



2005 **ANNUAL REPORT**

A Message From Michael H. Jordan • 2006 Annual Meeting Notice • Proxy Statement • 2005 Financial Information





5400 Legacy Drive
Plano, Texas 75024

To Our Shareholders,

By all accounts, 2005 was a successful year for EDS. Your company broke into stride, establishing a strong and competitive position in the marketplace. We reignited our sales engine, met key financial targets and continued deployment of our Agile Enterprise Platform with clients.

Last year's results marked a culmination of our "stabilize, fix and invest-to-grow" strategy. During the last few years, we moved EDS from a confederation of accounts to a more globally integrated company centered on its core business.

While EDS today is a force to contend with, we've only begun to demonstrate the power behind our technology vision and delivery capabilities – all underpinned by the steadfast commitment of EDS people to our clients' success. We will build on 2005's momentum, strengthening our ability to achieve market leadership.

Business Highlights

Our investment strategy has begun to pay off. In 2005, we:

- **Reignited our sales engine.** Total contract value of new business signings of \$20.1 billion reflected almost a doubling of our win rate over the prior year. We added nine \$100-million-plus, new-logo accounts, all contributing new revenue to the company. Existing and new clients clearly saw the value EDS delivers.
- **Strengthened our core operations.** We reduced operational complexity by increasing our use of standardized processes and building a consistent operating environment. Our standards-driven approach enabled us to develop and deliver high-quality services more consistently and efficiently.
- **Developed an advanced technology platform.** Our secure global service network, service delivery automation and legacy modernization help make our clients more competitive in a shifting world economy. EDS' Agility Alliance partners played a key role in driving innovative technology into our core offerings. Last year, we opened two Agility Alliance Development Centers in the United States to further that effort.
- **Further aligned our employees' skills to the marketplace.** EDS has embarked on a bold training and development initiative. More than 50,000 EDS employees upgraded their skills in 2005, completing nearly 2 million training hours. This action gives us a well-skilled, competitive work force to keep pace with changing market demands.
- **Solidified our relationship with General Motors (GM).** We transformed this important, 21-year client relationship by meeting challenging service targets and bringing compelling innovation to the table. These efforts paved the way to a \$3.8 billion contract win in 2006 that will further incorporate components of our Agile Enterprise foundation.

- **Continued momentum with the Navy.** The historic Navy Marine Corps Intranet (NMCI) account demonstrated improved operational and financial performance. The NMCI account has moved from a user of cash to a source of cash.
- **Extended our leadership in Medicaid.** EDS won new or add-on Medicaid business for a combined contract value of nearly \$800 million, including wins in six out of eight states. These wins brought our total state Medicaid contracts to 19.

We accomplished a lot last year – and in the previous two years – since we began transforming EDS. Our employees believe in EDS and what we can achieve. We gained renewed respect from clients, industry analysts and our competitors. Even with all this progress, we know we must move from being a good, respectable company to a great market leader.

Return to Growth

Our goal is to lead the industry we invented, delivering technology services that make our clients more competitive.

Our objectives are threefold: 1) Grow our infrastructure outsourcing business faster than the market rate; 2) Accelerate growth in our higher-margin business process outsourcing (BPO) and applications businesses; 3) Get back to the streamlined, disciplined approach that made EDS a powerhouse from the beginning.

EDS created the outsourcing services industry. It's what we're known for. While we've been successful at it, we can be more profitable. We're investing in technology to make our infrastructure outsourcing business less capital intensive and to give our clients real-time control over every aspect of their businesses.

The applications market is growing and is projected to accelerate in the next two years. EDS will build on its significant delivery capabilities in this area and move toward higher-end modernization and transformation projects. To this end, we are engaging a new global delivery model that aligns the best of our industry and functional expertise and more aggressively leverages offshore capabilities. Our objective is to develop globally linked centers of expertise and transform our clients' legacy systems so they can respond quickly and efficiently to changing market conditions.

We continue to expand our BPO capabilities since forming ExcellerateHRO early last year. We plan to grow the BPO portion of our portfolio to become a greater percentage of our business mix and focus our energies on turning a strong pipeline into a market-leading position.

We are consolidating our applications, vertical industry and business process expertise into one central resource. This move will accelerate our growth in the higher-end business performance services market. We will use this combined expertise to help our clients improve their overall performance and serve their customers better.

We also realigned our management structure to drive change throughout our business operations. The Office of the Chief Operating Officer links our Sales and Delivery teams to provide the best client solutions through a more streamlined, disciplined organization. Our goal is to harness the collective capabilities of a fully unified EDS.

Signs of Greatness

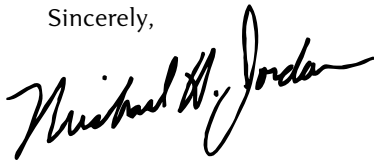
Last year signaled EDS was back in the game. In 2006, we will step up our efforts to grow the business.

Already, we've kicked off 2006 with some very important strategic wins. Most notable among them – and a telling symbol of the new EDS – was our multibillion-dollar contract with GM. We garnered approximately 70 percent of the GM business we pursued, with a total contract value of about \$3.8 billion over five years. When added to the business that was not part of this recompile, we can expect \$1.2 billion to \$1.4 billion in annualized revenue from GM over the next five years.

The GM win is a strong endorsement of our technology strategy and our commitment to the highest levels of quality service. Based on EDS' Agile Enterprise foundation, we designed an innovative approach to support GM's vision for a new IT sourcing model. Our work with GM to establish global standardized processes will help reduce costs and continue to improve GM's world-class capabilities. What's more, these investments can be leveraged across EDS, positioning us well with other large global clients.

Our technology vision is gaining real traction. EDS is truly reinventing itself and – we believe – the industry we created. The new EDS will be a more dynamic company capable of delivering sustained value to its clients and shareholders.

Sincerely,

A handwritten signature in black ink, reading "Michael H. Jordan". The signature is fluid and cursive, with the first name "Michael" being the most prominent.

Michael H. Jordan
Chairman and Chief Executive Officer



ELECTRONIC DATA SYSTEMS CORPORATION
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON APRIL 18, 2006

The Annual Meeting of Shareholders of Electronic Data Systems Corporation ("EDS") will be held on Tuesday, April 18, 2006, 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 the Board of Directors for the next year;
- ratify the appointment of KPMG LLP as independent auditors;
- consider and vote upon two shareholder proposals, if presented at the meeting; 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 February 24, 2006, 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,

Storrow M. Gordon
Secretary

March 10, 2006

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**PROXY STATEMENT
FOR THE ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD APRIL 18, 2006**

The Board of Directors of EDS is soliciting proxies to be used at the 2006 Annual Meeting of Shareholders (the "Meeting"). Distribution of this Proxy Statement and a proxy form is scheduled to begin on March 21, 2006. 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 February 24, 2006, may vote at the Meeting. On that date, 529,795,449 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 and 2 will be presented at the Meeting by management. Proposals 3 and 4 may be presented by shareholders.

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 and 2 and AGAINST Proposals 3 and 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. Under an amendment to our

Corporate Governance Guidelines approved by the Board in February 2006, a director nominee who receives a greater number of “withheld” votes than votes “for” his or her election must promptly tender his or her resignation to the Board. We refer you to a discussion of this policy under the heading “Director Resignation Policy” below.

For each other proposal, 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 such 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 such proposal.

If your broker holds your shares in its name, the broker is permitted to vote your shares on the election of directors and on Proposal 2 even if it does not receive voting instructions from you. However, your broker may not be permitted to exercise voting discretion with respect to some of the matters to be acted upon. Thus, if you do not give your broker specific instructions, your shares may not be voted on those matters and will not be counted in determining the number of shares necessary for approval. 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. EDS understands that pursuant to New York Stock Exchange (“NYSE”) rules, Proposals 3 and 4 are non-discretionary proposals for which your broker may not exercise voting discretion.

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.

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 2005 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 seven meetings in 2005. All directors continuing in office following the Meeting attended at least 85% of the meetings of the Board and the Board committees of which they were members during 2005.

Corporate Governance Guidelines

The EDS Corporate Governance Guidelines have been adopted by the Board of Directors to assist it in the performance of its duties and the exercise of its responsibilities and in accordance with the listing requirements of the NYSE. The Guidelines reflect the Board's current views with respect to corporate governance issues and are periodically reviewed and updated. 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, the duties of the Presiding Director, 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, director resignation policies and the Board's policy regarding shareholder rights plans described below.

The Guidelines are posted on our website at www.EDS.com/investor/governance/guidelines.aspx. 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.

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 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. This policy was supplemented in 2006 to provide that any determination by the Board to adopt a rights plan without prior shareholder approval shall be made by a committee comprised of all independent Directors.

Executive Sessions

The 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.

Presiding Director

The Board has an independent Presiding Director who serves as chair of the regularly conducted executive sessions of the Board and all other sessions at which the Chairman is not present. The Corporate Governance Guidelines were amended in 2006 to expand the responsibilities of the Presiding Director. The Presiding Director facilitates communication with the Board and, at the request of any independent director, serves as the liaison between the Chairman and the independent directors. When requested by any independent director or when the Presiding Director deems it appropriate, the Presiding Director can call meetings of the independent directors. The Presiding Director reviews and approves the agenda for each Board meeting and the nature and type of materials to be sent to the Board for each meeting based on that agenda. At least annually, the independent Directors shall evaluate the Board's plan for agendas for each meeting in the upcoming year and the information provided at and in advance of meetings and shall discuss recommendations for any changes to that plan and information in executive session with the Presiding Director, who will communicate those recommendations to the Chairman.

The Presiding Director position is rotated on an annual basis among the Chairpersons of the Board's three standing Committees. The Chairman of the Audit Committee, Ray J. Groves, filled the Presiding Director position vacated by C. Robert Kidder in October 2005 and will continue to serve as the Presiding Director through the date of the Annual Meeting of Shareholders in 2007, and the Chairman of the Compensation and Benefits Committee, Ellen M. Hancock, will serve as the Presiding Director thereafter until the 2008 Annual Meeting of Shareholders. The EDS Corporate Governance Guidelines provide that if the position of Chairman is held by an independent director, all duties and responsibilities assigned to the Presiding Director shall be performed by that independent Chairman.

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/communication.aspx.

Director Resignation Policy

In February 2006 the Board amended the Corporate Governance Guidelines to provide that a nominee for director in an uncontested election who receives a greater number of votes "withheld" from his or her election than "for" his or her election will promptly tender his or her resignation to the Chairman of the Board. The Governance Committee will promptly consider such resignation and recommend to the Board whether to accept or reject it. In considering whether to accept or reject the tendered resignation, the Governance Committee will consider all factors deemed relevant by its members, including the stated reasons why shareholders "withheld" votes for election from such director, the length of service and qualifications of such director and the director's contributions to EDS. The Board will act on the Governance Committee's recommendation no later than 90 days following the date of the shareholders' meeting when the election occurred. In considering such recommendation, the Board will review the factors considered by the Governance Committee and such additional information and factors the Board believes to be relevant. EDS will promptly publicly disclose the Board's decision together with a full explanation of the process by which the decision was reached and, if applicable, the reasons for rejecting the tendered resignation.

Any director who tenders his or her resignation pursuant to this provision will not participate in the Governance Committee recommendation or Board consideration regarding whether or not to accept the tendered resignation. If a majority of the members of the Governance Committee received a greater number of votes "withheld" than votes "for" their election at the same meeting, then the other independent directors will appoint a Board committee consisting of all or some of such other independent directors solely for the purpose of considering the tendered resignations and will recommend to the Board whether to accept or reject them.

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/independence.aspx.

In February 2006, 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, Dr. Gillis, Mr. Groves, Ms. Hancock, Mr. Hunt, Mr. Kangas, and Mr. Yost) 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 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/committee.aspx. 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 15 times in 2005, is composed of Ray J. Groves (Chair), W. Roy Dunbar, S. Malcolm Gillis and Edward A. Kangas. Mr. Dunbar was appointed to this committee in January 2005 and Dr. Gillis was appointed to this committee in October 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 11 times in 2005, is composed of Ellen M. Hancock (Chair), Roger A. Enrico and R. David Yost. Mr. Enrico was appointed to this committee in February 2005 and Mr. Yost was appointed to this committee in October 2005. 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 five times in 2005, is composed of Roger A. Enrico (Chair), Ellen M. Hancock and Ray L. Hunt. Mr. Hunt was appointed to this committee in February 2005. 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 are three nominees this year who had not previously been elected to the Board by shareholders. Edward A. Kangas was appointed to the Board in 2004. At the time of his appointment, the Board was divided into three classes, the terms of which expired alternately over a three-year period. The term of Mr. Kangas' class was to expire in 2006. S. Malcolm Gillis and R. David Yost were appointed by the Board as directors in July 2005 and October 2005, respectively. Messrs. Kangas, Gillis and Yost were each appointed to the Board upon recommendation of the Governance Committee. Messrs. Kangas and Yost had been recommended to the Governance Committee by a third-party search firm. Dr. Gillis had been recommended to the Governance Committee by a non-management director.

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 2007 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 2007 Annual Meeting of Shareholders is currently scheduled for April 17, 2007. Under SEC rules, shareholder proposals to be considered for inclusion in EDS' proxy statement for the 2007 Annual Meeting of Shareholders must be received by the Corporate Secretary not later than November 21, 2006.

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 2007 annual meeting should submit a completed form not earlier than October 1, 2006, and not later than November 21, 2006. 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 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 in advance at the commencement of each annual director compensation period, which generally begins at the Annual Meeting of Shareholders in April. 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 cash retainer or additional chairperson fee paid in advance.

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 may elect to receive restricted stock in lieu of all or part of their annual cash retainer. Prior to the 2005/2006 director compensation year, directors had been able to elect to receive stock options

and/or restricted stock in lieu of any part of their cash retainer, which awards would vest over future service periods. Under the 2003 Incentive Plan, awards that had not vested at the time of a non-employee director's resignation are not forfeited if the Board has consented to such resignation. In 2005, the Board consented to the resignations of Richard Fisher, C. Robert Kidder and Solomon Trujillo and to Judith Rodin's not seeking re-election to the Board, and the vesting of the following awards held by such persons was accelerated: *Mr. Fisher* – options to purchase 18,944 shares of Common Stock at \$16.145 per share, one-third of which had been scheduled to vest on June 1, 2005, 2006 and 2007; *Mr. Kidder* – options to purchase 4,668 shares of Common Stock at \$20.99 per share scheduled to vest on June 2, 2006, and 10,970 restricted stock awards scheduled to vest from May 2006 to May 2008; *Mr. Trujillo* – options to purchase 4,194 shares of Common Stock at \$21.115 per share, one-third of which had been scheduled to vest on March 1, 2006, 2007 and 2008; and *Dr. Rodin* – options to purchase 1,333 shares of Common Stock at \$54.19 per share, scheduled to vest on May 2, 2005, and options to purchase 2,666 shares of Common Stock at \$20.99 per share, one-half of which had been scheduled to vest on June 2, 2005 and 2006.

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. EDS contributes 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 (who have served on the Board since 1996) receive a commemorative gift valued at approximately \$3,500. Such gifts were furnished to Mr. Kidder and Dr. Rodin in 2005.

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, 2005.

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, 2005, 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, Chair

W. Roy Dunbar

S. Malcolm Gillis

Edward A. Kangas

PROPOSAL 1: ELECTION OF DIRECTORS

Commencing this year EDS' directors will be elected for a one-year term at each Annual Meeting of Shareholders. The Board of Directors proposes the ten nominees listed below for election as directors at the 2006 Annual Meeting. The directors will hold office from election until the next Annual Meeting of Shareholders or until their successors are elected and qualified. All director nominees, other than Dr. Gillis and Mr. Yost, have served as directors since the 2005 Annual Meeting. Dr. Gillis and Mr. Yost were appointed by the Board as directors in July 2005 and October 2005, respectively. If a director nominee becomes unavailable for election, the Board may substitute another person for the nominee, in which event your shares will be voted for that other person. The information below regarding the director nominees is as of March 1, 2006.

The Board of Directors recommends a vote FOR each director nominee.



W. ROY DUNBAR, 44, has been a director of EDS since 2004. He has been 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 is also a director of Humana Inc.



ROGER A. ENRICO, 61, has been a director of EDS since 2000. He has been Chairman of the Board of DreamWorks Animation SKG, Inc. since October 2004 and is a former Chairman and Chief Executive Officer of PepsiCo, Inc. As Chairman of DreamWorks, he 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 March 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 also a director of Belo Corporation, DreamWorks Animation SKG, Inc. and The National Geographic Society.



S. MALCOLM GILLIS, 65, has been a director of EDS since 2005. He has served as Zingler Professor of Economics and University Professor at Rice University since June 2004. Dr. Gillis was President of Rice University from 1993 to June 2004. He is also a director of Halliburton Company, Service Corporation International and Introgen Therapeutics, Inc.



RAY J. GROVES, 70, has been a director of EDS since 1996. He served as Senior Advisor of Marsh Inc., the insurance brokerage and risk management subsidiary of Marsh & McLennan Companies, Inc., from October 2004 to October 2005, Chairman and Chief Executive Officer from July 2003 to October 2004, President and Chief Executive Officer from January 2003 to June 2003, and President and Chief Operating Officer from October 2001 to January 2003. Mr. Groves was 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 also a director of Boston Scientific Corporation and Overstock.com, Inc.



ELLEN M. HANCOCK, 62, has been a director of EDS since 2004. She was Chairman of Exodus Communications, Inc., a computer network and internet systems company, 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. Ms. Hancock was Executive Vice President, Research and Development, Chief Technology Officer of Apple Computer Inc. from July 1996 to July 1997. She 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. Ms. Hancock is also a director of Aetna Inc., Colgate-Palmolive Company and Watchguard Technologies, Inc.



JEFFREY M. HELLER, 66, rejoined EDS in March 2003 as President and Chief Operating Officer and a director. He retired from EDS in February 2002 as Vice Chairman, a position he had held since November 2000. Mr. Heller 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. He joined EDS in 1968 and has served in numerous technical and management capacities. Mr. Heller is also a director of Trammell Crow Company, Temple Inland Corp. and Mutual of Omaha.



RAY L. HUNT, 62, has been a director of EDS since 1996. Mr. Hunt has been Chairman of the Board and Chief Executive Officer of Hunt Consolidated Inc. and Chairman of Hunt Oil Company for more than five years. He is a director of Halliburton Company and PepsiCo, Inc., a manager of Verde Group, LLC and Chairman of the Board of Directors of the Federal Reserve Bank of Dallas.



MICHAEL H. JORDAN, 69, has been Chairman and Chief Executive Officer of EDS since March 2003. He was Chairman and Chief Executive Officer of CBS Corporation (formerly Westinghouse Electric Corporation) from July 1993 until December 1998. Prior to joining Westinghouse, Mr. Jordan 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.



EDWARD A. KANGAS, 61, has been a director of EDS since 2004. He 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 also the Chairman of the National Multiple Sclerosis Society and a director of Eclipsys Corporation, Hovnanian Enterprises Inc., Oncology Therapeutics Networks and Tenet Healthcare Corporation (for which he has served as non-executive Chairman since July 2003).



R. DAVID YOST, 58, has been a director of EDS since 2005. He has been a director and Chief Executive Officer of AmerisourceBergen Corporation, a pharmaceutical services company, since August 2001 and President of AmerisourceBergen from August 2001 to October 2002. Mr. Yost served as Chairman and Chief Executive Officer of AmeriSource Health Corporation from December 2000 to August 2001 and President and Chief Executive Officer of AmeriSource Health Corporation from May 1997 to December 2000. He held a variety of other positions with AmeriSource Health Corporation and its predecessors since 1974, including Executive Vice President – Operations of AmeriSource Health Corporation from 1995 to 1997.

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 15, 2006, 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	9,573 (b)(c)
Roger A. Enrico	69,523 (a)(b)
S. Malcolm Gillis	4,252 (b)
Ray J. Groves	80,789 (a)(b)
Ellen M. Hancock.....	19,730 (a)(b)(c)
Ray L. Hunt.....	139,323 (a)(b)
Edward A. Kangas.....	11,339 (b)
R. David Yost.....	10,112 (b)
Michael H. Jordan	430,957 (a)(c)(d)(e)
Jeffrey M. Heller	1,075,200 (a)(c)(d)(e)
Charles S. Feld	336,278 (a)(c)(d)(e)
Stephen F. Schuckenbrock	252,320 (a)(c)(d)(e)
Robert H. Swan	540,732 (a)(c)(d)(e)
Directors and executive officers as a group (16 persons).....	3,219,882 (a)-(e)

- (a) Includes shares of Common Stock which may be acquired on or before April 14, 2006, through the exercise of stock options as follows: Mr. Enrico—25,130 shares; Mr. Groves—30,049 shares; Ms. Hancock—6,914 shares; Mr. Hunt—36,283 shares; Mr. Jordan—373,834 shares; Mr. Heller—584,204 shares; Mr. Feld—238,887 shares; Mr. Schuckenbrock—191,665 shares; Mr. Swan—393,000 shares; and all directors and executive officers as a group—2,084,518 shares. Does not include shares subject to options vesting after April 14, 2006, regardless of whether such options may vest prior to that date if 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—8,614 shares; Mr. Enrico—4,227 shares; Dr. Gillis—4,252 shares; Mr. Groves—48,493 shares; Ms. Hancock—12,816 shares; Mr. Hunt—39,155 shares; Mr. Kangas—11,339 shares; and Mr. Yost—5,112 shares.
- (c) Excludes unvested restricted stock units granted under the 2003 Incentive Plan as follows: Mr. Dunbar—7,579 units; Ms. Hancock—5,663 units; Mr. Jordan—400,000 units; Mr. Heller—313,000 units; Mr. Feld—85,828 units; Mr. Schuckenbrock—63,622 units; Mr. Swan—56,141 units; and all directors and executive officers as a group—1,037,050 units. The units will vest (subject to earlier vesting based on EDS' achievement of performance goals) during the period from 2005 through the earlier of normal retirement or 2009, subject to earlier vesting under the terms of 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—6,692 shares; Mr. Heller—60,984 shares; Mr. Feld—6,081 shares; Mr. Swan—105,144 shares; Mr. Schuckenbrock—586 shares; and all executive officers as a group—192,131 shares.
- (e) Includes vested compensation deferrals treated as invested in Common Stock under the 401(k) Plan as follows: Mr. Jordan—431 shares; Mr. Heller—491 shares; Mr. Feld—319 shares; Mr. Schuckenbrock—285 shares; Mr. Swan—234 shares; and all executive officers as a group—5,586 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, 2005:

<u>Name and Address of Beneficial Owner</u>	<u>Number of Shares Beneficially Owned</u>	<u>Percentage of Common Stock Outstanding</u>
Dodge & Cox 555 California St., 40 th Floor San Francisco, CA 94104	66,666,548 (a)	12.8%
Hotchkiss and Wiley Capital Management, LLC 725 S. Figueroa St, 39 th Floor Los Angeles, CA 90017.....	56,115,902 (b)	10.8%
AXA Financial, Inc. (c) 1290 Avenue of the Americas New York, NY 10104.....	35,122,629 (c)	6.7%
State Street Bank and Trust Company 225 Franklin Street Boston, MA 02110.....	29,462,002 (d)	5.7%
Franklin Resources, Inc. (e) One Franklin Parkway San Mateo, CA 94403.....	26,189,555 (e)	5.0%

(a) Dodge & Cox reported sole voting power over 62,589,048 shares, shared voting power over 659,000 shares, and sole dispositive power over all shares beneficially owned.

(b) Hotchkiss and Wiley reported sole voting power over 42,889,602 shares and sole dispositive power over all shares beneficially owned.

(c) A group comprised of AXA Financial, Inc. (including its subsidiaries Alliance Capital Management L.P. and AXA Equitable Life Insurance Company) and certain affiliated entities located in Paris, France, reported sole voting power over 19,765,796 shares, shared voting power over 3,670,367 shares, sole dispositive power over 35,093,621 shares and shared dispositive power over 29,008 shares.

(d) State Street reported sole voting power over 13,810,682 shares, shared voting power over 15,651,320 shares, and shared dispositive power over all shares beneficially owned.

(e) Investment advisory subsidiaries of Franklin Resources, Inc. (including Templeton Global Advisors Limited) and its principal shareholders Charles B. Johnson and Rupert H. Johnson, Jr. reported sole voting power over 24,839,622 shares, sole dispositive power over 26,139,653 shares, and shared dispositive power over 51,902 shares.

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 EDS. The Committee reviews and approves all salary, equity-based compensation and other remuneration or benefits for executive officers, including the performance goals for any performance-based incentive plans in which executive officers participate. 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 eleven times in 2005 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 goal is to create sustainable shareholder value by attracting and retaining accomplished and high potential executives and motivating and rewarding those executives for achievement of our short- and long-term goals and objectives.

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/or 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 ensure they are a representative cross-section of the companies with which EDS competes for executive talent often with the use of an independent expert.

Our strategy is to ensure the overall level of our salary, annual bonus opportunity and long-term incentive compensation is competitive with the 50th percentile 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 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
- long-term incentives
- perquisites
- retirement and other executive arrangements

Base Salary. We target base salaries for executive officers at the 50th percentile paid for similar positions by 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 and long-term incentive opportunities as well as the value of any outstanding and unvested 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 during the year and the executive's contribution to that performance. Annual target bonus opportunity is expressed as a percentage of an executive's base salary. For 2005 performance, target bonus opportunity was 110 percent for the CEO, 100 percent for the President and 85 percent for Executive Vice Presidents. We establish the target bonus opportunity at the 50th percentile for similar positions by companies in the comparator groups described above. The amount of the actual bonus paid to an executive in respect of any year will vary from 0 to 200 percent of the target bonus based on company and individual performance.

The CEO and other executive officers were eligible for a bonus in respect of 2005 financial performance under a Corporate Bonus Plan ("CBP") established under the 2003 Incentive Plan. The CBP, which also covers senior leadership employees who are not executive officers, replaced several annual bonus plans used for executive officers and other leadership groups prior to 2004, and allows for a common design across the organization. Bonus funding for 2005 was based on metrics and cascaded performance targets for corporate and functional or regional performance, with funding for executive officers based 100 percent on corporate performance and funding for other participants generally based 50 percent on corporate performance and 50 percent on functional or regional performance. Individual bonuses for executive officers were established based on actual company results, which were then adjusted +/- 50 percent 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 metrics and weights used for determining corporate performance were earnings per share (30%); free cash flow (40%); revenue (20%); and total contract value (TCV) of new business signings (10%). The metrics for regional performance included return on net assets (RONA), operating margin, revenue, TCV and customer loyalty.

In February 2006, we reviewed EDS' 2005 financial results relative to the financial criteria we previously established under the CBP for 2005 performance. In accordance with the terms of the CBP, in establishing 2005 financial results for plan purposes, we adjusted reported results to reflect certain events, including gains and losses from divestitures, earnings and losses from discontinued operations, gains from reversed restructuring charges, and the impact of the settlement of shareholder litigation. Our goal in approving such adjustments was to ensure that any CBP payout aligned with management's contribution to the ongoing operating performance of the company, and not penalize or reward them for extraordinary events. For 2005, the company's performance achieved the target we established for annual revenue and exceeded the target for earnings per share, free cash flow and TCV. As a result, the CBP funded in aggregate at 103% of the targeted payout for executive officers. Although the bonus is payable in March 2006, because it will be paid in respect of 2005 performance, it is reported as 2005 bonus in the Summary Compensation Table included in this Proxy Statement.

Long-Term Incentives. Long-term incentive opportunities are an important and significant element of the total compensation package for EDS executives. Most stock-based awards to executives are made under the 2003 Incentive Plan (which authorizes awards of stock options, stock appreciation rights, restricted stock and other stock-based awards). In granting stock-based awards, we consider the long-term incentive compensation awarded for similar executive positions by the comparator groups, the number of unvested equity-based awards held by the executive, and the executive's individual 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 incentive programs.

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 led us to reconsider the use of annual employee stock option grants. During 2004, the Committee launched a project with management to reconsider the company's long-term incentive compensation strategy and review specific alternatives that would:

- focus executives on long-term metrics that create sustained shareholder value;
- address shareholder concerns regarding the use of stock options and shareholder dilution;
- more efficiently align the program 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 market changes in compensation practices.

As a result of this comprehensive review of our long-term incentive compensation strategy, beginning with the 2005 grant, executive officers were awarded one-half of their long-term incentive compensation in the form of nonqualified stock options that vest 100 percent three years from the grant date and one-half in the form of performance-vesting restricted stock units (“Performance RSUs”). For participants who are not executive officers, annual stock option grants were completely replaced with annual grants of Performance RSUs. Vesting of Performance RSUs for executive officers can range from 0 to 200 percent of their target Performance RSU award, while vesting for non-executive officer participants can range from 50 to 200 percent of their target award. Vesting of Performance RSUs for all participants will be tied to EDS’ performance as measured and weighted by operating margin (50%), net asset utilization (25%), and organic revenue growth (25%) over a three-year performance period. The performance period for the 2005 grant was the three-year period commencing on January 1, 2005. For the 2006 grant, the performance period will be the three-year period commencing on January 1, 2006. Following vesting of any Performance RSUs, a participant will be prohibited from selling 50 percent of the vested shares for a period of 12 months following the vesting date. With respect to stock options issued to executive officers, any options exercised within 12 months of vesting can only be exercised for shares and must be held for 12 months following the exercise date.

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.

Retirement and 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 severance and change of control agreements, which now include a termination or “sunset” date which may not be extended without 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 requiring shareholder approval for any future executive severance arrangements that provide benefits of 2.99 times annual cash compensation (base salary plus target bonus) or greater.

EDS also provides a Supplemental Executive Retirement Plan, or SERP, to the named executive officers, excluding the Chairman and Chief Executive Officer, and a small group of other U.S. executives. In 2005, we implemented a requirement that no new participants may be added to the SERP without approval of the Committee. It is our intent to limit additional participation in the SERP to extraordinary new hire and retention situations.

Stock Ownership Guidelines

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

<u>Executive Level</u>	<u>Stock Ownership Multiple</u>
CEO/President	5 times annual salary
COO/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.

In addition to EDS’ long-term incentive compensation program, the company provides executives with other programs to accumulate EDS stock. These include a qualified employee stock purchase plan and the U.S. Executive Deferral Plan, a non-qualified deferred compensation plan, that allows executives to defer base salary and annual bonus compensation into deferred EDS stock units. 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. Also, the Committee has the ability to award additional deferred stock units to executives under the plan.

Chief Executive Officer Compensation

EDS appointed Michael H. Jordan as 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 his compensation, we use the same principles as we do for other executive officers of the company, except as noted below, in addition to consideration of Section 162(m) of the Internal Revenue Code. We believe Mr. Jordan's total compensation for 2005 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. We have determined to continue Mr. Jordan's base salary at that same level through 2006. Although market data suggests increasing his base salary, we believe it is more appropriate to place a greater emphasis on the long-term incentive component of his compensation package rather than increasing his base salary.

Annual Bonus. For 2005, Mr. Jordan was awarded a cash bonus of \$1,500,000. We determined this payment was appropriate in light of his contributions to EDS' achievements during 2005 in accordance with previously established criteria. These include the company's improved earnings, cash flow and TCV, strengthened balance sheet, improved performance associated with certain contracts, and more competitive cost structure.

Long-Term Incentive Compensation. In March 2005, the Committee granted Mr. Jordan 250,000 Performance RSUs and 550,000 nonqualified stock options. This grant was determined based on our assessment of his performance, the total compensation value provided to other Chief Executive Officers at the peer comparator groups and our intent to place greater emphasis on the long-term incentive component of his compensation rather than base salary as noted above.

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 it qualifies 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. We anticipate the \$1 million level will be exceeded with respect to the CEO and certain other executive officers.

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

Ellen M. Hancock, Chair
Roger A. Enrico
R. David Yost

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 2005 (the “named executive officers”).

Name and Principal Position During 2005	Year	Annual Compensation			Long-Term Compensation Awards		All Other Compensation (D)
		Salary	Bonus	Other Annual Compensation (A)	Restricted Stock Awards (B)	Number of Options (C)	
Michael H. Jordan <i>Chairman of the Board and Chief Executive Officer</i>	2005	\$1,000,000	\$1,500,000	\$348,236	—	550,000	—
	2004	1,000,000	1,100,000	192,871	—	1,100,000	\$3,075
	2003	780,768	540,000	160,184	\$2,337,000	1,040,500	38,651
Jeffrey M. Heller <i>President</i>	2005	808,333	876,000	96,312	—	188,000	—
	2004	775,000	735,000	—	—	300,000	78,188
	2003	546,538	344,933	—	779,000	275,870	32,240
Charles S. Feld <i>Executive Vice President, Portfolio Development</i>	2005	700,000	613,000	—	—	99,000	—
	2004	650,000	525,000	—	550,965	369,838	33,024
	2003	5,000	—	942,071	2,791,076	—	—
Stephen F. Schuckebrook <i>Co-Chief Operating Officer and Executive Vice President, Global Sales & Client Solutions</i>	2005	666,667	750,000	—	—	85,000	—
	2004	600,000	470,000	—	—	302,379	9,817
	2003	4,615	—	706,551	2,093,301	—	—
Robert H. Swan <i>Executive Vice President and Chief Financial Officer *</i>	2005	650,000	570,000	—	—	75,000	1,207
	2004	650,000	475,000	—	—	200,000	134,824
	2003	594,423	740,000	—	3,000,000	293,000	131,569

* Mr. Swan will resign from EDS effective March 15, 2006.

(A) Other Annual Compensation: Other Annual Compensation consists of the following:

For Mr. Jordan: \$185,276, \$62,842 and \$36,893 for personal use of corporate aircraft in 2005, 2004 and 2003, respectively (see below for valuation methodology); \$62,774, \$28,032 and \$33,532 for reimbursement of financial planning and tax return preparation expenses in 2005, 2004 and 2003, respectively; and \$100,186, \$101,997 and \$89,759 in 2005, 2004 and 2003, respectively, for a car and driver provided by EDS for ground transportation in the Dallas area. EDS has estimated Mr. Jordan’s personal use of such car and driver at 25% of total usage. However, the amount reported above reflects 100% of the total cost to EDS of such car and driver (including driver’s salary, vehicle lease cost, fuel expense and smaller variable costs).

For Mr. Heller: \$88,812 for personal use of corporate aircraft in 2005; and \$7,500 for reimbursement of financial planning and tax return preparation expenses in 2005.

For Messrs. Feld and Schuckebrook: cash payment to satisfy tax withholdings related to restricted stock grants on December 30, 2003, in connection with the sale of their interest in Feld Partners Investments, L.P. to EDS.

Valuation of Personal Use of Corporate Aircraft: During 2005 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 uses 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. EDS does not pay its executive officers any amounts in respect of taxes on income imputed to them for personal aircraft usage or, with respect to Mr. Jordan, personal use of the car and driver referred to above.

(B) Restricted Stock Awards: The amount reported reflects the value of the following restricted stock awards, in each based on the closing price of the Common Stock on the grant date:

For Messrs. Jordan and Heller: 150,000 and 50,000 restricted stock units, respectively, 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 Messrs. Feld and Schuckebrook: 113,875 and 85,406 shares of restricted stock, respectively, awarded on December 30, 2003, in connection with the sale of their interest in Feld Partners Investments, L.P. to EDS. See “Employment Agreements” below for the vesting terms for such restricted stock. For purposes of the acquisition agreement for such transaction, such awards were valued at \$2,791,076 and \$2,093,301, respectively.

For Mr. Swan: 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.

The restricted stock awards reported in this column do not include the Performance RSUs granted to the named executive officers in 2005 which are reported under “Long-Term Incentive Plan Awards in 2005” below. The following table sets forth the number and fair market value of unvested restricted stock, unvested Performance RSUs (based on target award) and deferred stock units held by the named executive officers as of December 31, 2005 (valued based on the \$24.04 closing price of the Common Stock on December 30, 2005):

Name	Restricted Stock, Deferred Stock Units, and Performance Restricted Share Units Awarded By Year			Total Unvested Restricted Stock, Deferred Stock Units, and Performance Restricted Share Units Held as of 12/31/05	
	2003	2004	2005	(#)	(\$)
Michael H. Jordan.....	150,000	—	250,000	400,000	9,616,000
Jeffrey M. Heller.....	50,000	—	83,000	313,000	7,524,520
Charles S. Feld.....	113,875	23,000	44,000	85,828	2,063,305
Stephen F. Schuckebrook..	85,406	—	38,000	63,622	1,529,473
Robert H. Swan.....	185,128	—	33,000	125,564	3,018,559

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.

(C) Options: The grants to Messrs. Feld and Schuckebrook reported in this column include 269,838 and 202,379, respectively, options issued on January 9, 2004, in connection with the sale of their interest in Feld Partners Investments, L.P. See “Employment Agreements” below for the vesting and other terms of such options:

(D) All Other Compensation: We provide the named executive officers with certain group insurance and other non-cash benefits generally available to all salaried employees, which are not reported in this column pursuant to SEC rules. The amounts reported 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 for 2004 and \$3,000 for 2003.

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. Schuckebrook: matching awards under the EDP of \$6,742 for 2004; and matching contributions under the 401(k) Plan of \$3,075 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 for 2004 and \$75,279 for 2003; and \$20,749 for installation of a home security system for 2003.

Option Grants in 2005

The following table contains information regarding awards of stock options to the named executive officers in 2005 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 (a)	% of Total Stock Options Granted to Employees in 2005	Exercise or Base Price Per Share (b)	Expiration Date	Hypothetical Value at Grant Date (c)
Michael H. Jordan.....	550,000	37.54%	\$20.665	03/31/12	\$5,879,500
Jeffrey M. Heller.....	188,000	12.83%	20.665	03/31/12	2,009,720
Charles S. Feld.....	99,000	6.76%	20.665	03/31/12	1,058,310
Stephen F. Schuckebrock..	85,000	5.80%	20.665	03/31/12	908,650
Robert H. Swan.....	75,000	5.12%	20.665	03/31/12	801,750

- (a) These options were granted on March 31, 2005, and are scheduled to vest 100% on February 29, 2008. Exercise method limited to exercise for shares during the one-year period after vesting and, with respect to any shares issued upon exercise during the year following the vesting date, such exercised shares cannot be sold until the one-year anniversary of the exercise date.
- (b) Equals the average of the high and low trading price of the Common Stock on the date of grant.
- (c) Calculated using a variation of the Black-Scholes option pricing model based upon the following assumptions: estimated time until exercise of 5 years, volatility rate of 60.8%, risk-free interest rate of 4.2% and dividend yield of 1.0%.

Aggregated Option Exercises in 2005 and Option Values at December 31, 2005

The following table contains information about stock options exercised in 2005 by the named executive officers and the number and value of stock options held by such persons at December 31, 2005. In accordance with SEC rules, the value of unexercised options is calculated by subtracting the exercise price from \$24.04, the closing price of the Common Stock on the New York Stock Exchange on December 30, 2005.

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	2,650,000	\$ 342,630	\$ 10,665,000
Jeffrey M. Heller	—	—	500,870	1,238,000	218,860	2,895,000
Charles S. Feld	—	—	188,887	279,951	16,055	827,506
Stephen F. Schuckebrock ..	—	—	141,665	245,714	12,042	778,536
Robert H. Swan	—	—	155,500	412,500	1,218,343	2,303,438

Long-Term Incentive Plan Awards in 2005

The following table contains information about Performance RSUs awarded to the named executive officers in 2005. Vesting of Performance RSUs can range from 0 to 200% of the named executive officer's target Performance RSU award and is tied to EDS' performance as measured and weighted by operating margin (50%), net asset utilization (25%), and organic revenue growth (25%) over a three-year performance period. The performance period for the Performance RSUs awarded in 2005 was the three-year period commencing on January 1, 2005. Following vesting of any Performance RSUs, the named executive officer will be prohibited from selling 50% of the vested shares for a period of 12 months following the vesting date. Performance RSUs are granted pursuant to the 2003 Incentive Plan.

Name	Number of Units Awarded	Performance Period	Estimated Future Payout Under Non-Stock Price-Based Plan		
			Threshold (# shares)	Target (# shares)	Maximum (# shares)
Michael H. Jordan	250,000	2005-2007	0	250,000	500,000
Jeffrey M. Heller	83,000	2005-2007	0	83,000	166,000
Charles S. Feld	44,000	2005-2007	0	44,000	88,000
Stephen F. Schuckebrock ..	38,000	2005-2007	0	38,000	76,000
Robert H. Swan	33,000	2005-2007	0	33,000	66,000

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
\$3,000,000	\$274,000	\$547,000	\$821,000	\$1,094,000	\$1,368,000	\$1,641,000

As of December 31, 2005, 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, \$2,605,565—36 years; Mr. Feld, \$940,000—13 years; Mr. Schuckebrock, \$870,641—7 years; and Mr. Swan, \$1,050,550—2 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 would have become effective for vesting and benefit calculation purposes when he attains age 55. However, because Mr. Swan will resign from EDS prior to vesting in the Supplemental Plan, he will not receive any benefit under that plan. 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, \$41,899 and \$45,830, 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 \$210,000 for 2005 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 2003 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 \$90,000 (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 2005, and the total PPA and RA credits as of December 31, 2005. The table also estimates the value of the December 31, 2005, PPA and RA balance converted to an annual single life annuity payable immediately. As of December 31, 2005, Mr. Jordan had two years of credited service for purposes of the Retirement Plan and Restoration Plan.

Name	Total PPA and RA Balance as of 12/31/04	Total PPA and RA Credits Added from 1/1/05 - 12/31/05	Total PPA and RA Balance as of 12/31/05	Total Estimated Annual Single Life Annuity as of 12/31/05
Michael H. Jordan	\$312,156	\$303,503	\$615,659	\$71,783

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 EDS' 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 EDS' 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. Schuckebrook. Mr. Feld was appointed Executive Vice President - Portfolio Management and Mr. Schuckebrook was appointed Executive Vice President - Global Sales & Client Solutions immediately following the purchase by EDS of The Feld Group, Inc. ("TFG") in January 2004. 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. Schuckebrook 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 Schuckebrook 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 closing trading price of the Common Stock exceeds \$25.7463 (which amount was paid in February 2006); (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 closing trading price of the Common Stock exceeds \$27.0396 (which amount was also paid in February 2006); 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 closing 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 his employment had been terminated by EDS without Cause or by him for Good Reason or due to death or Disability (as such terms are defined in the relevant award agreements).

Messrs. Feld and Schuckebrook were limited partners of Feld Partners Investments, L.P., which held common stock and preferred stock of TFG. The purchase price for TFG included the following amounts paid or payable to Messrs. Feld and Schuckebrook 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, and (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. The restricted stock vests 40% on January 9, 2005, 30% on January 9, 2006, and 30% on January 9, 2007. The options have a five-year term and vest 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.

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 a \$500,000 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 the 2004 long-term incentive grant. On December 21, 2004, we entered into an Executive Severance Benefit Agreement with Mr. Swan (which agreement was later amended on October 6, 2005) which replaced a prior severance agreement that had been scheduled to expire on December 31, 2004. Under the terms of this agreement, as amended, 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, 2008, he would 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) would 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 one year following the date of termination. The agreement also provides for eligibility for up to \$7,500 in financial 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, as amended, 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.

Charles S. Feld and Stephen F. Schuckenbrock. EDS has entered into a Change of Control Employment Agreement dated September 30, 2005, with each of Mr. Feld and Mr. Schuckenbrock which replaced agreements that had been scheduled to terminate on December 31, 2005. Under these agreements, which terminate on December 31, 2008, 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 “Employment Agreements” above for a description of the terms of the options and restricted stock awarded 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. If any payment under this agreement is subject to federal excise taxes imposed on golden parachute payments, EDS will pay the executive an additional amount to cover any such tax payable by him as well as the taxes on such gross-up payment.

The foregoing agreements reflect significant revisions from the terms of Change of Control Employment Agreements entered into with executives prior to 2004, including the agreement with Mr. Swan described below. The Compensation and Benefits Committee intends that these agreements serve as the model for any future Change of Control Employment Agreements. Specifically, the new “model” agreement does 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, it does 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 terminates for good reason, which 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).

Robert H. Swan. EDS has entered into a Change of Control Employment Agreement with Mr. Swan dated February 4, 2003. That agreement included terms similar to agreements that had been entered into with executive officers and certain other persons prior to that time. 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.

Certain Transactions and Relationships

In 2005 EDS retained Navigator Systems, Inc. (“Navigator”) to provide staff augmentation services related to EDS’ development of a Business Intelligence team to support its corporate initiatives of corporate metrics, analytics and dashboards. Such services were furnished pursuant to a Statement of Work executed in May 2005 and governed by the Professional Services Agreement between EDS and Navigator dated October 1, 1998, and amended on May 11, 2005. EDS paid Navigator an aggregate of \$3,835,250 for such services in 2005 and expects to pay additional amounts for such services in 2006. Jon Feld, a son of Charles Feld, is a co-founder, director and Chief Executive Officer of Navigator and in 2005 held an approximately 20% ownership interest in Navigator. EDS retained Navigator for these services following a competitive bid process conducted by EDS’ purchasing organization that resulted in Navigator’s selection as the most competitive bidder. Management of this work was

moved outside of Charles Feld's organization in November 2005. Navigator was acquired by Hitachi Consulting Corporation in February 2006.

Charles Feld's son, Kenny Feld, is an employee of EDS. Kenny Feld receives a base salary of \$300,000 per year and received a bonus of \$124,000 in respect of 2005 performance. In addition, he was awarded 10,000 Performance RSUs in connection with our 2005 long-term incentive grant. Charles Feld disclaims any interest in Kenny Feld'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 consolidated securities action, consolidated ERISA action, derivative suits and SEC investigation described in our Annual Report on Form 10-K are being advanced by EDS. In 2005, we advanced an aggregate of \$2,377,562 for legal fees and expenses related to such matters on behalf of current and former directors and executive officers.

Compensation and Benefits Committee Interlocks and Insider Participation

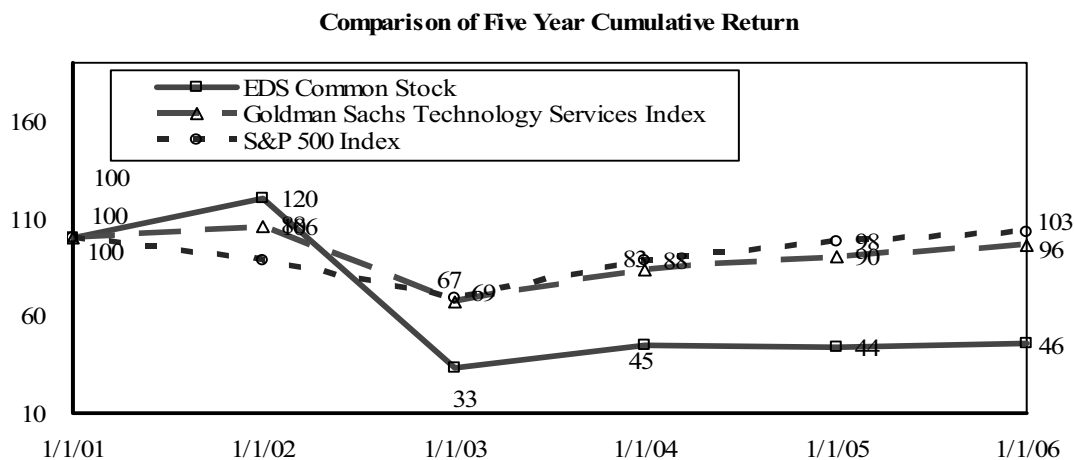
None of the members of the Compensation and Benefits Committee are current or former officers or employees of EDS. No interlocking relationship exists between the members of our Board of Directors or our Compensation and Benefits Committee and the board of directors or compensation committee of any other 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 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 2005, other than a Form 4 filed on April 4, 2005, reporting the issuance of 623 shares on March 15, 2005, to Scot McDonald in respect of the deferral of his cash bonus under the Executive Deferral Plan, which filing was late due to the failure of the plan administrator to include such shares on its report to EDS.

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, 2001. **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, 2006. 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 Auditor

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 2005.

	<u>2005</u>	<u>2004</u>
Audit Fees	\$19.0	\$19.7
Audit-Related Fees.....	1.0	.8
Tax Fees	.4	1.1
All Other Fees	--	--
Total	<u>\$20.4</u>	<u>\$21.6</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. Audit-related fees consist primarily of fees for audits of employee benefit plans and service organizations. Tax fees include fees for domestic and international tax consultations, and international tax return preparation. Other services principally include fees for ISO 9000/14000 compliance assessments and were less than \$50,000 in both 2005 and 2004. KPMG rendered no professional services to EDS in 2005 or 2004 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 2006.

SHAREHOLDER PROPOSALS

Certain of the following shareholder proposals contain assertions regarding EDS that, in the judgment of the Board, are incorrect. Rather than refuting all of these inaccuracies, however, the Board has recommended a vote against these proposals for broader policy reasons as set forth following each proposal.

PROPOSAL 3: SHAREHOLDER PROPOSAL – DIRECTORS TO BE ELECTED BY MAJORITY VOTE

John Chevedden, as proxy for Ray T. Chevedden, has advised EDS that he intends to present the following resolution at the Meeting. The proposed resolution and supporting statement, for which EDS accepts no responsibility, are set forth below.

Resolved: Directors to be Elected by Majority Vote. Shareholders request that our Board of Directors initiate an appropriate process to amend our Company's governance documents (charter or bylaws) to provide that director nominees be elected or re-elected by the affirmative vote of the majority of votes cast at an annual shareholder meeting.

Ray T. Chevedden, 5965 S. Citrus Ave., Los Angeles, Calif. 90043 submitted this proposal.

This proposal requests that a majority vote standard replace our Company's current plurality vote. The new standard should provide that director nominees must receive a majority of the votes cast in order to be elected or re-elected to our Board.

To the fullest extent possible this proposal asks that our directors not make any provision to override our shareholder vote and keep a director entrenched who gets such a dismal vote on his or her performance or qualifications.

This proposal is not intended to unnecessarily limit our Board's judgment in crafting the requested governance change. For instance, our Board should address the status of incumbent directors who fail to receive a majority vote when standing for election under a majority vote standard and whether a plurality director election standard is appropriate in contested elections.

Fifty-four (54) shareholder proposals in 2005

Fifty-four (54) shareholder proposals on this topic won a significant 44% average yes-vote in 2005 through late-September – especially good since this is a new “first run” topic. The Council of Institutional Investors www.cii.org, whose members have \$3 trillion invested, recommends adoption of this proposal topic. Additionally The Council is sending letters asking the 1,500 largest U.S. companies to comply with the Council's policy and adopt this topic.

Directors to be Elected by Majority Vote

Yes on 3

THE BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST THIS PROPOSAL FOR THE FOLLOWING REASONS:

Active shareholder participation in a well-designed process for the election of directors is important to EDS, and the Board of Directors has taken several actions towards this goal. Last year the Board recommended and shareholders approved amendments to the company's Certificate of Incorporation and Bylaws to eliminate the classified Board structure. As a result, all directors are subject to election or re-election by the shareholders every year. The Governance Committee, which is composed solely of directors who are independent under EDS and NYSE guidelines, identifies and recommends to the full Board nominations of individuals for election as directors based on the specific criteria and qualifications contained in the EDS Corporate Governance Guidelines. Such Guidelines also provide for full and appropriate consideration by the Governance Committee of candidates for nomination suggested by shareholders.

The Board carefully considered the impetus behind the proposal and decided to adopt the director resignation policy described above under the heading “Corporate Governance and Board Matters – Director Resignation Policy.” Under this policy, a director who receives more “withhold” votes than “yes” votes in an

uncontested election is required to tender his or her resignation for consideration by the Board. The Governance Committee will promptly consider such resignation and recommend to the Board whether to accept or reject it. In considering whether to accept or reject the tendered resignation, the Governance Committee will consider all factors deemed relevant by its members, including the stated reasons why shareholders “withheld” votes for election from such director, the length of service and qualifications of such director, and the director’s contributions to EDS. The full Board must act on the Governance Committee’s recommendation no later than 90 days following the date of the shareholder vote. This Board and Governance Committee process will be managed only by independent directors, and will exclude the director nominee at issue. EDS will promptly and publicly disclose the Board’s decision, together with a full explanation of how the decision was reached.

The majority vote proposal advanced is not, in the Board’s opinion, in the best interest of EDS and its shareholders because of the technical and practical difficulties it would create and because the proposal may not, in fact, achieve the proponent’s goal of electing directors by a majority vote and removing those directors who do not receive a majority vote. For example, if a director failed to receive a majority vote, under Delaware law and EDS’ governing documents the Board would have to decide whether to appoint a successor (which would not be elected by shareholder vote) or leave a vacancy, or, if the nominee were an existing director, permit the director to remain in office until the next annual shareholder meeting or expend the funds to hold a special meeting to elect a successor. In addition, this proposal could cause EDS to fail to be in compliance with NYSE listing requirements and SEC regulations regarding the independence of Audit Committee members if a director meeting the necessary qualifications does not receive sufficient votes to be elected or re-elected and there is not at that time another director meeting those qualifications.

The Board believes the director resignation policy, and the other measures outlined above, are responsive to concerns that shareholder views on directors could be overridden under certain circumstances, but also preserve flexibility for the Board to consider the facts and circumstances at the time of the election in considering whether to accept a director’s tendered resignation. While the law and best practices are in a state of flux, this flexibility is important to ensure that the Board can continue to operate in compliance with applicable legal and regulatory requirements.

The Board recognizes that there is current discussion among shareholders, governance experts and others on whether requiring majority voting in the election of directors is a worthy and workable goal and on how to address the concerns raised by a majority vote standard. Therefore, the Board will continue to monitor developments in this discussion. However, the Board believes that EDS’ current structure furthers the goal of promoting director accountability to shareholders while avoiding the “failed election” possibility and the possibility of non-compliance with SEC and NYSE requirements raised by the proposal.

Accordingly, the Board unanimously recommends a vote AGAINST this proposal.

PROPOSAL 4: SHAREHOLDER PROPOSAL - INDEPENDENT BOARD CHAIRMAN

John Chevedden, as proxy for William Steiner, has advised EDS that he intends to present the following resolution at the Meeting. The proposed resolution and supporting statement, for which EDS accepts no responsibility, are set forth below.

RESOLVED: Stockholders request that our Board of Directors change our governing documents (Charter or Bylaws if practicable) to require that the Chairman of our Board serve in that capacity only and have no management duties, titles, or responsibilities. This proposal gives our company an opportunity to cure our Chairman’s loss of independence should it exist or occur once this proposal is adopted.

William Steiner, 112 Abbottsford Gate, Piermont, NY 10968 submitted this proposal.

The primary purpose of our Chairman and Board of Directors is to protect shareholders’ interests by providing independent oversight of management, including the CEO. Separating the roles of Chairman and CEO can promote greater management accountability to shareholders and lead to a more objective evaluation of our CEO.

When one person acts as our Chairman and CEO, a vital separation of power is eliminated – and we as the owners of our company are deprived of both a crucial protection against conflicts of interest and also of a clear and direct channel of communication to our company through our Chairman.

54% Yes-Vote

Twenty (20) shareholder proposals on this topic won an impressive 54% average yes-vote in 2005. The Council of Institutional Investors www.cii.org, whose members have \$3 trillion invested, recommends adoption of this proposal topic.

Progress Begins with One Step

It is important to take one step forward in our corporate governance and adopt the above RESOLVED statement since our 2005 governance standards were not impeccable. For instance in 2005 it was reported:

- The Corporate Library (TCL), an independent investment research firm in Portland, Maine rated our company:
“F” in Shareholder Responsiveness (could be raised to a “D” or higher).
“D” in Accounting.
- We had no Independent Chairman and not even a consistent Lead Director – Independent oversight concern.
- Cumulative voting was not allowed.
- Poison pill: Our board is still allowed to implement a poison pill, without shareholder approval, under vaguely described circumstances.
- Mr. Jordan was rated a “problem director” by the Corporate Library because he chaired the executive compensation committee at Aetna, Inc. Aetna received a CEO Compensation rating of “F” by TCL.

I believe these less-than-best practices at our company reinforce the reason to adopt the above RESOLVED statement to improve our governance and increase shareholder value.

Moreover

It is well to remember that at Enron, WorldCom, Tyco, and other legends of mis-management and/or corruption, the Chairman also served as CEO. When a Chairman runs a company as Chairman and CEO, the information given to directors may or may not be accurate. If a CEO wants to cover up improprieties and directors disagree, with whom do they lodge complaints? The Chairman?

Independent Board Chairman

Yes on 4

THE BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST THIS PROPOSAL FOR THE FOLLOWING REASONS:

The Board, after extensively considering the issue, has determined not to require the positions of Chairman and CEO to be separate or combined on a permanent basis. Instead, the Board believes it is in the best interests of EDS and its shareholders for the Board to make this determination based on what it considers to be best for EDS at any given point in time. The positions of Chairman and CEO are currently held by the same person based on the Board’s current view of the need for unified leadership and a single source of direction and strategy. The independent directors will continue to maintain appropriate checks and balances over the CEO, whether or not the positions of CEO and Chairman are combined. While the Board may separate the positions of Chairman and CEO in the future should circumstances change, it believes that implementing the proposal would deprive the Board of the flexibility to organize its functions and conduct its business in the most effective manner based on facts and circumstances existing from time to time.

As set forth in EDS Corporate Governance Guidelines, the Governance Committee and the Board will evaluate whether to combine the positions of Chairman and CEO when a new CEO is appointed and otherwise from time to time. Factors the Board will consider in determining whether to separate the two positions are based on the facts and circumstances existing at that time, including the need for a single source of direction and strategy, the availability of candidates among the independent directors with experience and characteristics to effectively serve as Chairman, the ability of senior executives to work effectively with multiple sources of authority, the relative benefits and detriments of such a separation for relations with EDS’ clients, the Board’s view of its ability to maintain appropriate checks and balances and the Board’s view of the CEO’s willingness to seek and accept direction and oversight by the Board.

The Board has considered the issue of whether to separate or combine the positions of CEO and Chairman several times. After considering the issue last year, the Board revised the Corporate Governance Guidelines to more clearly explain the policy not to separate the positions on a permanent basis and to provide significant detail regarding the responsibilities of the company’s independent Presiding Director, as further outlined below. This year, after receiving this proposal, the Board amended the Corporate Governance Guidelines to further enhance the Presiding Director’s duties. See “Corporate Governance and Board Matters – Presiding Director” above.

Currently, the Board has an independent Presiding Director who facilitates communication with the Board and presides over regularly conducted executive sessions or sessions where the Chairman is not present. The Presiding Director position is rotated annually among the Chairpersons of the Board's three standing Committees. At the request of any independent director, the Presiding Director serves as the liaison between the Chairman and the independent Directors. When requested by any independent director or when the Presiding Director deems it appropriate, the Presiding Director can call meetings of the independent directors. The Presiding Director reviews and approves agendas for Board meetings as well as a description of the nature and type of information to be sent to the Board in advance of a particular meeting based on the meeting's agenda. Each director is free to suggest items for the agenda and raise at any Board meeting subjects not on the agenda for that meeting. At least annually, the independent directors will evaluate the Board's plan for meeting agendas and materials in the upcoming year. They will discuss recommendations for any changes in executive session with the Presiding Director, who will then communicate those recommendations to the Chairman. In addition, because the Board believes that shareholders and other interested individuals should be able to communicate directly with the Presiding Director, EDS describes on its website a method for submitting any such communication.

Whether or not the positions of CEO and Chairman are separated at any given time, the Board believes that having a strong, independent group of directors is important to good corporate governance. Currently, eight of ten members of the Board, including each member of the Board's three standing committees, are "independent" under EDS and New York Stock Exchange guidelines. The independent directors hold regular and frequent executive sessions that take place without the Chairman or any other management director being present. In addition, the Board believes that the EDS Corporate Governance Guidelines ensure strong and independent directors will continue to provide effective strategic direction, oversight and control of EDS.

The Board believes that the company's governance structure, including an independent Presiding Director who can act as a liaison between the Chairman and independent directors and with the ability to provide input on Board agendas and other information, makes it unnecessary to have an absolute requirement that the Chairman and CEO positions should be separate at all times. The Board believes that adopting such a rule would eliminate the Board's flexibility to make this determination based on the circumstances at any particular point in time and therefore is not in the best interests of EDS and its shareholders.

Accordingly, the Board unanimously recommends a vote AGAINST this proposal.

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2005 ANNUAL REPORT

This Annual Report contains an overview of EDS' business as well as information regarding EDS' operations during 2005 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.

As of February 28, 2006, we employed approximately 117,000 persons in the United States and 57 other countries around the world. Our principal executive offices are located at 5400 Legacy Drive, Plano, TX 75024, telephone number: (972) 604-6000.

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.

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:

- **Data Center Services.** EDS Data Center Services address the business and technology needs of our clients in the area of hosting and storage 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. Data Center Services is composed of 4 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.
 - **Data Center Modernization.** These transformational state packages rationalize, consolidate, automate and virtualize IT infrastructure and the applications environment for maximum use through server consolidation, mainframe consolidation and migration services.
 - **Storage Services.** We provide a fully managed suite of enterprise-wide services for storage management, information protection (backup and recovery) and information optimization (archival services) from the data center to the desktop.

- **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.* We offer comprehensive management of a client's total workplace 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.
 - *Mobile Workplace Services.* EDS Mobile Workplace Services provide an end-to-end managed mobility solution that delivers voice and enterprise data regardless of a user's locality, device, network or application.
 - *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.
- **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. These services are designed to help clients manage the complexities of aligning their communications and network needs with their overall IT outsourcing strategies.

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 Services.** 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, and enterprise application integration.
- **Application Management Services.** We offer outsourcing support for specific applications or entire applications portfolios, both custom and packaged, including services for enterprise applications and support for SAP®, Oracle® and PeopleSoft® software. 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.
- **Integrated Applications Services.** We engineer offerings such as Business Intelligence Services, Portals and Dashboards Services, Web Services and Enterprise Applications Integration Services to support the overall integration of the client's architecture or our own Agile Application Architecture. These services integrate and extend existing packaged and legacy applications.
- **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 on a 24 hours a day, seven days a week basis.

Business Process Outsourcing Services. Business Process Outsourcing (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 and improve business performance. By leveraging a shared-services operating model, clients reduce operational risk and control costs.

Enterprise Services are or will be sold across multiple industries and include Customer Relationship Management (CRM), Human Resources (HR), and Finance and Accounting 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 business processes, leading technologies and experienced professionals along with skilled domain partners.

EDS also delivers industry-specific offerings and provides industry experts to assist clients in key process improvement redesign. One example is our suite of Government BPO Services. For more than 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 key components of the BPO portfolio, including: customer relationship management (CRM) and call center services; financial process services such as credit services and insurance services, payment and settlement, card processing and billing and clearing transactions and content management services.

ExcellerateHRO LLP, our 85% owned joint venture with Towers Perrin, offers 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 infrastructure outsourcing, applications, 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, Sun Microsystems, Towers Perrin and Xerox. See "Risk Factors" below for a discussion of certain risks relating to our multi-year plan.

TRADING PRICES OF COMMON EQUITY 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
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
2005		
First Quarter.....	\$ 23.35	\$ 19.59
Second Quarter	21.11	18.59
Third Quarter	23.95	19.00
Fourth Quarter	24.82	21.16

The last reported sale price of the common stock on the NYSE on March 1, 2006 was \$27.27 per share. As of that date, there were approximately 108,976 record holders of common stock.

EDS declared quarterly dividends on the common stock at the rate of \$0.15 per share for the first and second quarters of 2004, and at the rate of \$0.05 per share for the third and fourth quarters of 2004 and each quarter in 2005.

SELECTED FINANCIAL DATA

(in millions, except per share amounts)

	As of and for the Years Ended December 31,				
	2005 ⁽¹⁾	2004 ⁽²⁾	2003 ⁽²⁾	2002 ⁽²⁾⁽³⁾	2001 ⁽²⁾⁽³⁾⁽⁴⁾
Operating results					
Revenues.....	\$ 19,757	\$ 19,863	\$ 19,758	\$ 19,538	\$ 19,272
Cost of revenues	17,422	18,224	18,261	16,352	15,653
Selling, general and administrative.....	1,819	1,571	1,577	1,532	1,544
Restructuring and other.....	(26)	170	175	(2)	(17)
Other income (expense) ⁽⁵⁾	(103)	(272)	(262)	(331)	121
Provision (benefit) for income taxes.....	153	(103)	(205)	451	782
Income (loss) from continuing operations	286	(271)	(312)	874	1,431
Income (loss) from discontinued operations.....	(136)	429	46	242	(44)
Cumulative effect on prior years of changes in accounting principles, net of income taxes.....	—	—	(1,432)	—	(24)
Net income (loss).....	\$ 150	\$ 158	\$ (1,698)	\$ 1,116	\$ 1,363
Per share data					
Basic earnings per share of common stock:					
Income (loss) from continuing operations ...	\$ 0.55	\$ (0.54)	\$ (0.65)	\$ 1.82	\$ 3.04
Net income (loss).....	0.29	0.32	(3.55)	2.33	2.90
Diluted earnings per share of common stock:					
Income (loss) from continuing operations ...	0.54	(0.54)	(0.65)	1.79	2.95
Net income (loss).....	0.28	0.32	(3.55)	2.28	2.81
Cash dividends per share of common stock.....	0.20	0.40	0.60	0.60	0.60
Financial position					
Total assets	\$ 17,087	\$ 17,744	\$ 18,616	\$ 18,880	\$ 16,353
Long-term debt, less current portion.....	2,939	3,168	4,148	4,148	4,692
Shareholders' equity	7,512	7,440	7,022	7,022	6,446

- (1) We adopted a new method of accounting for share-based payments as of January 1, 2005. This change in accounting resulted in the recognition of pre-tax compensation expense of \$160 million (\$110 million net of tax) for the year ended December 31, 2005.
- (2) Operating results for each of the years in the four year period ended December 31, 2004 have been restated to conform to the current presentation to reflect certain activities as discontinued operations during 2005.
- (3) 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 and 2001 were \$18,311 million and \$18,175 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 and 2001 were \$460 million and \$932 million, respectively, on a comparable pro forma basis as if the aforementioned accounting change had been applied to all contracts at inception.
- (4) 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 amount of \$173 million for the year ended December 31, 2001.
- (5) Other income (expense) includes net investment gains (losses) in the pre-tax amounts of \$(41) million, \$6 million, \$6 million, \$(119) million, and \$344 million for the years ended December 31, 2005, 2004, 2003, 2002 and 2001, 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. This section provides an overview of the principal factors and events that impacted our 2005 results and the principal risks and opportunities that could impact our future.

2005 Highlights

Progress on Initiatives

At the beginning of 2005, we stated our priorities were to shift our focus from improving our core business and strengthening our balance sheet to a longer-term strategy, which contemplated significant new investments in our infrastructure and in new service offerings intended to improve our cost competitiveness and generate future growth. This discussion outlines our progress on these initiatives. Investments in these initiatives, including our upfront investment in the U.K. Ministry of Defence contract referred to below, reduced our earnings by approximately \$0.36 per share during 2005.

Investments in Infrastructure. The principal focus of our investments in infrastructure during the year was the development of our "Agile Enterprise" platform, a network-based utility architecture designed to create a flexible, open and cost-effective technology foundation for the delivery of a significant portion of our IT outsourcing and BPO services. This platform includes the build-out of a global secure infrastructure, which is expected to be completed during 2006, as well as the modernization of legacy systems. As part of this strategy we have established alliance relationships with leading industry providers, which we refer to as the "EDS Agility Alliance." We believe the technology vision behind the Agile Enterprise platform represents a key market differentiator for EDS and contributed to our increased level of new business signings in 2005 and year-to-date in 2006.

Investments in New Service Offerings. Our 2005 investments included a significant expansion of our human resources ("HR") BPO capabilities, principally through the creation in the first quarter of ExcellerateHRO LLP, our 85% owned joint venture with Towers Perrin. ExcellerateHRO combines our payroll and related HR outsourcing business with the pension, health and welfare administration services business formerly operated by Towers Perrin as its Towers Perrin Administrative Services ("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. The \$417 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. We invested additional amounts in ExcellerateHRO and other BPO offerings during the year and will continue to focus on expanding our BPO offerings in 2006.

Cost Competitiveness. We continued to focus on improving our cost competitiveness in 2005 as part of our long-term goal to reduce our cost of revenue by approximately 20% over the four-year period commencing with 2005. During 2005, we reduced our cost of revenue by approximately \$1 billion principally through the following:

- improvements in our supply chain, including increased usage of centralizing sourcing, competitive bidding, advanced sourcing tools and automation and improvements in demand planning, logistics and fulfillment;
- labor cost management through increased productivity, investment in automation and monitoring tools, and acceleration of our Best ShoreSM initiatives by increasing our capabilities in lower cost geographies;
- enterprise process improvements, including greater standardization and consolidation, more regimented contract start-up processes and service delivery automation; and
- production process improvements, including automation and process redesign enabling improved utilization of data center capacity.

In addition, during 2005 we sold sixteen domestic and international real estate properties in connection with our efforts to improve our cost competitiveness and enhance workplace capacity usage. Net proceeds from the sale were \$178 million. Fourteen properties involved in the sale have been leased back for various extended periods. A deferred net gain of \$14 million has been allocated to various leased properties and will be recognized over the respective term of each lease. We recognized a net gain of \$3 million on the sale of the remaining properties which is included in other income in the 2005 consolidated statement of operations.

General Motors Recompete

GM is our largest single client, accounting for approximately \$1.8 billion, or 9.1%, of our total revenue in 2005. Our ten-year Master Service Agreement, or MSA, with GM expires in June 2006. The MSA serves as a framework for the negotiation and operation of service agreements for certain “in-scope” IT services (as defined in the MSA) we provide to GM on a worldwide basis. These “in-scope” services account for a substantial majority of our revenues from GM. In February 2006, GM announced the results of a recompete process which covered substantially all of the work we perform under the MSA, including applications maintenance, infrastructure operations and integration management. We were awarded approximately 70% of the contracts we bid on with a total contract value of approximately \$3.8 billion over five years. See “Priorities and Expectations for 2006 and Beyond” below for a discussion of the financial impact of the GM recompete in 2006 and thereafter.

A.T. Kearney

During 2005, we approved a plan to proceed with a transaction to sell 100% of our ownership interest in our A.T. Kearney management consulting business. That subsidiary, the sale of which was completed on January 20, 2006, is classified as “held for sale” at December 31, 2005 and 2004 and its results for the years ended December 31, 2005, 2004 and 2003 are included in income (loss) from discontinued operations. A.T. Kearney’s 2005 results include a pre-tax impairment charge of \$118 million to write-down the carrying value of its long-lived assets, including tradename intangible, to estimated fair value less cost to sell. The estimated fair value was determined based on the terms of the sale. The impairment charge is partially offset by the recognition of \$8 million previously unrecognized tax assets that will be realized as a result of the sale. We refer you to Notes 17 and 20 in the accompanying Notes to Consolidated Financial Statements.

Third-Party Bankruptcies

We provide IT services to Delphi Corporation (“Delphi”) through a long-term agreement. On October 8, 2005, Delphi filed for protection under Chapter 11 of the United States Bankruptcy Code. Due to uncertainties regarding the recoverability of certain pre-bankruptcy receivables associated with the Delphi contract, we recorded receivable reserves of \$17 million which is reflected in cost of revenues in our 2005 consolidated statement of operations. The remaining assets associated with our services agreement with Delphi are expected to be recovered through collection or future operations.

During 2005, we recorded write-downs of our investment in an aircraft leasing partnership due to uncertainties regarding the recoverability of the partnership’s investments in aircraft leased by Delta Air Lines, which filed for bankruptcy on September 14, 2005, and the proposed sale of certain lease investments in the partnership. These write-downs were partially offset by the accelerated recognition of previously deferred investment tax credits associated with the investment. These write-downs totaled \$35 million and are reflected in other expense in our 2005 consolidated statement of operations.

Client Contract Payment

During 2005, we reached an agreement with a government client to consolidate and extend our multiple IT services agreements with that client into a single extended agreement. As a result of this contract realignment, we received a non-refundable payment of \$307 million from the client in the third quarter of 2005. A similar payment will be received from this client in the second quarter of 2006 which will be used to fund the incremental capital requirements in 2006 necessitated by the service delivery transformational requirements for this new contract. These payments will be recognized as revenue as we provide services over the five-year term of the new contract and resulted from the revision of contract pricing and delivery standards of numerous existing IT service contracts prior to their contractual end dates.

Accounting Change

We adopted Statement of Financial Accounting Standards (“SFAS”) No. 123R, *Share-Based Payment*, as of January 1, 2005. This statement requires the recognition of compensation expense when an entity obtains employee services in share-based payment transactions. This change in accounting resulted in the recognition of compensation expense of \$160 million (\$110 million net of tax) in 2005. The effect of all share-based payments on earnings per share (both basic and dilutive) would have been \$0.33 and \$0.44, respectively, during the years ended December 31, 2004 and 2003 if we had applied the provisions of SFAS 123R. The effect of share-based payments (both basic and dilutive) on earnings per share during the year ended December 31, 2005 was \$0.29. In addition, effective with our March 2005 long-term incentive award grant, we significantly limited the use of annual stock option grants and instead provided annual grants of performance-vesting restricted stock units (“Performance RSUs”). Although we continue to use stock options as a component of the long-term incentive compensation of our senior executives along with Performance RSUs, we have completely replaced the use of stock options in favor of Performance RSUs for all other incentive plan participants. The vesting of the Performance RSUs is tied to our performance as measured by operating margin, net asset utilization and organic revenue growth over multiple year periods.

Prior to January 1, 2005, we recognized compensation cost associated with stock-based awards under the recognition and measurement principles of Accounting Principles Board (“APB”) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Under APB No. 25, the difference between the quoted market price as of the date of the grant and the contractual purchase price of shares was charged to operations over the vesting period on a straight-line basis. No compensation cost was 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. The primary difference in the accounting under SFAS 123R is that compensation expense for share-based awards is now recognized when we obtain employee services. Using the fair value approach required by SFAS 123R, compensation expense is recognized based on the fair value of the award on the date of grant. Prior to January 1, 2005, pro forma compensation expense using the fair value approach was disclosed in the notes to the financial statements in accordance with SFAS 123. Beginning January 1, 2005, compensation expense for stock options was recognized using the same methodology used to determine pro forma expense for disclosure purposes under SFAS 123.

We record a tax benefit related to share-based payments, recognizing a deferred tax asset based on an effective tax rate of 35%. 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, are exercised or forfeited. There are numerous factors that influence the portion of the deferred tax asset that will be realized, including exercise behavior of the employees, future market price of the stock, and the volatility used in calculating the fair value of options on the grant date. At this time, we cannot predict the actual realization of our deferred tax assets.

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. 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. At December 31, 2005, we had approximately 318,000 computer seats under management that were then billable, and approximately 81% of these seats were operating under the NMCI environment.

Long-lived assets and lease receivables associated with the contract totaled approximately \$240 million and \$408 million, respectively, at December 31, 2005. If we do not maintain or exceed current monthly seat cutover rates, or if we do not meet service performance and customer satisfaction levels in accordance with anticipated timelines, estimates of future contract cash flows will decline. We continue to pursue several opportunities to improve the financial performance of this contract, including efforts to increase the average seat price; 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. We also are seeking to obtain compensation for significant amounts related to services required by and provided to the client in addition to contractual requirements, including services related to legacy applications, and for amounts related to the minimum order obligations under the contract. 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.

We reported revenues of \$817 million, operating losses of \$(75) million and free cash flow of \$125 million associated with the NMCI contract in 2005, compared with revenues of \$761 million, operating losses of \$(487) million and free cash flow usage of \$(423) million in 2004. The 2004 results are exclusive of the \$375 million asset impairment charge taken in the third quarter of 2004 and the \$522 million repurchase of financial assets from a securitization trust in the fourth quarter of 2004. The securitization trust had been used to finance the purchase of capital assets for the contract. The increase in revenue in 2005 compared to 2004 is attributable to a greater number of seats under management and recognition of seats billed at 100% of the full seat price, offset in part by a decline in product sales. The decrease in operating losses in 2005 compared to 2004 is due to increased productivity, reduced depreciation and amortization expense as a result of the impairment of NMCI-related long lived assets in the third quarter of 2004, additional seats under management and recognition of seats billed at 100% of the full seat price. The increase in free cash flow in 2005 is due to the aforementioned operational improvements, as well as our repurchase in the fourth quarter of 2004 of assets associated with the NMCI securitization facility. See “Off Balance Sheet Arrangements and Contractual Obligations” below. Although we continue to have a number of opportunities to improve the performance of the NMCI contract over the longer-term, we also face a number of significant risks, including the factors that resulted in the impairment of assets in the third quarter of 2004.

In March 2005, a consortium led by us was awarded a ten-year contract for the first increment of the U.K. Ministry of Defence (MoD) project to consolidate numerous existing information networks into a single next-generation infrastructure (the Defence Information Infrastructure Future project). The total contract value of this contract was approximately \$3.9 billion over ten years. Billings under the contract are initially based upon the achievement of milestones during the initial development and subsequently on the number of seats deployed. Our upfront expenditure and capital investment requirements for this contract during 2005 adversely impacted our free cash flow and earnings for the year. Many of the services and service delivery challenges required by this contract are similar to those required by the NMCI contract discussed above, and accordingly, many of the risks are the same. We have applied lessons learned from our experience with the NMCI contract to this contract, including contract terms with clearly defined client and EDS accountability and improved program management. We have met client expectations regarding key deliverables under this contract despite program changes and inability to achieve certain related dependencies that have extended the initial development timeline. This contract provides for adjustments to reflect the financial impact to EDS of client driven program changes and inability to achieve dependencies. We are working with the client to agree upon the appropriate adjustments provided for under the contract. If we do not reach satisfactory resolution with respect to these matters or for any future delays in the development timeline or seat deployment schedule our revenues, earnings and free cash flow for this contract, or the timing of the recognition thereof, could be adversely impacted.

Settlement of Consolidated Securities Class Action

On November 1, 2005, we entered into a memorandum of understanding regarding a settlement of the consolidated securities class action filed in late 2002, subject to certain conditions, including final approval of the settlement by the U.S. District Court for the Eastern District of Texas. See Note 15 of Notes to our Consolidated Financial Statements. The terms of the settlement provide for a cash payment of \$137.5 million. We estimate approximately one-half of such payment will be made by our insurers and have recognized the cost of our portion of the settlement in our financial statements as of December 31, 2005.

Other

On March 1, 2005, we launched ExcellerateHRO LLP, our 85% owned joint venture with Towers Perrin, to deliver a comprehensive range of HR BPO services. 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. The \$417 million in cash we paid at closing of the transaction was funded from cash on hand. This payment principally represented the purchase price for the acquisition by ExcellerateHRO of Towers Perrin's benefits administration business and the right to use the Towers Perrin brand name, net of Towers Perrin's interest in ExcellerateHRO and its share of the cash capital contribution (approximately \$50 million) to the venture.

During 2005, we identified deterioration in the projected performance of one of our commercial contracts based, among other things, on a change in management's judgment regarding the amount and likelihood of achieving anticipated benefits from contract-specific productivity initiatives, primarily related to the length of time necessary to achieve cost savings from planned infrastructure optimization initiatives. We determined that the estimated undiscounted cash flows of the contract over its remaining term were insufficient to recover the contract's deferred contract costs. As a result, we recognized a non-cash impairment charge of \$37 million in the second quarter of 2005 to write-off the contract's deferred contract costs. The impairment charge is reported as a component of cost of revenues in the 2005 consolidated statements of operations and is included in the results of the Outsourcing segment. Remaining long-lived assets associated with this contract totaled \$143 million at December 31, 2005. The current estimate of cash flows includes cost reductions resulting from the expected optimization of the contract's service delivery infrastructure based on project plans and anticipated vendor rate reductions based on historical and industry trends. Some of the project plans have near-term milestones that are critical to meeting overall cost reduction goals. It is reasonably possible that these milestones may not be met or actual cost savings from these and other planned initiatives may not materialize in the near-term and, as a result, remaining long-lived assets associated with the contract will become fully impaired. We continue to pursue several opportunities to improve the financial performance of this contract, including leveraging the infrastructure through the addition of new business opportunities with the client.

Priorities and Expectations for 2006 and Beyond

We have substantially completed the transformation outlined in 2003 to “stabilize, fix and invest to grow” our business. Our priorities for 2006 and beyond are focused on achieving profitable growth through continued focus on cost competitiveness and service quality. We will continue initiatives to reduce our cost of revenues by approximately \$1 billion in 2006 following a reduction of approximately \$1 billion in each of the past two years. These initiatives include continued reengineering of our supply chain, labor cost management, enterprise process improvement and production process improvement. In addition, we will seek to build on our service excellence initiatives, which efforts resulted in increased client loyalty and innovation metrics in 2005.

We expect 2006 revenues of approximately \$20.0-\$20.5 billion, which would represent an increase in organic revenues of 2-4% from 2005. This reflects an anticipated increase in revenues from new business signed during 2005, including the U.K. MoD contract, offset by a decrease in GM revenues discussed above. We refer you to “Results of Operations” below for a definition of organic revenues.

We currently expect 2006 earnings per share of approximately \$1.05-\$1.15, excluding the impact of expensing stock options and Performance RSUs, and discontinued operations. Such forecasted increase in 2006 earnings is due to several factors, including the positive impact of the productivity initiatives described above, improvements in the performance of our NMCI and U.K. MoD contracts, revenue growth, and certain extraordinary items that adversely impacted 2005 earnings, such as the pension charge related to the termination of our U.K. Inland Revenue contract and litigation and settlement expenses. The incremental impact of such items on our 2006 earnings will be partially offset by the second-half impact of the expiration of our MSA with GM, additional investments in technology and infrastructure, increased sales costs associated with higher levels of new contract signings, and expenses associated with the acceleration of our offshore initiatives.

On February 21, 2006 we announced that the Board of Directors had authorized a \$1 billion share repurchase program over 18 months. On February 23, 2006 we entered into a \$400 million accelerated share repurchase agreement (see Note 20 in the accompanying Notes to Consolidated Financial Statements). Our expectations regarding 2006 earnings per share referred to above reflects the impact of the shares acquired through the accelerated share repurchase agreement and other shares that may be repurchased in 2006, which will be somewhat offset by the impact of anticipated issuances of additional shares upon option exercises and other compensation programs.

We expect free cash flow in 2006 of \$800 million to \$1 billion, compared to \$619 million in 2005, with the forecasted improvement driven principally by our expected improvements in operating margins and improvements in working capital. Such improvements would be somewhat offset by an increase in net capital expenditures due to the benefit of our sale of real estate assets in 2005.

GM is our largest single client, accounting for approximately \$1.8 billion, or 9.1%, of our total revenue in 2005. Our ten-year MSA with GM expires in June 2006. In February 2006, GM announced the results of a recompete process which covered substantially all of the work we perform under the MSA, including applications maintenance, infrastructure operations and integration management. We were awarded approximately 70% of the contracts we bid on with a total contract value of approximately \$3.8 billion over five years (see “Total Contract Value of Contract Signings” below). We expect annualized revenue from GM of approximately \$1.2-\$1.4 billion over the next five years, including the business recently awarded as well as other GM business not part of the recompetete. We expect 2006 revenue from GM, which will include the MSA through June 7, will be approximately \$1.6 billion. We do not expect a significant change in our operating margins attributable to GM revenue compared to 2005. We refer you to the discussion in “Risk Factors” above of our exposure to certain industries, including the United States automobile industry, that have been experiencing financial difficulties. Such exposure has had, and could in the future have, a material adverse effect on our financial position and results of operations.

We continue to work with the DoN with respect to our efforts to improve the performance of our NMCI contract and expect that client to extend the contract term through its optional three-year extension period, which would run through September 30, 2010. We also expect continued improvement in the operational performance of the contract in 2006, which lost \$75 million in 2005, through an increase in average seat prices as well as additional opportunities with this client. As a result of such operational improvement and anticipated extension of the contract term, we expect this contract, which has used approximately \$3.2 billion of free cash flow since inception, to generate significant free cash flow during 2006 and thereafter, including free cash flow generated from the extended contract and through the expected sale of NMCI infrastructure and desktop assets to the client at the end of the contract term. We continue to face a number of risks under this contract, however, as described under “2005 Highlights” above.

See “Total Contract Value of Contract Signings” below for a discussion of our expectations for new contract signings for 2006.

The estimates for 2006 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 "Risk Factors" in Item 1A of our Form 10-K as well as additional assumptions related to our 2006 financial guidance referred to under "Income Taxes" below.

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.

Following is a summary of the TCV of contract signings, excluding contracts signed by our former A.T. Kearney and UGS PLM Solutions subsidiaries, by quarter for the last five years (in billions):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2001	\$ 7.1	\$ 6.6	\$ 6.2	\$ 9.7	\$ 29.6
2002	6.7	5.6	2.6	7.6	22.5
2003	2.6	3.0	3.1	3.9	12.6
2004	3.6	3.8	2.9	3.7	14.0
2005	6.9	2.6	5.3	5.3	20.1

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.

Our TCV of contract signings increased to \$20.1 billion in 2005 compared to \$14.0 billion in 2004, reflecting an increase in average contract size as well as a greater impact from new and add-on business compared to 2004. The significant decrease in 2003 and 2004 compared to the prior years has negatively impacted our revenues since 2003, 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 higher than that of recent years. We expect TCV of contract signings in 2006 to be in excess of \$23 billion. We refer you to the discussion of revenues in "Results of Operations" below.

Results of Operations

Revenues. Following is a summary of revenues from contracts with base (non-GM) clients and revenues from GM, excluding revenues from our former A.T. Kearney and UGS PLM Solutions subsidiaries which are reported as discontinued operations, for the years ended December 31, 2005, 2004 and 2003 (in millions):

	2005	2004	2003
Revenues:			
Base	\$ 17,952	\$ 17,907	\$ 17,589
GM.....	1,805	1,956	2,169
Total.....	<u>\$ 19,757</u>	<u>\$ 19,863</u>	<u>\$ 19,758</u>

Following is a summary of our revenue growth percentages calculated using revenues reported in the consolidated statements of operations, and adjusted for the impact of foreign currency translation, acquisitions and those divestitures not accounted for as discontinued operations (“organic revenue growth”):

	Total		Base		GM	
	2005	2004	2005	2004	2005	2004
As reported revenue growth.....	(1)%	1%	—	2%	(8)%	(10)%
Impact of foreign currency changes.....	(1)%	(5)%	(1)%	(5)%	(1)%	(2)%
Fixed U.S. dollar revenue growth.....	(2)%	(4)%	(1)%	(3)%	(9)%	(12)%
Impact of acquisitions.....	(1)%	—	(1)%	—	—	—
Impact of divestitures	—	—	—	—	—	—
Organic revenue growth.....	(3)%	(4)%	(2)%	(3)%	(9)%	(12)%

Fixed U.S. dollar revenue growth is calculated by removing from as reported 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.

2005 vs. 2004. The 2% decrease in base organic revenues in 2005 was primarily attributable to a \$416 million, or 2%, decrease in our Outsourcing segment which excludes the results of our NMCI contract. The decrease in our Outsourcing segment was attributable to a \$101 million, or 1%, decrease in the Americas unit, a \$295 million, or 5%, decrease in Europe, Middle East and Africa (EMEA), and a \$107 million, or 5%, decrease in the U.S. Government unit, offset by a \$88 million, or 7%, increase in Asia Pacific. The decrease in revenues in EMEA was primarily due to the termination of our contract with the U.K. Government’s Inland Revenue department effective June 30, 2004, offset by an increase in revenue from other government and commercial clients, including our contract with the U.K. Ministry of Defence. The decrease in the Americas was primarily due to the termination of our “other commercial contract” effective August 1, 2004 (see Note 3 in the accompanying Notes to Consolidated Financial Statements). The decrease in U.S. Government was primarily attributable to the completion of a large federal contract in early 2005.

2004 vs. 2003. The 3% decrease in base organic revenues in 2004 was primarily attributable to a \$236 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 a \$288 million, or 4%, decrease in EMEA and a \$35 million, or 2%, decrease in the U.S. Government unit, offset by a \$71 million, or 1%, increase in the Americas and a \$15 million, or 1%, increase in Asia Pacific. 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 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 of 2004. The decrease in revenues from our state and local business was offset by an increase in revenues from U.S. federal government contracts.

The decrease in organic revenues from GM in 2005 and 2004 was primarily attributable to reduced pricing under our MSA with GM, which expires in June 2006, as well as GM’s move toward a multi-vendor strategy. We expect revenues from GM of approximately \$1.6 billion in 2006 and annualized revenues of approximately \$1.2 to \$1.4 billion beginning in 2007. We refer you to “Overview” above for a discussion of the recent GM recompute.

Gross margin. Our gross margin percentages [(revenues less cost of revenues)/revenues] were 11.8%, 8.3% and 7.6% in 2005, 2004 and 2003, respectively. Our gross margins in all periods were adversely affected by the performance of the NMCI contract, including asset write-downs in 2004 and 2003. The NMCI contract had a 90 basis point, 480 basis point and 530 basis point negative impact on our gross margin percentages in 2005, 2004 and 2003, respectively. Other items affecting our 2005 gross margin include a pension obligation settlement loss associated with the termination of the Inland Revenue contract (40 basis points), an increase in compensation expense attributable to the change in accounting for share-based payments (50 basis points), a deferred cost impairment charge associated with a large IT commercial contract (20 basis points) and litigation costs (20 basis points). These items were partially offset by favorable resolution of certain customer contract matters that permitted recognition of previously deferred revenue (40 basis points). Our gross margins in 2005 were also adversely affected by the investments discussed in “2005 Highlights” above and the decrease in organic revenues discussed above, including the termination of our contract with the U.K. Government’s Inland Revenue department. An additional item affecting our 2004 gross margin was operating losses and other charges on our “other commercial contract” (150 basis points). Other items affecting our 2003 gross

margin include operating losses on our “other commercial contract” (140 basis points) and a \$98 million (50 basis point) reversal of MCI receivable reserves.

We expect our gross margin to improve in 2006 as a result of our continued cost competitiveness initiatives, improved execution on our client contracts, and decrease in the level of investments compared to 2005.

Selling, general and administrative. SG&A expenses as a percentage of revenues were 9.2%, 7.9% and 8.0% in 2005, 2004 and 2003, respectively. The increase in our SG&A percentage in 2005 was primarily attributable to an increase in compensation expense resulting from the change in accounting for share-based payments, and performance-based RSUs (30 basis points) and incremental legal and regulatory costs (20 basis points). Our SG&A expense in 2005 was also impacted by higher sales and marketing costs, including commissions associated with increasing TCV of new business signings (40 basis points), and by certain investment initiatives discussed in “2005 Highlights” above (10 basis points).

Restructuring and other. Following is a summary of restructuring and other for the years ended December 31, 2005, 2004 and 2003 (in millions):

	2005	2004	2003
Restructuring and other employee reduction activities:			
Employee separation, early retirement and exit costs, net.....	\$ 68	\$ 276	\$ 232
Asset write-downs	—	—	36
CEO severance	—	—	48
Other activities:			
Pre-tax gain on disposal of businesses:			
European wireless clearing	(93)	—	—
U.S. wireless clearing.....	—	(35)	—
Automotive Retail Group.....	—	(66)	—
Credit Union Industry Group	—	—	(139)
Other	(1)	(5)	(2)
Total	\$ (26)	\$ 170	\$ 175

We refer you to Note 19 in the accompanying Notes to Consolidated Financial Statements for a further discussion of the components of restructuring and other activities.

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, 2005, 2004 and 2003 (in millions):

	2005	2004	2003
Other income (expense):			
Interest expense	\$ (241)	\$ (321)	\$ (301)
Interest income and other, net.....	138	49	39
Total.....	\$ (103)	\$ (272)	\$ (262)

The decrease in interest expense in 2005 was primarily due to the extinguishment of debt resulting from our debt exchange offer completed in 2004 and other scheduled debt repayments. See “Financial Position” and “Liquidity and Capital Resources” for a further discussion of our outstanding debt balance. Interest expense in 2004 includes \$36 million in expenses resulting from our debt exchange offer. See Note 8 to our consolidated financial statements for a further discussion of the exchange offer. The increase in interest income and other in 2005 was primarily due to interest income on increased levels of cash and marketable securities, and foreign currency transaction gains. Interest income and other in 2005 includes net investment losses of \$41 million, including a write-down of \$35 million relating to our leveraged lease investments, and interest and other income of \$171 million. 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 \$77 million. Interest income and other in 2003 includes net investment gains of \$6 million and other income of \$33 million.

Income taxes. Our effective tax rates on income (loss) from continuing operations were 34.9%, 27.5% and 39.7% for the years ended December 31, 2005, 2004 and 2003, respectively. The tax rate in 2005 was significantly impacted by (i) recognition of additional valuation allowances of \$115 million for losses incurred in certain foreign tax jurisdictions due to underperforming operations, and (ii) reversal of certain tax contingency accruals of \$40 million due to progress made in jurisdictional tax audits. Our effective tax rate will fluctuate also in the future as a result of our adoption of SFAS 123R as discussed in “Overview” above. As we record expense under SFAS 123R, a deferred tax asset is recorded. The realization of that asset is dependent upon the intrinsic value of an option on the date of exercise. Any unrealized deferred tax asset is charged to tax expense in the period of exercise or expiration and, accordingly, would result in a higher effective tax rate in such period. See “Application of Critical Accounting Policies” below for a discussion of factors affecting income tax expense.

The U.S. research and development tax credit expired as of December 31, 2005. A retroactive extension of the credit is contained in legislation that has been passed by both the House and Senate and is currently in reconciliation conference. The Company has determined its 2006 guidance on the basis that the credit will be extended with retroactive effect to January 1, 2006. In the event that the legislation is not passed in its current form, full year guidance could be impacted and in the event the legislation is not passed and signed by the President by March 31, 2006, quarterly results could be adversely impacted until the extension of the credit is signed and can be reflected in the full year effective tax rate.

On October 22, 2004, the President of the United States signed the American Jobs Creation Act of 2004. The Act created 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. Management determined that the incremental cost of the repatriation did not produce a corresponding economic benefit, and as a result, we did not make a repatriation under this provision.

Discontinued operations. Income (loss) from discontinued operations, net of income taxes, was \$(136) million, \$429 million and \$46 million, respectively, for the years ended December 31, 2005, 2004 and 2003. Income (loss) from discontinued operations is comprised primarily of the net results of A.T. Kearney which is classified as “held for sale” at December 31, 2005, and UGS PLM Solutions which was sold during the second quarter of 2004. Discontinued operations also includes our European Technology Solutions and subscription fulfillment businesses sold during 2003. Income from discontinued operations includes net gains (losses) of \$(92) million, \$433 million and \$(9) million, net of income taxes, in 2005, 2004 and 2003, respectively.

Net income (loss). Income (loss) from continuing operations was \$286 million, or \$0.55 per basic share and \$0.54 per diluted share, in 2005 compared with \$(271) million, or \$(0.54) per basic and diluted share, in 2004 and \$(312) million, or \$(0.65) per basic and diluted share in 2003. Net income (loss) was \$150 million in 2005 compared with \$158 million in 2004 and \$(1,698) million in 2003. Basic earnings (loss) per share was \$0.29 in 2005 compared with \$0.32 in 2004 and \$(3.55) in 2003. Diluted earnings (loss) per share was \$0.28 in 2005 compared with \$0.32 in 2004 and \$(3.55) in 2003.

During the third quarter of 2003, we 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. 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.

In addition, 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 2005, 2004 and 2003, as well as certain financial information related to our operations by geographic region and by service line for such years.

Financial Position

At December 31, 2005, we held cash and marketable securities of \$3.2 billion, had working capital of \$3.5 billion, and had a current ratio (current assets/current liabilities) of 1.68-to-1. This compares to cash and marketable securities of \$3.6 billion, working capital of \$3.4 billion, and a current ratio of 1.64-to-1 at December 31, 2004. Approximately 6% of our cash and cash equivalents and marketable securities at December 31, 2005 were not available for debt repayment due to various commercial

limitations on the use of these assets. The decrease in cash and marketable securities in 2005 is due principally to cash payments of \$417 million associated with the purchase of Towers Perrin's benefits administration business in the first quarter of 2005, \$135 million associated with the purchase of the outstanding interest in our Australian subsidiary in the second quarter of 2005 and debt payments of \$560 million in 2005, offset by free cash flow of \$619 million (see "Liquidity and Capital Resources" below for the definition of free cash flow).

Days sales outstanding for trade receivables were 58 days at December 31, 2005 compared to 56 days at December 31, 2004. Days payable outstanding were 19 days at December 31, 2005 and 2004.

Total debt was \$3.3 billion at December 31, 2005 versus \$3.8 billion at December 31, 2004. 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 30% at December 31, 2005 compared to 33% at December 31, 2004.

Off-Balance Sheet Arrangements and Contractual Obligations

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 CSFTs, 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, 2005, the estimated future asset purchases to be financed under existing arrangements were \$72 million. The aggregate dollar values of assets purchased under our CSFT arrangements were \$8 million, \$65 million and \$72 million during 2005, 2004 and 2003, respectively. As of December 31, 2005, there were outstanding an aggregate of \$241 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 \$250 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.

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. 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. Such receivables are being collected over the remaining term of the NMCI contract.

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.

Following is a summary of the estimated expiration of financial guarantees outstanding as of December 31, 2005 (in millions):

	Total	Estimated Expiration Per Period			
		2006	2007	2008	Thereafter
Performance guarantees:					
CSFT transactions	\$ 241	\$ 88	\$ 86	\$ 37	\$ 30
Standby letters of credit, surety bonds and other	521	282	21	18	200
Other guarantees	32	18	10	4	—
Total	\$ 794	\$ 388	\$ 117	\$ 59	\$ 230

Contractual obligations. Following is a summary of payments due in specified periods related to our contractual obligations as of December 31, 2005 (in millions):

	Total	Payments Due by Period			
		2006	2007-2008	2009-2010	After 2010
Long-term debt, including current portion and interest ⁽¹⁾	\$ 4,958	\$ 525	\$ 509	\$ 1,748	\$ 2,176
Operating lease obligations.....	1,370	316	453	236	365
Purchase obligations ⁽²⁾	3,388	976	1,435	899	78
Total ⁽³⁾	\$ 9,716	\$ 1,817	\$ 2,397	\$ 2,883	\$ 2,619

(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, including our obligation to repurchase Towers Perrin's minority interest in ExcellerateHRO. See Note 16 of the accompanying consolidated financial statements.

(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

Following is a summary of our cash flows for the years ended December 31, 2005, 2004 and 2003 (in millions):

	2005	2004	2003
Cash flows:			
Net cash provided by operating activities.....	\$ 1,296	\$ 1,278	\$ 1,495
Net cash used in investing activities	(797)	(758)	(809)
Net cash used in financing activities.....	(681)	(663)	(71)
Free cash flow.....	619	304	221

Operating activities. The increase in net cash provided by operating activities in 2005 compared to 2004 was due to a \$150 million increase in earnings, adjusted to exclude non-cash operating items, offset by a \$132 million change in operating assets and liabilities. The change in operating assets and liabilities resulted primarily from a decrease in receivables collections and an increase in tax payments, offset by an increase in deferred revenue (see "Client Contract Payment" in the "Overview" section above). The decrease in net cash provided by operating activities in 2004 compared to 2003 was due to a \$393 million decrease in earnings, adjusted to exclude non-cash operating items, offset by a \$176 million change in operating assets and liabilities. The change in operating assets and liabilities resulted primarily from a decrease in prepayments to vendors, 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 2005 were comprised of \$1,211 million in cash provided by our core IT outsourcing and consulting businesses (excluding NMCI), and \$85 million in cash provided by our NMCI contract. Operating cash flows in 2004 were comprised of \$1,557 million in cash provided by our core IT outsourcing and consulting businesses offset by \$279 million in cash used by our NMCI contract.

Investing activities. The change in net cash used in investing activities in 2005 compared to 2004 was primarily due to a decrease in proceeds from divestitures in 2005, and an increase in acquisition payments related to 2005 acquisitions (see Notes 16, 17 and 19 in the accompanying Notes to Consolidated Financial Statements). In addition, we realized net proceeds of \$178 million in 2005 resulting from sales of real estate (see "Real Estate Initiatives" in the "Overview" section above). 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.

Financing activities. The increase in net cash used in financing activities in 2005 compared to 2004 was primarily due to proceeds from our common stock issuance associated with a debt exchange in 2004. The increase in net cash used in financing activities in 2004 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.

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 related to divested assets and non-marketable equity investments, payments related to acquisitions, net of cash acquired, and non-marketable 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.

Following is a reconciliation of free cash flow to the net change in cash and cash equivalents for the years ended December 31, 2005, 2004 and 2003 (in millions):

	2005	2004	2003
Net cash provided by operating activities.....	\$ 1,296	\$ 1,278	\$ 1,495
Capital expenditures:			
Proceeds from investments and other assets.....	310	68	43
Net proceeds from real estate sales.....	178	—	—
Payments for purchases of property and equipment.....	(718)	(666)	(703)
Payments for investments and other assets.....	(27)	(556)	(25)
Payments for purchases of software and other intangibles.....	(300)	(302)	(494)
Other investing activities.....	29	28	25
Capital lease payments.....	(149)	(167)	(120)
Total capital expenditures.....	(677)	(1,595)	(1,274)
Adjustments:			
Utilization of tax credits related to the UGS PLM Solutions disposition....	—	85	—
Transaction fees related to the UGS PLM Solutions disposition.....	—	14	—
Payment related to the repurchase of financial assets associated with the NMCI securitization facility.....	—	522	—
Free cash flow.....	619	304	221
Other investing and financing activities:			
Proceeds from sales of marketable securities.....	1,434	956	548
Net proceeds from divested assets and non-marketable equity securities ...	160	2,129	233
Payments for acquisitions, net of cash acquired, and non-marketable equity securities.....	(552)	(78)	11
Payments for purchases of marketable securities.....	(1,311)	(2,337)	(447)
Proceeds from long-term debt.....	5	6	1,869
Payments on long-term debt.....	(560)	(561)	(1,312)
Net decrease in borrowings with original maturities less than 90 days.....	—	—	(235)
Proceeds from issuance of common stock.....	—	198	—
Employee stock transactions.....	107	76	47
Dividends paid.....	(105)	(200)	(287)
Other financing activities.....	21	(15)	(33)
Effect of exchange rate changes on cash and cash equivalents.....	(21)	48	(60)
Adjustments:			
Utilization of tax credits.....	—	(85)	—
Transaction fees.....	—	(14)	—
Payment related to the repurchase of financial assets associated with the NMCI securitization facility.....	—	(522)	—
Net increase (decrease) in cash and cash equivalents.....	\$ (203)	\$ (95)	\$ 555

Our gross capital requirement in 2005 was approximately \$1.2 billion including equipment and real estate leases and the use of CSFTs. Free cash flow of \$125 million for the NMCI contract for 2005 reflects net cash provided by operating activities of \$85 million and a net cash inflow of capital expenditures of \$40 million.

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 replaced 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, 2005, there were no amounts outstanding under either of these facilities and we had issued letters of credit totaling \$160 million under the \$550 million Three-and-One-Half Year Multi Currency Revolving Credit Agreement, thereby reducing the availability under these facilities to \$840 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.

Our unsecured credit 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 2.25-to-1 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 1.15-to-1 through December 2005, and 1.25-to-1 thereafter. We were in compliance with all covenants at December 31, 2005.

Following is a summary of the financial covenant requirements under our unsecured credit facilities and the calculated amount or ratios at December 31, 2005 (dollars in millions):

	As of and for the Year Ended December 31, 2005	
	Covenant	Actual
Minimum net worth	\$ 6,420	\$ 7,512
Leverage ratio	2.25	1.67
Fixed charge coverage ratio	1.15	2.37

Credit ratings. Following is a summary of 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 ("Fitch") at December 31, 2005:

	Moody's	S&P	Fitch
Senior long-term debt	Ba1	BBB-	BBB-
Outlook	Stable	Negative	Stable

On September 15, 2005, Moody's revised our rating outlook to stable from negative. On November 2, 2005, Fitch revised our rating outlook to stable from negative. At December 31, 2005, 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. At December 31, 2005, we had total liquidity of \$3.9 billion, comprised of unrestricted cash and marketable securities of \$3.0 billion and availability under our unsecured credit facilities of \$840 million. During 2005, we terminated our secured A/R facility, a revolving secured financing arrangement collateralized by certain trade receivables with availability of up to \$400 million. We elected to terminate the facility in order to more closely align our liquidity with our minimum targeted levels referred to below. We have maintained in effect our unsecured credit agreements which provide for aggregate availability of \$1.0 billion for issuances of letters of credit and general corporate borrowing.

Based on our improved free cash flow performance in 2005 and forecasted free cash flow improvements, we have moved our minimum targeted liquidity from 18 months of forecasted capital expenditures (as defined under "Free Cash Flow" above), interest payments, debt maturities and dividend payments to 12 months of forecasted capital expenditures, interest payments, debt maturities and dividend payments. Accordingly, in February 2006 our Board of Directors authorized us to repurchase up to \$1 billion of our common shares in open market or other purchases over the next 18 months. We completed \$400 million of such authorized repurchase through an Accelerated Share Repurchase arrangement in February 2006 (see Note 20 in the accompanying Notes to Consolidated Financial Statements).

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.

Application of Critical Accounting Policies

The preparation of our financial statements in conformity with generally accepted accounting principles in the United States (“GAAP”) 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 earned is not contingent upon any future 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.

In the rare event that fair value is not determinable for each service element of a multiple-element contract, the contract is considered one accounting unit, and revenue is recognized using the proportional performance method. Under this method, contract revenue is recognized for each service element based on the proportional performance of each service element to the total expected performance of each service element over the life of the contract.

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.

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 were 2.0%, and 3.5% at December 31, 2005 and 2004, respectively. The increase in the allowance in 2004 resulted primarily from the recognition of reserves in connection with the US Airways bankruptcy. Excluding those reserves, the allowance percentage was 2.7% at December 31, 2004.

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.

Goodwill is not amortized, but instead tested for impairment at least annually. 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, 2005. 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 2005 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 statement 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.

Liabilities for tax contingencies. We have recorded liabilities for tax contingencies related to positions we have taken that could be challenged by taxing authorities. These potential exposures result from the uncertainties in application of statutes, rules, regulations and interpretations. 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. Our estimate of the ultimate tax liability contains assumptions based on past experiences, judgments about potential actions by taxing jurisdictions as well as judgments about the likely outcome of issues that have been raised by taxing jurisdictions. Although we believe our reserves for tax contingencies are reasonable, they may change in the future due to new developments with each issue. We record an additional charge or benefit in our provision for taxes in the period in which we determine that the recorded tax liability is more or 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 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, 2005, 84% 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 pension plan actuarial valuations in 2005 and 2004. A 100 basis point increase or decrease in this assumption results in an estimated pension expense decrease or increase, respectively, of \$64 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, 2005, with maturities consistent with expected pension payment periods are used to determine the appropriate discount rate assumption. For the countries with the largest pension plans, actual participant data is used by our actuaries to determine the maturity of the benefit obligation which is matched to bonds available at the measurement date. In other countries, we use the average age of the participants to determine the maturity of the benefit obligation. A 5.4% weighted-average discount rate assumption was used for the 2005 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 \$156 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 \$222 million in the subsequent year's pension expense (based on the most recent pension valuation and assuming all other variables are constant).

Our long-standing policy of making consistent cash pension plan contributions provided some protection against negative short-term market returns. In addition, positive investment returns from 2003 to 2005 resulted in our actual pension plan asset returns exceeding expected returns reflected in our assumptions. However, the impact of contributions and positive returns has been offset by declining discount rates over the last several years. Our pension plans' funded status, as of October 31, 2005 reflected total plan assets of \$6.4 billion and total accumulated benefit obligations under all plans of \$7.5 billion. As a result, under the requirements of SFAS No. 87, we have an additional minimum pension plan liability of \$855 million at December 31, 2005 with a corresponding reduction, net of tax, in the accumulated other comprehensive loss component of shareholders' equity of \$552 million. Such liability is slightly higher than the liability at December 31, 2004.

Our weighted-average long-term rate of return assumption for plan assets as of January 1, 2006 is 8.5%. Our 2006 net periodic pension cost is expected to decrease from 2005 after excluding the impact in 2005 of the \$77 million settlement loss related to the Inland Revenue contract discussed in "Results of Operations" above. Our required minimum amount of 2006 contributions will not exceed actual contributions made in 2005.

Stock-based compensation. We estimate the fair value of stock options using a Black-Scholes-Merton pricing model. The outstanding term of an option is estimated based on the vesting term and contractual term of the option, as well as expected exercise behavior of the employee who receives the option. Expected volatility during the estimated outstanding term of the option is based on historical volatility during a period equivalent to the estimated outstanding term of the option. Expected dividends during the estimated outstanding term of the option are based on recent dividend activity. Risk-free interest rates are based on the U.S. Treasury yield in effect at the time of the grant. We estimate the fair value of restricted stock units based on the market value of our stock on the date of grant, adjusted for any restrictive provisions affecting fair value, such as required holding periods after the date of vesting. Compensation expense for share-based payment is charged to operations over the vesting period of the award, and includes an estimate for the number of awards expected to vest. The initial estimate is based on historical results, and compensation expense is adjusted for actual results. If vesting of such an award is conditioned upon the achievement of performance goals, compensation expense during the performance period is estimated using the most probable outcome of the performance goals, and adjusted as the expected outcome changes.

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, 2005, we had \$521 million of outstanding standby letters of credit and surety bonds relating to these performance guarantees. In addition, we had \$241 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 \$32 million of other financial guarantees outstanding at December 31, 2005 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. In determining whether a loss accrual or disclosure in our consolidated financial statements is required, we consider, among other things, the degree to which we can make a reasonable estimate of the loss, the degree of probability of an unfavorable outcome, and the applicability of insurance coverage for a loss. The degree of probability and the loss related to a particular claim are typically estimated with the assistance of legal counsel.

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 2006 than in 2005, there would be no material adverse impact on our results of operations or financial position. During 2005, had short-term market interest rates averaged 10% more than in 2004, 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 2006 were to fall by 10% below the level at the end of 2005, there would be no material adverse impact on our results of operations or financial position. During 2005, 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, Mexico, 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 2006 than in 2005, there would be no material adverse impact on our results of operations or financial position. During 2005, had foreign currency rates averaged 10% more than in 2004, there would have been no material adverse impact on our results of operations or financial position.

Accelerated Stock Repurchase. Pursuant to an accelerated share repurchase agreement entered into in February 2006, we are subject to equity price risk due to the repurchase of common stock through that program (see Part II, Item 5). At the end of the program, we are required to receive or pay a price adjustment based on the difference between the average price paid by Credit Suisse for our stock over the life of the program and the initial purchase price of \$26.61 per share for 15 million shares. At our election, any payments we are required to make pursuant to the settlement of the forward contract could either be in cash or in shares of our common stock. Changes in the fair value of our common stock will impact the final settlement of the program. Settlement is expected to occur in the second quarter of 2006, depending upon the timing and pace of purchases.

RISK FACTORS

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. Our exposure to this risk increases generally in proportion to the scope of the client contract. 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, including asset purchases and operating losses, 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 \$1.3 billion at December 31, 2005, including approximately \$0.9 billion associated with the NMCI contract (net of impairment charges associated with this contract in previous years). Some of these contracts, including the NMCI contract, have experienced delays in their development and construction phases, and certain milestones have been missed. We refer you to the discussion of the NMCI contract under "Overview – 2005 Highlights" below for further information regarding our risks under such contracts. Remaining long-lived assets and lease receivables associated with the NMCI contract totaled \$240 million and \$408 million, respectively, at December 31, 2005. In addition, we refer you to the discussion under "Overview – 2005 Highlights" below for further information regarding our risks under a commercial contract for which we recognized a \$37 million non-cash impairment charge in 2005.

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 a leading provider of IT outsourcing services to the United States automobile industry, which sector has been experiencing significant financial difficulties. We refer you to the discussion under "Overview" below of our revenues from GM and reserves recorded in 2005 with respect to our receivables from Delphi, which filed for bankruptcy in October 2005. In addition, we are the leading IT outsourcing provider to the airline industry, which has also faced significant financial challenges. We have a long-term IT outsourcing agreement with American Airlines and recently entered into a long-term IT outsourcing agreement with United Airlines. We also provide IT services to US Airways, which filed for bankruptcy in September 2004. We refer you to the discussion in Note 5 of the notes to our consolidated financial statements below of the write-down of our investment in an aircraft leasing partnership due to uncertainties regarding the recoverability of the partnership's investments in aircraft leased to Delta Air Lines, which filed for bankruptcy in September 2005.

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, including in particular revenues from certain "mega-deal" long-term IT outsourcing agreements. 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.

Impact of Rating Agency downgrades. Any adverse action by Moody's, S&P or Fitch with respect to our long-term credit ratings could materially adversely impact our ability to compete for new business, our cost of capital and our ability to access capital.

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 2006 or thereafter to a greater extent than has been our prior experience.

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. We refer you to the discussion of "Pending Litigation and Proceedings" under Note 15 of the notes to our consolidated financial statements below for a description of this investigation. 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 are defendants in various claims and pending actions arising in the ordinary course of business or otherwise. We recently agreed upon the terms of a settlement regarding certain shareholder class action suits and remain a party to certain other litigation related to such matters. We refer you to the discussion of “Pending Litigation and Proceedings” under Note 15 of the notes to our consolidated financial statements below for a description of certain of these matters. We are not able to determine the actual impact of these matters 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.

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, telecommunications companies, 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 increasing direct competition from niche offshore providers, primarily India-based competitors. The competition from India-based companies is growing in intensity due to the abundance of highly skilled workers in the country, a pro-business regulatory environment and significantly lower costs of labor, which may allow these competitors to offer lower prices than we are able to offer. In addition, negative publicity from our pending litigation 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.

Market changes may result in decreased profitability. The IT outsourcing market is commoditizing, which is shrinking margins on many of our core offerings. In addition, that market has experienced slower growth and lower margins in recent years. We are continuing to invest in new service offerings in the higher-margin segments such as Business Process Outsourcing and applications development. However, if we are unable to implement our strategies to more effectively compete in such markets, our margins and profitability could be adversely affected.

We may not achieve the benefits we expect from our multi-year plan. Management has implemented 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 “Agile Enterprise” as well as other initiatives intended to substantially reduce our cost structure. We invested significant capital in the implementation of the multi-year plan in 2005 and will invest additional capital in 2006. 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. Our ability to achieve the anticipated cost savings and other benefits from these initiatives on a timely basis is subject to many estimates and assumptions, including assumptions regarding the costs and timing of activities in connection with these initiatives. These estimates and assumptions are subject to significant economic, competitive and other uncertainties some of which are beyond our control. In addition, service pricing contained in certain contracts signed since early 2005, including our new contracts with GM and the U.K. Government’s Department of Works and Pension, and other contracts expected to be signed in 2006, assume successful completion of our EDS Agile Enterprise initiatives on a timely basis. If these assumptions are not realized and we experience delays beyond those already experienced with respect to certain segments of these initiatives, 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.

Unanticipated changes in our tax provisions or exposure to additional tax liabilities could affect our profitability. We are subject to income taxes in the United States and numerous foreign jurisdictions. We are subject to ongoing tax audits in various jurisdictions. Tax authorities may disagree with our intercompany charges or other matters and assess additional taxes. Our provision for income taxes and cash tax liability in the future could be adversely affected by numerous factors including, but not limited to, income before taxes being lower than anticipated in countries with accumulated tax losses and higher than anticipated in countries with higher statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws, regulations, accounting principles or interpretations thereof, and the discovery of new information in the course of our tax return preparation process, which could adversely impact our results of operations and financial condition in future periods. In particular, the carrying value of deferred tax assets is dependent on our ability to generate future taxable income over the expiration period of the tax asset. An impairment of deferred tax assets would result in an increase in our effective tax rate and related tax expense in the period of impairment and could affect our profitability.

Risks associated with our international operations could negatively affect our earnings. International operations accounted for approximately one-half of our revenues in 2005 and will continue to represent a significant opportunity for growth in the IT industry. Our results of operations are affected by our ability to manage risks inherent in doing business abroad. These risks include exchange rate fluctuation, regulatory concerns, terrorist activity, restrictions with respect to the movement of currency, access to highly skilled workers, political and economic instability and our ability to protect our intellectual property.

Any of these risks could impede our ability to increase our presence in certain jurisdictions or enter new jurisdictions. In addition, these risks could result in increased costs which could materially adversely affect our results of operations.

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.

A material weakness in our internal controls could have a material adverse effect on us. Effective internal controls are necessary for us to provide reasonable assurance with respect to our financial reports and to effectively prevent fraud. If we cannot provide reasonable assurance with respect to our financial reports and effectively prevent fraud, our reputation and operating results could be harmed. Pursuant to the Sarbanes-Oxley Act of 2002, we are required to furnish a report by management on internal control over financial reporting, including management's assessment of the effectiveness of such control. Internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. In addition, projections of any evaluation of effectiveness of internal control over financial reporting to future periods are subject to the risk that the control 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 operating results could be adversely impacted, we could fail to meet our reporting obligations, and there could be a material adverse effect on our stock price. In connection with their review of our third quarter 2004 results and the ongoing 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 our NMCI contract and revenue recognition. Although such material weaknesses were corrected by December 31, 2004, we may identify one or more material weaknesses in our internal control over financial reporting from time to time in the future.

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, free cash flow, TCV of new contract signings, operating margins, 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 free cash flow, the timing of the revenue, earnings and free cash flow impact of new and existing contracts, liquidity, estimated future revenues from existing clients, the TCV 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 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, 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; the impact of third-party benchmarking provisions in certain client contracts; the impact on a historical and prospective basis of accounting rules and pronouncements; the impact of claims, litigation and governmental investigations; the success of our multi-year plan and cost-cutting initiatives and the timing and amount of any resulting benefits; the impact of acquisitions and divestitures; 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 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; failure to obtain or protect intellectual property rights; fluctuations in foreign currency, exchange rates and interest rates; the impact of competition on pricing, revenues and margins; and the degree to which third parties continue to outsource IT and business processes.

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.

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:

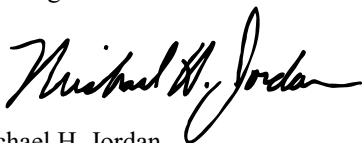
- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of EDS;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting 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.

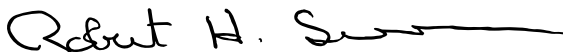
EDS management assessed the effectiveness of EDS' internal control over financial reporting as of December 31, 2005. In making this assessment, management used the criteria described in "*Internal Control – Integrated Framework*" issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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, 2005.

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 8, 2006



Robert H. Swan
EXECUTIVE VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER
March 8, 2006

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, 2005, 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, 2005, 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, 2005, 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, 2005 and 2004, 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, 2005, and the related financial statement schedule, and our report dated March 8, 2006 expressed an unqualified opinion on those consolidated financial statements and schedule.

KPMG LLP

KPMG LLP
Dallas, Texas
March 8, 2006

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, 2005 and 2004, 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, 2005. 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, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, 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 2005, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123R, *Share-Based Payment*, and, during 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, 2005, 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 8, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

KPMG LLP
Dallas, Texas
March 8, 2006

ELECTRONIC DATA SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share amounts)

	Years Ended December 31,		
	2005	2004	2003
Revenues	\$ 19,757	\$ 19,863	\$ 19,758
Costs and expenses			
Cost of revenues.....	17,422	18,224	18,261
Selling, general and administrative.....	1,819	1,571	1,577
Restructuring and other.....	(26)	170	175
Total costs and expenses.....	19,215	19,965	20,013
Operating income (loss).....	542	(102)	(255)
Interest expense.....	(241)	(321)	(301)
Interest income and other, net	138	49	39
Other income (expense).....	(103)	(272)	(262)
Income (loss) from continuing operations before income taxes	439	(374)	(517)
Provision (benefit) for income taxes	153	(103)	(205)
Income (loss) from continuing operations	286	(271)	(312)
Income (loss) from discontinued operations, net of income taxes	(136)	429	46
Income (loss) before cumulative effect of changes in accounting principles	150	158	(266)
Cumulative effect on prior years of changes in accounting principles, net of income taxes.....	—	—	(1,432)
Net income (loss).....	\$ 150	\$ 158	\$ (1,698)
Basic earnings per share of common stock			
Income (loss) from continuing operations	\$ 0.55	\$ (0.54)	\$ (0.65)
Income (loss) from discontinued operations.....	(0.26)	0.86	0.09
Cumulative effect on prior years of changes in accounting principles	—	—	(2.99)
Net income (loss).....	\$ 0.29	\$ 0.32	\$ (3.55)
Diluted earnings per share of common stock			
Income (loss) from continuing operations	\$ 0.54	\$ (0.54)	\$ (0.65)
Income (loss) from discontinued operations.....	(0.26)	0.86	0.09
Cumulative effect on prior years of changes in accounting principles	—	—	(2.99)
Net income (loss).....	\$ 0.28	\$ 0.32	\$ (3.55)

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, and SFAS No. 123R as of January 1, 2005 resulting in a change in the Company's method of recognizing stock-based compensation to employees.

ELECTRONIC DATA SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in millions, except share and per share amounts)

	December 31,	
	2005	2004
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,899	\$ 2,102
Marketable securities	1,321	1,453
Accounts receivable, net	3,311	3,161
Prepays and other	848	874
Deferred income taxes	778	602
Assets held for sale	345	479
Total current assets	8,502	8,671
Property and equipment, net	1,967	2,181
Deferred contract costs, net	638	708
Investments and other assets	684	1,059
Goodwill	3,832	3,635
Other intangible assets, net	640	624
Deferred income taxes	824	866
Total assets	\$ 17,087	\$ 17,744
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 492	\$ 472
Accrued liabilities	2,430	2,773
Deferred revenue	1,329	1,061
Income taxes	208	58
Current portion of long-term debt	314	658
Liabilities held for sale	275	267
Total current liabilities	5,048	5,289
Pension benefit liability	1,173	1,132
Long-term debt, less current portion	2,939	3,168
Minority interests and other long-term liabilities	415	715
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; 526,199,617 and 522,748,596 shares issued at December 31, 2005 and 2004, respectively	5	5
Additional paid-in capital	2,682	2,433
Retained earnings	5,371	5,492
Accumulated other comprehensive loss	(367)	(59)
Treasury stock, at cost, 2,913,605 and 7,443,650 shares at December 31, 2005 and 2004, respectively	(179)	(431)
Total shareholders' equity	7,512	7,440
Total liabilities and shareholders' equity	\$ 17,087	\$ 17,744

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, 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), and reclassification adjustment.....	—	—	—	—	(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	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
Comprehensive loss:								
Net income	—	—	—	150	—	—	—	150
Currency translation adjustment, net of tax effect of \$(75)	—	—	—	—	(293)	—	—	(293)
Unrealized losses on securities, net of tax effect of \$(3), and reclassification adjustment.....	—	—	—	—	(1)	—	—	(1)
Change in minimum pension liability, net of tax effect of \$(17)	—	—	—	—	(14)	—	—	(14)
Total comprehensive loss								(158)
Dividends	—	—	—	(105)	—	—	—	(105)
Stock award transactions	3	—	249	(166)	—	(4)	252	335
Balance at December 31, 2005	526	\$ 5	\$ 2,682	\$ 5,371	\$ (367)	3	\$ (179)	\$ 7,512

See accompanying notes to consolidated financial statements.

ELECTRONIC DATA SYSTEMS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Years Ended December 31,		
	2005	2004	2003
Cash Flows from Operating Activities			
Net income (loss)	\$ 150	\$ 158	\$ (1,698)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization and deferred cost charges	1,456	1,974	2,529
Deferred compensation	224	42	62
Cumulative effect on prior years of changes in accounting principles	—	—	1,432
Other long-lived asset write-downs	164	537	36
Other (including pre-tax gains on sales of businesses of \$844 and \$131 in 2004 and 2003, respectively)	8	(859)	(116)
Changes in operating assets and liabilities, net of effects of acquired companies:			
Accounts receivable	(310)	97	440
Prepays and other	20	153	(90)
Deferred contract costs	(161)	(126)	(540)
Accounts payable and accrued liabilities	(207)	(466)	31
Deferred revenue	299	(51)	(116)
Income taxes	(347)	(181)	(475)
Total adjustments	1,146	1,120	3,193
Net cash provided by operating activities	1,296	1,278	1,495
Cash Flows from Investing Activities			
Proceeds from sales of marketable securities	1,434	956	548
Proceeds from investments and other assets	310	68	43
Net proceeds from divested assets and non-marketable equity securities	160	2,129	233
Net proceeds from real estate sales	178	—	—
Payments for purchases of property and equipment	(718)	(666)	(703)
Payments for investments and other assets	(27)	(556)	(25)
Payments for acquisitions, net of cash acquired, and non-marketable equity securities	(552)	(78)	11
Payments for purchases of software and other intangibles	(300)	(302)	(494)
Payments for purchases of marketable securities	(1,311)	(2,337)	(447)
Other	29	28	25
Net cash used in investing activities	(797)	(758)	(809)
Cash Flows from Financing Activities			
Proceeds from long-term debt	5	6	1,869
Payments on long-term debt	(560)	(561)	(1,312)
Net decrease in borrowings with original maturities less than 90 days	—	—	(235)
Capital lease payments	(149)	(167)	(120)
Proceeds from issuance of common stock	—	198	—
Employee stock transactions	107	76	47
Dividends paid	(105)	(200)	(287)
Other	21	(15)	(33)
Net cash used in financing activities	(681)	(663)	(71)
Effect of exchange rate changes on cash and cash equivalents	(21)	48	(60)
Net increase (decrease) in cash and cash equivalents	(203)	(95)	555
Cash and cash equivalents at beginning of year	2,102	2,197	1,642
Cash and cash equivalents at end of year	\$ 1,899	\$ 2,102	\$ 2,197

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 and solutions consulting services. The Company also provided management consulting services through its A.T. Kearney subsidiary which was sold in January 2006 (see Note 20). 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.

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. 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, 2005, 2004 and 2003 (in millions):

	2005	2004	2003
Basic earnings per share of common stock:			
Weighted-average common shares outstanding.....	519	501	479
Effect of dilutive securities (Note 11):			
Restricted stock units.....	2	—	—
Stock options	5	—	—
Diluted earnings per share of common stock:			
Weighted-average common and common equivalent shares outstanding ...	526	501	479

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, 2005, 2004 and 2003 (in millions):

	2005	2004	2003
Common stock options	42	75	58
Restricted stock units.....	—	7	2
Convertible debt and forward purchase contracts.....	20	28	36

Accounting Changes

The Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 123R, *Share-Based Payment*, as of January 1, 2005, using the modified prospective application method. This statement requires the recognition of compensation expense when an entity obtains employee services in stock-based payment transactions. This change in accounting resulted in the recognition of compensation expense of \$160 million (\$110 million net of tax) for the year ended December 31, 2005. Compensation expense presented in the 2005 consolidated statement of operations includes \$94 million in cost of revenues, \$40 million in selling, general and administrative, and \$26 million in income (loss) from discontinued operations.

Prior to January 1, 2005, the Company recognized compensation cost associated with stock-based awards under the recognition and measurement principles of Accounting Principles Board (“APB”) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Under APB No. 25, the difference between the quoted market price as of the date of the grant and the contractual purchase price of shares was charged to operations over the vesting period on a straight-line basis. No compensation cost was 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 loss 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 year ended December 31, 2005 (in millions, except per share amounts):

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

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, 2005, 2004 and 2003, the Company recognized revenues of approximately \$250 million, \$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 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.

Effective January 1, 2003, the Company adopted 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.

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 \$69 million and \$114 million at December 31, 2005 and 2004, respectively.

Marketable Securities

Marketable securities at December 31, 2005 and 2004 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:

	Years
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.

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 geographic components of its reportable segments 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 executory contracts and 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. No financial assets were sold by the Company during 2005. The Company sold \$51 million and \$668 million of financial assets, primarily lease receivables, during 2004 and 2003, 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. 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 earned is not contingent upon any future 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. If fair value is not determinable for all elements, the contract is treated as one accounting unit and revenue is recognized using the proportional performance method.

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.

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 \$1,329 million and \$1,061 million at December 31, 2005 and 2004, 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 \$189 million, \$482 million (net of deferred tax of \$75 million) and \$226 million at December 31, 2005, 2004 and 2003, respectively. Net currency transaction gains (losses), net of income taxes, are included in determining net income (loss) and were \$4 million, \$(13) million and \$(32) million, respectively, for the years ended December 31, 2005, 2004 and 2003.

Financial Instruments and Risk Management

Following is a summary of the carrying amounts and fair values of the Company's significant financial instruments at December 31, 2005 and 2004 (in millions):

	2005		2004	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Available-for-sale marketable securities (Note 2)	\$ 1,321	\$ 1,321	\$ 1,453	\$ 1,453
Investments in securities, joint ventures and partnerships, excluding equity method investments (Note 5).....	23	23	15	15
Long-term debt (Note 8).....	(3,253)	(3,351)	(3,826)	(4,025)
Foreign currency forward contracts, net liability.....	(5)	(5)	(19)	(19)
Interest rate swap agreements, net liability.....	(70)	(70)	(37)	(37)

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, Mexico, the United Kingdom, Western European countries that use the euro as a common currency, Australia and New Zealand. At December 31, 2005 and 2004, the Company had forward exchange contracts to purchase various foreign currencies in the amount of \$1.9 billion and \$1.9 billion, respectively, and to sell various foreign currencies in the amount of \$1.2 billion and \$1.5 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, 2005.

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.

The Company had interest rate swap fair value hedges outstanding in the notional amount of \$1.8 billion in connection with its long-term notes payable at December 31, 2005 and 2004 (see Note 8). Under the swaps, the Company receives fixed rates ranging from 6.0% to 7.125% and pays floating rates tied to the London Interbank Offering Rate ("LIBOR"). The weighted-average floating rates were 6.39% and 4.40% at December 31, 2005 and 2004, respectively. At December 31, 2005 and 2004, the Company had \$700 million 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, 2005 and 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 gains of \$5.5 million and \$1.5 million during 2005 and 2004, respectively. Such gains are included in interest expense and other, net in the accompanying consolidated statements of operations.

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, 2005, 2004 and 2003, reclassifications from accumulated other comprehensive loss to net income (loss) of net gains (losses) recognized on marketable security transactions were \$(3) million, \$1 million and \$4 million, net of the related tax expense (benefit) of \$(1) million, \$0.4 million and \$1 million, respectively.

Following is a summary of changes within each classification of accumulated other comprehensive loss for the years ended December 31, 2005 and 2004 (in millions):

	Cumulative Translation Adjustments	Unrealized Gains (Losses) on Securities	Minimum Pension Liability Adjustment	Accumulated Other Compre- hensive Loss
Balance at December 31, 2003	\$ 226	\$ 2	\$ (359)	\$ (131)
Change	256	(5)	(179)	72
Balance at December 31, 2004	482	(3)	(538)	(59)
Change	(293)	(1)	(14)	(308)
Balance at December 31, 2005	\$ 189	\$ (4)	\$ (552)	\$ (367)

In connection with its employee stock incentive plans, the Company issued 4.5 million, 7.6 million and 3.7 million shares of treasury stock at a cost of \$252 million, \$458 million and \$257 million during 2005, 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 \$166 million, \$278 million and \$154 million in the consolidated statements of shareholders' equity and comprehensive income (loss) during 2005, 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, receivables collectibility, and loss accruals for litigation, exclusive of legal fees which are expensed as services are received. 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

Accounts receivable, net, from General Motors ("GM") and its affiliates totaled \$256 million and \$292 million as of December 31, 2005 and 2004, 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, 2005 and 2004, the Company had net operating receivables of \$162 million and \$152 million, respectively, and investments in leveraged leases of \$55 million and \$99 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.

Reclassifications

The Company purchases assets to be sold in sales-type lease transactions under certain contracts with customers and occasionally sells lease receivables associated with these transactions to third parties. Payments for assets to be sold to customers under sales-type leases and proceeds from associated lease receivables related to these transactions were reported as payments for and proceeds from investments and other assets in the investing section of the statement of cash flows in previous periods. During 2005, the Company began to report cash flows related to these transactions as changes in prepaid and other assets in the operating section of the statement of cash flows in accordance with guidance recently issued by the SEC. Cash flows associated with reacquired sales-type lease receivables and their subsequent collection continue to be classified as payments for and proceeds from investments and other assets in the investing section of the statement of cash flows. The respective amounts contained in the consolidated statements of cash flows for 2004 and 2003 have been reclassified to conform to the 2005 presentation.

Certain other reclassifications have been made to the 2004 and 2003 consolidated financial statements to conform to the 2005 presentation, including reclassification of balances associated with discontinued operations.

NOTE 2: MARKETABLE SECURITIES

Following is a summary of current available-for-sale marketable securities at December 31, 2005 and 2004 (in millions):

2005				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government and agency obligations.....	\$ 192	\$ —	\$ (1)	\$ 191
Obligations of states and political subdivisions.....	19	—	—	19
Corporate debt securities	319	—	(2)	317
Mortgage-backed securities	306	—	(4)	302
Asset-backed securities.....	454	—	(4)	450
Total debt securities.....	1,290	—	(11)	1,279
Equity securities.....	43	—	(1)	42
Total current available-for-sale securities.....	\$ 1,333	\$ —	\$ (12)	\$ 1,321

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.....	\$ 1,458	\$ 1	\$ (6)	\$ 1,453

The amortized cost and estimated fair value of current available-for-sale debt securities at December 31, 2005, 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	\$ 257	\$ 256
Due after one year through five years.....	258	256
Due after five years through ten years	2	2
Due after ten years.....	13	13
Mortgage-backed securities.....	306	302
Asset-backed securities.....	454	450
Total debt securities.....	\$ 1,290	\$ 1,279

Following is a summary of sales of available-for-sale securities for the years ended December 31, 2005, 2004 and 2003 (in millions). Specific identification was used to determine cost in computing realized gain or loss.

	2005	2004	2003
Proceeds from sales	\$ 1,434	\$ 956	\$ 548
Gross realized gains.....	1	3	3
Gross realized losses.....	(8)	(4)	(3)

NOTE 3: PROPERTY AND EQUIPMENT

Following is a summary of property and equipment at December 31, 2005 and 2004 (in millions):

	2005	2004
Land.....	\$ 86	\$ 118
Buildings and facilities	1,599	1,792
Computer equipment	4,620	4,938
Other equipment and furniture.....	424	440
Subtotal.....	6,729	7,288
Less accumulated depreciation	(4,762)	(5,107)
Total.....	\$ 1,967	\$ 2,181

During 2005, the Company sold sixteen domestic and international real estate properties in connection with its efforts to improve its cost competitiveness and enhance workplace capacity usage. Net proceeds from the sale were \$178 million. Fourteen properties involved in the sale have been leased back by the Company for various extended periods. A deferred net gain of \$14 million has been allocated to the various leased properties and will be recognized by the Company over the respective term of each lease. The Company recognized a net gain of \$3 million on the sale of the remaining properties which is included in other income in the 2005 consolidated statement of operations.

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 \$240 million and \$408 million, respectively, at December 31, 2005.

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 impairment charges of \$128 million to write-down certain assets to fair value. In addition, the Company recognized \$14 million of shutdown costs 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

The Company defers certain costs relating to construction and set-up activities on client contracts. Following is a summary of deferred costs for the years ended December 31, 2005 and 2004 (in millions):

	Gross Carrying Amount	Accumulated Amortization	Total
Balance at December 31, 2003	\$ 1,528	\$ (658)	\$ 870
Additions	126	(298)	(172)
Other	158	(148)	10
Balance at December 31, 2004	1,812	(1,104)	708
Additions	161	(138)	23
Other	(56)	(37)	(93)
Balance at December 31, 2005	\$ 1,917	\$ (1,279)	\$ 638

During 2005, the Company identified deterioration in the projected performance of one of its commercial contracts based on, among other things, a change in management's judgment regarding the amount and likelihood of achieving anticipated benefits from contract-specific productivity initiatives, primarily related to the length of time necessary to achieve cost savings from planned infrastructure optimization initiatives. The Company determined that the estimated undiscounted cash flows of the contract over its remaining term were insufficient to recover the contract's deferred contract costs. As a result, the Company recognized a non-cash impairment charge of \$37 million in the second quarter of 2005 to write-off the contract's deferred contract costs. The impairment charge is reported as a component of cost of revenues in the 2005 consolidated statement of operations and is included in the results of the Outsourcing segment. Remaining long-lived assets associated with this contract totaled \$143 million at December 31, 2005. The current estimate of cash flows includes cost reductions resulting from the expected optimization of the contract's service delivery infrastructure based on project plans and anticipated vendor rate reductions based on historical and industry trends. Some of the project plans have near-term milestones that are critical to meeting overall cost reduction goals. It is reasonably possible that these milestones may not be met or actual cost savings from these and other planned initiatives may not materialize in the near-term and, as a result, remaining long-lived assets associated with this contract will become fully impaired. The Company continues to pursue several opportunities to improve the financial performance of this contract, including leveraging the infrastructure through the addition of new business opportunities with the client.

The "other" line item in the table above includes asset write-downs, including the write-off associated with a commercial contract in 2005 referred to above, and changes associated with foreign currency translation adjustments. Estimated amortization expense related to deferred costs at December 31, 2005 for each of the years in the five-year period ending December 31, 2010 and thereafter is (in millions): 2006 – \$211; 2007 – \$121; 2008 – \$96; 2009 – \$77; 2010 – \$51; and thereafter – \$82.

NOTE 5: INVESTMENTS AND OTHER ASSETS

Following is a summary of investments and other assets at December 31, 2005 and 2004 (in millions):

	2005	2004
Lease contracts receivable (net of principal and interest on non-recourse debt)	\$ 52	\$ 58
Estimated residual values of leased assets (not guaranteed)	22	22
Unearned income, including deferred investment tax credits	(25)	(29)
Total investment in leveraged leases (excluding deferred taxes of \$18 million at December 31, 2005 and 2004)	49	51
Leveraged lease partnership investment	55	99
Investments in equipment for lease	182	411
Investments in joint ventures and partnerships	58	50
Deferred pension costs	72	59
Other	268	389
Total	\$ 684	\$ 1,059

The Company holds interests in various equipment 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 signed in 1988. 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 2005, the Company recorded write-downs of its investment in the partnership due to uncertainties regarding the recoverability of the partnership's investments in aircraft leased to Delta Air Lines which filed for bankruptcy on September 14, 2005, and the proposed sale of certain lease investments in the partnership. These write-downs were partially offset by the accelerated recognition of previously deferred investment tax credits associated with the investment. These write-downs total \$35 million and are reflected in other income (expense) in the Company's 2005 consolidated statement of operations. 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 included a renegotiation of leases with a U.S. airline. These write-downs are reflected in other income (expense) in the Company's 2004 consolidated statement of operations. The carrying amount of the Company's remaining equity interest in the partnership was \$55 million at December 31, 2005. The partnership's remaining leveraged lease investments, subsequent to the proposed sale, will include leases with 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 and the realization of expected future aircraft values. 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 be partially or wholly impaired.

Investments in securities, joint ventures and partnerships includes investments accounted for under the equity method of \$35 million at December 31, 2005 and 2004. The Company recognized impairment losses totaling \$1 million in 2005 and 2004 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 \$408 million and \$717 million at December 31, 2005 and 2004, respectively. Future minimum lease payments to be received under the NMCI contract were \$358 million at December 31, 2005. In addition, the unguaranteed residual values accruing to the Company were \$78 million, and unearned interest income related to these leases was \$28 million at December 31, 2005. The net lease receivable balance is classified as components of prepaids and other and investments and other assets in the consolidated balance sheets. Future minimum lease payments to be received at December 31, 2005 were as follows: 2006 – \$250 million; 2007 – \$108 million.

NOTE 6: GOODWILL AND OTHER INTANGIBLE ASSETS

Following is a summary of changes in the carrying amount of goodwill for the Outsourcing segment for the years ended December 31, 2005 and 2004 (in millions):

	Outsourcing
Balance at December 31, 2003	\$ 3,448
Additions	54
Deletions.....	(11)
Other	144
Balance at December 31, 2004	3,635
Additions	416
Deletions.....	(45)
Other	(174)
Balance at December 31, 2005	<u>\$ 3,832</u>

Goodwill additions resulted from acquisitions completed in 2005 and 2004 (see Note 16) and include adjustments to the preliminary purchase price allocations. Goodwill deletions resulted from divestitures completed in 2005 and 2004 (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, 2005 and 2004. 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. Intangible assets with indefinite useful lives are not amortized but instead tested for impairment at least annually. All of the Company's intangible assets at December 31, 2005 and 2004 had definite useful lives. Following is a summary of intangible assets at December 31, 2005 and 2004 (in millions):

	2005		
	Gross Carrying Amount	Accumulated Amortization	Total
Software.....	\$ 2,101	\$ (1,665)	\$ 436
Customer accounts.....	192	(90)	102
Other	393	(291)	102
Total.....	<u>\$ 2,686</u>	<u>\$ (2,046)</u>	<u>\$ 640</u>

	2004		
	Gross Carrying Amount	Accumulated Amortization	Total
Software.....	\$ 2,093	\$ (1,662)	\$ 431
Customer accounts.....	294	(174)	120
Other	300	(227)	73
Total.....	<u>\$ 2,687</u>	<u>\$ (2,063)</u>	<u>\$ 624</u>

Amortization expense related to intangible assets, including amounts pertaining to discontinued operations, was \$445 million and \$591 million for the years ended December 31, 2005 and 2004, respectively. Estimated amortization expense related to intangible assets subject to amortization at December 31, 2005 for each of the years in the five-year period ending December 31, 2010 and thereafter is (in millions): 2006 – \$317; 2007 – \$171; 2008 – \$72; 2009 – \$22; 2010 – \$14; and thereafter – \$44.

NOTE 7: ACCRUED LIABILITIES

Following is a summary of accrued liabilities at December 31, 2005 and 2004 (in millions):

	2005	2004
Accrued liabilities relating to:		
Contracts	\$ 609	\$ 789
Payroll	694	565
Restructuring activities	66	208
Property, sales and franchise taxes	266	363
Other	795	848
Total	<u>\$ 2,430</u>	<u>\$ 2,773</u>

NOTE 8: LONG-TERM DEBT

Following is a summary of long-term debt at December 31, 2005 and 2004 (in millions):

	2005		2004	
	Amount	Weighted-Average Rate	Amount	Weighted-Average Rate
Senior notes due 2013	\$ 1,087	6.50%	\$ 1,085	6.50%
Senior notes due 2009	700	7.12%	700	7.12%
Convertible notes due 2023	690	3.88%	690	3.88%
Notes payable due 2006 to 2029	497	7.01%	1,047	6.93%
Other, including capital lease obligations	279	—	304	—
Total	<u>3,253</u>		<u>3,826</u>	
Less current portion of long-term debt	<u>(314)</u>		<u>(658)</u>	
Long-term debt	<u>\$ 2,939</u>		<u>\$ 3,168</u>	

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 (4.70% at December 31, 2005) 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 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 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 were no amounts outstanding under this facility at December 31, 2004. During 2005, the Company elected to terminate this facility.

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 facility replaced 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. There were no amounts outstanding under either of these facilities at December 31, 2005 and 2004. The Company had issued letters of credit totaling \$160 million under the \$550 million Three-and-One-Half Year Multi Currency Revolving Credit Agreement at December 31, 2005. 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.

The Company's unsecured credit 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 2.25-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 1.15-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, 2005.

In addition to compliance with these financial covenants, it is a condition to the Company's ability to borrow under its unsecured credit facilities that its representations and warranties under those facilities, including among others its representation regarding no material adverse change in its 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 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, 2005 are as follows (in millions):

2006	\$ 314
2007	82
2008	53
2009	733
2010	698
Thereafter	1,373
Total	<u>\$ 3,253</u>

NOTE 9: MINORITY INTERESTS AND OTHER LONG-TERM LIABILITIES

Other long-term liabilities were \$337 million and \$531 million at December 31, 2005 and 2004, 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 \$78 million and \$184 million at December 31, 2005 and 2004, respectively. The decrease in minority interests in 2005 was primarily due to the Company's purchase of the outstanding minority interest in its Australian subsidiary (see Note 16).

NOTE 10: INCOME TAXES

Following is a summary of income tax expense for the years ended December 31, 2005, 2004 and 2003 (in millions):

	2005	2004	2003
Income (loss) from continuing operations	\$ 153	\$ (103)	\$ (205)
Income (loss) from discontinued operations	(38)	329	66
Cumulative effect on prior years of changes in accounting principles	—	—	(829)
Shareholders' equity	(101)	(20)	68
Total	<u>\$ 14</u>	<u>\$ 206</u>	<u>\$ (900)</u>

Following is a summary of the provision (benefit) for income taxes on income (loss) from continuing operations for the years ended December 31, 2005, 2004 and 2003 (in millions):

	United States			
	Federal	State	Non-U.S.	Total
2005				
Current	\$ 127	\$ 13	\$ 87	\$ 227
Deferred	(233)	(29)	188	(74)
Total	<u>\$ (106)</u>	<u>\$ (16)</u>	<u>\$ 275</u>	<u>\$ 153</u>
2004				
Current	\$ (377)	\$ 2	\$ 145	\$ (230)
Deferred	31	(7)	103	127
Total	<u>\$ (346)</u>	<u>\$ (5)</u>	<u>\$ 248</u>	<u>\$ (103)</u>
2003				
Current	\$ 72	\$ 13	\$ (193)	\$ (108)
Deferred	(339)	(71)	313	(97)
Total	<u>\$ (267)</u>	<u>\$ (58)</u>	<u>\$ 120</u>	<u>\$ (205)</u>

Following is a summary of the components of income (loss) from continuing operations before income taxes for the years ended December 31, 2005, 2004 and 2003 (in millions):

	2005	2004	2003
U.S. income	\$ (170)	\$ (814)	\$ (782)
Non-U.S. income	609	440	265
Total	<u>\$ 439</u>	<u>\$ (374)</u>	<u>\$ (517)</u>

Following is a reconciliation of income tax expense using the statutory U.S. federal income tax rate of 35.0% to actual income tax expense for the years ended December 31, 2005, 2004 and 2003 (in millions):

	2005	2004	2003
Statutory federal income tax	\$ 154	\$ (131)	\$ (181)
State income tax, net.....	(10)	(3)	(30)
Foreign losses	75	64	43
Research tax credits	(54)	(45)	(46)
Other	(12)	12	9
Total.....	\$ 153	\$ (103)	\$ (205)
Effective income tax rate	34.9%	27.5%	39.7%

Following is a summary of the tax effects of significant types of temporary differences and carryforwards which result in deferred tax assets and liabilities as of December 31, 2005 and 2004 (in millions):

	2005		2004	
	Assets	Liabilities	Assets	Liabilities
Leasing basis differences	\$ —	\$ 178	\$ —	\$ 186
Other accrual accounting differences.....	429	21	423	19
Employee benefit plans.....	337	18	309	33
Depreciation/amortization differences.....	337	257	365	270
Net operating loss and tax credit carryforwards	996	—	876	—
Employee-related compensation.....	233	—	215	—
Other	294	269	271	250
Subtotal	2,626	743	2,459	758
Less valuation allowances	(281)	—	(233)	—
Total deferred taxes	\$ 2,345	\$ 743	\$ 2,226	\$ 758

The net changes in the valuation allowances for the years ended December 31, 2005 and 2004 were increases of \$48 million and \$87 million, respectively. Of the net change in 2005, \$92 million was an increase in valuation allowances for prior years' losses incurred in certain foreign tax jurisdictions, which increased current year income tax expense from continuing operations. The remaining change in the valuation allowance in 2005 was primarily due to the sale of A.T. Kearney in January 2006 (see Notes 17 and 20) and foreign currency translation adjustments. Approximately one-half of the Company's net operating loss and tax carryforwards expire over various periods from 2006 through 2025, and the remainder 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, 2005. 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 for \$587 million of undistributed earnings of certain foreign subsidiaries, as such earnings have been permanently reinvested in the business. As of December 31, 2005, the unrecognized deferred tax liability associated with these earnings amounted to approximately \$86 million.

On October 22, 2004, the President of the United States signed the American Jobs Creation Act of 2004. The Act created 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 determined that the incremental cost of the repatriation did not produce a corresponding economic benefit, and as a result, it did not make a repatriation under this provision.

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. The number of shares originally authorized for issuance under this plan is 57.5 million. Total compensation expense recognized under this plan was \$6 million during the year ended December 31, 2005. See Note 1 for pro forma expense associated with stock-based incentive compensation for the years ended December 31, 2004 and 2003.

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, 2005, 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, 2005, no shares were available for future 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. A restricted stock unit is the right to receive shares. 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.

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, vested in May 2004 in connection with the sale of UGS PLM Solutions, and are exercisable for two years from the date of such sale. The number of options originally authorized for issuance under this plan is 3.7 million.

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.

Stock Options

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes-Merton valuation model that uses the assumptions noted below. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive equity awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by the Company under SFAS 123R. The Company uses historical data to estimate the expected volatility for the term of new options and the outstanding period of the option for separate groups of employees that have similar historical exercise behavior. The risk-free rate used to estimate fair value is based on the U.S. Treasury yield curve in effect at the time of grant. The weighted-average fair values of options granted were \$10.46, \$8.60 and \$4.70 for the years ended December 31, 2005, 2004 and 2003, respectively. The fair value of each option was estimated at the date of grant, with the following weighted-average assumptions for the years ended December 31, 2005, 2004 and 2003, respectively: dividend yields of 1.0%, 2.9% and 3.6%; expected volatility of 60.3%, 61.7% and 45.9%; risk-free interest rate of 4.1%, 2.7% and 2.7%; and

expected lives of 5.0 years, 4.8 years and 4.2 years. The total intrinsic value of options exercised during the years ended December 31, 2005, and 2004 were \$23 million and \$13 million, respectively, resulting in tax deductions of \$8 million and \$5 million, respectively. No options were exercised during the year ended December 31, 2003. During 2005, the Company issued new shares and utilized treasury shares to satisfy share option exercises and the vesting of restricted share awards. The Company plans to utilize treasury shares acquired under the repurchase program authorized in February 2006 to satisfy future share option exercises and the vesting of restricted share awards (see Note 20).

Following is a summary of options activity under the Company's various stock-based incentive compensation plans during the years ended December 31, 2005, 2004 and 2003:

	Shares (millions)	Weighted- Average Exercise Price
Fixed options:		
Outstanding at December 31, 2002.....	73.9	\$ 53
Granted	22.5	17
Exercised	—	—
Forfeited and expired.....	(46.1)	52
Outstanding at December 31, 2003.....	50.3	38
Granted	33.7	20
Exercised	(2.9)	16
Forfeited and expired.....	(10.2)	34
Outstanding at December 31, 2004.....	70.9	31
Granted	1.5	20
Exercised	(4.7)	17
Forfeited and expired.....	(15.8)	51
Outstanding at December 31, 2005.....	51.9	26
Exercisable.....	26.0	29

At December 31, 2005, the weighted-average remaining contractual terms of outstanding and exercisable options were 5.2 years and 4.0 years, respectively, and the aggregate intrinsic values of these options were \$211 million and \$99 million, respectively. Total compensation expense recognized for stock options was \$154 million during the year ended December 31, 2005. See Note 1 for pro forma expense associated with stock-based incentive compensation, including stock options for the years ended December 31, 2004 and 2003. As of December 31, 2005, there was approximately \$136 million of unrecognized compensation cost related to nonvested options, which is expected to be recognized over a weighted-average period of 1.6 years.

Certain stock option grants contain market conditions that accelerate vesting if the Company's stock reaches target prices. At December 31, 2005, approximately 3.3 million, 4.3 million and 4.3 million options were outstanding that will become exercisable if the price of the Company's stock at the close of the trading day is above \$24.31, \$24.93 and \$28.76 per share, respectively, for ten consecutive trading days (see Note 20).

Restricted Stock Units

The Company began using restricted stock units as its primary stock-based incentive compensation in March 2005. Prior to such time, stock options were primarily used for stock-based incentive compensation. Restricted stock units granted are generally scheduled to vest over periods of three to ten years. The March 31, 2005 grant consisted of performance-vesting restricted stock units. The number of awards that vest is dependent upon the Company's performance over a three-year period with vesting thereafter.

The fair value of each restricted stock unit is generally the market price of the Company's stock on the date of grant. However, if the shares have a mandatory holding period after the date of vesting, a discount is provided based on the length of the holding period. A discount was applied in determining the fair value of all restricted stock unit awards to adjust for the present value of foregone dividends during the period the award is outstanding and unvested. An additional discount of 15% was applied in determining the fair value of all units subject to transfer restrictions for a one-year period following vesting. This transferability discount was derived based on the value of a one-year average-strike lookback put option.

Following is a summary of the status of the Company's nonvested restricted stock units as of December 31, 2005, and changes during the years ended December 31, 2005, 2004 and 2003:

	Shares (millions)	Weighted- Average Grant Date Fair Value
Nonvested restricted stock units:		
Nonvested at December 31, 2002	5.7	\$ 43
Granted	1.0	19
Vested	(1.5)	42
Forfeited	(0.4)	42
Nonvested at December 31, 2003	4.8	38
Granted	1.2	22
Vested	(2.1)	38
Forfeited	(0.4)	41
Nonvested at December 31, 2004	3.5	33
Granted	7.3	19
Vested	(1.5)	34
Forfeited	(0.4)	18
Nonvested at December 31, 2005	8.9	22

As of December 31, 2005, there was approximately \$115 million of total unrecognized compensation cost related to nonvested restricted stock units. Such cost is expected to be recognized over a weighted-average period of 2.2 years. Total compensation expense for restricted stock units was \$64 million (\$42 million net of tax), \$42 million (\$27 million net of tax) and \$62 million (\$40 million net of tax), respectively, for the years ended December 31, 2005, 2004 and 2003. The aggregate fair value of shares vested during the years ended December 31, 2005, 2004 and 2003 were \$33 million, \$41 million and \$26 million, respectively, at the date of vesting, resulting in tax deductions to realize benefits of \$12 million, \$14 million and \$9 million, respectively, as compared to aggregate fair values of \$52 million, \$80 million and \$59 million, respectively, on the dates of their grants.

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. No employer contributions were made to the plan during the year ended December 31, 2005. Employer contributions to the plan during the years ended December 31, 2004 and 2003 were 37 thousand and 584 thousand shares, respectively.

NOTE 12: SEGMENT INFORMATION

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. Segment information for non-U.S. operations is measured using fixed currency exchange rates in all periods presented. The Company adjusts its fixed currency exchange rates if and when the statutory rate differs significantly from the fixed rate to better align the two rates. Prior period segment information presented below has been restated to reflect a change in the fixed exchange rates of certain non-U.S. currencies and other segment attribute changes in 2005. Total segment assets and depreciation and amortization expense as of and for the year ended December 31, 2003 is not readily available under the current reporting structure and has been estimated to conform with the 2005 and 2004 presentation. The “all other” category is primarily comprised of corporate expenses, including stock-based compensation, and also includes differences between fixed and actual exchange rates. Operating segments that have similar economic and other characteristics have been aggregated to form the Company’s reportable segments. The accompanying segment information excludes the net results of A.T. Kearney which are included in discontinued operations in the consolidated statements of operations (see Note 17).

Following is a summary of certain financial information by reportable segment, including components of the Outsourcing segment, as of and for the years ended December 31, 2005, 2004 and 2003 (in millions):

	2005		
	Revenues	Operating Income (Loss)	Total Assets
Americas	\$ 9,239	\$ 1,433	\$ 4,283
EMEA	5,935	819	3,558
Asia Pacific	1,377	103	529
U.S. Government	2,025	375	519
Other	1	(752)	1,307
Total Outsourcing	18,577	1,978	10,196
NMCI	817	(75)	922
All other	363	(1,361)	5,969
Total	\$ 19,757	\$ 542	\$ 17,087

	2004		
	Revenues	Operating Income (Loss)	Total Assets
Americas	\$ 9,251	\$ 1,113	\$ 3,783
EMEA	6,247	911	3,388
Asia Pacific	1,289	107	532
U.S. Government	2,132	374	520
Other	2	(560)	829
Total Outsourcing	18,921	1,945	9,052
NMCI	761	(862)	1,097
All other	181	(1,185)	7,595
Total	\$ 19,863	\$ (102)	\$ 17,744

	2003		
	Revenues	Operating Income (Loss)	Total Assets
Americas	\$ 9,589	\$ 1,170	\$ 3,100
EMEA	6,517	851	3,411
Asia Pacific	1,274	78	390
U.S. Government	2,167	479	1,317
Other	—	(465)	2,710
Total Outsourcing	19,547	2,113	10,928
NMCI	1,017	(948)	1,071
All other	(806)	(1,420)	6,617
Total	\$ 19,758	\$ (255)	\$ 18,616

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, 2005, 2004 and 2003 (in millions):

	2005	2004	2003
Outsourcing	\$ 1,089	\$ 1,506	\$ 1,453
NMCI.....	102	186	818
All other	253	234	165
Total.....	\$ 1,444	\$ 1,926	\$ 2,436

Following is a summary of revenues and property and equipment by country as of and for the years ended December 31, 2005, 2004 and 2003 (in millions):

	2005		2004		2003	
	Property and Revenues Equipment		Property and Revenues Equipment		Property and Revenues Equipment	
United States.....	\$ 10,349	\$ 1,153	\$ 10,258	\$ 1,186	\$ 10,726	\$ 1,642
United Kingdom	3,696	325	3,983	339	3,948	433
All other	5,712	489	5,622	656	5,084	707
Total.....	\$ 19,757	\$ 1,967	\$ 19,863	\$ 2,181	\$ 19,758	\$ 2,782

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.

Following is a summary of the Company’s revenues by service line for the years ended December 31, 2005, 2004 and 2003 (in millions):

	2005	2004	2003
Infrastructure services.....	\$ 11,007	\$ 11,435	\$ 11,747
Applications services.....	5,562	5,630	5,879
Business process outsourcing services.....	2,825	2,617	2,938
All other	363	181	(806)
Total.....	\$ 19,757	\$ 19,863	\$ 19,758

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, 2005, 2004 and 2003, revenues from contracts with GM and its affiliates totaled \$1.8 billion, \$2.0 billion and \$2.2 billion, respectively. Revenues from contracts with GM were reported in the Company’s Outsourcing 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.

Following is a reconciliation of the changes in the Plans' benefit obligations and fair value of assets (using October 31, 2005 and 2004 measurement dates), and a statement of the funded status as of December 31, 2005 and 2004 (in millions):

	2005	2004
Reconciliation of Benefit Obligation:		
Benefit obligation at beginning of year	\$ 7,837	\$ 6,544
Service cost.....	344	321
Interest cost.....	456	413
Employee contributions	33	31
Actuarial loss	532	354
Curtailments and settlements.....	(280)	(3)
Foreign currency exchange rate changes	(441)	317
Benefit payments	(223)	(186)
Special termination benefit.....	15	48
Other	37	(2)
Benefit obligation at end of year.....	<u>\$ 8,310</u>	<u>\$ 7,837</u>
Reconciliation of Fair Value of Plan Assets:		
Fair value of plan assets at beginning of year	\$ 5,895	\$ 4,897
Actuarial return on plan assets.....	912	575
Foreign currency exchange rate changes	(289)	213
Employer contributions	324	366
Employee contributions.....	33	31
Benefit payments	(223)	(186)
Settlements	(270)	(5)
Other	22	4
Fair value of plan assets at end of year	<u>\$ 6,404</u>	<u>\$ 5,895</u>
Funded Status		
Funded status at December 31	\$ (1,906)	\$ (1,942)
Unrecognized transition obligation.....	9	13
Unrecognized prior service cost	(185)	(212)
Unrecognized net actuarial loss	1,686	1,771
Adjustments from October 31 to December 31	120	98
Net amount recognized in the consolidated balance sheets (as described above).....	<u>\$ (276)</u>	<u>\$ (272)</u>

Following is a summary of the assets and liabilities reflected on the Company's balance sheets for pension benefits as of December 31, 2005 and 2004 (in millions):

	2005	2004
Prepaid benefit cost.....	\$ 53	\$ 32
Accrued benefit liability	(1,183)	(1,145)
Intangible asset	19	27
Accumulated other comprehensive income	835	814
Net amount recognized.....	<u>\$ (276)</u>	<u>\$ (272)</u>

The tables above include plans that transitioned to A.T. Kearney in January 2006 (see Notes 17 and 20). The pension benefit liability related to these plans are presented in the consolidated balance sheets as "held for sale" and were \$26 million and \$27 million at December 31, 2005 and 2004, respectively. The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for these plans were \$63 million, \$54 million and \$61 million, respectively, at December 31, 2005, and \$90 million, \$71 million and \$54 million, respectively, at December 31, 2004. Net periodic benefit cost for these plans was \$8 million, \$7 million and \$7 million, respectively, for the years ended December 31, 2005, 2004 and 2003.

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 pension benefit liability of approximately \$16 million.

The accumulated benefit obligation for all defined benefit pension plans was \$7,542 million and \$6,946 million at October 31, 2005 and 2004, 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 \$7,624 million, \$6,963 million and \$5,721 million, respectively, at December 31, 2005, and \$7,282 million, \$6,480 million, and \$5,328 million, respectively, at December 31, 2004.

Following is a summary of the components of net periodic pension cost recognized in earnings for the years ended December 31, 2005, 2004 and 2003 (in millions):

	2005	2004	2003
Service cost.....	\$ 344	\$ 321	\$ 290
Interest cost.....	456	413	353
Expected return on plan assets.....	(522)	(440)	(339)
Amortization of transition obligation.....	2	2	1
Amortization of prior-service cost.....	(32)	(32)	(32)
Amortization of net actuarial loss.....	55	66	81
Net periodic benefit cost.....	303	330	354
Curtailment loss.....	1	3	—
Special termination benefit.....	15	48	20
Settlement loss.....	71	2	—
Net periodic benefit cost after curtailments and settlements	\$ 390	\$ 383	\$ 374

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.

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 also transitioned to the new provider, resulting in the recognition of a settlement loss of \$77 million in 2005. The Company recorded special termination benefits of \$15 million during 2005 related to reductions in force in the U.K., and \$48 million during 2004 related to an early retirement offer in the U.S. In addition, the Company recorded a special termination benefit of \$20 million during 2003 related to contractual obligations to its former Chief Executive Officer. These charges are included in restructuring and other in the consolidated statements of operations (see Note 19).

At December 31, 2005 and 2004, the plan assets consisted primarily of equity securities and, to a lesser extent, government obligations and other fixed income securities. The plan assets include EDS common stock with a market value of approximately \$13 million at October 31, 2005. 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 \$4 million, \$3 million and \$3 million to the EDS 401(k) Plan related to these elections during the years ended December 31, 2005, 2004 and 2003, respectively. These amounts are not included in net periodic pension cost shown in the table above.

Following is a summary of the weighted-average assumptions used in the determination of the Company's benefit obligation for the years ended December 31, 2005, 2004 and 2003:

	2005	2004	2003
Discount rate at October 31	5.4%	5.7%	6.0%
Rate increase in compensation levels at October 31	3.2%	3.4%	3.3%

Following is a summary of the weighted-average assumptions used in the determination of the Company's net periodic benefit cost for the years ended December 31, 2005, 2004 and 2003:

	2005	2004	2003
Discount rate at October 31	6.0%	6.0%	6.4%
Rate increase in compensation levels at October 31	3.4%	3.3%	3.5%
Long-term rate of return on assets at January 1	8.6%	8.6%	8.7%

Following is a summary of the weighted-average asset allocation of all plan assets at December 31, 2005 and 2004, by asset category:

	2005	2004
Equity securities.....	77%	78%
Debt securities	15%	14%
Cash and cash equivalents	1%	1%
Real estate.....	1%	1%
Other	6%	6%
Total.....	100%	100%

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, 2005, the weighted-average target asset allocation for all plans was 77% equity; 15% fixed income; 1% cash and cash equivalents; 1% real estate; and 6% other. The Company expects to contribute \$100 million to \$200 million to its pension plans during fiscal year 2006, 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: 2006 – \$177 million; 2007 – \$189 million; 2008 – \$206 million; 2009 – \$223 million; 2010 – \$243 million; and 2011 through 2015 – \$1,695 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, 2005, 2004 and 2003, employer-matching contributions totaled \$37 million, \$40 million and \$41 million, respectively.

NOTE 14: COMMITMENTS AND RENTAL EXPENSE

Total rentals under cancelable and non-cancelable leases of tangible property and equipment included in costs and charged to expenses were \$783 million, \$799 million and \$861 million for the years ended December 31, 2005, 2004 and 2003, respectively. Commitments for rental payments under non-cancelable operating leases of tangible property and equipment net of sublease rental income are: 2006 – \$316 million; 2007 – \$272 million; 2008 – \$181 million; 2009 – \$132 million; 2010 – \$104 million; and all years thereafter – \$365 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: 2006 – \$976 million; 2007 – \$972 million; 2008 – \$463 million; 2009 – \$453 million; 2010 – \$446 million; and all years thereafter – \$78 million. Amounts paid under these agreements were \$991 million, \$821 million and \$1,364 million during the years ended December 31, 2005, 2004 and 2003, 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. During 2004, the Company completed agreements with the Trust's lenders to repurchase all financial assets of the Trust 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 a 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 any 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, 2005, an aggregate of \$241 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, 2005, the Company had \$521 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 \$32 million of other financial guarantees outstanding at December 31, 2005 relating to indebtedness of others.

At December 31, 2005, the Company had net deferred contract and set-up costs of \$638 million, of which \$145 million related to 15 contracts with active construct activities. These active construct contracts had other assets, including receivables, prepaid expenses, equipment and software, of \$1.2 billion at December 31, 2005, of which \$0.9 billion was associated with the NMCI contract. No contract or set-up costs associated with the NMCI contract have been deferred during 2005 or 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 appealed this decision and in February 2006 the U.S. Court of Appeals for the 7th Circuit heard oral arguments in the case. Based on the Company’s understanding of the facts associated with the case, the Company believes the district court decision will ultimately be overturned on appeal 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 Delphi Corporation (“Delphi”) through a long-term agreement. On October 8, 2005, Delphi filed for protection under Chapter 11 of the United States Bankruptcy Code. Due to uncertainties regarding the recoverability of certain pre-bankruptcy receivables associated with the Delphi contract, the Company recorded receivable reserves of \$17 million during the year ended December 31, 2005. This amount is reflected in cost of revenues in the Company’s 2005 consolidated statements of operations. The Company recognized revenues of approximately \$160 million under the Delphi services agreement during the year ended December 31, 2005. Total receivables outstanding under the Delphi agreement, excluding reserves, were \$44 million at December 31, 2005. In addition, the Company had equipment and other assets with a net

book value of approximately \$20 million at December 31, 2005 deployed on the Delphi agreement. The remaining assets associated with the Company's agreement with Delphi are expected to be recovered through collection or future operations.

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 Service ("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 for the period 1996-2002, and the Company is protesting 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 and has provided the amounts it believes will ultimately result from these proceedings.

Pending Litigation and Proceedings

The Company and certain of its former officers are defendants in numerous 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 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. All of the foregoing cases have been centralized in the U.S. District Court for the Eastern District of Texas (the "District Court"). In addition, 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.

On July 7, 2003, the lead plaintiff in the consolidated securities action and the lead plaintiffs in the consolidated ERISA action 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 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.

On February 11, 2005, the District Court 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. On October 24, 2005, the U.S. Fifth Circuit Court of Appeals affirmed the trial court's certification order. On November 1, 2005, the Company entered into a memorandum of understanding with the lead plaintiff and class representative to settle the consolidated securities action, subject to final approval of the settlement by the District Court. The District Court approved that settlement on March 7, 2006. The terms of the settlement provide for a cash payment of \$137.5 million. The Company estimates approximately one-half of such payment would be made by its insurers and has recognized the cost of its portion of the settlement in its financial statements as of December 31, 2005.

On November 8, 2004, the District Court 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 the 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 that date the court 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. 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, and oral arguments were heard on the appeal on April 5, 2005. On May 5, 2005, the Company reached an agreement with the class representatives in the ERISA action to settle that action, subject to final approval of the settlement by an independent fiduciary and the District Court and receipt of certain assurances from the Department of Labor. Under the terms of the settlement, \$16.5 million would have been paid entirely by one of the Company's insurers. In addition, the Company would have agreed to continue to make a matching contribution under the 401(k) Plan through 2006 and to make certain changes to the Plan. However, on June 30, 2005, the District

Court denied the motions of the Company and the class representatives to approve the settlement. The Company intends to defend this action vigorously.

In addition, there are three derivative complaints filed by shareholders in the District Court of Collin County, Texas against certain current and former Company directors and 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 class actions described above. These cases have been consolidated into a single action. This action will be defended vigorously.

On February 25, 2004, a derivative complaint was filed by a shareholder against certain current and former directors and officers of the Company in the District Court. 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 the Company 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 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 consolidated securities action. This action will be defended vigorously.

In October 2004, two derivative complaints were filed in the District Court by shareholders against certain current and former directors and officers of the Company. The allegations against the Company include 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 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 of these actions 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 of matters relating to the Company's derivatives contracts in connection with its program to manage the future stock issuance requirements of its employee stock incentive plans, the Company's NMCI contract, a contract with a client of the Company that contained a prepayment provision, and the Company's guidance and other events leading up to its third quarter 2002 earnings announcement. The SEC has deposed current and former members of the Company's management and the NMCI account team as well as other witnesses regarding these issues. The SEC staff is also investigating allegations that a former employee working in India for a branch of a former subsidiary of the Company made questionable payments allegedly to further that entity's business in India, a matter which the Company self-reported to the SEC staff and other relevant governmental authorities. 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, which was subsequently identified as Delphi. The transaction was not material to the Company. In September 2004, Delphi 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 SEC has formally requested documents and witness interviews relating to the Company's transactions with Delphi. The Company has been cooperating with the SEC staff regarding this matter and will continue to do so.

The Company provided IT services to the U.K. government's Inland Revenue department, now known as Her Majesty's Revenue and Customs ("HMRC"), pursuant to a 10-year contract that ended in June 2004. Commencing in February 2004, HMRC alleged it incurred losses resulting from problems and alleged defects in IT systems developed for it by the Company and alleged losses in varying significant amounts. In November 2005, the Company and HMRC settled the dispute. Such settlement did not have a material adverse effect on the Company's financial position or results of operations.

On December 19, 2003, Sky Subscribers Services Limited ("SSSL") and British Sky Broadcasting Limited ("BSkyB"), a former client of the Company, served a draft pleading seeking redress for the Company's alleged failure to perform pursuant to a contract between the parties. Under applicable legal procedures, the Company responded to the allegations. Despite the response, on August 17, 2004, SSSL and BSkyB issued and served upon the Company a pleading alleging the following damages, each presented as an alternative cause of action: (1) pre-contract deceit in 2000 in the amount of £320 million (approximately \$550

million); (2) pre-contract negligent misrepresentation in 2000 in the amount of £127 million (approximately \$220 million); (3) deceit inducing the Letter of Agreement in July 2001 in the amount of £261 million (approximately \$450 million); (4) negligent misrepresentation inducing the Letter of Agreement in July 2001 in the amount of £116 million (approximately \$200 million); and, (5) breach of contract from 2000 through 2002 in the amount of £101 million (approximately \$175 million). On November 12, 2004, the Company filed its defense and counterclaim denying the claims and seeking damages in the amount of £4.7 million (approximately \$8.1 million). On December 21, 2005, SSSL and BSKyB filed a Re-Amended Particulars of Claim alleging the following damages, still as alternative causes of action: (1) pre-contract deceit in the amount of £480 million (approximately \$830 million); (2) pre-contract negligent misrepresentation in the amount of £480 million (approximately \$830 million); (3) deceit inducing the Letter of Agreement and negligent misrepresentation inducing the Letter of Agreement of £415 million (approximately \$715 million); (4) breach of contract in the amount of £179 million (approximately \$310 million). The principal stated reason for the increases in amount of damages is that the claimants have now taken the opportunity to re-assess their alleged lost profits and increased costs to deliver the project in light of the extended timetable they now require. Claimants say they will further re-assess these alleged losses prior to trial. The dispute surrounds a contract the Company entered into with BSKyB in November 2000, which was terminated by the Company in January 2003 for BSKyB's failure to pay its invoices. The contract had an initial total contract value of approximately £61 million. The Company intends to defend against these allegations vigorously. Discovery is ongoing in this matter and trial is scheduled for October 2007. Although there can be no assurance as to the outcome of this matter, the Company does not believe it will have a material adverse effect on our consolidated results of operations or financial condition.

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 such claims and pending actions at December 31, 2005 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 May 19, 2005, the Company purchased the outstanding minority interest in its Australian subsidiary for a cash purchase price of approximately \$135 million. The transaction was accounted for as an acquisition by the Company, and the excess carrying value of the minority interest liability over the purchase price paid was allocated as a reduction to property and equipment – \$(19) million; deferred contract costs – \$(2) million; and other intangible assets – \$(3) million.

On March 1, 2005, the Company and Towers Perrin entered into a joint venture whereby Towers Perrin contributed cash and its pension, health and welfare administration services business and the Company contributed cash and its payroll and related human resources ("HR") outsourcing business to a new company, known as ExcellerateHRO LLP. Upon closing of the transaction, Towers Perrin received \$417 million in cash and a 15% minority interest, representing total consideration paid by the Company to Towers Perrin, and the Company received an 85% interest in the new company. The acquisition enabled the Company 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. The consolidated statements of operations include the results of the acquired business since the date of acquisition. The transaction was accounted for as an acquisition by the Company with the purchase price preliminarily being allocated as follows: property and equipment – \$25 million; other intangibles – \$48 million; goodwill – \$413 million; other assets – \$5 million; accrued expenses – \$4 million; and minority interest – \$70 million. Factors contributing to a purchase price that resulted in recognition of goodwill included the Company's and its advisors' projections of operating results of the new company, the ability to accelerate the Company's growth in the HR outsourcing market and the competitive differentiation offered by the relationship with Towers Perrin. Towers Perrin may require the Company to purchase its minority interest in the joint venture at any time after March 1, 2010, or prior to that date upon the occurrence of certain events (including the breach by the Company of certain transaction related agreements, the failure of the joint venture to achieve certain financial results or certain events related to the Company), at a price based on the fair market value of such interest, with a minimum purchase price based on the joint venture's annual revenue. In addition, the Company may require Towers Perrin to sell its minority interest in the joint venture to the Company at any time after March 1, 2012, or prior to that date upon the occurrence of certain events (including the breach by Towers Perrin of certain transaction related agreements or certain events related to Towers Perrin), at a price based on the fair market value of such interest, with a minimum purchase price based on the joint venture's annual revenue. Had the Company completed the acquisition as of the earliest date presented, results of operations on a pro forma basis would not have been materially different from actual historical results.

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.

NOTE 17: DISCONTINUED OPERATIONS

During the third quarter of 2005, the Company approved a plan to proceed with a transaction to sell 100% of its ownership interest in its A.T. Kearney subsidiary. The net assets of the subsidiary are classified as “held for sale” at December 31, 2005 and 2004 and its results for the years ended December 31, 2005, 2004 and 2003 are included in income (loss) from discontinued operations. A.T. Kearney’s results for the year ended December 31, 2005 include a pre-tax impairment charge of \$118 million to write-down the carrying value of its long-lived assets, including tradename intangible, to estimated fair value less cost to sell. The estimated fair value was determined based on the terms of the sale as documented in the agreement executed on January 20, 2006 by the Company and an entity formed by the management buyout group (see Note 20). The impairment charge is partially offset by the recognition of \$8 million of previously unrecognized tax assets that will be realized as a result of the sale.

Income (loss) from discontinued operations also includes the results of the Company’s UGS PLM Solutions subsidiary and its Soft Solution business sold during 2004 and its Technology Solutions and subscription fulfillment businesses sold during 2003. A.T. Kearney and UGS PLM Solutions were previously reported as separate segments by the Company. Soft Solution, Technology Solutions and subscription fulfillment were previously included in the Company’s Outsourcing segment. No interest expense has been allocated to discontinued operations for any of the periods presented.

Following is a summary of assets and liabilities of A.T. Kearney at December 31, 2005 and 2004 which are reflected in the consolidated balance sheets as “held for sale” (in millions):

	2005	2004
Marketable securities	\$ 23	\$ 37
Accounts receivable, net	217	199
Prepays and other	34	51
Deferred income taxes	14	—
Property and equipment, net	26	35
Investments and other assets	3	2
Goodwill	—	22
Other intangibles, net	28	133
Assets held for sale	<u>\$ 345</u>	<u>\$ 479</u>
Accounts payable	105	62
Accrued liabilities	138	171
Deferred revenue	—	1
Pension benefit liability	26	25
Minority interest and other long-term liabilities	6	8
Liabilities held for sale	<u>\$ 275</u>	<u>\$ 267</u>

Following is a summary of income (loss) from discontinued operations before income taxes, excluding gains and losses, for the years ended December 31, 2005, 2004 and 2003 (in millions):

	2005	2004	2003
Revenues	\$ 780	\$ 1,171	\$ 1,839
Costs and expenses	846	1,144	1,720
Operating income (loss)	(66)	27	119
Other income (expense)	2	(8)	(3)
Income (loss) from discontinued operations before income taxes	<u>\$ (64)</u>	<u>\$ 19</u>	<u>\$ 116</u>

Income from discontinued operations includes net gains (losses) of \$(92) million, \$433 million and \$(9) million, net of income taxes, in 2005, 2004 and 2003, respectively. Income (loss) from discontinued operations in 2005 includes after-tax net gains of \$18 million related to the settlement of contingencies associated with sales of certain businesses classified as discontinued operations in prior years. Net assets sold in 2004 included goodwill of \$969 million related to UGS PLM Solutions.

NOTE 18: SUPPLEMENTARY FINANCIAL INFORMATION

Following is supplemental financial information for the years ended December 31, 2005, 2004 and 2003 (in millions):

	2005	2004	2003
Property and equipment depreciation (including capital leases).....	\$ 831	\$ 1,058	\$ 1,044
Intangible asset and other amortization	450	618	619
Deferred cost amortization and charges.....	175	298	866
Cash paid for:			
Income taxes, net of refunds.....	378	343	346
Interest	232	328	319

The Company acquired \$160 million, \$112 million and \$155 million of equipment utilizing capital leases in 2005, 2004 and 2003, respectively.

NOTE 19: RESTRUCTURING AND OTHER

Following is a summary of restructuring and other charges for the years ended December 31, 2005, 2004 and 2003 (in millions):

	2005	2004	2003
Employee separation and exit costs, net	\$ 68	\$ 226	\$ 232
Early retirement offer	—	50	—
Asset write-downs	—	—	36
CEO severance.....	—	—	48
Pre-tax gain on disposal of businesses:			
European wireless clearing	(93)	—	—
U.S. wireless clearing	—	(35)	—
Automotive Retail Group	—	(66)	—
Credit Union Industry Group.....	—	—	(139)
Other	(1)	(5)	(2)
Total.....	\$ (26)	\$ 170	\$ 175

Restructuring and other employee reduction activities:

During 2005 and 2004, the Company continued initiatives to align its workforce with customer demands and utilize technology to generate efficiencies. As a result, 2005 and 2004 restructuring and other expense includes estimated severance costs of \$100 million and \$80 million, respectively, related to the involuntary termination of an estimated 1,500 and 1,500 employees, respectively, 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 approximately 1,500 employees who accepted an early retirement offer in the U.S. While the Company plans to continue its efforts to generate efficiencies through technology-driven initiatives in 2006, no future costs are expected to be incurred associated with the 2005 and 2004 restructuring initiatives.

The following table summarizes accruals associated with restructuring and other employee reduction programs for the years ended December 31, 2005, 2004 and 2003 (in millions):

	Employee Separations	Exit Costs	Other Employee Reductions	Total
Balance at December 31, 2002	\$ 22	\$ 8	\$ —	\$ 30
2003 activity	228	4	—	232
Amounts utilized.....	(85)	(3)	—	(88)
Balance at December 31, 2003	165	9	—	174
2003 Plan charges.....	146	—	—	146
Amounts utilized.....	(240)	(2)	—	(242)
Other employee reductions programs	—	—	80	80
Balance at December 31, 2004	71	7	80	158
Amounts incurred	—	—	100	100
Amounts utilized.....	(47)	(3)	(103)	(153)
Reversal of prior years' accruals	(8)	(4)	(20)	(32)
Balance at December 31, 2005	\$ 16	\$ —	\$ 57	\$ 73

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 \$146 million and \$232 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, 2005 with remaining accruals of \$16 million comprised of future severance-related payments to terminated employees.

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 2005, the Company sold its European wireless clearing business which resulted in a pre-tax gain of \$93 million. In connection with the sale, the Company recognized a \$32 million valuation allowance related to deferred tax assets in certain European countries that may no longer be recoverable as a result of the sale. Net assets of the business included goodwill of \$45 million. During 2004, the Company sold its U.S. wireless clearing business and its Automotive Retail Group ("ARG") which resulted in pre-tax gains of \$101 million. During 2003, the Company sold its Credit Union Industry Group ("CUIG") which resulted in a pre-tax gain of \$139 million. The net results of the European wireless clearing business, the U.S. wireless clearing business, ARG and CUIG are not included in discontinued operations due to the Company's level of continuing involvement as an IT service provider to the businesses.

NOTE 20: SUBSEQUENT EVENTS

The Company completed the sale of its A.T. Kearney subsidiary to the firm's management effective January 20, 2006. The subsidiary is classified as "held for sale" at December 31, 2005 and 2004 and its results for the years ended December 31, 2005, 2004 and 2003 are included in income (loss) from discontinued operations (see Note 17). Proceeds from the sale include a 10-year promissory note from the buyer valued at \$52 million. The cash portion of the purchase price was offset by the cash transferred with the divested business and transaction costs. A.T. Kearney's results for the year ended December 31, 2005 include a pre-tax impairment charge of \$118 million to write-down the carrying value of its long-lived assets, including tradename intangible, to net realizable value. The net realizable value was determined based on the terms in the final sale document dated January 20, 2006. The impairment charge is partially offset by the recognition of \$8 million of previously unrecognized tax assets that will be realized as a result of the sale. Upon consummation of the transaction in January 2006, the Company recorded an equity translation benefit of approximately \$24 million and a stock compensation charge of approximately \$20 million.

On February 21, 2006, the Company announced that its Board of Directors had authorized the repurchase of up to \$1 billion of its outstanding common stock over the next 18 months in open market purchases or privately negotiated transactions. The Company subsequently entered into a contract with a third-party institution under which approximately 15 million shares were repurchased at \$26.61 per share through an Accelerated Share Repurchase arrangement. The final amount to be paid under such arrangement will be determined by the actual cost incurred by the financial institution for the purchase of such shares in open market transactions over a period of four months. All share repurchases are being financed by currently available cash.

During January and February 2006, approximately 7.6 million outstanding stock option grants became exercisable when the Company's stock reached certain target prices (see Note 11), resulting in acceleration in the recognition of compensation expense of \$25 million during the first calendar quarter of 2006.

NOTE 21: QUARTERLY FINANCIAL DATA (UNAUDITED)

(in millions, except per share amounts)

Year Ended December 31, 2005 ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾					
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Revenues.....	\$ 4,737	\$ 5,000	\$ 4,874	\$ 5,146	\$ 19,757
Gross profit from operations.....	456	550	594	735	2,335
Restructuring and other.....	(4)	31	(81)	28	(26)
Income (loss) from continuing operations	14	32	114	126	286
Income (loss) from discontinued operations	(10)	(6)	(106)	(14)	(136)
Net income.....	4	26	8	112	150
Basic earnings per share of common stock:					
Income (loss) from continuing operations ...	\$ 0.03	\$ 0.06	\$ 0.22	\$ 0.24	\$ 0.55
Net income.....	0.01	0.05	0.02	0.21	0.29
Diluted earnings per share of common stock:					
Income (loss) from continuing operations ...	\$ 0.03	\$ 0.06	\$ 0.22	\$ 0.24	\$ 0.54
Net income.....	0.01	0.05	0.02	0.21	0.28
Cash dividends per share of common stock.....	0.05	0.05	0.05	0.05	0.20

Year Ended December 31, 2004 ⁽¹⁾⁽⁶⁾⁽⁷⁾⁽⁸⁾					
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Revenues.....	\$ 4,987	\$ 5,034	\$ 4,754	\$ 5,088	\$ 19,863
Gross profit from operations.....	396	360	176	707	1,639
Restructuring and other.....	(12)	37	(4)	149	170
Income (loss) from continuing operations	(36)	(133)	(169)	67	(271)
Income (loss) from discontinued operations	24	403	16	(14)	429
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)	\$ 0.13	\$ (0.54)
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)	\$ 0.13	\$ (0.54)
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

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

(2) The Company adopted Statement of Financial Accounting Standards No. 123R, Share-Based Payment, as of January 1, 2005 (see Notes 1 and 11). This statement requires the recognition of compensation expense when an entity obtains employee services in stock-based payment transactions. This change in accounting resulted in the recognition of pre-tax compensation expense of \$53 million, \$37 million, \$43 million and \$27 million, respectively, in the first, second, third and fourth quarters of 2005.

(3) Includes a pre-tax charge of \$77 million recognized in the second quarter associated with the settlement of pension obligations for employees transitioned to a third party in connection with the termination of the Company's services contract with U.K. Inland Revenue as of June 2004.

(4) Includes a pre-tax charge of \$37 million recognized in the second quarter for the impairment of deferred costs associated with a large IT commercial contract.

(5) Includes a pre-tax charge of \$24 million recognized in the third quarter related to reserves established for shareholder litigation.

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

(7) 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.

(8) 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.

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Leadership Information

Board of Directors

Michael H. Jordan	EDS Chairman of the Board and Chief Executive Officer
Jeffrey M. Heller	EDS President
W. Roy Dunbar	President, Global Technology and Operations of MasterCard International
Roger A. Enrico	Chairman of the Board of DreamWorks Animation SKG, Inc. and former Chairman and Chief Executive Officer of PepsiCo, Inc.
S. Malcolm Gillis	Professor of Economics and former President, Rice University
Ray J. Groves	Former President, Chairman and Senior Advisor of Marsh Inc. and former Chairman and Chief Executive Officer of Ernst & Young LLP
Ellen M. Hancock	Former Chairman and Chief Executive Officer of Exodus Communications, Inc.
Ray L. Hunt	Chairman and Chief Executive Officer of Hunt Consolidated Inc.
Edward A. Kangas	Former Chairman and Chief Executive Officer of Deloitte Touche Tohmatsu
R. David Yost	Chief Executive Officer of AmerisourceBergen Corporation

EDS Executive Leadership

Michael H. Jordan	Chairman of the Board and Chief Executive Officer
Jeffrey M. Heller	President
Charles S. Feld	Executive Vice President, Portfolio Development
Storrow M. Gordon	Executive Vice President, General Counsel and Secretary
Thomas A. Haubenstricker	Interim Co-Chief Financial Officer* and Vice President of Finance Administration
Ronald A. Rittenmeyer	Co-Chief Operating Officer and Executive Vice President, Global Service Delivery
Stephen F. Schuckenbrock	Co-Chief Operating Officer and Executive Vice President, Global Sales & Client Solutions
Tina M. Sivinski	Executive Vice President, Human Resources
Ronald P. Vargo	Interim Co-Chief Financial Officer*, Vice President and Treasurer

* Appointed Interim Co-Chief Financial Officer upon the resignation of Robert H. Swan as Chief Financial Officer, effective March 15, 2006.

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:

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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 2006 quarterly earnings release conference calls via live webcast at eds.com/investor.

EDS 2005 Online Annual Report

An Adobe Acrobat Portable Document Format (PDF) file of the print version is available at eds.com/05annual.

Investor Relations

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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, 2005, 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 (NYSE: EDS) is a leading global technology services company delivering business solutions to its clients. EDS founded the information technology outsourcing industry more than 40 years ago. Today, EDS delivers 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. Learn more at eds.com.

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