u>

The net results of UGS PLM Solutions are included in income from discontinued operations in the consolidated statements of operations. Income from discontinued operations in 2004 includes a gain on sale of UGS PLM Solutions of \$738 million (\$433 million net of tax). The net assets sold included goodwill of \$969 million. Discontinued operations also includes the net results of the Company's Soft Solution business sold during 2004 for cash proceeds of \$1 million, its Technology Solutions and subscription fulfillment businesses sold during 2003 for combined cash proceeds of \$6 million, and its Consumer Network Services ("CNS") unit sold during 2002 for cash proceeds of \$323 million (\$301 million net of cash retained by the divested business). Income from discontinued operations includes net gains (losses) of \$433 million, \$(9) million and \$87 million, net of income taxes, in 2004, 2003 and 2002, respectively. Soft Solution, Technology Solutions, subscription fulfillment and CNS were previously included in the Company's Outsourcing segment. Total assets and liabilities of Soft Solution were not material at December 31, 2003. No interest expense has been allocated to discontinued operations for any of the periods presented.

Following is a summary of income from discontinued operations before income taxes, excluding gains and losses, for the years ended December 31, 2004, 2003 and 2002 (in millions):

	2004	2003	2002
Revenues	\$ 364	\$ 1,027	\$ 1,297
Costs and expenses	330	886	1,125
Operating income	34	141	172
Other income (expense)	—	1	(6)
Income from discontinued operations before income taxes	<u>\$ 34</u>	<u>\$ 142</u>	<u>\$ 166</u>

NOTE 18: SUPPLEMENTARY FINANCIAL INFORMATION

The following summarizes supplemental financial information for the years ended December 31, 2004, 2003 and 2002 (in millions):

	2004	2003	2002
Depreciation of property and equipment (including capital leases).....	\$ 1,058	\$ 1,044	\$ 990
Intangible asset and other amortization	618	619	453
Deferred cost amortization and charges	298	866	—
Cash paid for:			
Income taxes, net of refunds	343	346	267
Interest	328	319	243

The Company acquired \$112 million, \$155 million and \$126 million of equipment utilizing capital leases in 2004, 2003 and 2002, respectively.

NOTE 19: RESTRUCTURING ACTIVITIES AND OTHER

The following table summarizes restructuring and other charges incurred for the years ended December 31, 2004, 2003 and 2002 (in millions):

	2004	2003	2002
Restructuring and other employee reduction activities:			
Employee separation and exit costs	\$ 280	\$ 252	\$ (3)
Asset write-downs	—	36	—
CEO severance	—	48	—
Other activities:			
Pre-tax gain on disposal of businesses:			
U.S. wireless clearing.....	(35)	—	—
Automotive Retail Group.....	(66)	—	—
Credit Union Industry Group.....	—	(139)	—
Other	(5)	(6)	—
Total	<u>\$ 174</u>	<u>\$ 191</u>	<u>\$ (3)</u>

Restructuring and other employee reduction activities:

During 2004, the Company continued initiatives to align its workforce with customer demands and utilize technology to generate efficiencies. As a result, 2004 restructuring and other expense includes estimated severance costs of \$80 million related to the involuntary termination of an estimated 1,500 employees throughout the Company in managerial, professional, clerical, consulting and technical positions. In addition, 2004 restructuring and other expense also includes estimated pension expenses of \$50 million related to an early retirement offer in the U.S. to an estimated 1,500 employees. While the Company plans to continue its efforts to generate efficiencies through technology-driven initiatives in 2005, no future costs are expected to be incurred associated with initiatives implemented during 2004.

The following table summarizes activity in the restructuring accruals for the years ended December 31, 2004, 2003 and 2002 (in millions):

	Employee Separations	Exit Costs	Total
Balance at December 31, 2001	\$ 31	\$ 13	\$ 44
Amounts utilized	(10)	(5)	(15)
Balance at December 31, 2002	21	8	29
2003 activity	248	4	252
Amounts utilized	(99)	(3)	(102)
Balance at December 31, 2003	170	9	179
2003 plan:			
Charges	150	-	150
Amounts utilized	(248)	(2)	(250)
Employee retirement offer	50	-	50
Other employee reduction programs	80	-	80
Balance at December 31, 2004	<u>\$ 202</u>	<u>\$ 7</u>	<u>\$ 209</u>

During 2003, the Company began implementation of an initiative to reduce its costs, streamline its organizational structure and exit certain operating activities. These efforts were designed to improve the Company's cost competitiveness and involved the elimination of excess capacity, primarily in Europe, and the consolidation of back-office capabilities. The Company completed the initiative in 2004 and a total of 5,800 employees were involuntarily terminated pursuant to the initiative, consisting of individuals employed throughout the Company in managerial, professional, clerical, consulting and technical positions. As a result of the initiative, the Company recorded restructuring charges of \$150 million and \$252 million during 2004 and 2003, respectively. These amounts primarily resulted from the involuntary termination of approximately 2,100 and 3,700 employees during 2004 and 2003, respectively.

During the first quarter of 2003, the Company recognized a one-time severance charge totaling \$48 million related to the termination of employment of its former CEO. This charge was comprised of a \$12 million cash payment, a non-cash charge of \$16 million associated with previously deferred compensation for 344,000 restricted stock units and retirement benefits with a present value of \$20 million.

Restructuring actions contemplated under restructuring plans prior to 2003 are essentially complete as of December 31, 2004 with remaining reserves of \$16 million comprised primarily of future severance-related payments to terminated employees and future lease payments for exited facilities.

Included in the 2003 amount are costs incurred for executive severance, \$4 million from the exit of certain business activities and the consolidation of facilities, and asset write-downs of \$36 million.

Other activities:

During 2004, the Company sold its U.S. wireless clearing business for \$58 million cash and recognized a pre-tax gain on the sale of \$35 million. During 2004, the Company sold its Automotive Retail Group ("ARG") for \$85 million cash and recognized a pre-tax gain on the sale of \$66 million. The gains resulting from the sales of the U.S. wireless clearing and ARG are included in restructuring and other in the consolidated statement of operations. The net results of the U.S. wireless clearing business and ARG are not included in discontinued operations due to the Company's level of continuing involvement as an IT service provider to the businesses.

During 2003, the Company completed the sale of its Credit Union Industry Group ("CUIG") for \$218 million in cash, excluding approximately \$10 million of retained receivables, and recognized a \$139 million gain on the sale. Such gain is included in restructuring and other in the consolidated statement of operations. The net results of the CUIG business are not included in discontinued operations in the consolidated statements of operations due to the Company's level of continuing involvement as an IT service provider to the business.

NOTE 20: QUARTERLY FINANCIAL DATA (UNAUDITED)

(in millions, except per share amounts)

	Year Ended December 31, 2004⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Revenues	\$ 5,196	\$ 5,235	\$ 4,943	\$ 5,295	\$ 20,669
Gross profit from operations.....	418	381	200	714	1,713
Restructuring and other	(8)	37	(4)	149	174
Income (loss) from continuing operations	(38)	(132)	(169)	44	(295)
Income from discontinued operations	26	402	16	9	453
Net income (loss).....	(12)	270	(153)	53	158
Basic earnings per share of common stock:					
Income (loss) from continuing operations	\$ (0.07)	\$ (0.27)	\$ (0.33)	\$ 0.08	\$ (0.59)
Net income (loss).....	(0.02)	0.54	(0.30)	0.10	0.32
Diluted earnings per share of common stock:					
Income (loss) from continuing operations	\$ (0.07)	\$ (0.27)	\$ (0.33)	\$ 0.08	\$ (0.59)
Net income (loss).....	(0.02)	0.54	(0.30)	0.10	0.32
Cash dividends per share of common stock.....	\$ 0.15	\$ 0.15	\$ 0.05	\$ 0.05	\$ 0.40
	Year Ended December 31, 2003⁽¹⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Revenues	\$ 5,013	\$ 5,058	\$ 4,991	\$ 5,508	\$ 20,570
Gross profit (loss) from operations	487	615	429	(12)	1,519
Restructuring and other	48	43	15	85	191
Income (loss) from continuing operations	(17)	66	(35)	(371)	(357)
Income from discontinued operations	23	15	19	34	91
Cumulative effect on prior years of changes in accounting principles	(1,432)	-	-	-	(1,432)
Net income (loss).....	(1,426)	81	(16)	(337)	(1,698)
Basic earnings per share of common stock:					
Income (loss) from continuing operations	\$ (0.04)	\$ 0.14	\$ (0.07)	\$ (0.77)	\$ (0.75)
Net income (loss).....	(2.99)	0.17	(0.03)	(0.70)	(3.55)
Diluted earnings per share of common stock:					
Income (loss) from continuing operations	\$ (0.04)	\$ 0.14	\$ (0.07)	\$ (0.77)	\$ (0.75)
Net income (loss).....	(2.99)	0.17	(0.03)	(0.70)	(3.55)
Cash dividends per share of common stock.....	\$ 0.15	\$ 0.15	\$ 0.15	\$ 0.15	\$ 0.60

(1) Previously reported quarterly results have been restated to reflect the impact of discontinued operations (see Note 17).

(2) Includes a pre-tax charge of \$375 million recognized in the third quarter to write-down long-lived assets related to the NMCI contract.

(3) Includes pre-tax charges of \$37 million recognized in the first quarter and \$135 million recognized in the second quarter related to the termination of a significant commercial contract.

(4) Includes pre-tax credits of \$17 million recognized in the third quarter and \$13 million recognized in the fourth quarter reversing a portion of charges taken in the second quarter of 2004 related to the termination of a significant commercial contract.

(5) Includes a pre-tax credit of \$98 million recognized in the second quarter reversing a portion of charges taken in 2002 related to the MCI bankruptcy.

(6) Includes a pre-tax charge of \$559 million recognized in the fourth quarter to write-down deferred costs related to the NMCI contract.

(7) The quarterly results for 2003 have been restated to reflect a more appropriate allocation of bonus expense among the periods. The results for the third and fourth quarters of 2003 have been restated to reflect the recognition of \$9 million in revenue in the fourth quarter which had previously been reported in the third quarter. The aforementioned items had the following impact on income (loss) from continuing operations and net income in the respective quarterly results of 2003: 1Q - \$5 million; 2Q - \$(7) million; 3Q - \$(15) million; and 4Q - \$17 million.

Leadership Information

Board of Directors

Michael H. Jordan	EDS Chairman of the Board and Chief Executive Officer
Jeffrey M. Heller	EDS President and Chief Operating Officer
W. Roy Dunbar	President, Global Technology and Operations of MasterCard International
Roger A. Enrico	Chairman of the Board of DreamWorks Animation SKG, Inc.
Ambassador Richard W. Fisher*	Vice Chairman of Kissinger McLarty Associates
Ray J. Groves	Senior Advisor of Marsh Inc.
Ellen M. Hancock	Former Chairman and Chief Executive Officer of Exodus Communications, Inc.
Ray L. Hunt	Chairman, President and Chief Executive Officer of Hunt Consolidated Inc.
Edward A. Kangas	Former Chairman and Chief Executive Officer of Deloitte Touche Tohmatsu
C. Robert "Bob" Kidder	Principal of Stonehenge Partners, Inc.
Judith Rodin, Ph.D.**	President of The Rockefeller Foundation
Solomon D. Trujillo	Former Chief Executive Officer of Orange SA

* will resign from the Board of Directors effective March 31, 2005

** will not continue as a director following the 2005 Annual Meeting

EDS Executive Leadership

Michael H. Jordan	Chairman of the Board and Chief Executive Officer
Jeffrey M. Heller	President and Chief Operating Officer
David M. Clementz	Executive Vice President, Service Delivery
Charles S. Feld	Executive Vice President, Portfolio Management
Bruce N. Hawthorne	Executive Vice President, General Counsel and Secretary
Heinz "Henner" L. Klein	Chief Executive Officer of A.T. Kearney
Stephen F. Schuckenbrock	Executive Vice President, Global Sales & Client Solutions
Tina M. Sivinski	Executive Vice President, Human Resources
Robert H. Swan	Executive Vice President and Chief Financial Officer

Shareholder Information

Stock Data

Trading: Electronic Data Systems Corporation is listed on the New York Stock Exchange and the London Stock Exchange. NYSE Ticker symbol: EDS

Stock Transfer Office

American Stock Transfer & Trust Company is the transfer agent for EDS common stock. For information about accounts, dividend checks, changes of address, stock transfers, direct deposits and similar matters, you can contact American Stock Transfer & Trust Company at the following telephone numbers and addresses:

Inside the United States, call:

1 800 250 5016.

Outside the United States, call:

1 718 921 8200.

Internet address: www.amstock.com

e-mail: info@amstock.com

Dividend Reinvestment and Direct Purchase inquiries, call:

1 877 253 6851.

Address shareholder inquiries to:

Shareholder Relations Department
American Stock Transfer
59 Maiden Lane, Plaza Level
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1 800 250 5016

Answers to many of your shareholder questions and requests for forms are available by visiting American Stock Transfer & Trust Company's Web site at www.amstock.com.

Quarterly Earnings

Listen to our 2005 quarterly earnings release conference calls via live webcast at eds.com/investor.

EDS 2004 Online Annual Report

An Adobe Acrobat Portable Document Format (PDF) file of the print version is available at eds.com/04annual.

Investor Relations

Securities analysts and institutional investors should contact:

Al Hamood

Investor Relations

Inside the United States, call toll-free:

1 888 610 1122.

Outside the United States, call:

1 972 605 6660.

Fax: 1 972 605 6662

e-mail: invest@eds.com

Independent Auditors

KPMG LLP, Dallas, Texas USA

Other Information

EDS has included as Exhibits 31.1 and 31.2 to its Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Securities and Exchange Commission ("Form 10-K") certificates of its Chief Executive Officer and Chief Financial Officer certifying the quality of EDS' public disclosure, and EDS has submitted to the New York Stock Exchange a certificate of its Chief Executive Officer certifying that he is not aware of any violation by EDS of New York Stock Exchange corporate governance listing standards.

A copy of the Form 10-K can be viewed, without exhibits, on our Web site at eds.com/investor. Shareholders may also request a copy of the Form 10-K, without charge, by contacting:

EDS Investor Relations

5400 Legacy Drive

Mail Stop H1-2D-05

Plano, Texas 75024

1 888 610 1122 or 1 972 605 6661

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 more than \$20 billion in annual revenue, 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.

Let's begin the conversation

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