



5400 Legacy Drive  
Plano, Texas 75024

## To Our Shareholders,

This annual report marks the fourth since we began the revitalization of EDS. Our progress continues to be sure and steady - with a strong finish to a good year in 2006. This momentum reflects a clear strategy well executed by our employees - all committed to our clients' success.

We are winning in the marketplace and increasing client satisfaction through a relentless focus on quality, cost and operational excellence. As a result, your company is delivering improved financial performance - accelerating growth and improving operating margins.

EDS increased market share as our technology vision and customer-focused service culture resonated with clients. We deployed cash more effectively while investing heavily in our capabilities and cost competitiveness. Strategic acquisitions filled gaps in our business, expanding EDS' global reach and expertise.

Accountability became a watchword throughout the company. We adopted a zero-outages delivery mindset. We believe this highly disciplined approach already is differentiating us in the marketplace.

In sum, we set a foundation for sustainable and profitable growth. In 2006, EDS:

**Gained market share.** We reached our highest total contract value for new business signings since 2001. Total contract value increased 32 percent from a year ago to \$26.5 billion. Business sold to "new logo" accounts represented \$4.2 billion - up nearly 70 percent. These clients included Kraft Foods and global telecommunications giant Vodafone. We gained ground in the applications space, seeing total contract value rise by almost 50 percent. EDS also won several important "recompetes," contract modifications and extensions, deepening relationships with existing clients, including General Motors, the U.S. Department of the Navy and the U.K. government.

**Improved operational excellence.** We completed our Global Services Network, the backbone of our Global Delivery System. Unique to EDS, this system enhances business continuity, security and service flexibility for clients. Our service delivery standardization and automation initiatives increased both productivity and service quality - and ultimately moved the needle higher on client satisfaction. At the same time, we continued to enhance the skills of our people, providing employees with almost 3 million hours of training.

**Expanded Best Shore<sup>SM</sup> presence.** We continued to realign our work force with strong offshore capabilities, making us more price competitive and responsive to client needs. We more than doubled our presence in high-quality, lower-cost locations to 32,000 employees. While India was the primary beneficiary, we also are migrating our work force to other regions such as Latin America, China, Hungary and Poland.

**Filled important capability gaps.** We invested in applications and business process outsourcing (BPO) capabilities, including the acquisition of a majority stake in MphasiS. MphasiS enhances our global delivery model, adding top applications, BPO and financial industry skills to our portfolio, while more than tripling our presence in India. Our acquisition of GEMS increased our ability to provide solutions in SAP enterprise management and customer relationship management.

**Strengthened our management team.** We promoted Ron Rittenmeyer to president and chief operating officer, recognizing his many contributions to EDS in a short time. Ron's commitment to instill accountability and quality at every level is improving our operations worldwide. We leveraged account management and delivery through regional hubs and Global Service Centers to maximize our expertise and concentrate our skills base. EDS also recommitted to a strong industry focus. We put in place a team of proven leaders to engage clients across key industries and address their business needs.

**Further strengthened our financial foundation.** In 2006, we doubled our net income and significantly increased our operating margin, putting us on the pathway to our long-term goals. We also drove a more than 40 percent increase in free cash flow through improved operating performance and growth. At the same time, our net debt stayed essentially flat while we continued to invest in products, tools and cost competitiveness.

As we look back over the last four years, EDS has improved across the board:

- We have transitioned from significant operating losses to earnings of nearly a dollar per share from continuing operations.
- EDS' free cash flow, a good measure of a company's health, has increased fourfold.
- Our net debt is now essentially zero.
- Total contract value has nearly doubled.

With a solid foundation in place, we believe we are better positioned than ever to deliver on our commitments to clients and drive strategic value.

## **The Flat New World**

A few years ago, we outlined a set of beliefs on the direction of the global marketplace and the role of rapidly changing technologies. Today, these beliefs are a reality. Globalization continues to accelerate. Wireless technologies and extended supply chains have widened the scale and scope of global networks.

The world has truly flattened, changing the nature of when, how and where work gets done. Business ecosystems now dominate. And, information security and privacy have become paramount in a world where international boundaries yield to millions of electronic transactions daily.

As a technology services leader, we recognize the increasing demands placed on governments and businesses today. We see the issues our clients face. They need our help to deliver increased productivity, practical innovation, profitable growth and never-fail security - all underpinned by outstanding service quality.

For them, this means:

- Reaching their customers with the right products and services - whenever and however they want them.
- Supporting customer interactions - in person and online - with back-end processes that are responsive and always on.
- Having a clear line-of-sight into their entire operations to make intelligent decisions about where the business is going.

EDS is uniquely qualified to help our clients navigate this new environment and compete more effectively.

## **Two Major Thrusts Going Forward**

Our strategy in 2007 is two pronged. First, we will continue to drive improvements in our base business and broaden our core capabilities. Second, we must reposition our business and emphasize development of attractive market segments, where EDS has strong intellectual property, processes and solutions.

### **Improve our base, broaden core capabilities**

We have made significant investments to build a market-leading information technology outsourcing (ITO) platform. This platform gives us a strong base to compete with and build on. It distinguishes EDS and sets the benchmark for providers hoping to serve the needs of truly global enterprises.

Unlike the offshore "pure play" approach, EDS' Global Delivery System - enabled by our Global Services Network - allows clients to readily access our complete portfolio of services wherever they choose to do business.

This network gives us the upper hand to pursue both traditional ITO business - as well as less capital-intensive infrastructure management services - from Best Shore locations such as Malaysia, Hungary, Brazil and India. These activities include the remote monitoring and management of servers and desktops, providing end-to-end visibility for enterprise operations.

We will continue using our infrastructure as a base to add higher-value services. This means adding to our skills base in applications development and legacy modernization. Modernization services are important because many enterprises are hampered by outdated legacy systems that cannot handle today's business demands - much less tomorrow's.

We will exploit our technology vision, coupled with our focus on execution, to address the issues facing our clients. Toward that end, we will partner with businesses and governments to transform their organizations into modern, agile enterprises.

### **Reposition our business, develop attractive segments**

The changes we've made in the last few years make us a more competitive and client-focused company. Now, we need to better position these capabilities to be more visible and valuable for our clients - and to bring greater growth to our company.

We have identified several foundations for EDS' growth, including key industries and capabilities. Each one has an established client base and more than \$1 billion in existing business to build from.

Our recommitment to an industry-based approach opens up more opportunities worldwide. We invested heavily in the best data centers around the globe - all linked by our secure global network. This is a winning combination, especially for governments, healthcare and financial services industries, where information security is critical.

Creating industry-enabled solutions that combine applications expertise, BPO capabilities and IT infrastructure will enable EDS to bring more value to our clients. This means delivering solutions that hit their business issues head-on. For EDS, we expect these solutions to bring growth with higher margins in return for more valuable services.

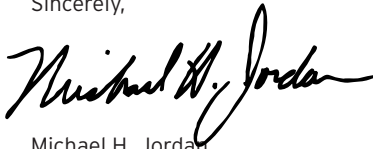
### **Delivering Results Now**

Talent wins games, but teamwork and intelligence win championships. EDS is in it for the long haul. Our goal is to become a valued part of the client management team, rather than just a vendor.

To do this for every client, we rely on our people to build deep and lasting relationships - some of which today span more than a decade. We count on their expertise to provide answers so our clients can perform well and serve their customers better.

Simply put, EDS delivers results now - for our clients and shareholders. It's why we're in business.

Sincerely,

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

Michael H. Jordan  
Chairman and Chief Executive Officer