

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

ELECTRONIC DATA SYSTEMS CORP /DE/

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SIC: **7370** Computer programming, data processing, etc.

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SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1998

Commission File No. 01-11779

ELECTRONIC DATA SYSTEMS CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

75-2548221
(I.R.S. Employer
Identification No.)

5400 Legacy Drive, Plano, Texas 75024-3199
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (972) 604-6000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class -----	Name of each exchange on which registered -----
Common Stock, \$.01 Par Value	New York Stock Exchange London Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

As of March 15, 1999, the aggregate market value of the voting stock held by non-affiliates of the registrant (based on the closing price on such date as reported on the New York Stock Exchange Composite Transactions) was approximately \$17,995,589,605.

There were 491,766,155 shares of the registrant's common stock outstanding as of March 15, 1999.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's 1998 Annual Report to Stockholders are incorporated by reference in Parts II and IV and portions of the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on May 25, 1999 are incorporated by reference in Part III.

PART I

ITEM 1. BUSINESS

Electronic Data Systems Corporation ("EDS") was incorporated in Delaware in 1994 and succeeded to the business and assets of Electronic Data

Systems Corporation, a Texas corporation which was incorporated in 1962, at the time of the split-off (the "Split-Off") of EDS from General Motors Corporation ("GM") on June 7, 1996. In October 1984, GM acquired all of the capital stock of the Texas corporation, which prior to that time had been an independent, publicly held corporation. As a result of the Split-Off, EDS once again became an independent publicly held corporation with its Common Stock listed for trading on the New York and London Stock Exchanges.

EDS is a professional services firm that applies consulting, information and technical expertise to enhance clients' business performance. As of December 31, 1998, EDS employed approximately 120,000 persons and served clients in the United States and approximately 50 other countries. Unless the context otherwise requires, references herein to EDS include its predecessor and subsidiaries.

Services

EDS offers its clients a portfolio of related services worldwide within the broad categories of systems and technology services, business process management, management consulting, and electronic business. EDS provides clients access to a wide range of value-added offerings within each of the four categories. These offerings continue to evolve in response to the rapid technological changes occurring within the computer industry and clients' expanding business needs and market opportunities. The following is a description of EDS' principal service offerings:

- Systems and Technology Services. EDS' traditional outsourcing business encompasses systems development, systems integration, and systems management. Also included in this area are desktop services, Year 2000 conversions and enterprise software solutions. EDS develops, integrates and manages systems for clients to reduce operational costs, multiply efficiencies, boost customer service and retention and increase competitiveness.
- Business Process Management. EDS may manage an entire business process within the client's enterprise, including such activities as remittance processing, procurement logistics, enterprise customer management, customer service and training, as well as information technology ("IT") operations.
- Management Consulting. A.T. Kearney, an EDS subsidiary, provides clients with high value-added strategy, operations and information technology capabilities combined with implementation skills that improve overall business performance and competitive positioning. Services in this area focus on strategic consulting, including customer equity management, new market entry and shareholder value creation; operations consulting, encompassing strategic sourcing, supply chain management and manufacturing; and technology consulting, including systems planning, new technology applications and advanced applications.
- Electronic Business. EDS' offerings in this area include interactive marketing and payment services, internet and online services and advertising, electronic commerce, EDI (electronic data interchange), smart cards, multimedia and home shopping, and the design, development, implementation and operation of internet websites, corporate intranets and extranets.

EDS conducts its sales, marketing and service activities for its systems and technology services, business process management and electronic markets businesses on a global basis principally through business units that focus both geographically and vertically along the lines of specified industries. By combining the skills of an industry-focused business unit with a geographic business unit where appropriate, EDS is able to respond to a

client's requirements with people who are knowledgeable about a specific industry and the client's business. These industry-focused business units are Manufacturing, Financial Services, Government, Communications, Health, Travel and Transportation, and Energy.

EDS leverages its extensive technical infrastructure and other numerous resources to offer information and technology services at clients' sites or through large scale information processing centers or specialized service delivery centers located in areas throughout the world. EDS continually examines and tests computer hardware and software offered by suppliers worldwide as part of its efforts to determine which are most appropriate for use in its operations and/or to offer to its clients. The company assesses the technological changes that continuously occur within the IT industry, including developments in distributed computing, client/server architecture and internet-based

applications. EDS has developed computer-aided software engineering tools to assist in generating new software to keep pace with rapidly evolving strategies involving hardware technologies and information processing theories and to facilitate the rapid deployment of the company's products and services to market.

A.T. Kearney

A.T. Kearney, the global management consulting firm which became a subsidiary of EDS in 1995, provides clients with sophisticated performance improvement techniques that improve overall competitive position. The firm has strong expertise in the aerospace and defense, automotive, chemicals, communications, consumer industries, financial institutions, forest products, health care, high-tech electronics, oil and gas, pharmaceuticals, retail, transportation and utilities industries. EDS and A. T. Kearney together offer a CoSourcing(SM) Service, which focuses on improving clients' business performance through concurrent implementation of new business processes, information technology and enterprise-wide transformation.

Strategic Business Lines

Certain services provided by EDS are organized in strategic business lines so that their resources and capabilities may be globally leveraged across EDS. These strategic business lines provide services directly to clients but also work in coordination with a geographical or vertical business unit having primary responsibility for a particular client. EDS' strategic business lines include the following:

CIO Services. EDS' CIO Services unit was organized in 1996 to bring together the industry organizations within EDS which were providing Year 2000 services to existing and new clients. This unit offers complete Year 2000 services, including assessment, planning and strategy, renovation, testing and implementation, as well as progress reviews and business contingency planning services.

Centrobe. EDS' Centrobe unit, focused on enterprise customer management, consolidates all of EDS' customer contact management solutions into one business line, delivering database marketing, call center services and direct marketing consulting services for industries on a global basis. Neodata Corporation, the integrated marketing communications services company which became a wholly-owned subsidiary of EDS in August 1997, has been integrated into this business line, making EDS Centrobe the largest direct marketing company in the world.

Electronic Business. EDS' electronic business unit offers clients strategic advice, business process design and information technology integration support to enable them to compete in the global digital economy. This business unit applies a wide range of electronic commerce technologies and processes to more effectively connect enterprises to both their customers and suppliers. Service offerings include electronic business strategy consulting, electronic business process redesign, internet commerce, transaction settlement, electronic payment processing (including credit card processing and ATM and debit card services), and electronic business technology integration support.

Unigraphics Solutions Inc.

EDS owns approximately 86.2% of the common stock of Unigraphics Solutions Inc. ("UG Solutions"), which had been a wholly-owned subsidiary of EDS prior to its initial public offering in June 1998. UG Solutions

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develops and markets computer assisted design, manufacturing and engineering ("CAD," "CAM" and "CAE") software and services. Its principal product offerings include Unigraphics(R) for complex design-through-manufacture applications, Solid Edge(R) for Windows based design and drafting, IMAN(R) for product information management, and Parasolid(R), a high precision, boundary-representation solid modeler for mechanical CAD/CAM/CAE applications.

Acquisitions and Strategic Alliances

From time to time EDS has made acquisitions and entered into strategic alliances in an effort to obtain a competitive advantage or a new or expanded presence in targeted geographic or service markets. EDS believes that the convergence of the computing and software, communication, media and entertainment and electronic commerce industries will continue. As a result, acquisitions, joint ventures and strategic alliances are expected to continue to be important to EDS' ability to compete effectively.

Revenues

EDS receives fees for all aspects of its portfolio of services. The fees are generally paid pursuant to predetermined rates set forth in contracts. Customer contracts for systems and technology services and business process management services generally have terms of one to 10 years. Management consulting engagements and electronic business projects generally have shorter terms. See Note 13 to the Company's consolidated financial statements, included within Exhibit 13 to this Form 10-K, for financial information about industry segments.

Other than GM, no one client accounted for more than 5% of EDS' total revenues in 1998, 1997 or 1996.

Competition

EDS experiences competition in the IT industry and in the broader professional services industry. EDS has historically faced competition principally from other companies providing information technology systems and services. EDS' principal competitors include International Business Machines Corporation, Andersen Consulting LLP and Computer Sciences Corporation. EDS' competitors have increased in number as its capabilities and service offerings expand. In addition to the foregoing competitors, in the business process management area EDS also competes with the "big five" accounting firms, and in the electronic business area EDS also competes with General Electric Information Services and a number of other emerging technology companies. Principal competitors of A.T. Kearney, EDS' management consulting subsidiary, include Bain Consulting and The McKinsey Group. As the markets for professional services continue to grow and as the services demanded by customers expand and increase in complexity, EDS faces increasing competition from niche-oriented, geographically focused companies as they expand and become broader competitors through acquisitions, alliances or otherwise.

Technology and its application within the business enterprise is in a rapid and continuing state of change as new technologies continue to be developed, introduced and implemented. EDS management believes that its ability to continue to compete effectively will depend upon its ability to develop and market offerings that meet changing user needs and respond to technological changes on a timely and cost-effective basis, as well as its ability to finance and acquire the resources necessary to offer such services and products.

Employees

As of December 31, 1998, EDS employed approximately 120,000 persons located in the United States and approximately 50 other countries. None of EDS' United States or Canadian employees is currently employed under an agreement with a collective bargaining unit, and EDS believes that its relations with employees are good. To maintain its technical expertise and its responsiveness to evolving client needs, EDS provides its employees with extensive continuing education and training, as well as leadership and professional development programs.

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Patents, Proprietary Rights and Licenses

EDS holds a number of patents and pending patent applications in the United States and in foreign countries. EDS' policy generally is to pursue patent protection that it considers necessary or advisable for the patentable inventions and technological improvements of its business. EDS also relies significantly on trade secrets, copyrights, technical expertise and know-how, continuing technological innovations and other means, such as confidentiality agreements with employees, consultants and customers, to protect and enhance its competitive position.

Some of the business areas in which EDS is engaged are highly patent-intensive. Many of EDS' competitors have obtained, and may be expected to obtain in the future, patents that cover or affect services or products directly or indirectly related to those offered by EDS. EDS routinely receives communications from third parties asserting patent or other rights covering EDS' services or products. There can be no assurance that EDS is aware of all patents containing claims that may pose a risk of infringement by its services or products. In addition, patent applications in the United States are confidential until a patent is issued and, accordingly, EDS cannot evaluate the extent to which its services or products may infringe claims contained in pending patent applications. In general, if it were determined that one or more of the services

or products offered by EDS infringe patents held by others, EDS would be required to cease developing or marketing such services or products, to obtain licenses to develop or market such services from the holders of the patents or to redesign such services or products in such a way as to avoid infringing the patent claims. The extent to which EDS may be required in the future to obtain licenses with respect to patents held by others and the availability and cost of any such licenses are currently unknown. There can be no assurance that EDS would be able to obtain such licenses on commercially reasonable terms or, if it were unable to obtain such licenses, that it would be able to redesign its services or products to avoid infringement or that litigation would not ensue.

EDS management is not aware of any pending patent or proprietary right disputes against EDS that would have a material adverse effect on its consolidated financial position or results of operations.

Regulation

Various aspects of EDS' business are subject to federal and state regulation noncompliance with which, depending upon the nature of the noncompliance, may result in the suspension or revocation of any license or registration at issue, the termination or loss of any contract at issue or the imposition of contractual damages, civil fines or criminal penalties. EDS has experienced no material difficulties in complying with the various laws and regulations affecting its business.

Services for General Motors

Approximately 25% of EDS' total revenues in 1998 was attributable to GM and its affiliates. EDS provides substantially all of the worldwide data processing and telecommunications activities for GM and certain of its affiliates, including integrated information systems for payroll, health and benefits, office automation, communications and plant automation functions. The loss of GM as an ongoing major customer of EDS would have a material adverse effect on EDS.

Immediately prior to the Split-Off, GM and EDS entered into a new Master Service Agreement (the "MSA") that serves as a framework for the negotiation and operation of service agreements for certain "in-scope" IT services as defined in the MSA ("MSA Services") to be provided by EDS to GM on a worldwide basis (collectively with the MSA, the "IT Services Agreements"). MSA Services accounted for approximately \$3.5 billion of the approximately \$4.2 billion of revenues received by EDS from GM in 1998. The balance was attributable to goods and services provided outside the scope of the MSA.

The term of the MSA commenced on June 7, 1996, the date of the Split-Off, and will continue for a period of 10 years thereafter. The term may be extended for an additional period or periods by mutual agreement between GM and EDS. The MSA may be terminated, among other events, by GM if there occurs a "change of

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control" of EDS (as defined in the MSA) and certain additional conditions are met (which conditions include a determination by GM's Board of Directors that there exists substantial uncertainty about EDS' ability to perform its obligations under the IT Services Agreements or any other significant threat to the business relationship between the parties).

GM business units and EDS have entered into a number of Service Agreements ("Service Agreements") setting forth the terms and provisions applicable to specific services or projects undertaken pursuant to the MSA. The provisions of the MSA apply to all Service Agreements, whether entered into before or after the Split-Off. At the time of the Split-Off, the terms of the largest domestic Service Agreements then in effect were extended for additional terms of between one and three years. The Service Agreements with GM's North American Operations, General Motors Acceptance Corporation (U.S. and Canada) and Motors Insurance Corporation (U.S. and Canada) were each extended through December 31, 1999. In addition, GM and EDS entered into a successor Service Agreement covering GM International Operations with a term ending on December 31, 2000. The Service Agreement with Delphi Automotive Systems (U.S.) ("Delphi") has been extended until the earlier of December 31, 1999 or the divestiture (through a "split-off" or "spin-off") by GM of 35% or more of the equity of the Delphi operations. GM has announced that it intends to complete such divestiture in 1999. Upon consummation of such divestiture, Delphi would no longer be part of GM for purposes of the MSA and, consequently, it would no longer be obligated to purchase, and EDS would no longer be obligated to provide, MSA Services except as the parties may have otherwise agreed. EDS is currently negotiating with Delphi regarding the terms of a new master agreement for IT services to be effective at the time of its divestiture, although there can be no assurance that the parties will complete such agreement prior to such time or at any time thereafter.

The MSA provides for certain market testing procedures to test the competitiveness of the MSA Services provided by EDS. Under these procedures, EDS may bid on any and all MSA Services and its bid will be evaluated on the same criteria as bids submitted by other service providers. Since 1998, GM has been permitted to expose to competitive bidding specified percentages of the prior year's revenues to EDS for MSA Services. In each year from 1998 through 2000, GM may expose to competitive bidding and award to third parties contracts for MSA Services for which GM would otherwise have reasonably paid EDS up to an average of approximately 6% of the prior year's MSA revenues. From 2001 through 2006, GM may expose to competitive bidding and award to third parties contracts for MSA Services for which GM would otherwise have reasonably paid EDS up to an average of approximately 2.4% of the prior year's MSA revenues. In addition to such annual limitations, the following aggregate limitations apply: through 2000, in no single calendar year may the amount paid to third parties for MSA Services exceed 15% of the aggregate revenue paid to EDS for MSA Services performed during the prior year; and after 2000, in no single calendar year may the amount paid to third parties for MSA Services exceed 25% of the aggregate amount of revenue paid to EDS for MSA Services performed during the prior year.

ITEM 2. PROPERTIES

As of December 31, 1998, EDS operated approximately 400 locations in 41 states and 234 cities in the United States and approximately 318 additional locations in 194 cities in approximately 40 countries outside the United States. At such date, approximately 6 million square feet of space was owned by EDS and approximately 17 million square feet of space was leased. EDS' worldwide headquarters, which is located on a 363 acre campus in Plano, Texas, contains approximately 3.5 million square feet of office and data center space. Other than the 1.6 million square feet EDS Centre building, which is leased for an initial term of 25 years and subject to certain fixed price purchase options exercisable by EDS during and at the end of such initial term, all buildings and real estate comprising the Plano campus are owned by EDS.

EDS' global telecommunications network is monitored from its Service Management Centers in Plano, Texas, and Stockley Park, United Kingdom. EDS' large scale Service Management Centers ("SMCs") are located throughout the United States and in each of Australia, Brazil, Canada, France, Germany, the Netherlands, Spain and the United Kingdom. In addition, EDS operates Service Delivery Centers ("SDCs") at customer owned sites or EDS owned or leased facilities throughout the world. SDCs usually support a single or small number of customers with more specialized requirements than those supported at the large scale, multiple customer SMCs. Leased properties consist primarily of office, warehouse, SDC and non-U.S. SMC facilities. Lease terms are generally

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five years or, with respect to leases related to a specific customer contract, have a term concurrent with that contract. Upon expiration of its leases, EDS does not anticipate any difficulty in obtaining renewals or alternative space. In addition to its owned and leased properties, EDS occupies office space at customer locations throughout the world. Such space is generally occupied pursuant to the terms of the respective customer contracts.

EDS management believes that its facilities are suitable and adequate for its business; however, EDS periodically reviews its space requirements to consolidate and dispose of or sublet facilities which are no longer required in connection with its business and to acquire new space to meet the needs of its business.

ITEM 3. LEGAL PROCEEDINGS

Three suits challenging the Split-Off, Stephen A. Solomon v. General Motors Corporation, et al., TRV Holding Company v. General Motors Corporation, et al., and Melvin Ward et al. v. General Motors Corporation, et al. were consolidated. The consolidated case purports to be a class action brought on behalf of the former holders of GM's Class E common stock, all of which was converted into EDS common stock in connection with the Split-Off, as well as a double derivative action brought on behalf of EDS against certain present and former directors of GM and certain former directors of EDS (all of whom were also directors or officers of GM). EDS is named in the complaint only as a nominal defendant with respect to the double derivative action. On May 23, 1996, plaintiffs withdrew their application for expedited proceedings and preliminary injunctive relief, and on June 7, 1996 the Split-Off was consummated. Since then, plaintiffs have filed a third amended consolidated complaint. On December 11, 1997, the defendants filed a motion to dismiss the third amended consolidated complaint. The motion to dismiss was granted on March 25, 1999. EDS is not aware of whether the plaintiffs will pursue an appeal or other remedy.

From time to time EDS is involved in various litigation matters arising in the ordinary course of its business. EDS management does not believe that disposition of any current matter will have a material adverse effect on EDS' consolidated financial position or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None submitted.

EXECUTIVE OFFICERS OF EDS

The following sets forth certain information with respect to the executive officers of EDS as of March 22, 1999:

Richard H. Brown, 51, has been Chairman and Chief Executive Officer of EDS since January 1999. He was Chief Executive Officer of Cable & Wireless plc from July 1996 to December 1998 and President and Chief Executive Officer of H&R Block, Inc., and Chairman of its CompuServe subsidiary, from May 1995 to July 1996. Mr. Brown was Vice Chairman of Ameritech Corporation from January 1993 to May 1995 and President of its Illinois Bell subsidiary from 1990 to 1993. He held various executive positions with United Telecommunications, Inc. from 1981 to 1990, most recently as Executive Vice President, and was with Ohio Bell from 1969 to 1981.

Jeffrey M. Heller, 59, has been the President and Chief Operating Officer of EDS since June 1996 and a director of EDS since 1983. He has been the Chairman of EDS' Unigraphics Solutions Inc. subsidiary since January 1999. Mr. Heller was a Senior Vice President of EDS from 1984 until June 1996. He joined EDS in 1968 and has served in numerous technical and management capacities.

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John A. Bateman, 50, has been a Senior Vice President of EDS since June 1996 and prior to that time had been a Vice President since 1992. Mr. Bateman has responsibility for EDS' European, Middle Eastern and African operations.

Hartmut W. Burger, 55, has been an Executive Vice President of EDS since June 1996 and prior to that time had been a Vice President since October 1992. He has responsibility for EDS' technical infrastructure and internal information functions, EDS' electronic business strategic business line, and EDS' business units serving customers in the communications industry. Prior to assuming his current responsibilities, Mr. Burger was responsible for EDS' business units serving customers in the manufacturing and commercial services industries.

John R. Castle, Jr., 56, has been an Executive Vice President of EDS since June 1996 and prior to that time had been a Senior Vice President since October 1988. He has oversight responsibility for EDS' government affairs, communications and public relations groups and its legal department. Prior to joining EDS in 1988, Mr. Castle was a partner in the Dallas law firm of Hughes & Luce.

Paul J. Chiapparone, 59, has been an Executive Vice President of EDS since June 1996 and prior to that time had been a Senior Vice President since April 1986. He has responsibility for EDS' global business units supporting the GM account. Mr. Chiapparone joined EDS in 1966 and has served in numerous management capacities.

J. Coley Clark, 53, has been a Senior Vice President of EDS since June 1996 and prior to that time had been a Vice President since 1989. Mr. Clark has responsibility for EDS' business units serving customers in the financial services and travel and transportation industries.

James E. Daley, 58, has been Executive Vice President and Chief Financial Officer of EDS since March 8, 1999. Before joining EDS, Mr. Daley had been with Price Waterhouse, L.L.P. from 1963 to 1998, serving as its Co Chairman-Operations from 1988 to 1995, Vice Chairman International from 1995 to 1996, Global ABS Leader of Financial Services Industry Practices from 1997 to 1998, and as a member of its Policy Board from 1984 to 1995, Management Committee from 1986 to 1996, World Board from 1988 to 1996 and World Firm Management Committee from 1988 to 1995.

H. Paulett Eberhart, 45, has been a Senior Vice President of EDS since August 1998 with responsibility for EDS' financial organization. Prior to August 1998, she had served as Controller since October 1992 and Vice President since June 1994. Ms. Eberhart joined EDS in 1978 and has served in numerous financial and leadership positions.

Gary B. Moore, 49, has been a Senior Vice President of EDS since June 1996 and prior to that time had been a Vice President since 1992. Since June 1996, Mr. Moore has held responsibility for EDS' business units serving customers in the manufacturing industry. He had served as Chairman of EDS Japan from January 1993 to June 1996.

G. Stuart Reeves, 59, has been an Executive Vice President of EDS since June 1996 and prior to that time had been a Senior Vice President since February 1987. He has responsibility for EDS' business units serving customers in government and in the energy and healthcare industries, EDS' Customer Solutions strategic business line, and EDS' Canadian, Mexican and Central and South American operations. Mr. Reeves joined EDS in 1967 and has held numerous technical and management positions.

Edward V. Yang, 53, has been a Senior Vice President of EDS since June 1996 and prior to that time had been a Vice President since 1994. Mr. Yang has responsibility for EDS' Asia/Pacific and Japanese operations. He joined EDS in 1992 as president of EDS' operations in East Asia. Prior to that time, Mr. Yang was a Senior Vice President of Wang Laboratories and manager of its South American and Asia/Pacific operations.

Executive officers serve at the discretion of the Board of Directors of EDS.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The 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 ---
1997		
First Quarter.....	\$49.63	\$40.13
Second Quarter.....	44.75	31.75
Third Quarter.....	46.75	34.50
Fourth Quarter.....	44.19	29.56
1998		
First Quarter.....	\$50.88	\$40.50
Second Quarter.....	46.75	33.94
Third Quarter.....	42.25	30.56
Fourth Quarter.....	51.31	30.44

The last reported sale price of the Common Stock on the NYSE on March 15, 1999 was \$47.50 per share. As of March 15, 1999, the approximate number of record holders of Common Stock was 206,302.

EDS declared quarterly dividends on the Common Stock at the rate of \$.15 per share for each quarter of 1997 and 1998.

ITEM 6. SELECTED FINANCIAL DATA

"Selected Financial Data" for the years 1994 through 1998 on page 53 of EDS' Annual Report to Stockholders for the year ended December 31, 1998 is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

"Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 23 through 32 of EDS' Annual Report to Stockholders for the year ended December 31, 1998 is incorporated herein by reference.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements of EDS included in EDS' Annual Report to Stockholders for the year ended December 31, 1998 are incorporated herein by reference.

Consolidated Statements of Income -- for the years ended December 31, 1998, 1997 and 1996.

Consolidated Balance Sheets -- as of December 31, 1998 and 1997.

Consolidated Statements of Stockholders' Equity and Comprehensive Income -- as of and for the years ended 1998, 1997 and 1996.

Consolidated Statements of Cash Flows -- for the years ended December 31, 1998, 1997 and 1996.

Notes to Consolidated Financial Statements.

Independent Auditors' Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

ITEM 11. EXECUTIVE COMPENSATION

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

For Item 10, the names and ages of the executive officers of EDS as of March 22, 1999, and the position(s) each of them has held during the past five years, are included in Part I of this Form 10-K as permitted by General Instruction G(3). All other information required by Item 10, and the information required by Items 11, 12 and 13, is incorporated by reference to the registrant's definitive proxy statement for its Annual Meeting of Stockholders to be held on May 25, 1999, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 1998.

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. The following consolidated financial statements of Electronic Data Systems Corporation and subsidiaries included in the registrant's 1998 Annual Report to Stockholders are incorporated by reference in Part II, Item 8:

Consolidated Statements of Income -- for the years ended December 31, 1998, 1997 and 1996.

Consolidated Balance Sheets -- as of December 31, 1998 and 1997.

Consolidated Statements of Stockholders' Equity and Comprehensive Income -- as of and for the years ended 1998, 1997 and 1996.

Consolidated Statements of Cash Flows -- for the years ended December 31, 1998, 1997 and 1996.

Notes to Consolidated Financial Statements.

Independent Auditors' Report.

2. The following financial statement schedule of Electronic Data Systems Corporation and subsidiaries is included in Item 14(d):

Schedule II - Valuation and Qualifying Accounts.

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

3. Exhibits

Exhibit No.	Description
3(a)	Restated Certificate of Incorporation of Electronic Data Systems Corporation, as amended through June 7, 1996 - incorporated herein by reference to Exhibit 3(a) to the Current Report on Form 8-K of the Registrant dated June 7, 1996.
3(b)	Amended and Restated Bylaws of Electronic Data Systems Corporation, as amended through June 7, 1996 - incorporated herein by reference to Exhibit 3(b) to the Current Report on Form 8-K of the Registrant dated June 7, 1996.
4(a)	Rights Agreement dated as of March 12, 1996 between the Registrant and The Bank of New York, as Rights Agent - incorporated herein by reference to Exhibit 4(c) to the Registration Statement on Form S-4 of the Registrant (File No. 333-02543).
4(b)	Indenture dated as of August 12, 1996, between the Registrant and Texas Commerce Bank National Association, as Trustee - incorporated herein by reference to Exhibit 4 to the Registration Statement on Form S-3 of the Registrant (File No. 333-10145).
4(c)	Instruments defining the rights of holders of nonregistered debt of the Registrant have been omitted from this exhibit index because the amount of debt authorized under any such instrument does not exceed 10% of the total assets of the Registrant and its subsidiaries. The Registrant agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.
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10(a)	Master Service Agreement dated June 7, 1996 between General Motors Corporation and the Registrant (portions of which are subject to confidential treatment granted by the Securities and Exchange Commission) - incorporated herein by reference to Exhibit 10(a) to the Current Report on Form 8-K of the Registrant dated June 7, 1996.
10(b)	1996 Incentive Plan of Electronic Data Systems Corporation - incorporated herein by reference to Exhibit 10(b) to the Quarterly Report on Form 10-Q of the Registrant for the quarter ended June 30, 1998.*
10(c)	Electronic Data Systems Corporation 1998 Supplemental Executive Retirement Plan.*
10(d)	Electronic Data Systems Corporation Deferred Compensation Plan for Non-Employee Directors - incorporated herein by reference to Exhibit 10(d) to the Quarterly Report on Form 10-Q of the Registrant for the quarter ended June 30, 1998.*
10(e)	Form of Indemnification Agreement entered into between the Registrant and each of its directors and executive officers - incorporated herein by reference to Exhibit 10(f) to the Registration Statement on Form S-4 of the Registrant (File No. 333-02543).*
10(f)	Revolving Credit and Term Loan Agreement dated as of October 4, 1995 among the Registrant, Citibank, N.A., as Administrative Agent, and the other financial institutions identified therein as Arrangers, Managers and Lenders - incorporated herein by reference to Exhibit 10(h) to the Registration Statement on Form S-4 of the Registrant (File No.

- 10(g) Amended and Restated Revolving Credit and Term Loan Agreement entered into as of September 23, 1997 among the Registrant and the Lenders identified therein - incorporated herein by reference to Exhibit 10(g) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997.
- 10(h) Multi-Currency Revolving Credit Agreement dated as of October 4, 1995 among the Registrant, Citibank, N.A., as Administrative Agent, and the other financial institutions identified therein as Arrangers, Managers and Lenders - incorporated herein by reference to Exhibit 10(i) to the Registration Statement on Form S-4 of the Registrant (File No. 333-02543).
- 10(i) Amended and Restated Multi-Currency Revolving Credit Agreement entered into as of September 23, 1997 among the Registrant and the Lenders identified therein - incorporated herein by reference to Exhibit 10(i) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997.
- 10(j) Registration Rights Agreement dated March 12, 1995 between General Motors Corporation and United States Trust Company of New York, as Trustee of the General Motors Corporation Hourly-Rate Pension Plan - incorporated herein by reference to Exhibit 10(j) to the Registration Statement on Form S-4 of the Registrant (File No. 333-02543).
- 10(k) Succession Agreement dated June 7, 1996 among the Registrant, General Motors Corporation and United States Trust Company of New York, as Trustee of the General Motors Corporation Hourly-Rate Pension Plan, with respect to the Registration Rights Agreement filed as Exhibit 10(j) above incorporated herein by reference to Exhibit 10(k) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.
- 10(l) Form of Change in Control Employment Agreement entered into by the Registrant with each of its executive officers - incorporated herein by reference to Exhibit 99 to the Registration Statement on Form S-3 of the Registrant (File No. 333-06655).*
- 12
- 10(m) Agreement dated as of August 6, 1998 between Lester M. Alberthal, Jr. and the Registrant - incorporated herein by reference to Exhibit 10(m) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.*
- 10(n) Agreement dated as of December 1, 1998 between Gary J. Fernandes and the Registrant.*
- 10(o) Agreement between the Registrant and Robert Mintz dated March 31, 1998.*
- 10(p) Senior Management Retention Plan of Electronic Data Systems Corporation.*
- 10(q) Employment Agreement effective January 1, 1999 between the Registrant and Richard H. Brown.*
- 12 Computation of Ratios of Earnings to Fixed Charges for the three years ended December 31, 1998.
- 13 Portions of the Registrant's 1998 Annual Report to Stockholders expressly incorporated by reference herein: Pages 22 through 52.
- 21 Subsidiaries of the Registrant as of December 31, 1998.
- 23 Consent of Independent Auditors.
- 24 Powers of Attorney for Directors signing this Report on Form 10-K.
- 27 Financial Data Schedule for the year ended December 31, 1998, submitted to the Securities and Exchange Commission in electronic format.

* Management contracts and compensatory plans and arrangements required to be filed as exhibits to this Form 10-K pursuant to Item 14(c).

(b) Reports on Form 8-K.

No reports on Form 8-K were filed during the quarter ended December 31, 1998.

(c) Exhibits.

The response to this portion of Item 14 is submitted as a separate section of this report.

(d) Financial Statement Schedule.

The response to this portion of Item 14 is submitted as a separate section of this report.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Electronic Data Systems Corporation

Dated: March 26, 1999

By: /s/ Richard H. Brown

Richard H. Brown
Chairman of the Board and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Dated: March 26, 1999

By: /s/ Richard H. Brown

Richard H. Brown
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

Dated: March 26, 1999

By: /s/ Jeffrey M. Heller

Jeffrey M. Heller
President, Chief Operating Officer
and Director

Dated: March 26, 1999

By: /s/ James E. Daley

James E. Daley
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Dated: March 26, 1999

By: /s/ H. Paulett Eberhart

H. Paulett Eberhart
Senior Vice President
(Principal Accounting Officer)

Dated: March 26, 1999

By: *

James A. Baker, III
Director

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Dated: March 26, 1999

By: *

Richard B. Cheney
Director

Dated: March 26, 1999

By: *

William H. Gray, III
Director

Dated: March 26, 1999

By: *

Ray J. Groves
Director

Dated: March 26, 1999

By: *

Ray L. Hunt
Director

Dated: March 26, 1999

By: *

C. Robert Kidder
Director

Dated: March 26, 1999

By: *

Judith Rodin
Director

Dated: March 26, 1999

By: *

Enrique J. Sosa
Director

* By: /s/ D. Gilbert Friedlander

D. Gilbert Friedlander, Attorney in Fact
March 26, 1999

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Electronic Data Systems Corporation:

Under date of February 1, 1999, we reported on the consolidated balance sheets of Electronic Data Systems Corporation and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 1998, as contained in the 1998 annual report to stockholders. These consolidated financial statements and our report thereon are incorporated by reference in the annual report on Form 10-K for the year 1998. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule as listed in the accompanying index. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such consolidated 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.

/s/ KPMG LLP

Dallas, Texas
February 1, 1999

<TABLE>
<CAPTION>

ELECTRONIC DATA SYSTEMS CORPORATION AND SUBSIDIARIES

SCHEDULE II - ALLOWANCES

Description <S>	Balance at beginning of year <C>	Additions charged to costs and expenses <C>	Additions charged to other accounts <C>	Deductions <C>	Balance at end of year <C>
FOR THE YEAR ENDED DECEMBER 31, 1998					
Allowances Deducted from Assets					
Accounts and notes receivable	105.4	75.3	--	36.0 (a)	144.7
Inventories	30.7	6.4	--	27.3 (b)	9.8
Total Allowances Deducted from Assets	136.1	81.7	--	63.3	154.5
FOR THE YEAR ENDED DECEMBER 31, 1997					
Allowances Deducted from Assets					
Accounts and notes receivable	117.2	37.8	--	49.6 (a)	105.4
Inventories	25.6	17.3	--	12.2 (c)	30.7
Total Allowances Deducted from Assets	142.8	55.1	--	61.8	136.1
FOR THE YEAR ENDED DECEMBER 31, 1996					
Allowances Deducted from Assets					
Accounts and notes receivable	99.5	93.4	--	75.7 (a)	117.2
Inventories	19.5	15.5	--	9.4 (c)	25.6
Total Allowances Deducted from Assets	119.0	108.9	--	85.1	142.8

Notes:

- (a) Primarily accounts written off
- (b) Primarily due to the outsourcing of the Company's computer equipment procurement operations
- (c) Obsolete parts written off and foreign currency translation adjustments

</TABLE>

EDS 1998 SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

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EDS 1998 SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

ARTICLE I
ESTABLISHMENT AND PURPOSE

1.1 Establishment. Effective as of July 1, 1998, the Company hereby

establishes the EDS 1998 Supplemental Executive Retirement Plan (the "EDS 1998 SERP"). The EDS 1998 SERP is intended to provide supplemental executive retirement plan benefits ("SERP Benefits") in accordance with the provisions hereof for certain officers of the Employer whose benefits under the EDS Retirement Plan (the "Qualified Plan") are considered to be inadequate.

1.2 Purpose. The EDS 1998 SERP is established as an unfunded,

non-tax-qualified mechanism which may be used to enhance the Employer's ability to retain the services of certain Employees. The EDS 1998 SERP is intended to be an unfunded plan for a select group of management or highly compensated employees as defined in Section 201(2) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

The EDS 1998 SERP has been designed to provide SERP Benefits for Employees who, on or after July 1, 1998, attain Early Retirement, Normal Retirement or Late Retirement pursuant to the terms and conditions herein. The Targeted Pension is a single life pension annuity calculated upon a different formula from the Qualified Plan formulas and upon the assumption that every Employee has never married, and that every Employee has elected to receive both the SERP Benefit and the Qualified Plan Benefit in the form of a single life annuity.

ARTICLE II
DEFINITIONS AND CONSTRUCTION

2.1 Definitions. Whenever the following terms are used in this EDS

1998 SERP, they shall have the meanings set forth below unless the context otherwise requires, and when the defined meaning is intended herein, the first letter of each word comprising the term will be capitalized.

(a) Actuarially Equivalent means a benefit of equivalent value

to the SERP Benefit, the Targeted Pension or the Targeted Pension Reduced At Early Retirement, determined on the basis of the following interest and

mortality assumptions:

(i) For purposes of calculating any form of benefit other than a lump sum, the mortality and interest rate assumptions shall be (A) a unisex mortality table derived from the 1971 Group Annuity Mortality Table assuming a group that is 80 percent male with female beneficiaries and 20 percent female with male beneficiaries; and (B) an interest rate of 7.5% per annum.

(ii) For purposes of calculating a lump sum, the mortality and interest assumptions shall be (A) the mortality table published in Rev. Rul. 95-6 or such other

mortality table as may be published from time to time pursuant to Code section 417(e) and the regulations promulgated thereunder; and (B) the annual interest rate on 30-year Treasury securities as of the second calendar month preceding the first day of the Plan Year that contains the date as of which benefit payments commence.

(b) Beneficiary means the person or fiduciary designated by a

Participant, pursuant to Section 4.10 (Beneficiaries) hereof, to receive his SERP Death Benefit, if any, in the event of his death. The term "Beneficiary" shall also mean the person or fiduciary to whom any benefit is otherwise payable on account of the death of a Participant. A person entitled to any benefit, including any death benefit, pursuant to the terms of a QDRO shall be treated as a Beneficiary with respect to such benefit payable pursuant thereto.

(c) Benefit Commencement Date shall mean the date as of which

the Employee commences payment of his or her Qualified Plan Benefit.

(d) Cause shall mean (i) dishonesty by an Employee which

results in substantial personal enrichment at the expense of the Company or (ii) demonstratively willful repeated violations of the Employee's obligations to the Company which are intended to result and do result in material injury to the Company. In the event the Company terminates an Employee for Cause, the Company shall so notify the Employee of that fact in writing at the time of the termination, specifying the acts or conduct claimed to constitute such Cause.

(e) Chairman shall mean the Office of the Chairman of the

Board of Directors of EDS.

(f) Code means the Internal Revenue Code of 1986, as amended.

(g) Company means Electronic Data Systems Corporation, a

Delaware corporation, or its successor.

(h) Covered Compensation means the average of the Social

Security Taxable Wage Bases for the 35 calendar years ending with the calendar year in which the Employee attains Social Security Retirement Age. In determining an Employee's Covered Compensation for any Plan Year, it is assumed that the Social Security Taxable Wage Base in effect at the beginning of the Plan Year will remain the same for all future years.

(i) An Employee's Covered Compensation for a Plan Year beginning before the 35-year period described in this subsection is the Social Security Taxable Wage Base in effect as of the beginning of the Plan Year. An Employee's Covered Compensation for a Plan Year ending after the 35-year period described in this subsection is the Covered Compensation for the Plan Year in which the Employee attains Social Security Retirement Age.

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(ii) An Employee's Covered Compensation shall be automatically adjusted each Plan Year in accordance with tables published by the Internal Revenue Service pursuant to Treas. Reg. ss. 1.401(l)-1(c)(7).

(iii) For purposes of determining the Targeted Pension and the Targeted Pension Reduced At Early Retirement, as determined in accordance with Article IV of this EDS 1998 SERP, Covered Compensation is frozen at the date of the Employee's actual retirement.

(i) Earliest Potential Retirement Age means, for any Employee,

such Employee's age when he or she has (i) attained age fifty-five (55), (ii) completed five years of Credited Service for Vesting (as defined in the Qualified Plan), and (iii) age and years of Credited Service for Vesting that total a sum equal to or greater than seventy (70).

(j) Early Retirement shall mean retirement by an Employee who

satisfies the eligibility requirements of Article III and retires on his or her Early Retirement Date.

(k) Early Retirement Date shall be a date which is the first

day of a month, on or after the Employee has attained his or her Earliest Potential Retirement Age, but before the Employee has reached his or her Normal

Retirement Age.

(l) Earnings means Earnings, as defined in the Qualified Plan

at the time of determination, without regard to any limitations thereto imposed by the Code.

(m) EDS Compensation and Benefits Committee means the

Compensation and Benefits Committee of the EDS Board of Directors.

(n) Effective Date shall be July 1, 1998.

(o) Employee means any employee of the Employer who is

designated on Attachment "A" as may be amended from time to time by the Committee.

(p) Employer means the Company and such other employers that

have adopted the Qualified Plan or as otherwise authorized by the EDS Compensation and Benefits Committee.

(q) Final Average FICA Compensation means the average of an

Employee's annual earnings up to the Social Security Taxable Wage Base from the Employer for the three consecutive complete calendar year period coincident with or immediately preceding the year the Employee retires hereunder.

If an Employee's entire period of employment with the Employer is less than three consecutive calendar years, the Employee's Final Average FICA Compensation shall be determined by dividing the total earnings, as reported for purposes of FICA, received by the Employee from the Employer by the Employee's entire period of employment (including fractional years), provided,

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however, that the year in which the Employee terminates employment shall be included in the calculation only if such year is the only year during which the Employee is employed.

In determining an Employee's Final Average FICA Compensation within this subsection, annual earnings in any year in excess of the Social Security Taxable Wage Base in effect at the beginning of such year shall not be taken into account.

(r) Final Average Earnings means the average of the Employee's

Earnings during the highest consecutive five Plan Years out of the ten Plan Years immediately preceding the Employee's retirement under the EDS 1998 SERP; or if the Employee's period of Service is less than five years, then Final Average Earnings means the average of the Employee's Earnings over his entire period of employment. The average for any period that includes a partial year shall be calculated by adding the Employee's Earnings for such partial year to the Earnings for the other Plan Years included in the calculation (not to exceed four Plan Years), dividing the total by the number of months of participation, and then multiplying by twelve.

(s) Integration Level means the lesser of an Employee's Final

Average FICA Compensation or Covered Compensation determined as of the date the Employee retires hereunder but in no case greater than the Social Security Taxable Wage Base in effect on the first day of the Plan Year within which the Employee retires hereunder.

(t) Late Retirement means retirement by an Employee who

satisfies the eligibility requirements of Article III and retires on his or her Late Retirement Date.

(u) Late Retirement Date shall be a specified date occurring

on the first day of a month after the Employee's Normal Retirement Date.

(v) Normal Retirement shall mean retirement by an Employee who

satisfies the SERP Benefit eligibility requirements of Article III and retires on the Employees' Normal Retirement Date.

(w) Normal Retirement Age means age sixty-five (65).

(x) Normal Retirement Date shall be a date which is the first

day of the month that falls on or immediately after the date on which the Employee shall have attained his or her Normal Retirement Age.

(y) Offset Reduction Percentage is defined in Section 4.3

(Targeted Pension Reduced At Early Retirement).

(z) Participant means an Employee who has retired under the

EDS 1998 SERP and is eligible to participate pursuant to Section 3.1 (Participation) hereof and is not ineligible to participate pursuant to Section 3.2 (Ineligible Employees).

(aa) Plan Administrator is defined in Section 5.1 (Administra-

tion).

(bb) Plan Year means the six-month period commencing July 1, -----
1998; provided, however, that effective January 1, 1999, Plan Year shall mean the calendar year.

(cc) Qualified Death Benefit means the Death Benefit, as -----
defined in the Qualified Plan, provided under the Qualified Plan.

(dd) QDRO means a qualified domestic relations order, within ----
the meaning of Code Section 414(p), or a valid state domestic relations order issued by a court of competent jurisdiction.

(ee) Qualified Plan means the EDS Retirement Plan, as adopted -----
by the Company.

(ff) Qualified Plan Benefit shall mean the hypothetical single -----
life annuity benefit that would be payable to the Participant monthly from the Qualified Plan, assuming the Participant was never married and has no court order affecting his or her benefit, as further discussed below.

For purposes of the EDS 1998 SERP, any reductions in the benefits payable from the Qualified Plan because the Participant may have actually elected to receive his or her benefit in a different form, because the benefit may be reduced on account of amounts which may be payable or are being paid to an alternate payee pursuant to a QDRO, because the Participant may have made one or more choice elections pursuant to the Qualified Plan, or because the Participant is also eligible to receive benefits from a pension plan offered by a Foreign Employer (as defined in the Qualified Plan) shall be ignored when computing the SERP Benefit, and shall not affect the amount of a Participant's Qualified Plan Benefit. Under no circumstances shall the payment of any benefit to an alternate payee pursuant to a QDRO work to increase or decrease any SERP Benefit to an amount other than that which would be payable hereunder if there were not a benefit payable to such alternate payee. Subject to the foregoing, the Qualified Plan Benefit is to be calculated pursuant to the pension benefit computation formulas of the Qualified Plan, as such formulas are in effect either (a) at the time of the Participant's retirement under the EDS 1998 SERP, or (b) at the Participant's death, in the event of the Employee's death before his or her retirement under the EDS 1998 SERP, provided such Participant had attained his or her Earliest Potential Retirement Age on or before his or her

death, and as they may be in effect from time to time thereafter to the extent they would be determinative of the Qualified Plan Benefit that could be payable from time to time to the Participant or his or her spouse.

(gg) Restoration Death Benefit means the Death Benefit, as

defined in the Restoration Plan, provided under the Restoration Plan.

(hh) Restoration Plan means the EDS Benefit Restoration Plan.

(ii) Retirement Date means the Participant's Early Retirement

Date, Normal Retirement Date or the Late Retirement Date as the case may be.

(jj) SERP Death Benefit is defined in Section 4.9 (Death

Benefit).

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(kk) Social Security Retirement Age means age 65 for

Participants born before 1938, age 66 for Participants born after 1937 and prior to 1955 and age 67 for Participants born after 1954.

(ll) Social Security Taxable Wage Base means the contribution

and benefit base in effect under Section 230 of the Social Security Act as of the first day in each Plan Year.

(mm) Targeted Pension, sometimes hereinafter called Targeted

Pension At Normal Retirement, is a single life pension annuity, calculated in accordance with Section 4.2 (Targeted Pension), that could be payable monthly from the Qualified Plan, the Restoration Plan and the EDS 1998 SERP, to an Employee who retires on his or her Normal Retirement Date under the assumptions that the Employee was never married, has no outstanding QDROs affecting his or her Qualified Plan Benefit, had never made a choice election pursuant to the Qualified Plan and elects to receive his or her Qualified Plan Benefit as a single life annuity.

(nn) Targeted Pension Reduced At Early Retirement is a

Participant's Targeted Pension, reduced in accordance with Section 4.3 (Targeted Pension Reduced At Early Retirement).

(oo) Targeted Pension At Late Retirement is a Participant's

Targeted Pension, adjusted as provided in Section 4.4 (Targeted Pension At Late Retirement).

(pp) Years of Credited Service shall mean the number of years

of Credited Service for Benefits (but in no event more than a maximum of 30 years) credited to the Employee pursuant to the provisions of the Qualified Plan as in effect on any date of determination.

2.2 Qualified Plan References. Any references herein to the Qualified

Plan shall refer to the provisions of the EDS Retirement Plan as in effect on any date of determination. However, in no event shall any reference to the Qualified Plan, or any other provision of this EDS 1998 SERP work to limit, restrict, amend, modify, alter, or otherwise impact the terms, operation, benefits, or administration of the Qualified Plan.

2.3 Gender or Number. Except when otherwise indicated by the context,

any reference to the masculine gender shall also include the feminine gender, or vice versa, and the definition of any term in the singular shall also include the plural, or vice versa.

2.4 Severability. In the event that any provision of the EDS 1998 SERP

shall be held invalid or illegal for any reason, any illegality or invalidity shall not affect the remaining parts of the EDS 1998 SERP, but the EDS 1998 SERP shall be construed and enforced as if the illegal or invalid provision had never been inserted. The EDS Compensation and Benefits Committee shall have the right and opportunity to correct and remedy such questions of illegality or invalidity by amendment as provided herein.

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2.5 Applicable Law. To the extent not controlled by the laws of the

United States of America, this EDS 1998 SERP shall be governed and construed in accordance with the laws of the State of Texas.

2.6 Contractual Obligations. The EDS 1998 SERP is not an employment

contract. It does not give to any person any rights to continued employment with the Employer. The EDS 1998 SERP does not give any person any rights to gain or to maintain eligibility to participate in the EDS 1998 SERP at his or her Retirement Date or any other date. All Employees remain subject at all times to change of responsibility level, including, but not limited to, change of job, change of salary, transfer, discipline, layoff, discharge and any other change

of employment status without regard for the impact that any change in employment status might have upon an Employee's eligibility to be a Participant in the EDS 1998 SERP.

ARTICLE III
PARTICIPATION

3.1 Participation. After the Effective Date, the requirements

of this Section 3.1 must be simultaneously satisfied by any Employee in the month prior to his Retirement Date. The Employee must:

(a) be in the active employment of the Company immediately prior to his or her Retirement Date;

(b) has executed a non-compete and nondisclosure agreement with the Employer; and

(c) Notwithstanding anything herein to the contrary, with respect to any Employee to whom additional Years of Credited Service or Age are granted or whose SERP Benefit is otherwise adjusted pursuant to Section 4.13 (Additional Years of Credited Service or Age), the Chairman may waive any of the conditions listed in this Section 3.1; provided, however, that, subject to Section 4.14 (Continued Employment and Reemployment of Participant Receiving or Having Received Benefits), no SERP Benefit shall be payable to any Employee so long as such Employee continues in active employment.

3.2 Ineligible Employees.

(a) No person who has retired from the Employer prior to the Effective Date shall be eligible to be a Participant in the EDS 1998 SERP and receive a SERP Benefit.

(b) Subject to Section 6.2 (Amendment and Termination) and this Section 3.2(b), no Participant shall vest in a SERP Benefit until his or her Retirement Date. However, a SERP Benefit shall be available to any Employee as a deferred vested benefit only in the event that a Participant who meets the conditions of Section 3.1 (Participation) is not yet eligible to commence receipt of benefits under Section 4.8 (Payment) because he or she has not yet commenced payment

of his or her benefit under the Qualified Plan. No Employee or former Employee may grow into eligibility for a SERP Benefit while a retiree under the Qualified Plan nor while on leave of absence, long-term disability, layoff or any other type of inactive status, except to the extent otherwise provided on an exhibit attached hereto and approved by the EDS Compensation and Benefits Committee.

(c) Notwithstanding an Employee's satisfaction of the requirements for participation herein, such Employee or his or her eligible spouse may nevertheless be deemed to be ineligible to participate or to continue to participate in the EDS 1998 SERP and be denied benefits hereunder if, upon consideration of the facts and circumstances and any advice or recommendation of the Employer, the EDS Compensation and Benefits Committee finds that such Employee's employment has been terminated for Cause, or that such Employee has violated any material term of any non-compete or non-disclosure agreements to which the Employee has entered into with the Employer.

ARTICLE IV
TARGETED PENSION LEVEL,
SERP BENEFIT AND PAYMENT

4.1 Form of Benefit.

(a) The EDS 1998 SERP has been created to provide certain Employees with a specified level of single life pension annuity benefits. The Targeted Pension is to be calculated in accordance with Section 4.2 (Targeted Pension) hereof, on the assumption that the Employee retires on his or her Normal Retirement Date with a single life annuity.

(b) The Targeted Pension Reduced At Early Retirement, calculated in accordance with Section 4.3 (Targeted Pension Reduced At Early Retirement) is also a single life pension annuity benefit but it is a reduced form of the Targeted Pension since it is payable before Normal Retirement Age. An Employee retiring on his or her Late Retirement Date shall receive a single life pension annuity benefit equal to a Targeted Pension At Late Retirement, calculated in accordance with Section 4.4 (Targeted Pension At Late Retirement) hereof.

(c) Notwithstanding anything herein to the contrary, the amount of any SERP Benefit payable hereunder shall be limited, if and as necessary, so that the sum of (A) all supplemental retirement plan benefits (including, but not limited to any SERP Benefit hereunder) and (B) all benefits from a qualified defined benefit plan, together with any non-qualified benefits that are based upon a qualified plan's defined benefit formulas, and all benefits from a pension plan offered by a Foreign Employer (as defined in the Qualified Plan) that are payable to the Participant (in respect of service to all members of the controlled group) shall not exceed the Participant's Targeted Pension, under the assumption that all of the Participant's pensionable service to all members of the controlled group had been rendered, instead, to EDS alone.

4.2 Targeted Pension. The Targeted Pension, which shall be payable to

an Employee who commences receipt of his or her Qualified Plan Benefit as a Normal Retirement Benefit under the Qualified Plan, shall be equal to:

(A) multiplied by (B) where (A) and (B) are as follows:

(A) is a fraction the numerator of which is equal to the Participant's Years of Credited Service (not to exceed 30), and the denominator of which is 30; and

(B) is equal to (1) minus (2), where (1) and (2) are as follows:

(1) is 55 percent of the Participant's Final Average Earnings; and

(2) is 19.5 percent of the Participant's Final Average Earnings not in excess of the Participant's Integration Level.

4.3 Targeted Pension Reduced At Early Retirement. When an Employee

retires early with SERP Benefit eligibility and commences receipt of his or her Qualified Plan Benefit as an Early Retirement Benefit under the Qualified Plan, the first step in the computational process that must be followed to determine the single life annuity benefit herein called the Targeted Pension Reduced At Early Retirement is to calculate the Targeted Pension that would be payable at the Employee's Normal Retirement Age in accordance with Section 4.2 (Targeted Pension) hereof, with the Employee's service and compensation history with the Employer to the Early Retirement Date being treated as if it were a service and compensation history to Normal Retirement Date, and by reducing the amount determined under Section 4.2(b)(1) above by 4% for each year, and a prorata fraction thereof for any portion of a year, that the Employee's Early Retirement Date is earlier than the Employee's attainment of age 62. In addition, the percentage specified in Section 4.2(b)(2) above shall be multiplied by the Offset Reduction Percentage in accordance with the following table for each year, and a prorata fraction thereof for any portion of a year (determined based on number of completed months), that the Employee's Early Retirement Date is earlier than the Employee's attainment of age 62; provided, however, that before the above described reductions are applied to determine the Targeted Pension Reduced At Early Retirement, the Targeted Pension will have been computed and capped, if necessary, as provided in Section 4.2, based upon the service, salary and bonus history that the Employee has as of his Early Retirement Date.

Age of Retirement

Offset Reduction Percentage

61	.93333
60	.86667
59	.80000
58	.73333

57	.66667
56	.63333
55	.60000

4.4 Targeted Pension At Late Retirement. When an Employee retires late

with SERP Benefit eligibility and commences receipt of his or her Qualified Plan Benefit as a Late Retirement Benefit under the Qualified Plan, the computational methodology of Section 4.2 (Targeted Pension) hereof shall be used to calculate the single life annuity benefit called the Targeted Pension At Late Retirement recognizing that the Employee is retiring under the EDS 1998 SERP on his or her Late Retirement Date with his or her Targeted Pension based upon his or her service and compensation history with the Employer to the Late Retirement Date instead of to the Normal Retirement Date. Accordingly, the Targeted Pension At Late Retirement is computed pursuant to Section 4.2 with the sole substitution being the use of Late Retirement for each reference to Normal Retirement.

4.5 SERP Benefits at Normal Retirement. The SERP Benefit payable, if

any, to a Participant who commences receipt of his or her Qualified Plan Benefit as a Normal Retirement Benefit under the Qualified Plan shall be a SERP Benefit at Normal Retirement. Such SERP Benefit at Normal Retirement is a single life pension annuity that would be payable on the first of each month, beginning on the Employee's Benefit Commencement Date, and continuing monthly thereafter for the remainder of the Employee's lifetime. The SERP Benefit at Normal Retirement shall be payable in a monthly amount equal to one-twelfth of the single life pension annuity benefit, calculated as follows (but not less than zero):

Targeted Pension At Normal Retirement

- (LESS)
- (a) the single life option of the Qualified Plan Benefit payable as of the Employee's Benefit Commencement Date, and
 - (b) the single life option of the Restoration Plan benefit payable commencing at Normal Retirement.

4.6 SERP Benefit at Early Retirement. The SERP Benefit payable, if

any, to a Participant who commences receipt of his or her Qualified Plan Benefit as a Normal Retirement Benefit under the Qualified Plan shall be a SERP Benefit at Early Retirement. Such SERP Benefit at Early Retirement is a single life pension annuity that would be payable on the first of each month, beginning on the Employee's Benefit Commencement Date, and continuing monthly thereafter for the remainder of the Employee's lifetime. The SERP Benefit at Early Retirement shall be payable in a monthly amount equal to one-twelfth of the single life

pension annuity benefit, calculated as follows (but not less than zero):

Targeted Pension Reduced At Early Retirement

- (LESS)
- (a) the single life option of the Qualified Plan Benefit payable as of the Employee's Benefit Commencement Date, and
 - (b) the single life option of the Restoration Plan benefit payable commencing at Early Retirement.

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4.7 SERP Benefit at Late Retirement. The SERP Benefit payable, if any,

to a Participant who commences receipt of his or her Qualified Plan Benefit as a Late Retirement Benefit under the Qualified Plan shall be a SERP Benefit at Late Retirement. Such SERP Benefit at Late Retirement is a single life pension annuity that would be payable on the first of each month, beginning on the Employee's Benefit Commencement Date, and continuing monthly thereafter for the remainder of the Employee's lifetime. The SERP Benefit at Late Retirement shall be payable in a monthly amount equal to one-twelfth of the single life pension annuity benefit, calculated as follows (but not less than zero):

Targeted Pension at Late Retirement

- (LESS)
- (a) the single life option of the Qualified Plan Benefit payable as of the Employee's Benefit Commencement Date, and
 - (b) the single life option of the Restoration Plan benefit payable commencing at Late Retirement.

4.8 Payment.

(a) Payment of a SERP Benefit must commence at the same time that the Participant commences payment of benefits under the Qualified Plan.

(b) Participants shall be given the right to elect under this EDS 1998 SERP to receive any form of benefit that may be elected under the Qualified Plan other than the Level Income Benefit. Payments under the elected form shall be Actuarially Equivalent to a single life annuity form. All such elections shall be made separately under this EDS 1998 SERP in accordance with procedures adopted and on a form provided by the Plan Administrator. A Participant who has retired from the Employer but has not yet commenced payment of his or her SERP Benefit may change his or her prior payment election only in accordance with procedures adopted and on a form provided by the Plan Administrator. In the event that a Participant is also eligible to receive a Restoration Benefit, then his election under this EDS 1998 SERP will also control the distribution of his Restoration Benefit.

(c) Notwithstanding anything herein to the contrary, if value of the Participant's SERP Benefit under this EDS 1998 SERP (including the SERP Death Benefit), as determined in accordance with procedures established by the Plan Administrator, plus the value of the Participant's benefit, if any, under the Restoration Plan, as determined in accordance with procedures established by the Plan Administrator does not exceed \$15,000, then such SERP Benefit shall be distributed in a single lump sum as soon as administratively practicable.

4.9 Death Benefit.

(a) If a Participant dies at a time when (i) his or her beneficiary under the Qualified Plan is entitled to payment of a Qualified Death Benefit, (ii) he or she has satisfied the eligibility requirements set forth in Section 3.1 (Participation) and (iii) he or she would otherwise be eligible to receive a Targeted Pension Reduced at Early Retirement, a Targeted Pension At

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Normal Retirement, or a Targeted Pension At Late Retirement, then such Participant's Beneficiary shall be entitled to a SERP Death Benefit under this Plan.

(b) The SERP Death Benefit payable on account of a Participant shall equal (i) the Actuarially Equivalent present value of the Targeted Pension that would be payable under this Plan, calculated as if the Participant had commenced payment of his or her Qualified benefit immediately prior to his or her death, including adjustment for Early or Late Retirement, if applicable, offset by (ii) the sum of the Actuarially Equivalent present values of the Qualified Death Benefit and the Restoration Death Benefit payable on account of such Participant.

(c) The SERP Death Benefit shall be payable in a single lump-sum payment; provided, however, that the Participant's spouse may instead receive the Death Benefit in the form of an immediate annuity payable for the life of the Participant's spouse and commencing on the date as of which payment of the Participant's Qualified Death Benefit commences if the Participant makes an election to have his SERP Death Benefit payable to his spouse as an annuity. Such election shall be made in accordance with procedures adopted by the Plan Administrator. In the event a Participant elects to have SERP Death Benefit shall be payable to his or her surviving spouse as an annuity, such spouse may instead elect to receive such SERP Death Benefit in the form of a lump sum, provided, however, that such lump sum shall equal the Actuarially Equivalent present value of the SERP Death Benefit reduced by six percent (6%).

(d) Notwithstanding any provision herein to the contrary, if the value of the SERP Death Benefit, as determined in accordance with procedures established by the Plan Administrator, plus the value of the Participant's

Restoration Death Benefit, as determined in accordance with procedures established by the Plan Administrator, does not exceed \$15,000, then such SERP Death Benefit shall be paid to the Beneficiary in a single lump sum as soon as administratively practicable after the Participant's death.

(e) No payment shall be made to a Beneficiary in accordance with this Section if, as of the date of the Participant's death, such Participant would be deemed ineligible to participate in the Plan pursuant to Section 3.2 (Ineligible Employees).

4.10 Beneficiaries. Each Participant may, on a form provided for that -----
purpose, signed and filed with the Plan Administrator at any time prior to distribution of such Participant's SERP Benefit, designate a Beneficiary or Beneficiaries to receive the SERP Death Benefit or any benefit under the form of payment selected by the Participant which may be payable in the event of such Participant's death. Each such designation may be revoked by such Participant by signing and filing with the Plan Administrator a new designation of Beneficiary form prior to complete distribution of such pension benefit.

In the event that a Participant has not designated a Beneficiary, his Beneficiary shall be his spouse. If the Participant does not have a surviving spouse, his Beneficiaries shall be his children, if any, in equal shares. If the Participant has no children, then his Beneficiary shall be his estate. An individual shall be considered to be a Participant's surviving spouse only if he or she had been married to the Participant for at least twelve (12) months prior to the Participant's date of death.

If a Participant has designated the Participant's spouse as a Beneficiary and as of the time of the occurrence of a distributable event, the Participant is no longer married to such designated Beneficiary and has not properly designated another Beneficiary in lieu of the Participant's ex-spouse, then such designated Beneficiary shall be paid benefits in accordance with the Beneficiary designation and the terms of the Plan.

Notwithstanding anything herein to the contrary, if the Participant is also the Participant in the Restoration Plan, then the Beneficiary for the Restoration Plan and this Plan for purposes of the SERP Death Benefit and the Restoration Death Benefit must be the same individual or individuals. In the event that the Participant files designations purporting to designate different Beneficiaries for such benefits, then the designation under this Plan shall control for purposes of determining the Participant's Beneficiary or Beneficiaries for both the Restoration Plan and this Plan.

4.11 Adjustment to Benefit Payments. In the event that, after a -----

Participant's SERP Benefit has been determined under this Article IV and the Participant has commenced receipt of his or her SERP Benefit, the amount payable to a Participant under the Qualified Plan is increased due to increases in the Section 415 Limitation applicable to such payments or for any other reason other than an actuarially equivalent adjustment that does not increase the total benefit payable from the Retirement Plan, then such Participant's SERP Benefit shall be reduced to the extent necessary so that the Participant's SERP Benefit does not cause the total benefit payable to such Participant to exceed the Participant's Targeted Pension, as provided in Section 4.1(c).

4.12 Reduction, Suspension or Elimination of Benefits. Any decision to

reduce, suspend or eliminate a benefit pursuant to Section 3.2(c) herein shall be made by the EDS Compensation and Benefits Committee after consideration of the facts and circumstances of the situation and any advice and recommendations received from the Chairman.

4.13 Additional Years of Credited Service or Age. In the sole and

absolute discretion of the Chairman, subject only to the review of the EDS Compensation and Benefits Committee, or in the discretion of the EDS Compensation and Benefits Committee, a Participant may be (i) provided with additional years of age, Years of Credited Service for Benefits, Years of Credited Service for Vesting, as defined in the Retirement Plan, for any purpose under this EDS 1998 SERP Plan, (ii) provided with benefits supplemental to, or otherwise calculated in a different manner from, his or her Targeted Pension, or (iii) permitted to commence payment of his or her SERP Benefit notwithstanding the fact that such Participant is not yet eligible for or has not yet commenced payment of his or her benefit under the Qualified Plan. Any such additional benefit or payment provisions shall be as set forth in a separate, written agreement with such Participant which shall otherwise be subject to all the terms of this 1998 EDS SERP.

4.14 Continued Employment and Reemployment of Participant Receiving or

Having Received Benefits

(i) No benefits accrued under this EDS 1998 SERP may be distributed to a Participant while the Participant remains in active employment.

(ii) Notwithstanding anything herein to the contrary, if a Participant who terminates his employment and begins receiving a distribution of his SERP Benefit is subsequently reemployed, payment of such Participant's SERP Benefit shall continue without interruption. At the time of the Participant's subsequent termination of employment, his or her SERP Benefit shall be recalculated and payment of his or her

SERP Benefit shall be adjusted to reflect any increase in his or her SERP Benefit attributable to his or her additional service.

ARTICLE V
ADMINISTRATION

5.1 Administration. EDS, acting through its Chairman, shall be the

Plan Administrator. The Plan Administrator shall have the authority that is expressly stated in this EDS 1998 SERP as being delegated and empowered to the Plan Administrator and shall have the authority to handle the day-to-day administration of the EDS 1998 SERP and to administer and interpret the EDS SERP according to its provisions, subject only to review by the EDS Compensation and Benefits Committee.

5.2 Finality of Determination. Determinations of the Plan

Administrator as to any disputed questions arising under this EDS 1998 SERP, including questions of construction and interpretation shall be final, binding, and conclusive upon persons. All determinations reserved for the EDS Compensation and Benefits Committee herein shall be final, binding and conclusive upon all persons.

5.3 Expenses. The expenses of administering the EDS 1998 SERP shall be

borne by the Employer.

ARTICLE VI
MERGER, AMENDMENT, AND TERMINATION

6.1 Merger, Consolidation or Acquisition. In the event of a merger,

consolidation, or acquisition where the Employer is not the surviving corporation, this EDS 1998 SERP shall continue as an obligation of the surviving corporation.

6.2 Amendment and Termination. The EDS Compensation and Benefits

Committee may amend, modify, or terminate the EDS 1998 SERP at any time; provided, however, that no amendment, modification, or termination of the EDS 1998 SERP shall deprive an Employee or eligible spouse of any benefit if, as of the effective date prior to the date of amendment, modification or termination, such Employee satisfied the provisions of Section 3.1 (Participation). In addition any person who is an Employee as of the effective date of any amendment or modification to either this EDS 1998 SERP or the Qualified Plan which would otherwise adversely impact, curtail, reduce, or eliminate such Employee's or Employee's spouse's SERP Benefit, or accrual or future accrual of

such benefit, or, who is an Employee as of the effective date of termination of this EDS 1998 SERP, will continue to be eligible for and receive a SERP Benefit as if the EDS 1998 SERP or Qualified Plan (as the case may be) continued without such amendment, modification or termination until all SERP Benefits are earned and paid in full to such Employees. However, nothing herein shall restrict or limit the right of the Company to amend, modify or terminate the Qualified Plan, or cause the Qualified Plan to operate or be administered contrary with its terms.

ARTICLE VII
MISCELLANEOUS PROVISIONS

7.1 Funding. Benefits hereunder shall constitute an unfunded

obligation of the Employer, but the Employer may create reserves, funds, and/or provide for amounts to be held in trust on the Employer's behalf. Payment of benefits may be made by the Employer, on behalf of the Employer by such a trust or through a service or benefit provider to the Employer or such trust. No Participant, Employee, or any other person shall have any right, title, or interest whatsoever in or to, or any preferred claim in or to, any such trust assets or to any other investment reserves, accounts, or funds that the Employer may purchase, establish, or accumulate to aid in providing the payments described in this EDS 1998 SERP. Nothing contained in this EDS 1998 SERP, and no action taken pursuant to its provisions, shall create or be construed to create a trust or a fiduciary relationship of any kind between the Employer and a Participant, Employee, or any other person.

7.2 Tax Withholding. The Employer may withhold or cause to be withheld

from any benefit payment any withholding or other taxes required to be withheld with respect to such payment and such sum as the Employer may reasonably estimate as necessary to cover any withholding or other taxes which may be due and owing as a result of any SERP Benefit or the creation or maintenance of this EDS 1998 SERP.

7.3 Other Plans. No benefit payable hereunder shall be deemed

compensation to the Participant for the purposes of computing benefits to which such Participant may be entitled under the Qualified Plan or any other plan or arrangement of the Employer for the benefit of its employees.

7.4 Anti-assignment and Nontransferability. An Employee, Participant,

eligible spouse or other person shall have no rights, by way of anticipation or otherwise, to assign or otherwise dispose of any interest under this EDS 1998 SERP, nor shall rights be assigned or transferred by operation of law. No SERP

Benefits hereunder may be assigned except pursuant to a QDRO.

IN WITNESS WHEREOF, the Company has caused this instrument to be executed and adopted by its duly authorized officers on June 25, 1998, and amended as of this 14th day of December, 1998.

ELECTRONICS DATA SYSTEMS CORPORATION

By: /s/ Lester M. Alberthal, Jr.

Lester M. Alberthal, Jr.
Chairman and Chief Executive Officer

AGREEMENT BETWEEN
ELECTRONIC DATA SYSTEMS CORPORATION
AND
GARY J. FERNANDES

This Agreement between EDS (hereinafter defined), and Gary J. Fernandes ("Executive") is entered into on the Effective Date (hereinafter defined).

I. RECITALS

1. Executive has been employed as an executive of EDS and in such capacity has obtained trade secrets, and highly confidential business, technological, customer, and strategic information, as well as business and other information relating to the internal affairs of EDS.

2. Executive desires to retire from EDS. In conjunction with Executive's desire, and pursuant to the terms hereof, Executive will receive substantial compensation and other benefits from EDS that otherwise would not be available to him.

3. It is the desire of both parties that the remainder of Executive's employment at EDS, and his subsequent retirement from EDS, be conducted in an amicable manner and without undue prejudice to either party.

4. During his tenure at EDS, Executive has been entrusted with, acquired, or developed substantial knowledge and expertise of a special nature relating to the business, financial and functional areas of EDS, as well as information and knowledge concerning EDS' internal business affairs.

5. As set forth below, EDS is providing the Executive benefits of substantial value under the Agreement, and Executive agrees to be strictly bound by the terms hereof.

THEREFORE, in order to set forth the terms, conditions and covenants upon which the parties have agreed, EDS and Executive agree as follows:

II. CERTAIN DEFINITIONS.

1. "EDS" shall mean Electronic Data Systems Corporation, a Delaware corporation, and all of its direct and indirect subsidiaries and affiliated entities and successors and assigns thereof.

2. "EDS Information" shall mean all business information, financial information, technological information, intellectual property, trade secrets, and customer information belonging to EDS or relating to EDS' internal affairs, or information relating to its business, technology and customers which is not available to the general public.

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3. The term "Participate" shall mean lending one's name to, acting as a consultant or advisor to, being retained or employed by, or acquiring any direct or indirect interest in any business or enterprise, whether as a stockholder, partner, officer, director, employee or otherwise (other than by ownership of less than two percent of the stock of a publicly-held corporation).

4. Subject to the approval of the EDS Board of Directors and/or the Compensation and Benefits Committee of the EDS Board of Directors, the term "Effective Date" shall be the later of December 1, 1998, or the date seven days after Executive signs the Agreement on the signature page below. Absent the approval of the EDS Board of Directors and/or the Compensation and Benefits Committee of the EDS Board of Directors, this Agreement shall be null and void and of no force and/or effect.

III. TERMS

1. Change of Status and Subsequent Termination of Employment. Pursuant to his request, as of December 31, 1998, Executive shall resign from all positions held by him at EDS as an officer, director, and/or employee. On January 1, 1999, Executive will retire from EDS. Executive shall have the right to review and approve, prior to publication, any press releases that are issued by EDS to announce Executive's retirement from EDS. However, Executive acknowledges he shall not have the right to unreasonably withhold his approval regarding any such press releases. From January 1, 1999 until December 31, 2000, Executive agrees he shall act as a consultant and provide EDS with advice, information, guidance, and assistance as reasonably requested.

2. Non-Competition and Other Conduct. Executive acknowledges and agrees that under the terms and provisions of this Agreement, and in consideration for compliance with the terms, conditions and covenants hereunder, he will receive benefits from EDS that would not otherwise be available to him, and that such benefits are substantial and material. Executive further acknowledges and agrees that in the course of his employment with EDS he has been entrusted with, and been privy to, sensitive, privileged and confidential EDS Information, and as an executive of EDS has participated in the legal affairs, management, strategic planning and development of the business and services of EDS, the analysis of the needs and requirements of EDS' customers, and other similar matters that, if discussed, communicated, or disclosed to third parties or used in competition with EDS, would be highly detrimental to EDS. In addition, Executive has been

entrusted with, and has obtained, EDS Information. Accordingly, Executive agrees to the following provisions and covenants:

2.1 Non-Competition and Other Restrictions. For the period of time that Executive is receiving cash or stock benefits pursuant to Subsection 4 hereof or for two years following Executive's resignation from EDS, whichever is longer, Executive will not (without EDS' express written waiver), directly or indirectly, engage in the following conduct:

- a. Participate in any activities as or for a competitor of EDS (i) which are the same or similar to the duties performed by Executive at any time during the 12-month period preceding his separation from EDS; or (ii) which involve

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the use of any EDS Information which Executive has received, obtained or acquired during, or as a consequence of, his employment with EDS;

- b. Participate in the direction of the business, affairs or policies of a competitor of EDS, whether by way of serving in a position as a director or senior executive or by way of the exercise or potential exercise of voting power of securities of such competitor (other than by ownership of less than two percent of the stock of a publicly-held corporation);
- c. Become employed by or act as a consultant or advisor to any current EDS customer or become employed by or act as a consultant or advisor to any prospective EDS customer (for purposes of this subparagraph (c), prospective EDS customer shall mean any person or entity with whom EDS is at the time actively negotiating a contract). Despite the foregoing, this subparagraph (c) shall not prohibit Executive from continuing to be employed by or continuing to act as a consultant or advisor to any person or entity that was not an EDS customer or prospective EDS customer at the time Executive became employed by or began acting as a consultant or advisor to such person or entity.
- d. Participate in the inducement of or otherwise encourage EDS employees, customers, or vendors to breach, modify, or terminate any agreement or relationship they may have with EDS;
- e. Participate voluntarily with or provide assistance or information to any person or entity that is involved in (i) negotiations with EDS involving a contract or services to be rendered by EDS; or (ii) a potential or existing business or legal dispute with EDS, including, but not limited to, litigation, except as may otherwise be required by law;

- f. Hire, attempt to hire or assist any other person or entity in hiring or attempting to hire any person who was an EDS employee within the preceding six-month period;
- g. Solicit, divert, or take away, in competition with EDS, the business or patronage of any current EDS customer or any prospective EDS customer (for purposes of this subparagraph (g), prospective EDS customer shall mean any person or entity with whom EDS is at the time actively negotiating a contract). Despite the foregoing, this subparagraph (g) shall not prohibit Executive from continuing to provide services to any person or entity that was not in competition with EDS at the time Executive began providing services to such person or entity.

With regard to the prohibitions contained in Subsections 2.1(a), (b), and (c) of Section III of this Agreement, EDS agrees it shall exercise good faith in considering Executive's requests for written waivers, and EDS agrees that its decisions in that regard shall be reasonable and based on rational

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business concerns and/or judgment. In the event Executive wishes to request a waiver of any provision of this Subsection 2.1, he shall do so in writing addressed to the Vice President & General Counsel of EDS. Upon receipt of a written request from Executive for a waiver, EDS shall respond in writing within five (5) business days of receipt of the request.

2.2 Other Conduct. Executive will not discuss, disclose, communicate, or use for any purpose any EDS Information. (By way of example and not by way of limitation, absent written approval from EDS, Executive shall not publish any books or articles related to EDS Information and shall not grant interviews and/or make public appearances regarding his employment at EDS). Except for any interviews and/or written statements EDS may request Executive to participate in and/or provide that are associated with his retirement from EDS, Executive agrees that absent written approval by EDS, he shall make no public statements nor publish in any form any information related to his retirement and/or pending retirement from EDS. Executive further agrees he will not commit any act or make any statement that is, or could reasonably be interpreted as, detrimental to the business, reputation, or good will of EDS, including disparaging or embarrassing EDS or its officers, directors, agents, attorneys and other personnel, or discussing EDS Information with any third parties. However, Subsection 2.2 shall not prohibit Executive from communicating to third parties general information about his duties and responsibilities while employed by EDS, general information about EDS that is available to the general public, and general information about the positions he held while employed by EDS. No later than December 31, 1998, Executive shall return to EDS all EDS property and documents and other tangible items of or containing EDS Information which are in Executive's possession, custody or control. EDS and Executive acknowledge that the terms of this Subsection 2.2 shall not preclude Executive from providing truthful testimony if

mandated by subpoena or court order to do so. EDS further agrees that Executive's providing truthful testimony pursuant to subpoena or court order shall not constitute a violation and/or breach of this Agreement.

2.3 Remedies. If the scope of any provision contained in Subsection 2 of Section III of this Agreement is too broad to permit enforcement of such provision to its full extent, then such provision shall be reformed and/or modified to exclude the unenforceable language, and enforced as reformed or modified to the maximum extent permitted by law, in any proceedings brought to enforce such provision. Subject to the provisions of the foregoing sentence, whenever possible, each provision of Subsection 2 of Section III of this Agreement will be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of the Agreement is held to be prohibited by or invalid under applicable law, such provision, to the extent of such prohibition or invalidity, shall be deemed not to be a part of the Agreement, and shall not invalidate the remainder of such provision or the remaining provisions of the Agreement. Executive understands and agrees that EDS would be irreparably damaged in the event that the provisions of Subsection 2 of Section III of this Agreement are violated. Accordingly, and subject to the notice requirements in Subsection 14 of Section III of this Agreement, if applicable, Executive agrees that EDS shall be entitled (in addition to any other remedy to which it may be entitled, at law or in equity) to an injunction or injunctions to redress breaches of the Agreement and to specifically enforce the terms and provisions hereof. In the event of litigation pursuant to Subsection 2 of Section III of this Agreement, the prevailing party shall be entitled to recover its attorney's fees from the other party.

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3. Cooperation. Executive covenants and agrees that from and after the Effective Date, he will cooperate fully with EDS, its officers, employees, agents, affiliates and attorneys in the defense or prosecution of any lawsuit, dispute, investigation or other legal proceedings or any preparation for any such disputes or proceedings that may exist, be anticipated, or threatened ("Proceedings") related to EDS business during the period of Executive's employment with EDS. Executive further covenants and agrees that he will cooperate fully with EDS, its officers, employees, agents, affiliates and attorneys on any other matter ("Matters") related to EDS business during the period of Executive's employment with EDS. Executive also covenants and agrees he will cooperate fully with EDS, its officers, employees, agents, affiliates and attorneys in responding to any form of media inquiry or in making any form of public comment related to his employment at EDS, including, but not limited to, his retirement or pending retirement from EDS.

Such cooperation shall include providing true and accurate information or documents concerning, or affidavits or testimony about, all or any matters at issue in any Proceedings/Matters as shall from time to time be requested by EDS, and shall be within the knowledge of Executive. Such cooperation shall be provided by Executive without remuneration, but Executive shall be entitled to

reimbursement for all reasonable and appropriate expenses incurred by him in so cooperating, including (by way of example and not by way of limitation) airplane fares, hotel accommodations, meal charges and other similar expenses to attend Proceedings/Matters outside of the city of Executive's residence. In the event Executive is made aware of any issue or matter related to EDS, is asked by a third party to provide information regarding EDS, or is called other than by EDS as a witness to testify in any matter related to EDS, Executive will notify EDS within three (3) business days in order to give EDS a reasonable opportunity to respond and/or participate in such Proceeding/Matter. EDS shall provide Executive with reasonable, under the circumstances, notice of the need for his cooperation and shall reasonably attempt to accommodate his schedule.

4. Compensation, Benefits and Other Consideration to be Received by Executive. Following the Effective Date of the Agreement and subject to Executive's ongoing compliance with the terms, conditions, and covenants in this Agreement (but subject to the limitations of Paragraph 14 of Section III), Executive shall be entitled to the following compensation, benefits and other consideration to be paid or conveyed pursuant to the terms, conditions and covenants in this Agreement, as set forth below:

- a. Executive's current salary (\$500,000.00 per annum), which will be paid semi-monthly, and other benefits, including (by way of example and not by way of limitation) health and dental benefits provided to other EDS executives, will be continued through December 31, 1998.
- b. From January 1, 1999 until December 31, 2000, Executive shall receive from EDS twenty-four (24) monthly payments in the amount of \$41,667.00, which combined shall total \$1,000,008.00. Executive agrees to pay all federal, state and local taxes associated with such payments. Such monthly payments shall be made to Executive on or before the tenth of each month.
- c. In January of 1999, Executive will receive a residual bonus in the amount of \$143,750.00, less all applicable deductions.

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- d. The shares of EDS common stock awarded to Executive under the provisions of the 1984 Electronic Data Systems Corporation Stock Incentive Plan (SIP), which was restated in its entirety as set forth in the 1996 Incentive Plan of Electronic Data Systems Corporation (1996 Incentive Plan). Such shares are scheduled for vesting in the years 1999 through 2008 (414,000 shares in the aggregate), and shall vest according to the following schedule:

	1994	1997
Dates of	Agreement	Agreement

Vesting	Shares	Shares	Total Shares
-----	-----	-----	-----
March of 1999	12,000	25,000	37,000
March of 2000	12,000	25,000	37,000
March of 2001	12,000	25,000	37,000
March of 2002	12,000	25,000	37,000
March of 2003	12,000	25,000	37,000
March of 2004	12,000	25,000	37,000
March of 2005	12,000	25,000	37,000
March of 2006	0	25,000	25,000
March of 2007	0	50,000*	50,000
March of 2008	0	0	0
August of 2008	80,000	0	80,000
TOTAL			414,000

*The 50,000 shares of stock scheduled for vesting in March of 2007 consist of 25,000 shares that did not vest in March of 1998. Executive shall vest in the 25,000 shares of stock tentatively scheduled for vesting in March of 1998 at the same time as other similarly situated EDS officers vest in such

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shares. However, Executive shall vest in such shares no later than March of 2007.

e. The above-referenced shares shall vest pursuant to and in accordance with the terms of the SIP as restated as the 1996 Incentive Plan and the individual agreements with the Executive awarding such shares, excluding the performance objective contingency contained in Paragraph 2(a)(i) and the contingencies/restrictions contained in Paragraphs 3(c), 3(e) and 3(g) of Executive's Restricted Stock Unit Agreement dated May 2, 1994 (1994 Agreement), and further excluding the performance

objective contingency contained in Paragraph 2(a) and the contingencies contained in Paragraphs 2(b), 3(a), 3(b), 3(c), 3(d), the provisions of Paragraph 2(c) unless the Compensation and Benefits Committee (Committee) of the EDS Board of Directors (Board) exercises its discretion to accelerate the vesting of the shares, and the 24-month sales restriction set forth in Paragraph 4 of Executive's 1996 Incentive Plan Restricted Stock Unit Agreement dated January 3, 1997 (1997 Agreement). The parties recognize and affirm that this Agreement constitutes an agreement of the Committee and/or Board acting pursuant to the terms of the SIP and the 1996 Incentive Plan to vest all shares as provided herein, which vesting schedule is authorized in Section 6(b) of the 1996 Incentive Plan, Paragraph 3(f) of the 1994 Agreement, and Paragraph 2(c) of the 1997 Agreement.

- f. The option shares of EDS common stock awarded to Executive under the provisions of the 1996 Incentive Plan Nonqualified Stock Option Agreement dated December 17, 1996 (1996 Incentive Plan Nonqualified Agreement) (500,000 shares in the aggregate), shall become exercisable pursuant to and in accordance with the 1996 Incentive Plan and the 1996 Incentive Plan Nonqualified Agreement awarding such option shares, excluding the contingencies contained in Paragraph 3 of the 1996 Incentive Plan Nonqualified Agreement. Additionally, and irrespective of the language contained in Paragraph 5 of the 1996 Incentive Plan Nonqualified Agreement, Executive shall be permitted to change the beneficiary designation after terminating his employment.
- g. Subject to and limited by the express terms of the respective controlling plan documents, commencing January 1, 1999, Executive's retirement benefits under the EDS Retirement Plan, the EDS Benefit Restoration Plan and a supplemental executive retirement benefit shall be paid in the annual amounts as stated herein: (1) Executive shall be paid an annual single life annuity payment from the EDS Retirement Plan equal to \$59,189.28, or its actuarial equivalent; (2) Executive shall be paid an annual single life annuity payment from the EDS Benefit Restoration Plan equal to \$208,425.00 or the actuarial equivalent thereof, and; (3) Executive shall be paid an annual single life annuity supplemental executive retirement benefit payment in the amount of \$159,303.36, or the actuarial equivalent. The total of such annual payments when calculated as a single life annuity shall not be less than \$426,917.64. Such payments shall be made in the manner and method as provided by the controlling plan and payable to the Executive or the Executive's beneficiary in accordance with the express terms and conditions of the controlling plan documents.

For purposes of this agreement the term "actuarial equivalent" shall have the same meaning as designated by the EDS Retirement Plan at the time benefits commence.

The foregoing compensation, benefits and other consideration to be received by Executive constitute his sole and exclusive rights to any payments or benefits from EDS, and Executive shall receive no consideration or benefits other than those expressly granted herein, except for benefits to which he is entitled under any EDS plan qualified under Section 401(a) of the Internal Revenue Code, including the EDS Retirement Plan and the EDS 401(k) Plan (cumulatively referred to as "Qualified Plans") and pursuant to COBRA.

5. Change In Control. In the event EDS experiences a change in control (as defined in Appendix "A") at anytime prior to August 1, 2008, sixty (60) days thereafter, Executive shall be provided with immediate vesting and exercisability of, and termination of any restrictions on sale or transfer (other than any such restriction arising by operation of law) with respect to each and every stock option, restricted stock award, restricted stock unit award, and other equity-based award that is then outstanding, including, but not limited to, the stock referred to in Subsection 4 of Section III of this Agreement.

6. Indemnification of Executive. EDS agrees to indemnify Executive pursuant to the terms of the Indemnification Agreement dated March 12, 1996.

7. Effect of Executive's Death. In the event of Executive's death, his estate shall receive, if not already delivered, the compensation, benefits, and other consideration set forth in Subsection 4 of Section III of this Agreement. Benefits payable under any Qualified Plan and the EDS Benefits Restoration Plan shall be paid in such form and to such beneficiary as elected by Executive in accordance with the terms of the respective plans. The supplemental executive retirement benefit payable hereunder shall be paid in such form and to such beneficiary as elected under the EDS Retirement Plan.

8. Complete Release. It is understood and agreed by the parties that except as specifically set forth in this Agreement, EDS shall not be required to pay any amount or provide any benefit to Executive. As of the Effective Date of this Agreement, Executive hereby releases EDS, and the employees, agents, attorneys, officers and directors of EDS, from all claims or demands Executive may have based on Executive's employment with EDS or the termination of that employment. As of the Effective Date of this Agreement, Executive also releases EDS, and the employees, agents, attorneys, officers and directors of EDS, from all other claims, contracts or causes of action of any nature whatsoever, that he has or may have, whether accrued or contingent, and whether known or unknown. Such release includes, but is not limited to, a release of any rights or claims Executive may have under the Change of Control Employment Agreement dated June 26, 1996; the Age Discrimination in Employment Act, which prohibits age discrimination in employment; Title VII of the Civil Rights Act of 1964, as amended by the Civil Rights Act of 1991, which prohibits discrimination in

employment based on race, color, national origin, religion or sex; the Equal Pay Act, which prohibits paying men and women unequal pay for equal work; the Americans with Disabilities Act of 1990, which prohibits discrimination against disabled persons; or any other federal, state or local laws or regulations prohibiting employment discrimination. This also includes a release by Executive of any claims for wrongful discharge or workplace torts.

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This release agreement does not include a release of (i) Executive's right, if any, to pension, retiree health or similar benefits under EDS' standard retirement program, (ii) any rights or claims that Executive may have under the Age Discrimination in Employment Act which arise after the date Executive signs this Agreement, or (iii) any rights or claims Executive may have pursuant to the terms of this Agreement or any EDS Plan subject to the Employment Retirement Income Security Act of 1974.

9. Period for Review and Consideration of Agreement. Executive understands he has been given a period of 21 days to review and consider this Agreement before signing it. Executive further understands he may use as much of the 21 day period as he wishes prior to signing.

10. Encouragement to Consult with Attorney. Executive acknowledges he was encouraged to and did consult with an attorney before signing this Agreement.

11. Employee's Right to Revoke Agreement. Executive may revoke this Agreement within seven days of signing it. Revocation can be made by delivering a written notice of revocation to EDS. For the revocation to be effective, written notice must be received by EDS no later than the close of business on the seventh day after Executive signs the Agreement. If Executive revokes the Agreement, it shall not be effective or enforceable and Executive will not receive the benefits described in Subsection 4 of Section III or any other payments or benefits from EDS, except those to which he otherwise is entitled to by law.

12. Amendments. This Agreement may not be modified or amended, and there shall be no waiver of its provisions, except by a written instrument executed by Executive and a corporate officer of EDS.

13. Entire Agreement. This Agreement, in conjunction with the Restricted Stock Unit Agreement dated May 2, 1994, the Restricted Stock Unit Agreement dated January 3, 1997, the Nonqualified Stock Option Agreement dated December 17, 1996, the Indemnification Agreement dated March 12, 1996, and the EDS 1998 Supplemental Executive Retirement Plan, which are incorporated herein by reference, constitute the entire agreement of the parties, and supersede and prevail over all other prior agreements, understandings or representations by or between the parties, whether oral or written, including, but not limited to, the Change of Control Employment Agreement (which Executive acknowledges is terminated and of no further force and/or effect), with respect to Executive's

employment with EDS and the subject matters herein. However, the parties to this Agreement expressly acknowledge that the provisions of this Paragraph will not modify and/or limit Executive's entitlement to benefits pursuant to any EDS plan qualified under Section 401(a) of the Internal Revenue Code, including the EDS Retirement Plan and the EDS 401(k) Plan. To the extent provisions in this Agreement directly conflict with provisions in the above-referenced Agreements, the provisions in this Agreement shall control.

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14. Discharge of EDS Upon Executive's Breach. If Executive materially violates, or materially fails to comply with the terms, conditions or covenants herein, and does not cure such violation within 30 days after being given written notice of such violation (it is expressly agreed to by the parties that such opportunity to cure shall not exist with regard to the conduct described in Paragraph 2.2 of Section III of this Agreement), EDS, in addition to having its other legal and equitable remedies, is discharged and released from all its obligations under this Agreement, including, but not limited to, all obligations to provide any unpaid or unconveyed salary, benefits, stock benefits, or remuneration described in Subsection 4 of Section III of this Agreement.

15. Confidentiality. Executive and EDS agree that the terms of this Agreement shall be kept strictly confidential, except as may be required by law, or, in the case of EDS, for internal business purposes. Executive may disclose such information to his spouse, to individuals retained by him to provide advice/guidance on personal financial and/or legal matters, to individuals retained by him to provide administrative assistance, or as may be required by a financial institution for business reasons (but in all such instances only if Executive shall have first obtained from such individuals and/or institutions their written agreement to maintain the confidentiality of such information).

16. Governing Law. Except as otherwise expressly provided herein, this Agreement and its enforceability shall be governed by and construed in accordance with the substantive law of the State of Texas. Any dispute or conflict arising out of or relating to the Agreement, except for an action brought by EDS pursuant to Subsection 2.1 above, must be brought in a court of competent jurisdiction located in Collin County, Texas.

17. Notices. All notices and other communications hereunder shall be in writing and shall be given by telecopy or facsimile transmission at the telecommunications number set forth below, by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows and shall be effective upon receipt:

If to Executive:

Gary J. Fernandes
[address on file with the Company]

If to EDS:

Telecommunications Number: (972) 604-3454
5400 Legacy Drive H3-1E-54
Plano, Texas 75024
Attention: Bill Moore
Director, Corporate Compensation

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With a copy to:
Telecommunications Number (972) 605-0791
5400 Legacy Drive H3-3D-05
Plano, Texas 75024
Attention: Nick Linn
Manager, Labor & Employment Litigation

EXECUTIVE ACKNOWLEDGES THAT HE HAS READ THIS AGREEMENT, UNDERSTANDS IT AND IS VOLUNTARILY ENTERING INTO IT.

PLEASE READ THIS AGREEMENT CAREFULLY. IT CONTAINS A RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS.

IN WITNESS WHEREOF, the parties have executed this Agreement to be binding and enforceable on the Effective Date.

EXECUTIVE:

/s/ Gary J. Fernandes

Gary J. Fernandes

Dated: as of 12/1/98

EDS:

/s/ Lester M. Alberthal, Jr.

By: Lester M. Alberthal, Jr.
Chairman of the Board and
Chief Executive Officer

Dated: as of 12/1/98

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March 31, 1998

Mr. Robert Mintz
21 Twin Oaks
Shorthills, NY 07078

Dear Bob,

It is with great pleasure that I extend, on behalf of EDS, the following offer for you to join EDS as Executive Vice President responsible for Human Resources. Employment to begin on a mutually agreeable date as soon as possible. The following compensation components are included in this offer:

I. Signing Bonus

A. Cash - A \$400,000 cash bonus will be paid on the employment date.

B. Restricted Stock - 50,000 shares of restricted stock will be awarded to you on the employment date. One half of the stock will vest immediately and the remainder in 1999.

II. Compensation and Executive Benefits Summary

A. Annual Salary - An initial annual salary of \$380,000 will be paid. Salaries are reviewed at a minimum on an annual basis.

B. Annual Bonus - Executive bonuses are determined annually and are based upon the success or failure of the company for that year. You will be a participant in the 1998 Executive Bonus Plan with a targeted award of approximately 110% of salary. Actual awards are based upon corporate and individual performance. These awards are paid in three installments, 50% in January following the performance year, and 25% on the next two anniversary dates. We will guarantee you a minimum annual award of \$350,000 for the first two years of service.

C. Restricted Stock Grant - On the date of hire you will be granted 100,000 shares of EDS Restricted Stock Units. These RSUs will vest ratably over 5 years. Dividend equivalents will be paid in cash on

Mr. Robert Mintz

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vesting, approximately 30% of the shares will be withheld for taxes and 20% will be free and unrestricted, the other 50% must be held for two years. Corporate grants of restricted stock are scheduled to occur every two years.

D. Stock Options - On the date of hire you will be granted 200,000 stock options at a strike price equal to the share price on the date of the grant. These options will vest when the share price doubles or at the end of ten years, whichever occurs first. After vesting you will have five years to exercise the options. Future stock options will be granted whenever warranted.

E. Salary Continuation - You will join a plan that provides, in the case of your death, continued salary payments to your spouse for the greater of ten years or until you would have reached the age of 65.

F. Change of Control Agreement - You will be provided an agreement that will insure vesting of all outstanding stock awards and the continuation of cash compensation for 5 years following a Change of Control.

G. Automobile - EDS will lease for you any GM or SAAB vehicle that you choose. A new car may be chosen every two years.

H. Financial Planning - EDS will pay the fees of a Financial Planning Consultant of your choice. The majority of our senior executives use AYCO which is familiar with our compensation practices.

I. Executive Physical - You may expense the cost of an executive physical once a year. You may choose the doctor or use the services of Cooper Clinic, a renown health and fitness clinic here in Dallas.

J. Relocation - A full relocation program will be provided which includes house hunting, temporary living, travel enroute, home selling of current residence, household goods shipment, and reimbursement of closing costs associated with new residence. When relocation costs are added to your income, they will be grossed up to cover any tax liability. Finally you will be provided a no interest bridge loan at an agreed upon amount to assist in the purchase of your new residence.

K. Life Insurance - Life insurance of \$300,000 will be provided at no cost while additional insurance of up to \$5,000,000 can be purchased at group

rates. Additionally all restricted stock and stock options will immediately vest to your beneficiary or estate in the case of your death or full disability.

L. Severance Agreement - The corporation will provide a severance agreement that will guarantee one year's salary and full payment of the guaranteed bonus if you are terminated without cause during the first two years of your employment. The stock portion of the signing bonus is guaranteed unless you leave of your own volition - then the remaining unvested restricted stock and options will be forfeited.

In addition, you will, of course, be eligible to participate in our health and welfare programs, our qualified retirement plan and SERP, the next grant under our broad base stock option plan, and our stock purchase plan that allows purchase of EDS stock at a 15% discount. In addition, we will grant you under the SERP an additional year of service for each year of service during your first five years with the corporation towards retirement. This means you will have 10 years of service for the first five years with the company.

The offer and the compensation plan are both dependent upon your execution of the Employment Agreement to which you and EDS have agreed. Your employment also will be subject to EDS standard employment practices and procedures, including successful completion of a Background Investigation and Drug Screening, as well as execution of the EDS Code Of Conduct.

I understand that the information above is condensed. I hope you will feel free to contact me with questions. If I am unavailable, please feel free to contact either John Castle (972-605-6800) or Bill Moore (972-605-3450) (Bill is in charge of all executive compensation and benefits) with any questions you might have.

I look forward to your early acceptance and the commencement of your career at EDS. I will be very pleased and proud to have you be part of our senior executive team.

With warmest regards,

/s/ Les Alberthal
Les Alberthal

May 5, 1998

Mr. Robert Mintz
Electronic Data Systems Corporation
5400 Legacy Drive, H2-8W-20
Plano, Texas 75024

Re: Amendment to Agreement

Dear Bob:

This letter, once signed by you, shall serve to formally amend the Executive Non-Competition and Confidentiality Agreement ("Agreement") between you and EDS. In addition to the terms and conditions set forth in the Agreement, EDS agrees to the following: If you are terminated without cause during the first two years of your employment with EDS, EDS will pay you an amount equal to your yearly salary at the time of the termination, as well as an amount equal to your guaranteed bonus for the year in which the termination occurs. For purposes of this amendment, "cause" shall mean the following:

(a) material breach of the Agreement or any other agreement entered into between you and EDS; (b) material misconduct; (c) material failure to follow EDS' policies, directives or orders applicable to EDS employees holding comparable positions; (d) intentional destruction or theft of EDS property or falsification of EDS documents; (e) conviction of a felony or any crime involving moral turpitude; or (f) violation of the EDS Code of Conduct.

Please indicate your assent to the above amendment by signing below. After signing, I would appreciate you returning a copy of the fully executed amendment to Bill Moore. If you have any questions regarding this matter, please do not hesitate to contact either Bill Moore or myself.

Sincerely,

/s/ Lester M. Alberthal, Jr.

Lester M. Alberthal, Jr.

AGREED TO:

/s/ Robert B. Mintz

Robert B. Mintz

ELECTRONIC DATA SYSTEMS CORPORATION

SENIOR MANAGEMENT RETENTION PLAN

ARTICLE I

PURPOSES OF THE PLAN AND DEFINITIONS

1.1 Purpose. The purpose of this Plan is to retain senior management of Electronic Data Systems Corporation, a Delaware corporation (the "Company" or "EDS"), and its subsidiaries during a critical period of transition from the present chief executive officer of the Company to a new chief executive officer of the Company.

1.2 Definitions.

"1996 Stock Incentive Plan" means the 1996 Incentive Plan of Electronic Data Systems Corporation.

"Annual Incentive Bonus" means the amount of annual bonus awarded to a Participant under the Annual Incentive Plan.

"Annual Incentive Plan" means the Company's annual performance bonus program for its executives for a calendar year.

"Award Agreement" means a written instrument signed by the Company and a Participant evidencing a Participant's participation in this Plan.

"Beneficiary" means the person, estate, trust or other legal entity that is designated by the Participant or otherwise entitled to receive benefits specified in the Plan (i) with respect to Restricted Stock Units or Stock Options, under the terms and procedures of the Company's 1996 Stock Incentive Plan and related agreements, (ii) with respect to the SERP, the spouse of the Participant, as provided in the SERP, and (iii) with respect to other benefits specified hereunder, including but not limited to the Retention Bonus, in the manner prescribed by the Committee.

"Board" means the Board of Directors of the Company.

"Cause" means (i) dishonesty by Participant which results in

substantial personal enrichment at the expense of the Company or (ii) demonstrably willful repeated violations of Participant's obligations to the Company which are intended to result and do result in material injury to the Company.

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In the event the Company terminates a Participant for Cause, the Company shall so notify the Participant of that fact in writing at the time of the termination, specifying the acts or conduct claimed to constitute such Cause. Any acts or conduct not so specified by the Company shall not constitute Cause unless the Company establishes that the Participant deliberately concealed or obstructed discovery of such acts or conduct.

"Change of Control of the Company" shall have the meaning set forth in Exhibit A.

"COC Agreement" means an individualized contractual written agreement between a Participant and the Company providing for benefits or compensation to the Participant or with respect to the Participant by reason of a Change of Control of the Company or a Potential Change of Control of the Company, other than insurance or indemnification, contractual or otherwise, provided to the Participant to protect against liability for service as an employee, officer or director of the Company.

"Code" means the United States Internal Revenue Code of 1986, as amended from time to time.

"Committee" means the Compensation and Benefits Committee of the Board or such other committee of the Board as is designated by the Board to administer the Plan.

"Common Stock" means the Common Stock, par value \$.01 per share, of the Company.

"Company" or "EDS" shall have the meaning set forth in Section 1.1.

"Competition" means engaging in any of the conduct described in subparagraphs (a)-(g) below, either directly or indirectly, individually or as an employee, contractor, consultant, partner, officer, director or stockholder (other than as a stockholder of less than 5% of the equity securities of a publicly traded corporation) or in any other capacity for any person, firm, partnership or corporation:

(a) perform duties as or for a competitor of EDS (i) which are the same or similar to the duties performed by the Participant at any time during the 12-month period preceding Participant's termination; or (ii) which involve the use of any confidential information which the Participant has received, obtained or acquired during, or as a

consequence of, his/her employment with EDS;

(b) participate in the direction of the business, affairs or policies of such a competitor, whether by way of serving in a position as a director or senior executive or by way of the exercise or potential exercise of voting power of securities of such competitor;

(c) perform duties for any then current customer of EDS or for any prospective customer of EDS with whom EDS is actively negotiating a contract or arrangement;

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(d) participate in the inducement of or otherwise encourage EDS employees, customers, or vendors to breach, modify, or terminate any agreement or relationship that they have with EDS;

(e) participate voluntarily with or provide assistance or information to any person or entity that is involved in (i) negotiations with EDS involving a contract or services to be rendered by EDS; or (ii) a potential or existing business or legal dispute with EDS, including, but not limited to, litigation, except as may otherwise be required by law;

(f) hire, attempt to hire or assist any other person or entity in hiring or attempting to hire or engage any current employee, independent contractor, or consultant of EDS or any person who was an EDS employee within the 12-month period prior to the termination of Participant's employment; or

(g) solicit, divert, or take away, in competition with EDS, the business or patronage of any current EDS customer or any prospective customer. Notwithstanding the foregoing, this restriction shall not apply to any person or entity who is no longer a customer or prospective customer at the time of any such solicitation by Participant.

"Disability" means the absence of the Participant from the Participant's duties with the Company on a full-time basis for 180 consecutive business days as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Participant or the Participant's legal representative (such agreement as to acceptability is not to be withheld unreasonably).

"EDS Retirement Plan" shall mean the EDS defined benefit plan qualified under Section 401(a) of the Code.

"Earnings" shall have the meaning set forth in the SERP.

"Effective Date" means August 6, 1998.

"Employee" means an employee of the Company who is a corporate officer.

"Good Reason" with respect to a Participant means:

(a) an act of the Company which results in a substantive diminution in the Participant's position or responsibilities as of the Effective Date;

(b) the Company's requiring the Participant to be based at any office or location other than such Participant's principal work location as of the Effective Date;

(c) any reduction by the Company in either the Participant's compensation (including salary, bonus opportunity, short-term and long-term incentive compensation awards) or in the benefits provided under or in eligibility for the

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employee benefit plans, programs or practices as applicable to the Participant as of the Effective Date, other than (i) an isolated, unsubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Participant or (ii) a change in employee benefit plans and programs (other than this Plan) of the Company or its subsidiaries which applies to all eligible employees generally or which is required by law; or

(d) any event or condition described or provided for in a contractual agreement (except for a COC Agreement) between the Company and the Participant, including in an Award Agreement, as Good Reason for termination of the Participant's employment with the Company.

Provided, however, that in the event a Participant believes that Good Reason exists under the foregoing provisions of this definition of "Good Reason", such Participant shall give notice of that fact to the Company in writing (specifying the action or conduct constituting Good Reason) within a reasonable period of time after the Participant becomes aware of the act or conduct. After receipt of such notice, the Company may fully and promptly reverse or correct such act or conduct. In the event of a failure by the Participant to give such notice or in the event of such a full and prompt reversal or correction by the Company, the act or conduct shall not constitute Good Reason;

Provided further, however, that if an act or conduct constituting Good Reason occurs prior to the end of the Retention Period, then so long as a Participant

complies with the requirements of giving notice within a reasonable time as specified herein, the fact that the notice is given after the end of the Retention Period or that the Company's failure to correct or reverse same occurs after the end of the Retention Period shall not impair Participant's right to terminate employment for Good Reason and receive benefits hereunder as if such termination had occurred on the date of such act or conduct;

And provided further, that if a Participant gives such notice and the Company fails to fully correct or reverse such act or conduct, the Participant may seek a determination from the Committee as to whether or not Good Reason exists under and in accordance with the provisions of Section 9.9 of this Plan;

And provided further, that no failure by the Company to effect such a reversal or correction shall be deemed to establish or create a presumption in and of itself that Good Reason does not exist or that Good Reason does exist, nor shall the giving of notice by a Participant that Good Reason exists in and of itself establish or create any presumption that Good Reason does exist.

"Monthly Salary Rate" means a Participant's rate of monthly base salary as then in effect as reflected in the Company's records.

"Option Award Agreement" means an agreement between the Company and a Participant reflecting the terms and conditions relating to a grant of Stock Options to such Participant.

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"Participant" means an Employee selected by the Committee pursuant to Section 3.1.

"Plan" means the Electronic Data Systems Corporation Senior Management Retention Plan as set forth herein.

"Potential Change of Control of the Company" shall have the meaning set forth on Exhibit A.

"Pre-1998 RSUs" means Restricted Stock Units awarded prior to 1998.

"Pre-1998 Stock Options" means Stock Options awarded prior to 1998.

"Pre-1999 Stock Options" means Stock Options awarded prior to 1999.

"RSU Award Agreement" means an agreement between the Company and a Participant reflecting the terms and conditions relating to a grant of Restricted Stock Units to such Participant.

"Rabbi Trust" means the EDS Supplemental Plans Trust Agreement

established by the Company on August 31, 1998, as amended from time-to-time.

"Restricted Stock Unit" shall mean a compensation award made by the Company to a Participant under the 1996 Stock Incentive Plan (or a predecessor plan) that provides for the transfer to the Participant, upon the fulfillment of certain conditions, of one share of Common Stock or the value of one share of Common Stock.

"Retention Period" is defined in Section 4.1.

"Retirement Age" means the age as of which, while the Participant is employed by the Company, the Participant has both attained age 55 and the sum of such participant's age and Years of Credited Service equals or exceeds 70.

"SERP" means the EDS 1998 Supplemental Executive Retirement Plan as established effective as of July 1, 1998, and as in effect on the Effective Date, or if more favorable to a Participant, on the date of termination of the Participant's employment with the Company.

"Specially Computed SERP Benefits" means those benefits payable to a Participant under the SERP who is eligible to receive such benefits, calculated in accordance with the eligibility and special computation provisions of Article V of this Plan.

"Stock Option" means the right granted by the Company under the 1996 Stock Incentive Plan as compensation to a Participant to purchase a share of Common Stock during a certain period for a stated exercise price.

"Targeted 1998 Bonus" means the amount designated by the Committee and in effect as of the Effective Date as the Participant's "Target Bonus" for 1998.

"Years of Credited Service" shall have the meaning set forth in the SERP.

ARTICLE II

ADMINISTRATION OF THE PLAN

2.1 Committee. This Plan shall be administered by the Committee. The Committee may delegate administrative or ministerial duties necessary, appropriate or desirable to the operation of the Plan to any Committee member or Company officer or employee, but the Committee shall not delegate any duty to hear claims of a Participant or determination of issues relating to the existence of Good Reason or Competition as provided in Section 9.9 of this Plan.

2.2 Committee's Powers. Subject to the provisions hereof, the Committee

shall have full and exclusive power and authority to administer this Plan and to take all actions which are specifically contemplated hereby or are necessary or appropriate in connection with the administration hereof. The Committee shall also have full and exclusive power to interpret this Plan and to adopt such rules, regulations and guidelines for carrying out this Plan as it may deem necessary or proper, all of which powers shall be exercised in the best interests of the Company and in keeping with the objectives of this Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency in this Plan in the manner and to the extent the Committee deems necessary or desirable to carry it into effect, except that no such change that would adversely affect the rights of any Participant shall be made without the consent of such Participant.

2.3 Committee Liability. No member of the Committee (nor any person to whom the Committee delegates its duties under this Plan) shall be liable for anything done or omitted to be done by him or her, by any member of the Committee or by an officer of the Company in connection with the performance of any duties under this Plan, except for his or her own willful misconduct or as expressly provided by statute.

ARTICLE III

ELIGIBILITY

3.1 Eligible Employees. Employees eligible for participation under this Plan are those Employees of the Company selected by the Committee and notified by the Committee or its designate in writing of their eligibility to participate and the benefits to which the Employees may become entitled under the Plan. An Employee shall not become a Participant until the Employee has executed an Award Agreement. Subject to the completion of the required Award Agreement, the Employees initially eligible to participate as of the Effective Date, together with their titles, are set forth on Exhibit B.

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ARTICLE IV

RETENTION BONUS

4.1 Retention Period. The Retention Period for a Participant shall commence, unless otherwise specified by the Committee in an Award Agreement, as of the Effective Date and shall end on January 31, 2001.

4.2 Retention Bonus. Unless otherwise specified by the Committee in an Award Agreement, a Participant's Retention Bonus is the greater of (i) two times the Participant's Targeted 1998 Bonus or (ii) either (1) the sum of the actual Annual Incentive Bonuses awarded to the Participant in respect of calendar years

1998, 1999 and 2000 (regardless of when any such award is actually scheduled to be paid) or (2) in the event a Participant's employment is terminated for any reason prior to the end of the Retention Period, then the sum of the Annual Incentive Bonuses actually awarded to the Participant during the Retention Period prior to such termination.

4.3. Payment of Retention Bonus.

(a) If the Participant has remained an Employee through the end of the Participant's Retention Period, a Participant's Retention Bonus shall be paid in a cash lump sum not later than fifteen days after the end of the Participant's Retention Period.

(b) If the Participant's employment with the Company is terminated by the Company prior to the expiration of the Participant's Retention Period for other than Cause or the Participant terminates employment with the Company for Good Reason, then the Participant shall be entitled to receive the Retention Bonus, which shall be paid within 15 days of termination of employment.

ARTICLE V

SPECIALLY COMPUTED SERP BENEFITS

5.1 Eligible Participants. A Participant who is eligible to participate in the EDS Retirement Plan as of the Effective Date (regardless of whether such individual is entitled to receive benefits thereunder), shall be entitled to receive Specially Computed SERP Benefits as provided in this Article V if, but only if:

(a) The Participant attains Retirement Age at or prior to the end of the Retention Period and the Participant remains employed by the Company through the end of the Retention Period; or

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(b) During the Retention Period, the Participant's employment is terminated by the Company without Cause or by Participant for Good Reason and the Participant has attained Retirement Age as of the date of such termination.

5.2 Benefits under SERP. Except as otherwise specifically provided in this Plan, Specially Computed SERP Benefits in this Plan (whether under the terms of Article V or Article VIII) shall be provided under, and shall be computed and paid in accordance with, the terms of the SERP and shall be governed by and subject in all respects to the terms of the SERP. Without limiting the generality of the foregoing sentence, a Participant who is not eligible to receive benefits under the SERP by reason of the fact that the Participant does not participate in the EDS Retirement Plan (because, by way of example, but not by way of limitation, such Participant is a non-U.S. national),

or by reason of the fact that the Participant has not reached Retirement Age or by reason of failure to satisfy any other condition of eligibility shall not be or become eligible or entitled to SERP benefits by reason of this Plan. This Plan's provisions with respect to Specially Computed SERP Benefits shall constitute an exercise of the authority of the Committee or the Chairman (as applicable) under the SERP with respect to certain Participants to grant additional Years of Credited Service or otherwise alter the terms of the SERP as applied to a particular individual and shall not constitute a separate retirement plan or arrangement. This Article V shall, for all purposes, be deemed to be a part of the SERP.

5.3 Special Computation Rules. For purposes of determining benefits under the SERP, if a Participant is eligible to receive Specially Computed SERP Benefits:

(a) and if such Participant is, on the Effective Date, the Chief Operating Officer or an Executive Vice President of the Company, then

(i) such Participant may retire

(1) after the end of the Retention Period; or

(2) during the Retention Period following a termination of the Participant's employment by the Company without Cause or by Participant for Good Reason; and

(ii) upon such retirement shall receive retirement benefits under the SERP with no decrease or diminution in benefits otherwise payable under the SERP by reason of that fact that such Participant is less than 62 years of age at the time of such retirement, but shall receive no additional or deemed years of age and (unless otherwise expressly provided elsewhere in writing) no additional or deemed Years of Credited Service for purposes of calculating benefits under the SERP or for any purpose under this Plan.

(b) and if such Participant is not, on the Effective Date, the Chief Operating Officer or an Executive Vice President of the Company, then

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(i) such Participant may retire

(1) after the end of the Retention Period; or

(2) during the Retention Period following a termination of the Participant's employment by the Company without Cause or by Participant for Good Reason; and

(ii) upon such retirement shall receive retirement benefits under the SERP calculated by adding either (but not both of) (1) three Years of Credited Service to Participant's actual Years of Credited Service, or (2) three years of age to the Participant's age (for purposes of determining whether a Participant would receive a decrease or diminution in benefits by reason of retiring prior to age 62), whichever results in the greater benefit to the participant under the SERP, and such addition to the Years of Credited Service or years of age shall be made for purposes of all computations of benefits under the SERP; provided that the addition of Years of Credited Service or years of age shall not be counted toward determining whether a Participant has reached Retirement Age, but only for determining the calculation of benefits under the SERP, and shall not be deemed to affect the Participant's compensation for purposes of the SERP.

(c) In computing the SERP benefits of each Participant entitled to receive Specially Computed SERP Benefits under this Plan (regardless of such Participant's position with the Company), the Retention Bonus and, if applicable, the Severance Payment provided in Section 8.1 shall be treated as Earnings paid on the last day of the calendar year preceding the earlier of (i) the calendar year in which the end of the Participant's Retention Period occurs or (ii) the year in which Participant's employment is terminated.

5.4 Payments into Rabbi Trust. The amount deemed necessary or appropriate by the Committee to fund the Specially Computed SERP Benefit shall be transferred as promptly as practicable by the Company to the Rabbi Trust in accordance with the actuarial and other methods utilized by the Company in funding SERP benefits generally.

ARTICLE VI

CONTINUED RESTRICTED STOCK UNIT VESTING

6.1 Continued Restricted Stock Unit Vesting.

(a) If, during the Retention Period, a Participant's employment with the Company is terminated by the Company without Cause or by the Participant for Good Reason, then for purposes of determining the Participant's rights with respect to then unvested Pre-1998 RSUs:

(i) If the Participant is not entitled to receive Specially Computed SERP Benefits under Article V, the Participant shall continue to vest following such

termination in that number of Pre-1998 RSUs in which the Participant is scheduled to vest under the terms of Participant's RSU Award Agreement at each of the vesting dates during the Retention Period and at the next five vesting dates following the end of the Retention Period (such vesting dates being as specified in the Participant's RSU Award Agreement) as if the employment of such Participant had continued through each of such vesting dates; or

(ii) If the Participant is entitled to receive Specially Computed SERP Benefits under Article V, the Participant shall continue to vest in all then unvested Pre-1998 RSUs at the times and in the amounts provided in the Participant's RSU Award Agreement as if such Participant's employment had continued until all such Pre-1998 RSUs were fully vested.

(b) If the Participant remains employed by the Company until the end of the Participant's Retention Period and if the Participant has attained Retirement Age on or before the last day of the Retention Period, the Participant shall, regardless of any subsequent termination or retirement, continue to vest in all Pre-1998 RSUs at the times and in the amounts provided in the Participant's RSU Award Agreement as if such Participant's employment had continued until all unvested Pre-1998 RSUs were fully vested.

(c) Notwithstanding any provision in any Pre-1998 RSU Award Agreement, any Pre-1998 RSUs vesting under and by reason of the provisions of this Article VI or Article VIII shall not be subject to (i) achievement of any Company performance requirements or (ii) any requirement that Common Stock be held by the Participant for any period following vesting.

6.2 Applicability of 1996 Stock Incentive Plan and RSU Award Agreements. Except as otherwise specifically provided in this Plan, Pre-1998 RSUs shall be governed by and subject to the terms and conditions of the 1996 Stock Incentive Plan and the Participant's RSU Award Agreement.

ARTICLE VII

CONTINUED ELIGIBILITY FOR STOCK OPTION EXERCISE

Section 7.1. Exercisability of Stock Options.

(a) If on the Effective Date, a Participant is either the Chief Operating Officer or an Executive Vice President of the Company and prior to the end of the Retention Period that Participant's employment with the Company is terminated by the Company without Cause or by that Participant for Good Reason, then each Pre-1998 Stock Option shall continue to be eligible to become exercisable at the time(s) and in the amounts provided in the Participant's Option Award Agreement as if such Participant's employment had

continued until ten years from the date of grant of such Stock Option.

(b) If as of the Effective Date, a Participant is either the Chief Operating Officer or an Executive Vice President of the Company and remains employed by the Company until the end of the Retention Period, all Pre-1999 Stock Options shall continue to be eligible to become exercisable at the time(s) and in the amounts provided in the Participant's Option Award Agreement as if such Participant's employment had continued until ten years from the date of grant of such Stock Option.

(c) Notwithstanding the foregoing, each Pre-1999 Stock Option which a Participant continues to become entitled to exercise under this Article VII and does not forfeit by reason of the termination of or retirement from such Participant's employment as provided in this Article VII shall continue to be subject, as a condition to exercise, to all conditions other than continued employment applicable to such Pre-1999 Stock Options under the terms of the Participant's Option Award Agreement, including (where provided under the terms of a Participant's Option Award Agreement) achievement of Company Common Stock price objectives specified in the Participant's Option Award Agreement.

7.2 Applicability of 1996 Stock Incentive Plan and Option Award Agreements. Except as otherwise specifically provided in this Plan, Pre-1999 Stock Options shall be governed by and subject to the terms and conditions of the 1996 Stock Incentive Plan and the Participant's Option Award Agreement.

7.3 Evidence of Continued Stock Option Vesting. Upon the occurrence of entitlement to the continued Stock Option vesting under Section 7.1, the Company shall, upon request, and promptly following such request, deliver to the Participant a written statement confirming such additional vesting and extended exercisability.

ARTICLE VIII

EFFECT OF CERTAIN TERMINATIONS OF EMPLOYMENT

8.1 Termination of Employment Prior to Expiration of Retention Period by the Company Without Cause or by the Participant for Good Reason. Upon the termination of employment by the Company without Cause or by the Participant for Good Reason prior to the expiration of the Retention Period, and in addition to the payments and benefits provided to some or all Participants under Articles IV, V, VI and VII, a Participant meeting the following criteria shall be entitled to receive a Severance Payment (herein so called) in the amount specified below:

(a) A Participant who is eligible to receive Specially Computed SERP Benefits under Article V shall receive an amount equal to the

salary such Participant would have received from the date of termination through the end of the Retention Period if the Participant had remained employed through the end of the Retention Period and as if the Participant had remained at the Monthly Salary Rate of such Participant in effect on the date of such termination, and such amount shall be paid in one lump sum within 15 days following the date of such termination;

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(b) A Participant who is not eligible to receive Specially Computed SERP Benefits under Article V shall receive an amount equal to 18 times the Monthly Salary Rate of such Participant, such amount to be paid in one lump sum within 15 days following the date of such termination.

8.2 Termination of Employment by Company for Cause. If the Participant's employment with the Company is terminated prior to the end of the Participant's Retention Period by the Company for Cause, the Participant shall not be entitled to any benefits under this Plan.

8.3 Termination of Employment by the Participant without Good Reason. If the Participant's employment with the Company is terminated prior to the end of the Retention Period by the Participant without Good Reason, the Participant shall not be entitled to any benefits under this Plan.

8.4 Termination of Employment by Reason of Death or Disability. If the Participant's employment with the Company is terminated prior to the end of the Retention Period by reason of death or Disability, then:

(a) the Participant (or in the case of death, the Beneficiary) shall be entitled to receive the Retention Bonus, which shall be paid within 15 days of death or Disability;

(b) the Participant (or in the case of death, his Beneficiary) shall be eligible to fully vest in all the Participant's then unvested Pre-1998 RSUs;

(c) in the case of a Participant's death, if at the time of the Participant's death, the Participant was eligible to participate in the EDS Retirement Plan and had attained Retirement Age as the date of such death, then the Participant's Beneficiary shall be entitled to receive the benefits, if any, payable in respect of a deceased Participant under the SERP; and

(d) all Pre-1999 Stock Options previously granted to such Participant shall become immediately exercisable and no longer subject to any stock price performance conditions to exercise, as provided in and in accordance with the terms and conditions of such Participant's Option Award Agreement.

ARTICLE IX

OTHER PROVISIONS

9.1 Tax Withholding. The Company shall have the right to deduct applicable taxes from any payment or benefit hereunder.

9.2. Amendment, Modification, Suspension or Termination. The Board may amend, modify, suspend or terminate this Plan for the purpose of meeting or addressing any changes in

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legal requirements or for any other purpose permitted by law, except that no amendment or alteration that would adversely affect the rights of any Participant shall be made without the consent of such Participant.

9.3 Assignability. Unless otherwise determined by the Committee, no benefit under this Plan shall be assignable or otherwise transferable except by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act, or the rules thereunder. Any attempted assignment of an Award or any other benefit under this Plan in violation of this Section 9.3 shall be null and void.

9.4 Unfunded Plan. This Plan shall be unfunded. Although bookkeeping accounts may be established with respect to Participants who are entitled to cash, Common Stock or other benefits under this Plan, any such accounts shall be used merely as a bookkeeping convenience. Except as provided in Section 5.4, the Company shall not be required to segregate any assets. Any liability or obligation of the Company to any Participant with respect to benefits hereunder, including cash, Common Stock or rights thereto under this Plan, shall be based solely upon any contractual obligations that may be created by this Plan, and no such liability or obligation of the Company shall be deemed to be secured by any pledge or other encumbrance on any property of the Company. Neither the Company nor the Board nor the Committee shall be required to give any security or bond for the performance of any obligation that may be created by this Plan.

9.5 Governing Law. This Plan and all determinations made and actions taken pursuant hereto, to the extent not otherwise governed by provisions of the laws of the United States, shall be governed by and construed in accordance with the laws of the State of Delaware.

9.6 Employment with the Company. A Participant shall be deemed employed by the Company if in active employment with or on an approved leave of absence from the Company or any business entity controlled by the Company.

9.7 Other Benefit Plans, Compensation Arrangements or Employment Practices; Change of Control Agreements.

(a) Except as is specifically provided herein, a Participant's

participation in this Plan or receipt of benefits hereunder shall not adversely impact or affect such Participant's rights to or participation in any other benefit plan, compensation arrangement or employment practice of the Company and this Plan shall be additive to the Participant's rights or benefits under such other plans, programs or practices. Except as otherwise provided herein, any stock options or restricted stock units, annual, long-term or other incentive compensation awarded to a Participant shall not be affected by reason of this Plan and any such award shall continue uninterrupted.

(b) Notwithstanding the foregoing clause (a) of this Section 9.7, if a Participant becomes entitled to benefits under a COC Agreement by reason of a Change of Control of the Company or a Potential Change of Control of the Company prior to the conclusion of the Participant's Retention Period, the Participant shall not be entitled both to benefits under

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this Plan and the COC Agreement, but the Participant may elect either to receive benefits under this Plan or such COC Agreement; provided that a Participant may elect to receive both benefits under the Plan and the provisions of the Participant's COC Agreement providing for tax gross-up payments with respect to excise taxes under Section 4999 of the Code. If no such election is made by the Participant, the Participant will be deemed to have elected to receive the benefits under the COC Agreement.

9.8 Payment during Disputes; Competition; Attorneys' Fees.

(a) Except as specifically provided in clause (b) of this Section 9.8, the Company's obligations to make the payments and provide the benefits required under this Plan and otherwise perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense, mitigation or other claim, right or action which the Company may have against a Participant or others.

(b) A Participant shall not be entitled to receive benefits hereunder if that Participant breaches or fails to comply with a non-competition provision of any agreement between the Company and a Participant or, regardless of whether any other agreement prohibits competition, during any period in which a Participant engages in Competition with the Company; provided, however, that such Participant shall have the right to request the Company in writing to advise such Participant in advance of engaging in a particular conduct or activity whether such conduct or activity constitutes Competition or a breach or violation of a non-competition agreement between Participant and the Company, and if the Company advises the Participant in writing that such conduct or activity does not constitute Competition or a breach or fails to respond within 15 days of such inquiry, the Company may not thereafter effect any set-off against its obligations to make the payments and provide the benefits required under this Plan by reason of such conduct or activity.

Provided, however, that no advice by the Company that such conduct or activity constitutes Competition shall be determinative of whether in fact Competition has or would occur and that no failure to respond shall eliminate any claim or cause of action by the Company seeking redress for such Competition other than by failing to make or withholding payments or benefits hereunder.

In addition to the foregoing, if the Company advises a Participant in writing that particular conduct would constitute Competition or a breach or violation of a non-competition agreement with the Company, the Participant may seek a determination from the Committee as to whether or not such conduct would constitute Competition or a breach or violation of a non-competition agreement under and in accordance with the provisions of Section 9.8 of this Plan. In the event the Committee determines such conduct would not constitute Competition or a breach of such an agreement, the Company may not thereafter withhold such payments under this Plan.

Notwithstanding the foregoing, before the Company may withhold or fail to pay any amount by reason of a breach or violation of a non-competition provision of an agreement or by reason of Competition, the Company shall so advise the Participant in writing, specifying the

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acts or conduct constitute which breaches or violations of such agreement or otherwise constitutes Competition, and if the Participant does cease all such acts or conduct within 15 days, then the Company may not then withhold or cease payment of amounts hereunder.

(c) The Company agrees to pay promptly as incurred, to the full extent permitted by law, all legal fees and expenses which a Participant may reasonably incur as a result of any contest, regardless of the outcome thereof, by the Company, a Participant or others of the validity or enforceability of, or liability under, any provision of this Plan or any guarantee of performance thereof (including as result of any contest by a Participant about the amount or other terms and conditions of any benefit or payment pursuant to this Plan), plus in each case interest on any delayed payment at the Applicable Federal Rate provided for in Section 7872(f)(2)(A) of the Code unless the Company establishes by a preponderance of the evidence that such contest was made or undertaken without any reasonable basis for any of the claim(s) being asserted therein.

(d) If there shall be any dispute between the Company and a Participant concerning (i) in the event of any termination of the Participant's employment by the Company, whether such termination was for Cause, or (ii) in the event of any termination of employment by the Participant, whether Good Reason existed, then, unless and until there is a final, nonappealable judgment by a court of competent jurisdiction declaring that such termination was for Cause or that the determination by the Participant of the existence of Good

Reason was erroneous, the Company shall pay all amounts, and provide all benefits, to the Participant and of the Participant's spouse or Beneficiary, as the case may be, that the Company would be required to pay or provide as though such termination were by the Company without Cause or by the Participant for Good Reason; provided that the Company shall not be required to pay or provide any disputed amounts pursuant to this Section 9.8 except upon receipt of an undertaking by or on behalf of the Participant to repay all such amounts to which the Participant is ultimately adjudged by such court not to be entitled and provided further that the Company shall not be required to pay or provide any disputed amounts pursuant to this provision if the Participant has failed to provide the notice required under the definition of "Good Reason". The pendency of a claim under Section 9.9 shall not suspend or interrupt the Company's obligations under this Section 9.8.

9.9 Presenting Issues for Determination or Claims for Benefits.

(a) Before a Participant may initiate legal proceedings with respect to the benefits provided in this Plan, a Participant must submit such Participant's claims for determination to the Committee as provided in subsection (c) of this Section 9.9.

(b) A Participant may submit claims with respect to benefits under this Plan and may seek determinations with respect to the existence of "Good Reason" "Cause" or whether particular conduct constitutes Competition or a breach or violation of a non-competition agreement to the Committee as provided in subsection (c) of this Section 9.9.

(c) A Participant (or, if the Participant has died, the Beneficiary) shall initiate a determination of a claim for benefits or any other issue allowed to be presented to the Committee

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under this Plan by submitting a written application to the Committee for the payment of any benefit asserted to be due the Participant or Beneficiary under the Plan or for any other such determination. Promptly upon the receipt of any such application, the Committee shall afford the Participant or Beneficiary a hearing in person before the Committee during which the Participant or Beneficiary shall be entitled to present the Participant's or Beneficiary's reasons supporting the Participant's or Beneficiary's claims under the Plan. Thereafter, the Committee promptly shall make a determination as to the claims submitted by the Participant or Beneficiary and shall notify the Participant or Beneficiary in writing of its findings and, if a claim is denied in whole or in part, including therein the specific reasons for the denial. The Committee may establish such reasonable rules for the conduct of each such claims procedure as it shall deem appropriate.

9.10 Notices. Notices given by a Participant to the Company shall be addressed to the Chairman of the Company at the Chairman's then current business

address and shall be delivered through means which ensure confirmation of receipt. Notices given to the Committee shall be addressed to the Chairman of the Committee c/o the Company's Office of the Board of Directors at the then current business address for such office and shall be delivered through means which ensure confirmation of receipt. Notices given or communications made to the Participant (or, if applicable, the Participant's Beneficiary) by the Company or the Committee shall be addressed to the Participant at the last known home address of the Participant (or, if the Participant is still employed by the Company, his then current business address) and shall be delivered through means which ensure confirmation of receipt.

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EXHIBIT A

Change of Control; Potential Change of Control.

The terms set forth below shall have the following respective meanings:

"Affiliate" shall have the meaning ascribed to such term in Rule 12b-2 of the General Rules and Regulations under the Exchange Act, as in effect on the date of this Agreement.

"Associate" shall mean, with reference to any Person, (i) any corporation, firm, partnership, association, unincorporated organization or other entity (other than the Company or a subsidiary of the Company) of which such Person is an officer or general partner (or officer or general partner of a general partner) or is, directly or indirectly, the Beneficial Owner of 10% or more of any class of equity securities, (ii) any trust or other estate in which such Person has a substantial beneficial interest or as to which such Person serves as trustee or in a similar fiduciary capacity and (iii) any relative or spouse of such Person, or any relative of such spouse, who has the same home as such Person.

"Beneficial Owner" shall mean, with reference to any securities, any Person if

(i) such Person or any of such Person's Affiliates and Associates, directly or indirectly, is the "beneficial owner" of (as determined pursuant to Rule 13d-3 of the General Rules and Regulations under the Exchange Act, as in effect on the date of this Agreement) such securities or otherwise has the right to vote or dispose of such securities, including pursuant to any agreement, arrangement or understanding (whether or not in writing); provided, however, that a Person shall not be deemed the "Beneficial Owner" of, or to "beneficially own," any security under this subsection (i) as a

result of an agreement, arrangement or understanding to vote such security if such agreement, arrangement or understanding: (x) arises solely from a revocable proxy or consent given in response to a public (i.e., not including a solicitation exempted by Rule 14a-2(b)(2) of the General Rules and Regulations under the Exchange Act) proxy or consent solicitation made pursuant to, and in accordance with, the applicable provisions of the General Rules and Regulations under the Exchange Act and (y) is not then reportable by such Person on Schedule 13D under the Exchange Act (or any comparable or successor report);

(ii) such Person or any of such Person's Affiliates and Associates, directly or indirectly, has the right or obligation to acquire such securities (whether such right or obligation is exercisable or effective immediately or only after the passage of time or the occurrence of an event) pursuant to any agreement, arrangement or understanding (whether or not in writing) or upon the exercise of conversion rights, exchange rights, other rights, warrants or options, or otherwise; provided, however, that a Person shall not be deemed the Beneficial Owner of, or to "beneficially own," (A) securities tendered pursuant to a tender or exchange offer made by such Person or any of

such Person's Affiliates or Associates until such tendered securities are accepted for purchase or exchange or (B) securities issuable upon exercise of Exempt Rights; or

(iii) such Person or any of such Person's Affiliates or Associates (A) has any agreement, arrangement or understanding (whether or not in writing) with any other Person (or any Affiliate or Associate thereof) that beneficially owns such securities for the purpose of acquiring, holding, voting (except as set forth in the proviso to subsection (i) of this definition) or disposing of such securities or (B) is a member of a group (as that term is used in Rule 13d-5(b) of the General Rules and Regulations under the Exchange Act) that includes any other Person that beneficially owns such securities;

provided, however, that nothing in this definition shall cause a Person engaged in business as an underwriter of securities to be the Beneficial Owner of, or to "beneficially own," any securities acquired through such Person's participation in good faith in a firm commitment underwriting until the expiration of forty days after the date of such acquisition. For purposes hereof, "voting" a security shall include voting, granting a proxy, consenting or making a request or demand relating to corporate action (including, without limitation, a demand for a stockholder list, to call a stockholder meeting or to inspect corporate books and records) or otherwise giving an authorization (within the meaning of Section 14(a) of the Exchange Act) in respect of such security.

The terms "beneficially own" and "beneficially owning" shall

have meanings that are correlative to this definition of the term "Beneficial Owner."

"Change of Control" shall mean any of the following occurring on or after the Effective Date:

(i) Any Person (other than an Exempt Person) shall become the Beneficial Owner of 15% or more of the shares of Common Stock then outstanding or 15% or more of the combined voting power of the Voting Stock of the Company then outstanding; provided, however, that no Change of Control shall be deemed to occur for purposes of this subsection (i) if such Person shall become a Beneficial Owner of 15% or more of the shares of Common Stock or 15% or more of the combined voting power of the Voting Stock of the Company solely as a result of (x) an Exempt Transaction or (y) an acquisition by a Person pursuant to a reorganization, merger or consolidation, if, following such reorganization, merger or consolidation, the conditions described in clauses (x), (y) and (z) of subsection (iii) of this definition are satisfied;

(ii) Individuals who, as of the Effective Date, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Effective Date whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board; provided, further, that there shall be excluded, for this purpose, any such individual whose initial assumption of office occurs as a result of any actual or threatened election contest that is subject to the provisions of Rule 14a-11 under the Exchange Act;

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(iii) Approval by the shareholders of the Company of a reorganization, merger or consolidation, in each case, unless, following such reorganization, merger or consolidation, (x) more than 85% of the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation and the combined voting power of the then outstanding Voting Stock of such corporation beneficially owned, directly or indirectly, by all or substantially all of the Persons who were the Beneficial Owners of the outstanding Common Stock immediately prior to such reorganization, merger or consolidation in substantially the same proportions as their ownership, immediately prior to such reorganization, merger or consolidation, of the outstanding Common Stock, (y) no Person (excluding any Exempt Person or any Person beneficially owning, immediately prior to such reorganization, merger or consolidation,

directly or indirectly, 15% or more of the Common Stock then outstanding or 15% or more of the combined voting power of the Voting Stock of the Company then outstanding) beneficially owns, directly or indirectly, 15% or more of the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation or the combined voting power of the then outstanding Voting Stock of such corporation and (z) at least a majority of the members of the board of directors of the corporation resulting from such reorganization, merger or consolidation were members of the Incumbent Board at the time of the execution of the initial agreement or initial action by the Board providing for such reorganization, merger or consolidation; or

(iv) Approval by the shareholders of the Company of (x) a complete liquidation or dissolution of the Company, unless such liquidation or dissolution is approved as part of a plan of liquidation and dissolution involving a sale or disposition of all or substantially all of the assets of the Company to a corporation with respect to which, following such sale or other disposition, all of the requirements of clauses (y) (A), (B) and (C) of this subsection (iv) are satisfied, or (y) the sale or other disposition of all or substantially all of the assets of the Company, other than to a corporation, with respect to which, following such sale or other disposition, (A) more than 85% of the then outstanding shares of common stock of such corporation and the combined voting power of the Voting Stock of such corporation is then beneficially owned, directly or indirectly, by all or substantially all of the Persons who were the Beneficial Owners of the outstanding Common Stock immediately prior to such sale or other disposition in substantially the same proportion as their ownership, immediately prior to such sale or other disposition, of the outstanding Common Stock, (B) no Person (excluding any Exempt Person and any Person beneficially owning, immediately prior to such sale or other disposition, directly or indirectly, 15% or more of the Common Stock then outstanding or 15 % or more of the combined voting power of the Voting Stock of the Company then outstanding) beneficially owns, directly or indirectly, 15% or more of the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding Voting Stock of such corporation and (C) at least a majority of the members of the board of directors of such corporation were members of the Incumbent Board at the time of the execution of the initial agreement or initial action of the Board providing for such sale or other disposition of assets of the Company.

"Common Stock" shall mean the common stock, par value \$.01 per share, of the Company.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as

amended.

"Exempt Person" shall mean any of the following:

(i) the Company, any subsidiary of the Company, any employee benefit plan of the Company or any subsidiary of the Company, and any Person organized, appointed or established by the Company for or pursuant to the terms of any such plan; or

(ii) the General Motors Hourly-Rate Employees Pension Plan for its Hourly Employees, or any trustee of or fiduciary with respect to such plan (when acting in such capacity) (the "Hourly Plan"), unless and until, at any time when the Hourly Plan, together with all Affiliates thereof, is the Beneficial Owner of 15 % or more of the shares of Common Stock then outstanding or 15 % or more of the combined voting power of the Voting Stock of the Company then outstanding, (A) the Hourly Plan shall purchase or otherwise become the Beneficial Owner of any additional shares of Common Stock constituting 1 % or more of the then outstanding shares of Common Stock or shares of Voting Stock of the Company representing 1 % or more of the combined voting power of the then outstanding shares of Voting Stock or (B) any other Person or Persons who is or are the Beneficial Owner of any shares of Common Stock constituting 1 % or more of the then outstanding shares of Common Stock or shares of Voting Stock of the Company representing 1 % or more of the combined voting power of the then outstanding shares of Voting Stock of the Company shall become an Affiliate of such Person.

"Exempt Rights" shall mean any rights to purchase shares of Common Stock or other Voting Securities of the Company if at the time of the issuance thereof such rights are not separable from such Common Stock or other Voting Securities (i.e., are not transferable otherwise than in connection with a transfer of the underlying Common Stock or other Voting Securities) except upon the occurrence of a contingency, whether such rights exist as of the Effective Date or are thereafter issued by the Company as a dividend on shares of Common Stock or other Voting Securities or otherwise; provided, however, that from and after the date (the "Separation Date") as of which such rights become separable from the underlying shares of Common Stock or other Voting Securities, such rights shall only constitute "Exempt Rights" pursuant to this definition to the extent that they are beneficially owned by a Person that acquired such rights prior to the Separation Date.

"Exempt Transaction" shall mean an increase in the percentage of the outstanding shares of Common Stock or the percentage of the combined voting power of the outstanding Voting Stock of the Company beneficially owned by any Person solely as a result of a reduction in the number of shares of Common Stock then outstanding due to the repurchase of Common Stock by the Company, unless and until such time as (A) such Person or any Affiliate or Associate of such Person shall purchase or otherwise become the Beneficial Owner of additional shares of Common Stock constituting 1 % or more of the then outstanding shares of Common Stock or additional Voting Stock representing 1 % or more of the combined voting power of the

then outstanding Voting Stock or (B) any other Person (or Persons) who is (or collectively are) the Beneficial Owner of shares of Common Stock constituting 1 % or more of the then outstanding shares of Common Stock or Voting Stock representing 1 % or more of the combined voting power of the then outstanding Voting Stock shall become an Affiliate or Associate of such Person.

"Person" shall mean any individual, firm, corporation, partnership, association, trust, unincorporated organization or other entity.

"Potential Change of Control" shall mean any of the following:

(i) a tender offer or exchange offer is commenced by any Person which, if consummated, would constitute a Change of Control;

(ii) an agreement is entered into by the Company providing for a transaction which, if consummated, would constitute a Change of Control;

(iii) any election contest is commenced that is subject to the provisions of Rule 14a11 under the Exchange Act; or

(iv) any proposal is made, or any other event or transaction occurs or is continuing, which the Board determines could result in a Change of Control.

"Voting Stock" shall mean, with respect to a corporation, all securities of such corporation of any class or series that are entitled to vote generally in the election of directors of such corporation (excluding any class or series that would be entitled so to vote by reason of the occurrence of any contingency, so long as such contingency has not occurred).

EMPLOYMENT AGREEMENT

BETWEEN

ELECTRONIC DATA SYSTEMS CORPORATION

AND

RICHARD H. BROWN

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EMPLOYMENT AGREEMENT

This AGREEMENT (the "Agreement") is made by and between ELECTRONIC DATA SYSTEMS CORPORATION, a Delaware corporation (the "Company"), and RICHARD H. BROWN (the "Executive") as of January 1, 1999.

WHEREAS, the Company desires to employ the Executive as its Chairman and Chief Executive Officer, and the Executive desires to serve in such employment, and in accordance with certain specified terms and conditions; and

WHEREAS, the Board of Directors of the Company (the "Board") has determined that it is in the best interests of the Company and its shareholders to assure that, in the event of a Change of Control or Potential Change of Control (as defined herein), the Company will have the continued services of the Executive and the Executive will be provided with compensation and benefits arrangements which meet his expectations;

NOW, THEREFORE, the Company and the Executive, each intending to be legally bound, hereby mutually covenant and agree as follows:

1 Employment and Term.

1.1. Employment. The Company shall employ the Executive as the Chairman and Chief Executive Officer of the Company, and the Executive shall so serve, for the term set forth in Section 1.2. Executive will also be elected a director of the Company.

1.2. Term. The initial term of the Executive's employment under this Agreement shall commence as of January 1, 1999 and end on December 31, 2003, subject to the extension of such term as hereinafter provided and subject to earlier termination as provided herein. Beginning on January 1, 2001, the term of this Agreement shall be extended automatically for one additional day for each day which has then elapsed since December 31, 2000, unless, at any time after December 31, 2000, either the Board, on behalf of the Company, or the Executive gives written notice to the other, in accordance with Section 24, below, that such automatic extension of the term of this Agreement shall cease. Notwithstanding the foregoing, the Term of this Agreement shall cease to accrue additional automatic extensions on the first day following the date on which the Executive attains age 62. The initial term of this Agreement, plus any extension by operation of this Section 1.2, shall be hereinafter referred to as the "Term."

1.3. Effect on Existing Agreement. This Agreement supersedes and replaces that certain letter agreement between the Company and the Executive dated December 9, 1998, under which the Executive's employment with the Company commenced on December 10, 1998, and the term sheet attached thereto dated December 9, 1998.

2 Duties. During the Term, the Executive shall serve as Chairman and Chief Executive Officer of the Company and have all powers and duties consistent with such positions, subject to the reasonable direction of the Board. The Executive shall also continue to serve as a member of the Board. The Executive shall devote substantially his entire time during reasonable business hours (reasonable sick leave and vacations excepted) and best efforts to fulfill faithfully, responsibly and to the best of his ability his duties hereunder. However, the Executive may serve on corporate, civic and/or charitable boards and committees.

3 Cash Compensation.

3.1. Base Salary. For services performed by the Executive for the Company pursuant to this Agreement during the Term, the Corporation shall pay

the Executive a base salary at the rate of one million five hundred thousand dollars (\$1,500,000) per year (the "Base Salary"), payable in substantially equal installments in accordance with the Company's regular payroll practices. The Base Salary (with any increases as described below) shall not be subject to reduction. Any compensation which may be paid to the Executive under any additional compensation or incentive plan of the Company or which may be otherwise authorized from time to time by the Board (or an appropriate committee thereof) shall be in addition to the Base Salary to which the Executive shall be entitled under this Agreement.

3.2. Salary Increases. During the Term, the base salary of the Executive shall be reviewed no less frequently than annually by the Board or an appropriate Committee thereof to determine whether or not the same should be increased in light of the duties and responsibilities of the Executive and the performance thereof, and if it is determined that an increase is merited, such increase shall be promptly put into effect and the Base Salary of the Executive as so increased shall constitute the Base Salary of the Executive for purposes of Section 3.1.

3.3. Annual Bonuses. For each calendar year during the Term, the Executive shall be eligible to receive an annual performance bonus (the "Bonus") based upon the terms of the Company's Executive Bonus Plan, with a target bonus amount each year equal to 100% of the Executive's Base Salary and a maximum of 200% of Base Salary. The Executive shall receive a bonus for calendar year 1999 equal to or greater than the target bonus amount, subject to the provisions of Sections 7 through 11. Additional bonuses may be awarded at the discretion of the Board.

4 Equity Incentive Compensation.

4.1. Initial Stock Option Grant.

4.1.1 Upon commencement of the Executive's employment by the Company on December 10, 1998 (the "Commencement Date"), Executive received a grant of 10-year stock options with respect to 1,000,000 shares of the Company's stock (the "Initial Stock Option Grant"), which grant is to be evidenced by the form of agreement attached hereto as Exhibit A. The Initial Stock Option Grant shall become exercisable in equal 200,000 share increments on each of the first five anniversaries of the Commencement Date. The exercise price for the option will be \$41.50.

4.1.2 In the event of termination of the Executive's employment without Cause or for Good Reason, or in the event of any termination of employment after

December 31, 2001, the terms of exercise for the Initial Stock Option Grant shall be the terms of exercise applicable upon retirement under the 1996

Incentive Plan of the Company (the "Incentive Plan") as in effect on January 1, 1999, and the options will therefore be exercisable for a period ending on the earlier of (i) the five-year anniversary of any such termination of employment or (ii) the 10-year anniversary of the Commencement Date.

4.2. Initial Restricted Stock Unit Grant. On the Commencement Date, the Executive received a grant of 225,000 restricted stock units (the "Initial Restricted Stock Grant"), which grant is to be evidenced by the form of agreement attached hereto as Exhibit B, to vest as follows: (i) 112,500 restricted stock units shall vest on April 1, 1999 and (ii) 112,500 restricted stock units shall vest on April 1, 2000. Unless otherwise agreed by the Company and the Executive, the Company shall, within 10 days after the Executive's employment with the Company terminates for any reason, deliver to the Executive one share of Common Stock for each unit covered by the Initial Restricted Stock Grant which has become vested as of the date of the termination of the Executive's employment.

4.3. Subsequent Equity Grants. During the Term the Executive shall participate, in an appropriate manner relative to other senior executives of the Company and consistent with competitive pay practices generally, in any equity-based incentive compensation plan or program of the Company, including (but not by way of limitation) any plan providing for the granting of (i) options to purchase stock of the Company, (ii) restricted stock or restricted stock units of the Company, or (iii) similar equity-based units or interests.

4.4. Equity Treatment Upon a Change of Control. All equity based awards (including the sign-on incentive described in Section 5.2) shall fully vest upon a Change of Control.

5 Sign-On Incentives.

5.1. Sign-On Bonus. The Company has paid to the Executive a cash payment of four million four hundred fifty thousand dollars (\$4,450,000) (the "Sign-On Bonus"). The Sign-On Bonus is not contingent on the performance of services for the Company and does not represent compensation for services rendered.

5.2. Sign-On Restricted Stock Unit Grant. On the Commencement Date, the Company granted Executive 50,000 restricted stock units (the "Sign-On Restricted Stock Grant") which grant is to be evidenced by the form of agreement attached hereto as Exhibit C, to vest in five equal 10,000-unit increments on each of the first five anniversaries of the Commencement Date. Unless otherwise agreed by the Company and the Executive, the Company shall, within 10 days after the Executive's employment with the Company terminates for any reason, deliver to the Executive one share of Common Stock for each unit covered by the Sign-On Restricted Stock Grant which has become vested as of the date of the termination of the Executive's employment. Upon a Change of Control, the Sign-On Restricted Stock Grant shall be fully vested.

6 Benefits.

6.1. Group/Executive Benefits. The Executive and his family shall be entitled to participate, on terms no less favorable to the Executive and his family than the terms offered to other senior executives of the Company, in any group and/or executive life, hospitalization, long-term care, or disability insurance plan, health program (with COBRA equivalent premiums paid on a tax grossed-up basis during any waiting period), pension, profit sharing, ESOP, 401(k) and similar benefit plans (qualified, non-qualified, special and supplemental) or other fringe benefits of the Company, including but not limited to automobile allowance, club memberships and dues, and similar programs as in effect from time to time (collectively, the "Benefits").

6.2. Supplemental Pension.

6.2.1 Upon termination of the Executive's employment with the the Company, subject to the vesting provision in Section 6.2.4 below, the Executive will be entitled to receive a supplemental pension benefit (the "Supplemental Pension") which will produce for the Executive retirement benefits (in the form of a joint and fully subsidized 50% surviving spouse annuity) in an annual amount equal to (i) multiplied by (ii), where:

(i) is equal to a fraction, the numerator of which is the Executive's attained age (not to exceed 65) at the date of termination of employment minus 35, and the denominator of which is 30; and

(ii) is equal to (A) 55% of the Executive's Final Average Earnings, minus (B) 19.5% of the Executive's Final Average Earnings not in excess of the Executive's Integration Level.

6.2.2 The amount of the Supplemental Pension described in Section 6.2.1 shall be reduced by the amount of all benefits provided to the Executive under all qualified or nonqualified defined benefit retirement plans of the Company (converted, if necessary, to an actuarially equivalent joint and 50% survivor annuity).

6.2.3 The Executive's right to receive the Supplemental Pension will fully vest on December 10, 2003, provided the Executive does not earlier terminate employment with the Company. In addition, the Executive's right to receive the Supplemental Pension will fully vest upon the termination of the Executive's employment before December 10, 2003 by reason of death or Disability. In the event of termination of the Executive's employment by the Company without Cause or by the Executive for Good Reason, or in the event of termination of employment for any reason after a Change of Control or after a Potential Change of Control, even if such termination occurs prior to December 10, 2003, the Supplemental Pension will fully vest and will be determined by (i) using the Executive's attained age as of the last day of the remaining Term or, if applicable, the Final Expiration Date as defined in

Section 14.4.1.2 (in each case as if the Executive's employment had not terminated), in lieu of his attained age at termination of employment, and (ii) taking into account for purposes of determining his Final Average Earnings, the benefits payable under Section 11.2.2 below or under Section 14.4.1.2 below, as the case may be, as though such benefits were earned ratably over the three-year (or other applicable) period under Section 11.2.2 or 14.4.1.2, as the case may be. In the event of the Executive's termination of employment prior to December 10, 2003, either by the Company for Cause or by the Executive without Good Reason, the Executive shall have no right to the Supplemental Pension.

6.2.4 The Executive may elect to receive the Supplemental Pension at any time and in any actuarially equivalent form available under any qualified or nonqualified defined benefit retirement plan of the Company as of the Commencement Date or as may be available under any such plan thereafter. If payment of the Supplemental Pension commences prior to the date the Executive attains age 62, the Supplemental Pension will be subject to a reduction of 4% for each full year (with a prorated reduction for any partial year) the Executive's age is less than age 62 at the time benefits commence. The Supplemental Pension shall not be subject to reduction for early retirement if payment commences on or after the date the Executives attains age 62.

6.2.5 If the Executive dies before his employment with the Company otherwise terminates and before the Supplemental Pension commences, even if his death occurs prior to December 10, 2003, his wife will receive, at the time and in the form she elects pursuant to Section 6.2.4, a benefit equivalent to a survivor annuity for her life equal to 50% of the amount which would have been payable to the Executive as the Supplemental Pension if he had terminated his employment without Good Reason immediately before his death and was fully vested in the Supplemental Pension as of such date, taking into account, for purposes of determining his Final Average Earnings, only Earnings through the date of death. If the Executive dies after his employment with the Company otherwise terminates but before the Supplemental Pension commences, his wife will receive, at the time and in the form she elects pursuant to Section 6.2.4, a benefit equivalent to a survivor annuity for her life equal to 50% of the amount which would have been payable to the Executive as the Supplemental Pension. If the Executive is not legally married on the date of his death, no Supplemental Pension shall thereafter be payable.

6.2.6 The assumptions applicable under this Section 6.2 for purposes of determining actuarially equivalence shall be those applicable under the EDS 1998 Supplemental Executive Retirement Plan.

7 Termination of Employment Due to Death or Disability. The Executive's employment shall terminate automatically upon the Executive's death during Term. If the Company determines

in good faith that the Disability of the Executive has occurred during the Term, it may give to the Executive written notice in accordance with Section 24 of this Agreement of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties.

8 Benefits Upon Death.

8.1. If the Executive's employment is terminated by reason of the Executive's death during the Term, this Agreement shall terminate without further obligations to the Executive's legal representatives under this Agreement, other than:

8.1.1 the payment of the Accrued Obligation (which shall be paid to the Executive's beneficiary as designated on a form supplied by the Company and filed by the Executive with the Company for such purpose or, if no such beneficiary is designated, living or in existence, to the Executive's estate) in a lump sum in cash within 30 days of the Date of Termination;

8.1.2 the payment of an amount equal to the Base Salary that would have been paid to the Executive pursuant to this Agreement for the period beginning on the Date of Termination and ending on the first anniversary thereof if the Executive's employment had not terminated by reason of death (which shall be paid to the Executive's estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination);

8.1.3 Payment of the Supplemental Pension and Benefits, in accordance with their terms, accrued to the Date of Termination but previously unpaid;

8.1.4 Continuation of Benefits for the Executive's dependents for three years after the Date of Termination (or, if less, the period from the Date of Termination through the date the Executive would have reached his 65th birthday). Thereafter, the Executive's dependents shall be treated as the dependents of a retired senior executive officer for purposes of Benefits provided by the Company to such retirees; and

8.1.5 effective as of the Date of Termination, (x) immediate vesting and exercisability of, and termination of any restrictions on sale or transfer (other than any such restriction arising by operation of law) with respect to, each and every Compensatory Award outstanding as of a time immediately prior to the Date of Termination, and (y) the extension of the term during which each and every Compensatory Award may be exercised or purchased by the Executive until

the earlier of (I) the first anniversary of the Date of Termination or (II) the date upon which the right to exercise or purchase any Compensatory Award would have expired if the Executive had continued to be employed by the Company under the terms of this Agreement.

9 Benefits Upon Disability.

9.1. If the Executive's employment is terminated by reason of the Executive's Disability during the Term, this Agreement shall terminate without further obligations to the Executive, other than:

9.1.1 the payment of the Accrued Obligation (which shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination);

9.1.2 the payment of an amount equal to the Base Salary that would have been paid to the Executive pursuant to this Agreement for the period beginning on the Date of Termination and ending on the first anniversary thereof if the Executive's employment had not terminated by reason of Disability (which shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination);

9.1.3 Payment of the Supplemental Pension and Benefits, in accordance with their terms, accrued to the Date of Termination but previously unpaid;

9.1.4 Continuation of Benefits for the Executive and his dependents for three years after the Date of Termination (or, if less, the period from the Date of Termination through the date of his 65th birthday). Thereafter, the Executive shall be treated as a retired senior executive officer for purposes of Benefits provided by the Company to such retirees; and

9.1.5 effective as of the Date of Termination, (x) immediate vesting and exercisability of, and termination of any restrictions on sale or transfer (other than any such restriction arising by operation of law) with respect to, each and every Compensatory Award outstanding as of a time immediately prior to the Date of Termination, and (y) the extension of the term during which each and every Compensatory Award may be exercised or purchased by the Executive until the earlier of (I) the first anniversary of the Date of Termination or (II) the date upon which the right to exercise or purchase any Compensatory Award would have expired if the Executive had continued to be employed by the Company under the terms of this Agreement.

10 Termination for Cause or Resignation Other than for Good Reason. If the Executive's employment shall be terminated for Cause during the Term, this Agreement shall terminate without further obligations under this Agreement to the Executive other than for the Accrued Obligation, excluding: (1) the amount described in clause (ii) of the definition of Accrued Obligation and (2) amounts

described in clause (iii) of the definition of Accrued Obligation to the extent such amounts were not vested as of the Date of Termination. If the Executive terminates employment during the Term without Good Reason, this Agreement shall terminate without further obligations to the Executive, other than for the payment of the Accrued Obligation excluding: (1) the amount described in clause (ii) of the definition of Accrued Obligation and (2) amounts described in

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clause (iii) of the definition of Accrued Obligation to the extent such amounts were not vested as of the Date of Termination. In such case, all Accrued Obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination.

11 Termination Without Cause or Resignation for Good Reason.

11.1. Events Triggering Severance Benefits. Upon the termination of the Executive's employment during the Term (i) by the Company without Cause or (ii) by the Executive for Good Reason, the Executive will be entitled to receive the severance benefits described in Section 11.2 below.

11.2. Severance Benefits. In the event of a termination of employment described in Section 11.1, the Executive shall be entitled to:

11.2.1 Payment of the Accrued Obligation, in a lump sum in cash within 10 days after the Date of Termination; provided, however, that if the amount specified at (ii)(x) in the definition of Accrued Obligation is less than Executive's target bonus amount for the calendar year in which Executive's employment with the Company terminated, then such target bonus amount shall be substituted for the amount of (ii)(x) in that definition;

11.2.2 Within 10 days of the Date of Termination, lump sum payment of payment of three times the sum of the Executive's (i) final Base Salary and (ii) most recent Bonus target or, if greater, most recent earned Bonus amount. In the event termination occurs after age 62, such lump-sum amount shall be prorated based on the ratio of the number of days from termination of employment until the Executive's 65th birthday and 1,095;

11.2.3 Payment of the Supplemental Pension and Benefits, in accordance with their terms, accrued to the Date of Termination but previously unpaid;

11.2.4 Continuation of Benefits for Executive and his dependents for three years after the Date of Termination (or, if less, the period until his 65th birthday). Thereafter, Executive shall be treated as a retired senior executive officer for purposes of Benefits provided by the Company to such retirees;

11.2.5 Effective as of the Date of Termination, immediate vesting and exercisability of, and termination of any restrictions on sale or transfer (other than any such restriction arising by operation of law) with respect to, each and every Compensatory Award outstanding as of a time immediately prior to the Date of Termination. The exercise period for any stock options held by Executive on the Date of Termination shall extend through the earlier of (i) the five-year anniversary of the Date of Termination or (ii) the 10-year anniversary of the date such options were granted.

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12 COC Employment Period. Upon a Change of Control or Potential Change of Control, (a) all of the foregoing provisions of this Agreement shall cease to have any effect, and (b) the Company hereby agrees to continue the Executive in its employ, and the Executive hereby agrees to remain in the employ of the Company, in accordance with, and subject to, the terms and provisions of Section 13, for the period (the "COC Employment Period") commencing on the date upon which there occurs a Change of Control or a Potential Change of Control (the "COC Date") and ending on:

(i) if a Change of Control has occurred, the fifth anniversary of the COC Date, or

(ii) if a Potential Change of Control has occurred but a Change of Control has not occurred, the earliest of (x) the date upon which the Board determines in good faith that a Change of Control is unlikely to occur, (y) any annual anniversary of the Potential Change of Control, if at least 30 days prior to such anniversary the Executive notifies the Company in writing that he elects to terminate his employment with the Company as of such anniversary and (z) the fifth anniversary of the COC Date.

If the COC Employment Period commences by reason of a Potential Change in Control and the COC Employment Period is thereafter terminated pursuant to clause (ii)(x) of the preceding sentence, Sections 1 through 12 of this Agreement shall again take effect as though such sections had continuously remained effective; provided that a new COC Employment Period shall commence upon a subsequent Change of Control or Potential Change of Control and Sections 1 through 12 shall again cease to have any effect. The Company shall promptly notify the Executive in writing of the occurrence of a Change of Control or Potential Change of Control and of any determination made by the Board pursuant to clause (ii)(x) above that a Change of Control is unlikely to occur.

13 Terms of Employment During COC Employment Period.

13.1. Position and Duties.

13.1.1 During the COC Employment Period, (A) the Executive's position (including status, offices, titles and reporting requirements),

authority, duties and responsibilities shall be at least commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 90-day period immediately preceding the COC Date, and (B) the Executive's services shall be performed at the location where the Executive was employed immediately preceding the COC Date.

13.1.2 During the COC Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote reasonable attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities. During the COC Employment Period it shall not be a violation of this Agreement for the Executive to (A) serve on corporate, civic

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or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions and (C) manage personal investments, so long as such activities do not significantly interfere with the performance of the Executive's responsibilities as an employee of the Company in accordance with this Agreement. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Executive prior to the COC Date, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the COC Date shall not thereafter be deemed to interfere with the performance of the Executive's responsibilities to the Company.

13.2. Compensation.

13.2.1 Base Salary. During the COC Employment Period, the Executive shall receive a Base Salary equal to the Base Salary in effect immediately prior to the COC Date, which shall be paid on a semimonthly basis. During the COC Employment Period, the Base Salary shall be reviewed at least annually and shall be increased at any time and from time to time as shall be substantially consistent with increases in base salary generally awarded in the ordinary course of business to executives of the Company and its affiliated companies. Any increase in Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement. Base Salary shall not be reduced after any such increase and the term "Base Salary" as utilized in this Agreement shall refer to Base Salary as so increased. As used in this Agreement, the term "affiliated companies" shall include, when used with reference to the Company, any company controlled by, controlling or under common control with the Company.

13.2.2 Annual Bonus. In addition to Base Salary, the Executive shall be awarded, for each fiscal year or portion thereof during the COC Employment

Period, a Bonus in cash equal to the greater of (A) the highest Bonus paid or awarded to or for the benefit of the Executive in respect of any of the preceding three fiscal years, excluding the Sign-On Bonus, or (B) an amount comparable to the Bonus awarded to other Company executives taking into account Executive's position and responsibilities with the Company, prorated in the case of either (A) or (B) for any period consisting of less than 12 full months. If the COC Employment Period commences prior to the payment to the Executive of any Bonus for 1999 pursuant to Section 3.3, the target Bonus amount described in Section 3.3 shall be deemed to have been paid to the Executive in the fiscal year preceding the fiscal year during which the COC Employment Period commenced. The Bonus awarded for a particular fiscal year shall (unless the Executive elects to defer receipt thereof) be paid no later than in accordance with the following schedule: (x) 50% of such Bonus shall be paid no later than the last day of the third month after such year; (y) 25% of such Bonus shall be paid no later than the last day of the 15th

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month after such year; and (z) 25% of such Bonus shall be paid no later than the last day of the 27th month after such year.

13.2.3 Incentive, Savings and Retirement Plans. During the COC Employment Period, the Executive shall be entitled to participate in all incentive, savings and retirement plans that are tax-qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended ("Code"), and all plans that are supplemental to any such tax-qualified plans, in each case to the extent that such plans are applicable generally to other executives of the Company and its affiliated companies but in no event shall such plans provide the Executive with incentive opportunities (measured with respect to both regular and special incentive opportunities, to the extent, if any, that such distinction is applicable), savings opportunities and retirement benefit opportunities that are, in each case, less favorable, in the aggregate, than the most favorable plans of the Company and its affiliated companies. As used in this Section 13, the term "most favorable" shall, when used with reference to any plans, practices, policies or programs of the Company and its affiliated companies, be deemed to refer to the most favorable plans, practices, policies or programs of the Company and its affiliated companies as in effect at any time during the three fiscal years preceding the COC Date or, if more favorable to the Executive, provided generally at any time after the COC Date to other executives of the Company and its affiliated companies.

13.2.4 Welfare Benefit Plans. During the COC Employment Period, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company and its affiliated companies (including, without limitation, medical, prescription, dental, vision, disability, salary continuance, group life and supplemental group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other executives of the Company and its affiliated

companies, but in no event shall such plans, practices, policies and programs provide the Executive with benefits that are less favorable, in the aggregate, than the most favorable such plans, practices, policies and programs of the Company and its affiliated companies.

13.3. Expenses. During the COC Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the most favorable policies, practices and procedures of the Company and its affiliated companies.

13.4. Fringe Benefits and Prerequisites. During the COC Employment Period, the Executive shall be entitled to fringe benefits and perquisites (including, but not limited to, use of Company airplanes) in accordance with the most favorable plans, practices, programs and policies of the Company and its affiliated companies applicable to similarly situated executives.

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13.5. Office and Support Staff. During the COC Employment Period, the Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to exclusive personal secretarial and other assistance at least equal to the most favorable of the foregoing provided to the Executive by the Company and its affiliated companies at any time during the three fiscal years preceding the COC Date.

13.6. Vacation. During the COC Employment Period, the Executive shall be entitled to paid vacation in accordance with the most favorable plans, policies, programs and practices of the Company and its affiliated companies.

13.7. Stock Option Grants. During the COC Employment Period, the Executive shall be granted (x) stock options no less frequently than such grants were made to Executive in the past and on the same terms and conditions as the most recent prior stock option grant to Executive, including options on not less than the number of shares that were the subject of the most recent prior grant of stock options to Executive or (y) if more favorable to Executive, stock options with similar terms and conditions and on a number of shares as grants currently being granted to similarly situated executives of the Company. Notwithstanding the foregoing, for purposes of this Section 13.7, the Initial Stock Option Grant described in Section 4.1 shall be treated as an annual option grant with respect to 250,000 shares of stock, with vesting as to 50,000 shares on each of the first five anniversaries of grant, and the option on the remaining 750,000 shares shall be disregarded.

13.8. Restricted Stock Unit and Other Equity-Based Grants. During the COC Employment Period, the Executive shall be granted (x) restricted stock and/or restricted stock units and/or other equity-based awards no less frequently than such grants were made to Executive in the past and on the same terms and conditions as the most recent prior grant of such an award to Executive,

including grants for a number of shares or units not less than were the subject of the most recent prior grant of such an award to Executive, or (y) if more favorable to Executive, equity-based grants with similar terms and conditions, including the number of shares or units, as grants currently being granted to similarly situated executives of the Company. Notwithstanding the foregoing, for purposes of this Section 13.8, the Initial Restricted Stock Unit Grant described in Section 4.2 shall be treated as an annual grant of 25,000 restricted stock units, with vesting as to 12,500 units on each of April 1, 1999 and April 1, 2000, and the grant of the remaining 200,000 restricted stock units shall be disregarded. In addition, the Sign-On Restricted Stock Unit Grant described in Section 5.2 shall be disregarded in its entirety for purposes of this Section 13.8.

13.9. Performance Grants. During the COC Employment Period, the Executive shall be granted (x) performance awards no less frequently than such awards were granted to Executive in the past and on the same terms and conditions as the most recent prior performance award to Executive, including awards that provide benefits no less favorable than and are subject to performance criteria no more stringent than the most recent prior performance award to Executive, or (y) if more favorable to Executive, performance awards with similar terms and conditions, including benefits provided and performance criteria, as awards currently being granted to similarly situated executives of the Company.

14 Termination of Employment During COC Employment Period.

14.1. Death or Disability. The Executive's employment shall terminate automatically upon the Executive's death during the COC Employment Period. If the Company determines in good faith that the Disability of the Executive has occurred during the Employment Period, it may give to the Executive written notice in accordance with Section 24 of this Agreement of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties.

14.2. Termination for Cause. The Company may terminate the Executive's employment during the COC Employment Period for Cause.

14.3. Resignation for Good Reason or During a Window Period. The Executive's employment may be terminated during the COC Employment Period by the Executive for Good Reason or during a Window Period by the Executive without any reason.

14.4. Obligations of the Company Upon Termination.

14.4.1 Benefits Upon Resignation for Good Reason, Termination During a Window Period or Termination Without Cause. If, during the COC Employment Period, (i) the Company shall terminate the Executive's employment other than for Cause or Disability, (ii) the Executive shall terminate employment for Good Reason or (iii) the Executive's employment shall be terminated for any reason during a Window Period, the Company shall pay or provide to or in respect of the Executive all of the following amounts and benefits:

14.4.1.1 The Accrued Obligation, in a lump sum in cash within 10 days after the Date of Termination.

14.4.1.2 In a lump sum in cash, undiscounted, within 10 days after the Date of Termination, an amount equal to the sum of:

(i) the Base Salary that would have been paid to the Executive pursuant to this Agreement for the period (the "Remaining Employment Period") beginning on the Date of Termination and ending on the latest possible date of termination of the COC Employment Period in accordance with the provisions of Section 12 hereof (the "Final Expiration Date") if the Executive's employment had not been terminated, and

(ii) the Bonus that would have been paid or awarded to or for the benefit of the Executive during the Remaining Employment Period if the Executive's employment had not been terminated and if the amount of the Bonus for each fiscal year or portion thereof during such period were equal to the highest Bonus paid or awarded to or for the benefit of the Executive in respect of any of the preceding three fiscal years, excluding the Sign-On Bonus, prorated in the case of any period of less than a full fiscal year.

For this purpose, if the COC Employment Period commences prior to the payment to the Executive of any Bonus for 1999 pursuant to Section 3.3, the target Bonus amount described in Section 3.3 shall be deemed to have been paid to the Executive in the fiscal year preceding the fiscal year during which the COC Employment Period commenced.

14.4.1.3 In a lump sum in cash, undiscounted, within 30 days after the Date of Termination, an amount equal to the economic equivalent of the benefits the Executive (and his dependents or beneficiaries) would have received or become entitled to under Section 13.2.3 of this Agreement for the Remaining Employment Period if Executive's employment had not been terminated.

14.4.1.4 Except in the case of a termination during a Window Period by the Executive without Good Reason, effective as of the Date of Termination, (1) if the Executive has not received a grant of stock options during the 30-month period immediately preceding the Date of Termination, a stock option grant covering the same number of shares and on the same terms and conditions as the most recent prior stock option grant to the Executive, if any, made during the five-year period immediately preceding the Date of Termination,

(2) if the Executive has not received a grant of restricted stock and/or restricted stock units and or other similar equity-based awards during the 30-month period immediately preceding the Date of Termination, a grant covering the same number of shares and on the same terms and conditions as the most recent prior grant of such an award to the Executive, if any, made during the five-year period immediately preceding the Date of Termination and (3) if the Executive has not received a grant of a performance award during the 30-month period immediately preceding the Date of Termination, a grant that provides benefits no less favorable than and is subject to the satisfaction of performance criteria no more stringent than the most recent prior grant of such an award to the Executive, if any, made

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during the five-year period immediately preceding the Date of Termination; provided that any awards required by (1), (2) or (3) shall be prorated based on the length of the Remaining Employment Period as compared to the customary terms of such awards for purposes of a recipient becoming entitled to full vesting in such award. Notwithstanding the foregoing, for purposes of clause (1) of this Section 14.4.1.4, the Initial Stock Option Grant described in Section 4.1 shall be treated as an annual option grant with respect to 250,000 shares of stock, with vesting as to 50,000 shares on each of the first five anniversaries of grant, and the option on the remaining 750,000 shares shall be disregarded. In addition, for purposes of clause (2) of this Section 14.4.1.4, (a) the Initial Restricted Stock Unit Grant described in Section 4.2 shall be treated as an annual grant of 25,000 restricted stock units, with vesting as to 12,500 units on each of April 1, 1999 and April 1, 2000, and the grant of the remaining 200,000 restricted stock units shall be disregarded, and (b) the Sign-On Restricted Stock Unit Grant described in Section 5.2 shall be disregarded in its entirety.

14.4.1.5 Effective as of the Date of Termination, (x) immediate vesting and exercisability of, and termination of any restrictions on sale or transfer (other than any such restriction arising by operation of law) with respect to any and all Compensatory Awards, (y) the extension of the term during which each and every Compensatory Award may be exercised by the Executive until the earlier of (1) the first anniversary of the Date of Termination or (2) the date upon which the right to exercise any Compensatory Award would have expired if the Executive had continued to be employed by the Company under the terms of this Agreement until the Final Expiration Date; provided, however, that the extended term for exercisability of the initial Stock Option Grant shall be governed by Section 4.1, and (z) at the sole election of Executive, in exchange for any or all Compensatory Awards that are either denominated in or payable in Common Stock, an amount in cash equal to the excess of (i) the Highest Price Per

Share over (ii) the exercise or purchase price, if any, of such Compensatory Awards.

14.4.1.6 For the Remaining Employment Period, or such longer period as any plan, program, practice or policy may provide, the Company shall continue benefits to the Executive and/or the Executive's family at least equal to those which would have been provided to them in accordance with the plans,

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programs, practices and policies described in Section 13.2.4 of this Agreement if the Executive's employment had not been terminated in accordance with the most favorable plans, practices, programs or policies of the Company and its affiliated companies (such continuation of such benefits for the applicable period herein set forth shall be hereinafter referred to as "Welfare Benefit Continuation"). For purposes of determining eligibility of the Executive for retiree benefits pursuant to such plans, practices, programs and policies, the Executive shall be considered to have remained employed until the Final Expiration Date and to have retired on such date.

14.4.1.7 For the Remaining Employment Period, to the extent not theretofore paid or provided, the Company shall timely pay or provide to the Executive and/or the Executive's family any other amounts or benefits required to be paid or provided or which the Executive and/or the Executive's family is eligible to receive pursuant to this Agreement and under any plan, program, policy or practice or contract or agreement of the Company and its affiliated companies as in effect and applicable generally to other executives and their families on the COC Date or, if more favorable to the Executive, as in effect generally thereafter with respect to other executives of the Company and its affiliated companies and their families (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits").

14.4.2 Benefits Upon Death. If the Executive's employment is terminated by reason of the Executive's death during the COC Employment Period (and other than during a Window Period, in which event the provisions of Section 14.4.1 shall govern), this Agreement shall terminate without further obligations to the Executive's legal representatives under this Agreement, other than:

14.4.2.1 the payment of the Accrued Obligation (which shall be paid to the Executive's estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination);

14.4.2.2 the payment of an amount equal to the Base Salary that would have been paid to the Executive pursuant to this Agreement for the period beginning on the Date of Termination and ending on the first anniversary thereof if the Executive's employment had not terminated by reason of death (which shall be paid to the Executive's estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination);

14.4.2.3 the timely payment or provision of the Welfare Benefit Continuation and Other Benefits; and

14.4.2.4 effective as of the Date of Termination, (x) immediate vesting and exercisability of, and termination of any restrictions on sale or transfer (other than any such restriction arising by operation of law) with respect to, each and every Compensatory Award outstanding as of a time immediately prior to the Date of Termination, (y) the extension of the term during which each and every Compensatory Award may be exercised or purchased by the Executive until the earlier of (I) the first anniversary of the Date of Termination or (II) the date upon which the right to exercise or purchase any Compensatory Award would have expired if the Executive had continued to be employed by the Company under the terms of this Agreement until the Final Expiration Date and (z) at the sole election of Executive, in exchange for any Compensatory Award that is either denominated in or payable in Common Stock, an amount in cash equal to the excess of (I) the Highest Price Per Share over (II) the exercise or purchase price, if any, of such Compensatory Award.

14.4.3 Benefits Upon Disability. If the Executive's employment is terminated by reason of the Executive's Disability during the COC Employment Period (and other than during a Window Period, in which event the provisions of Section 14.4.1 shall govern), this Agreement shall terminate without further obligations to the Executive, other than:

14.4.3.1 the payment of the Accrued Obligation (which shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination);

14.4.3.2 the payment of an amount equal to the Base Salary that would have been paid to the Executive pursuant to this Agreement for the period beginning on the Date of Termination and ending on the first anniversary thereof if the Executive's employment had not terminated by reason of Disability (which shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination);

14.4.3.3 the timely payment or provision of the Welfare Benefit Continuation and Other Benefits; and

14.4.3.4 effective as of the Date of Termination, (x) immediate vesting and exercisability of, and termination of any restrictions on sale or transfer (other than any such restriction arising by

operation of law) with respect to, each and every Compensatory Award outstanding

as of a time immediately prior to the Date of Termination, (y) the extension of the term during which each and every Compensatory Award may be exercised or purchased by the Executive until the earlier of (I) the First anniversary of the Date of Termination or (II) the date upon which the right to exercise or purchase any Compensatory Award would have expired if the Executive had continued to be employed by the Company under the terms of this Agreement until the Final Expiration Date and (z) at the sole election of Executive, in exchange for any Compensatory Award that is either denominated in or payable in Common Stock, an amount in cash equal to the excess of (I) the Highest Price Per Share over (II) the exercise or purchase price, if any, of such Compensatory Award.

14.5. Offset Due to Death or Disability Benefits. If termination of employment is by reason of death or Disability during a Window Period, the payments and benefits provided pursuant to Section 14.4.1.2, Section 14.4.1.3 and section 14.4.1.4 shall not be in lieu of but shall be offset by the value of any death or disability benefits or payments, as appropriate, to Executive pursuant to any individual agreement between the Company and Executive.

14.6. Termination for Cause; Resignation Other than for Good Reason and not During a Window Period. If the Executive's employment shall be terminated for Cause during the COC Employment Period (and other than during a Window Period, in which event the provisions of Section 14.4.1 shall govern), this Agreement shall terminate without further obligations under this Agreement to the Executive other than for the Accrued Obligation. If the Executive terminates employment without Good Reason during the COC Employment Period, excluding a termination during a Window Period, this Agreement shall terminate without further obligations to the Executive, other than for the payment of the Accrued Obligation. In such case, the Accrued Obligation shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination.

15 Non-Exclusivity of Rights. Except as provided in Section 14 of this Agreement, nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliated companies and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliated companies. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as such plan, policy, practice or program is superseded by this Agreement.

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16 Full Settlement; Resolution of Disputes.

16.1. The Company's obligation to make payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be

affected by any set-off, counterclaim, recoupment, defense, mitigation or other claim, right or action which the Company may have against the Executive or others. The Company agrees to pay promptly as incurred, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company, the Executive or others of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof (including as a result of any contest by the Executive about the amount of any such payment pursuant to this Agreement), plus in each case interest on any delayed payment at the Applicable Federal Rate provided for in Section 7872(f)(2)(A) of the Code.

16.2. If there shall be any dispute between the Company and the Executive concerning (i) in the event of any termination of the Executive's employment by the Company, whether such termination was for Cause, or (ii) in the event of any termination of employment by the Executive, whether Good Reason existed or whether such termination occurred during a Window Period, then, unless and until there is a final, nonappealable judgment by a court of competent jurisdiction declaring that such termination was for Cause or that the determination by the Executive of the existence of Good Reason was not made in good faith or that the termination by the Executive did not occur during a Window Period, the Company shall pay all amounts, and provide all benefits, to the Executive and/or the Executive's family or other beneficiaries, as the case may be, that the Company would be required to pay or provide pursuant to Section 11.2 or 14.4, as appropriate, as though such termination were by the Company without Cause or by the Executive with Good Reason or during a Window Period; provided, however, that the Company shall not be required to pay any disputed amounts pursuant to this paragraph except upon receipt of an undertaking by or on behalf of the Executive to repay all such amounts to which the Executive is ultimately adjudged by such court not to be entitled.

17 Certain Additional Payments by the Company.

17.1. Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 17) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

17.2. Subject to the provisions of Section 17.3, all determinations required to be made under this Section 17, including whether and when Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by KPMG LLP (the "Accounting Firm"); provided, however, that the Accounting Firm shall not determine that no Excise Tax is payable by the Executive unless it delivers to the Executive a written opinion (the "Accounting Opinion") that failure to report the Excise Tax on the Executive's applicable federal income tax return would not result in the imposition of a negligence or similar penalty. In the event that KPMG LLP has served, at any time during the two years immediately preceding a Change in Control Date, as accountant or auditor for the individual, entity or group that is involved in effecting or has any material interest in the Change of Control, the Executive shall appoint another nationally recognized accounting firm to make the determinations and perform the other functions specified in this Section 17 (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Within 15 business days of the receipt of notice from the Executive that there has been a Payment or such earlier time as is requested by the Company, the Accounting Firm shall make all determinations required under this Section 17, shall provide to the Company and the Executive a written report setting forth such determinations, together with detailed supporting calculations, and, if the Accounting Firm determines that no Excise Tax is payable, shall deliver the Accounting Opinion to the Executive. Any Gross-Up Payment, as determined pursuant to this Section 17, shall be paid by the Company to the Executive within five days of the receipt of the Accounting Firm's determination. Subject to the remainder of this Section 17, any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that it is ultimately determined in accordance with the procedures set forth in Section 17.3 that the Executive is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

17.3. The Executive shall notify the Company in writing of any claims by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than 30 days after the Executive actually receives notice in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid; provided, however, that the failure of the Executive to notify the Company of such claim (or to provide any required information with respect thereto) shall not affect any rights granted to the Executive under this Section 17 except to the extent that the Company is materially prejudiced in the defense of such claim as a direct result of such failure. The Executive shall not pay such claim prior to

the expiration of the 30-day period following the date on which he gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

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17.3.1 give the Company any information reasonably requested by the Company relating to such claim;

17.3.2 take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney selected by the Company and reasonably acceptable to the Executive;

17.3.3 cooperate with the Company in good faith in order effectively to contest such claim; and

17.3.4 if the Company elects not to assume and control the defense of such claim permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 17.3, the Company shall have the right, at its sole option, to assume the defense of and control all proceedings in connection with such contest, in which case it may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine, provided, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis, and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance, and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested

amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's right to assume the defense of and control the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

17.4. If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 17.3, the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 17.3) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an

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amount advanced by the Company pursuant to Section 17.3, a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

18 Confidential Information. The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its affiliated companies, and their respective businesses which shall have been obtained by the Executive during the Executive's employment by the Company or any of its affiliated companies and which shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive's employment with the Company, the Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In no event shall an asserted violation of the provisions of this Section 18 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement. Also, within 14 days of the termination of Executive's employment for any reason, Executive shall return to the Company all documents and other tangible items of or containing Company information which are in Executive's possession, custody or control.

19 Successors.

19.1. This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's heirs, executors and other legal representatives.

19.2. This Agreement shall inure to the benefit of and be binding upon the Company and may only be assigned to a successor described in Section 19.3.

19.3. The Company will require any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

20 Choice of Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas, without reference to principles of conflict of laws that would require the application of the laws of any other state or jurisdiction.

21 Captions. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect.

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22 Amendment or Modification. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and heirs, executors and other legal representatives.

23 Notice of Termination. Any termination by the Company, or by the Executive, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 24 of this Agreement. The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company hereunder or preclude the Executive or the Company from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

24 Notices. All notices and other communications hereunder shall be in writing and shall be given, if by the Executive to the Company, by telecopy or facsimile transmission at the telecommunications number set forth below and, if by either the Company or the Executive, either by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:

Mr. Richard Brown
Electronic Data Systems Corporation
5400 Legacy Drive, H3-1E-52

Plano, Texas 75024

With a copy to:

Vedder, Price, Kaufman and Kammholz
222 North LaSalle Street, Suite 2600
Chicago, Illinois 60601
Attn: Robert J. Stucker, Esq.

If to the Company:

Electronic Data Systems Corporation
5400 Legacy Drive, H3-1E-52
Plano, Texas 75024
Telecommunications Number: (972) 605-3454
Attention: Director, Corporate Compensation

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With a copy to:

Electronic Data Systems Corporation
5400 Legacy Drive
Plano, Texas 75024
Telecommunications Number: (972) 605-5610
Attention: Corporate Secretary

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

25 Enforceability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

26 Withholding. The Company may withhold from any amounts payable under this Agreement such federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

27 Non-Waiver. The Executive's or the Company's failure to insist upon strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason or during a Window Period shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

28 No Duty to Mitigate. After a termination of employment, the Executive will not be obligated to mitigate damages by seeking other comparable employment, and any severance benefits payable to the Executive, under Section 14.4 or

otherwise, will not be subject to reduction for any compensation received from other employment.

29 Termination by Executive. The Executive may, by at least 30 days prior written notice given in accordance with Section 24, voluntarily terminate this Agreement and his employment with the Company without liability at any time either with or without Good Reason.

30 Fees and Expenses. The Company shall pay all reasonable professional fees and related expenses incurred by Executive in connection with the negotiation and preparation of this Agreement.

31 Definitions. As used in this Agreement:

"Accrued Obligation" means an amount equal to the sum of:

(i) the Executive's Base Salary through the Date of Termination,

(ii) the product of (x) the highest Bonus (excluding the Sign-On Bonus) paid or awarded to or for the benefit of Executive during the three fiscal years preceding the Date of Termination and (y) a fraction, the numerator of which is the

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number of days in the current fiscal year through the Date of Termination and the denominator of which is 365,

(iii) any deferred compensation previously awarded to or earned by the Executive (together with any accrued interest or earnings thereon), and

(iv) any compensation for unused vacation time for which the Executive is eligible in accordance with the most favorable plans, policies, programs and practices of the Company and its affiliated companies,

in each case to the extent not theretofore paid. For purposes of clause (ii), if the Date of Termination occurs prior to the payment to the Executive of any Bonus for 1999 pursuant to Section 3.3, the target Bonus amount described in Section 3.3 shall be deemed to have been paid to the Executive in the fiscal year preceding the fiscal year in which the Date of Termination occurred.

"Affiliate" has the meaning ascribed to such term in Rule 12b-2 of the General Rules and Regulations under the Exchange Act, as in effect on the date of this Agreement.

"Associate" means, with reference to any Person, (i) any corporation, firm, partnership, association, unincorporated organization or other entity (other than the Company or a subsidiary of the Company) of which such Person is an officer or general partner (or officer or general partner of a general partner) or is, directly or indirectly, the Beneficial Owner of 10% or more of any class of equity securities, (ii) any trust or other estate in which such Person has a substantial beneficial interest or as to which such Person serves as trustee or in a similar fiduciary capacity and (iii) any relative or spouse of such Person, or any relative of such spouse, who has the same home as such Person.

"Beneficial Owner" means, with reference to any securities, any Person if:

(i) such Person or any of such Person's Affiliates and Associates, directly or indirectly, is the "beneficial owner" of (as determined pursuant to Rule 13d-3 of the General Rules and Regulations under the Exchange Act, as in effect on the date of this Agreement) such securities or otherwise has the right to vote or dispose of such securities, including pursuant to any agreement, arrangement or understanding (whether or not in writing); provided, however, that a Person shall not be deemed the "Beneficial Owner" of, or to "beneficially own," any security under this subsection as a result of an agreement, arrangement or understanding to vote such security if such agreement, arrangement or understanding: (x) arises solely from a revocable proxy or consent given in response to a public (i.e., not including a solicitation exempted by Rule 14a-2(b)(2) of the General Rules and Regulations under the Exchange Act) proxy or consent solicitation made pursuant to, and in accordance with, the applicable provisions of the General Rules and Regulations under the Exchange Act and (y) is not then reportable by such Person on Schedule 13D under the Exchange Act (or any comparable or successor report);

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(ii) such Person or any of such Person's Affiliates and Associates, directly or indirectly, has the right or obligation to acquire such securities (whether such right or obligation is exercisable or effective immediately or only after the passage of time or the occurrence of an event) pursuant to any agreement, arrangement or understanding (whether or not in writing) or upon the exercise of conversion rights, exchange rights, other rights, warrants or options, or otherwise; provided, however, that a Person shall not be deemed the Beneficial Owner of, or to "beneficially own," (A) securities tendered pursuant to a tender or exchange offer made by such Person or any of such Person's Affiliates or Associates until such tendered securities are accepted for purchase or exchange or (B) securities issuable upon exercise of Exempt Rights; or

(iii) such Person or any of such Person's Affiliates or

Associates (A) has any agreement, arrangement or understanding (whether or not in writing) with any other Person (or any Affiliate or Associate thereof) that beneficially owns such securities for the purpose of acquiring, holding, voting (except as set forth in the proviso to subsection (i) of this definition) or disposing of such securities or (B) is a member of a group (as that term is used in Rule 13d-5(b) of the General Rules and Regulations under the Exchange Act) that includes any other Person that beneficially owns such securities;

provided, however, that nothing in this definition shall cause a Person engaged in business as an underwriter of securities to be the Beneficial Owner of, or to "beneficially own," any securities acquired through such Person's participation in good faith in a firm commitment underwriting until the expiration of forty days after the date of such acquisition. For purposes hereof, "voting" a security shall include voting, granting a proxy, consenting or making a request or demand relating to corporate action (including, without limitation, a demand for a stockholder list, to call a stockholder meeting or to inspect corporate books and records) or otherwise giving an authorization (within the meaning of Section 14(a) of the Exchange Act) in respect of such security.

The terms "beneficially own" and "beneficially owning" shall have meanings that are correlative to this definition of the term "Beneficial Owner."

"Cause" means:

(i) dishonesty by the Executive which results in substantial personal enrichment at the expense of the Company; or

(ii) demonstratively willful repeated violations of the Executive's obligations under this Agreement which are intended to result and do result in material injury to the Company.

"Change of Control" means any of the following occurring on or after the Commencement Date:

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(i) Any Person (other than an Exempt Person) shall become the Beneficial Owner of 15% or more of the shares of Common Stock then outstanding or 15% or more of the combined voting power of the Voting Stock of the Company then outstanding, provided, however, that no Change of Control shall be deemed to occur for purposes of this subsection (i) if such Person shall become a Beneficial Owner of 15% or more of the shares of Common Stock or 15% or more of the combined voting power of the Voting Stock of the Company solely as a result of (x) an Exempt Transaction or (y) an acquisition by a Person pursuant

to a reorganization, merger or consolidation, if, following such reorganization, merger or consolidation, the conditions described in clauses (x), (y) and (z) of subsection (iii) of this definition are satisfied;

(ii) Individuals who, as of the Agreement Effective Date, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Agreement Effective Date whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board; provided, further, that there shall be excluded, for this purpose, any such individual whose initial assumption of office occurs as a result of any actual or threatened election contest that is subject to the provisions of Rule 14a-11 under the Exchange Act;

(iii) Approval by the shareholders of the Company of a reorganization, merger or consolidation, in each case, unless, following such reorganization, merger or consolidation, (x) more than 85% of the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation and the combined voting power of the then outstanding Voting Stock of such corporation beneficially owned, directly or indirectly, by all or substantially all of the Persons who were the Beneficial Owners of the outstanding Common Stock immediately prior to such reorganization, merger or consolidation in substantially the same proportions as their ownership, immediately prior to such reorganization, merger or consolidation, of the outstanding Common Stock, (y) no Person (excluding any Exempt Person or any Person beneficially owning, immediately prior to such reorganization, merger or consolidation, directly or indirectly, 15% or more of the Common Stock then outstanding or 15% or more of the combined voting power of the Voting Stock of the Company then outstanding) beneficially owns, directly or indirectly, 15% or more of the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation or the combined voting power of the then outstanding Voting Stock of such corporation and (z) at least a majority of the members of the board of directors of the corporation resulting from such reorganization, merger or consolidation were members of the Incumbent Board at the time of the execution of the initial agreement or initial action by the Board providing for such reorganization, merger or consolidation; or

(iv) Approval by the shareholders of the Company of (x) a

complete liquidation or dissolution of the Company, unless such liquidation or dissolution is approved as part of a plan of liquidation and dissolution involving a sale or disposition of all or substantially all of the assets of the Company to a corporation with respect to which, following such sale or other disposition, all of the requirements of clauses (y) (A), (B) and (C) of this subsection (iv) are satisfied, or (y) the sale or other disposition of all or substantially all of the assets of the Company, other than to a corporation, with respect to which, following such sale or other disposition, (A) more than 85% of the then outstanding shares of common stock of such corporation and the combined voting power of the Voting Stock of such corporation is then beneficially owned, directly or indirectly, by all or substantially all of the Persons who were the Beneficial Owners of the outstanding Common Stock immediately prior to such sale or other disposition in substantially the same proportion as their ownership, immediately prior to such sale or other disposition, of the outstanding Common Stock, (B) no Person (excluding any Exempt Person and any Person beneficially owning, immediately prior to such sale or other disposition, directly or indirectly, 15% or more of the Common Stock then outstanding or 15% or more of the combined voting power of the Voting Stock of the Company then outstanding) beneficially owns, directly or indirectly, 15% or more of the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding Voting Stock of such corporation and (C) at least a majority of the members of the board of directors of such corporation were members of the Incumbent Board at the time of the execution of the initial agreement or initial action of the Board providing for such sale or other disposition of assets of the Company.

"Common Stock" means the common stock, par value \$.01 per share, of the Company.

"Compensatory Awards" means each and every stock option, restricted stock award, restricted stock unit award and other equity-based award and performance award that is outstanding as of a time immediately prior to the Date of Termination or is awarded effective as of the Date of Termination.

"Covered Compensation" means the average of the Social Security Taxable Wage Bases for the 35 calendar years ending with the calendar year in which the Executive attains Social Security Retirement Age. In determining the Executive's Covered Compensation for any calendar year, it is assumed that the Social Security Taxable Wage Base in effect at the beginning of the calendar year will remain the same for all future years.

(i) The Executive's Covered Compensation for a calendar year beginning before the 35-year period described in this definition is the Social Security Taxable Wage Base in effect as of the beginning of the calendar year. The Executive's Covered Compensation for a calendar year ending after the 35-year period described in this definition is the Covered Compensation for the calendar year in which the Executive

(ii) The Executive's Covered Compensation shall be automatically adjusted each calendar year in accordance with tables published by the Internal Revenue Service pursuant to Treas. Reg. Sec.1.401(l)-1(c)(7).

"Covered Person" means any Person other than an Exempt Person who (i) is the Beneficial Owner of 10% or more of the outstanding shares of Common Stock or 10% or more of the combined voting power of the outstanding Voting Stock of the Company at any time during the COC Employment Period or the two-year period immediately prior to the COC Date, (ii) is a Person who has any material involvement in proposing or effectuating the Change of Control or Potential Change of Control, or (iii) is an assignee of or has otherwise succeeded to any shares of Common Stock or Voting Stock of the Company which were at any time during the COC Employment Period or the two-year period immediately preceding the COC Date, "beneficially owned" by any Person identified in clause (i) or (ii) of this definition, if such assignment or succession shall have occurred in the course of a privately negotiated transaction rather than an open market transaction. For purposes of determining whether a Person is a Covered Person, the number of shares of Common Stock or Voting Stock of the Company deemed to be outstanding shall include shares of which the Person is deemed the Beneficial Owner, but shall not include any other shares which may be issuable pursuant to any agreement, arrangement or understanding, or upon exercises of conversion rights, warrants or options. In determining the Highest Price Per Share, the price paid or agreed to be paid by a Covered Person will be appropriately adjusted to take into account (W) distributions paid or payable in stock, (X) subdivisions of outstanding stock, (Y) combinations of shares of stock into a smaller number of shares and (Z) similar events.

"Date of Termination" means:

(i) if the Executive's employment is terminated by the Company for Cause, or by the Executive during a Window Period or for Good Reason, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be,

(ii) if the Executive's employment is terminated by the Company other than for Cause or Disability, the Date of Termination shall be the date on which the Company notifies the Executive of such termination, and

(iii) if the Executive's employment is terminated by reason of death or Disability, the Date of Termination shall be the date of death of the Executive or the Disability Effective Date, as the case may be.

"Disability" means the absence of the Executive from the Executive's

duties with the Company on a full-time basis for 180 consecutive business days as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative (such agreement as to acceptability not to be withheld unreasonably).

"Disability Effective Date" is defined in Sections 7 and 14.1.

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"Earnings" means "Earnings" as defined in the EDS Retirement Plan (or any successor plan) at the time of determination, without regard to any limitations thereto imposed by the Internal Revenue Code of 1986, as amended.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Exempt Person" means any of the following:

(i) the Company, any subsidiary of the Company, any employee benefit plan of the Company or any subsidiary of the Company, and any Person organized, appointed or established by the Company for or pursuant to the terms of any such plan; or

(ii) the General Motors Hourly-Rate Employees Pension Plan for its Hourly Employees, or any trustee of or fiduciary with respect to such plan (when acting in such capacity) (the "Hourly Plan"), unless and until, at any time when the Hourly Plan, together with all Affiliates thereof, is the Beneficial Owner of 15% or more of the shares of Common Stock then outstanding or 15% or more of the combined voting power of the Voting Stock of the Company then outstanding, (A) the Hourly Plan shall purchase or otherwise become the Beneficial Owner of any additional shares of Common Stock constituting 1% or more of the then outstanding shares of Common Stock or shares of Voting Stock of the Company representing 1% or more of the combined voting power of the then outstanding shares of Voting Stock or (B) any other Person or Persons who is or are the Beneficial Owner of any shares of Common Stock constituting 1% or more of the then outstanding shares of Common Stock or shares of Voting Stock of the Company representing 1% or more of the combined voting power of the then outstanding shares of Voting Stock of the Company shall become an Affiliate of such Person.

"Exempt Rights" means any rights to purchase Shares of Common Stock or other Voting Securities of the Company if at the time of the issuance thereof such rights are not separable from such Common Stock or other Voting Securities (i.e., are not transferable otherwise than in connection with a transfer of the underlying Common Stock or other Voting Securities) except upon the occurrence of a contingency whether such rights exist as of the Agreement Effective Date or are thereafter issued by the Company as a dividend on shares of Common Stock or other Voting Securities or otherwise;

provided, however, that from and after the date (the "Separation Date") as of which such rights become separable from the underlying shares of Common Stock or other Voting Securities, such rights shall only constitute "Exempt Rights" pursuant to this definition to the extent that they are beneficially owned by a Person that acquired such rights prior to the Separation Date.

"Exempt Transaction" means an increase in the percentage of the outstanding shares of Common Stock or the percentage of the combined voting power of the outstanding Voting Stock of the Company beneficially owned by any Person solely as a result of a reduction in the number of shares of Common Stock

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then outstanding due to the repurchase of Common Stock by the Company, unless and until such time as (A) such Person or any Affiliate or Associate of such Person shall purchase or otherwise become the Beneficial Owner of additional shares of Common Stock constituting 1% or more of the then outstanding shares of Common Stock or additional Voting Stock representing 1% or more of the combined voting power of the then outstanding Voting Stock or (B) any other Person (or Persons) who is (or collectively are) the Beneficial Owner of shares of Common Stock constituting 1% or more of the then outstanding shares of Common Stock or Voting Stock representing 1% or more of the combined voting power of the then outstanding Voting Stock shall become an Affiliate or Associate of such Person.

"Final Average Earnings" means the average of the Executive's Earnings during the highest consecutive five calendar years out of the 10 calendar years immediately preceding the termination of the Executive's employment with the Company; or if the Executive's period of employment with the Company is less than five years, then Final Average Earnings means the average of the Executive's Earnings over his entire period of employment; provided, however, that in no event shall the Executive's Final Average Earnings be less than three million dollars (\$3,000,000) for purposes of Section 6.2. For purposes of the calculation required of this definition, the average for any period that includes a partial year shall be calculated by adding the Executive's Earnings for such partial year to the Earnings for the other calendar years included in the calculation (not to exceed four calendar years), dividing the total by the number of months of employment, and then multiplying by twelve.

"Final Average FICA Compensation" means the average of the Executive's annual earnings up to the Social Security Taxable Wage Base from the Company for the three consecutive complete calendar year period coincident with or immediately preceding the year the Executive's employment with the Company terminates.

If the Executive's entire period of employment with the Company is less than three consecutive calendar years, the Executive's Final Average

FICA Compensation shall be determined by dividing the total earnings, as reported for purposes of FICA, received by the Executive from the Company by the Executive's entire period of employment (including fractional years), provided, however, that the year in which the Executive's employment with the Company terminates shall be included in the calculation only if such year is the only year during which the Executive is employed.

In determining Executive's Final Average FICA Compensation within this definition, annual earnings in any year in excess of the Social Security Taxable Wage Base in effect at the beginning of such year shall not be taken into account.

"Good Reason" means:

(i) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as contemplated in Section 2, or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

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(ii) any failure by the Company to comply with any of the provisions of this Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(iii) the Company's requiring the Executive to be based at any office or location other than Plano, Texas;

(iv) any purported termination by the Company of the Executive's employment otherwise than as expressly permitted by this Agreement;

(v) any failure after January 1, 1999 to reelect the Executive as a member of the Board;

(vi) any failure to provide compensation or benefits required by this Agreement; or

(vii) delivery by the Company of a notice discontinuing the automatic extension feature of the term of this Agreement, as set forth in Section 1.2; or

(viii) any failure by the Company to comply with and satisfy the

requirements of Section 19 of this Agreement, provided that (A) the successor described in Section 19 has received, at least 10 days prior to the Date of Termination, written notice from the Company or the Executive of the requirements of such provision and (B) such failure to be in compliance and satisfy the requirements of Section 19 shall continue as of the Date of Termination.

"Highest Price Per Share" means the highest price per share that can be determined to have been paid or agreed to be paid for any share of Common Stock by a Covered Person at any time during the COC Employment Period or the six-month period immediately preceding the COC Date.

"Integration Level" means the lesser of the Executive's Final Average FICA Compensation or Covered Compensation determined as of the date of termination of the Executive's employment with the Company, but in no case greater than the Social Security Taxable Wage Base in effect on the first day of the calendar year within which the Executive's employment with the Company terminates.

"Person" means any individual, firm, corporation, partnership, association, trust, unincorporated organization or other entity.

"Potential Change of Control" means any of the following:

(i) a tender offer or exchange offer is commenced by any Person which, if consummated, would constitute a Change of Control;

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(ii) an agreement is entered into by the Company providing for a transaction which, if consummated would constitute a Change of Control;

(iii) any election contest is commenced that is subject to the provisions of Rule 14a-11 under the Exchange Act; or

(iv) any proposal is made, or any other event or transaction occurs or is continuing, which the Board determines could result in a Change of Control.

"Remaining Employment Period" is defined in Section 14.4.1.2.

"Social Security Retirement Age" means age 65 if Executive was born before 1938, age 66 if Executive was born after 1937 and prior to 1955 and age 67 if Executive was born after 1954.

"Social Security Taxable Wage Base" means the contribution and benefit base in effect under Section 230 of the Social Security Act as of the first

day in each calendar year.

"Voting Stock" means, with respect to a corporation, all securities of such corporation of any class or series that are entitled to vote generally in the election of directors of such corporation (excluding any class or series that would be entitled so to vote by reason of the occurrence of any contingency, so long as such contingency has not occurred).

"Window Period" means the 180-day period commencing 60 days after any Change of Control.

32 This Agreement shall become effective as of January 1, 1999 (the "Agreement Effective Date").

IN WITNESS WHEREOF, the Executive has hereunto set his hand and, pursuant to the authorization from its Board of Directors, the Company has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

ELECTRONIC DATA SYSTEMS CORPORATION

By: /s/ John R. Castle, Jr.

John R. Castle, Jr., Executive
Vice-President

/s/ Richard H. Brown

Richard H. Brown

ELECTRONIC DATA SYSTEMS CORPORATION
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,				
	1998	1997	1996	1995	1994
	(DOLLARS IN MILLIONS)				
<S>	<C>	<C>	<C>	<C>	<C>
Income before cumulative effect of accounting change	\$ 743.4	\$ 730.6	\$ 431.5	\$ 938.9	\$ 821.9
United States, foreign, and other income taxes	390.3	411.0	242.6	528.1	462.3
Equity in (income) losses of affiliates	(14.1)	(8.5)	0.4	8.8	6.2
Income before income taxes, undistributed (income) losses of affiliates, and amortization of capitalized interest	1,119.6	1,133.1	674.5	1,475.8	1,290.4
Fixed charges included in net income:					
Interest and related charges on debt	113.9	162.4	162.9	120.8	51.7
Portion of rentals deemed to be interest	248.7	217.0	219.0	228.0	176.9
Minority interest-preferred stock dividend	18.7	27.5	2.8	-	-
Total fixed charges included in net income	381.3	406.9	384.7	348.8	228.6
Earnings available for fixed charges	\$1,500.9	\$1,540.0	\$1,059.2	\$1,824.6	\$1,519.0
Fixed charges:					
Fixed charges included in net income	\$ 381.3	\$ 406.9	\$ 384.7	\$ 348.8	\$ 228.6
Interest capitalized in the period	-	-	-	-	1.2
Total fixed charges	\$ 381.3	\$ 406.9	\$ 384.7	\$ 348.8	\$ 229.8
Fixed charge coverage	\$1,119.6	\$1,133.1	\$ 674.5	\$1,475.8	\$1,289.2
Ratio of earnings to fixed charges	3.9	3.8	2.8	5.2	6.6

</TABLE>

Independent Auditors' Report

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, 1998 and 1997, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 1998. These consolidated financial statements 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 generally accepted auditing standards. 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, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998, in conformity with generally accepted accounting principles.

/s/ KPMG LLP
Dallas, Texas
February 1, 1999

Responsibilities for Financial Statements

The consolidated financial statements of EDS were prepared by management, which is responsible for their integrity and objectivity. The statements have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on judgments of management. Financial information elsewhere in this Annual Report is consistent with that presented in the consolidated financial statements.

Management is further responsible for maintaining a system of internal accounting controls designed to provide reasonable assurance that the books and records reflect the transactions of the Company and that its established policies and procedures are carefully followed. Perhaps the most important feature in the system of control is that it is continually reviewed for its effectiveness and is augmented by written policies and guidelines, the careful selection and training of qualified personnel, and a strong program of internal audit.

The Company's independent auditors, KPMG, have audited the consolidated financial statements. Their audits were conducted in accordance with generally accepted auditing standards, which include the consideration of the Company's internal controls to the extent necessary to form an independent opinion on the consolidated financial statements prepared by management.

The Board of Directors, through the EDS Audit Committee, is responsible for assuring that management fulfills its responsibilities in the preparation of the consolidated financial statements and for engaging the independent auditors. The Committee reviews the scope of the audits and the accounting principles being applied in financial reporting. The independent auditors, representatives of management, and the internal auditors meet regularly (separately and jointly) with the Committee to review the activities of each, to ensure that each is properly discharging its responsibilities, and to discuss the effectiveness of the system of internal accounting controls. It is management's conclusion that the system of internal accounting controls as of and for the period ended December 31, 1998, provides reasonable assurance that the books and records reflect the transactions of the Company and that the Company complies with established policies and procedures. To ensure complete independence, KPMG have full and free access to meet with the Committee, without management

representatives present, to discuss the results of their audits and the quality of the financial reporting.

/s/ Richard H. Brown
Richard H. Brown
Chairman of the Board
Chief Executive Officer

/s/ H. Paulett Eberhart
H. Paulett Eberhart
Senior Vice President

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

GENERAL

Electronic Data Systems Corporation is a professional services firm which offers its clients a portfolio of related services worldwide within the broad categories of systems and technology services, business process management, management consulting, and electronic business. Services include the management of computers, networks, information systems, information processing facilities, business operations and related personnel. This discussion refers to Electronic Data Systems Corporation, its predecessor and its consolidated subsidiaries.

FORWARD-LOOKING STATEMENTS

The statements in this discussion which 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 Year 2000 exposure and opportunity, total contract values for new business and future revenues and gross margins attributable to GM and other clients, 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 operating performance, short- and long-term revenue and earnings growth, backlog and the value of new contract signings, and industry growth rates and our performance relative thereto. 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. These include, but are not limited to: competition in the industries in which we conduct business and the impact of competition on pricing, revenues and margins; the financial performance of current and future client contracts, including contracts with GM; with respect to client contracts accounted for under the percentage-of-completion method of accounting, the performance of such contracts in accordance with our cost estimates; our ability to improve productivity and achieve synergies from acquired businesses; the degree to which third parties continue to outsource information technology and business processes; the cost of attracting and retaining highly skilled personnel; and, with respect to Year 2000 exposure and opportunity, our ability to capitalize on new business opportunities and the interpretation of information technology ("IT") contracts with clients. We are not obligated to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

RECENT ANNOUNCEMENT

On February 11, 1999, EDS announced the principal terms of a framework agreement with MCI WorldCom. Under that agreement, MCI WorldCom will outsource major portions of its IT operations to EDS, and EDS will become MCI WorldCom's preferred provider of IT services. In addition, EDS will outsource the bulk of its global network to MCI WorldCom, which will handle end-to-end management of voice and data communications services on a preferred basis for EDS and its clients. In connection with this framework agreement, EDS agreed to purchase MCI WorldCom's IT services unit, MCI Systemhouse ("Systemhouse"), for \$1,650.0 million in cash. Systemhouse had 1998 revenues of approximately \$1,700.0 million.

YEAR 2000

General. For EDS, the Year 2000 ("Y2K") issue encompasses the cost required to make our internal systems and, where we are obligated to do so, our clients' systems Y2K-compliant, as well as a revenue opportunity. We have developed processes, assembled tools and created a business organization to provide Y2K services to clients and to assist in addressing our internal needs. We have a

Y2K Corporate Program Office responsible for project management as well as for monitoring the assessment and remediation status of our internal systems and for reporting that status to management and the Board of Directors.

Status of remediation. With respect to our internal systems, we have identified projects which we deem to be mission critical on both a corporate and a business unit level. These projects have been classified based on the relationships of the systems involved and the impact of these systems on our business. Some projects involve more than one system. We deem a project to be mission critical if the failure to timely complete the Y2K remediation for that project would cause substantial disruption in, or cessation of, our business. Corporate mission critical projects include, for example, systems for payroll, accounts receivable, accounts payable, tax administration, corporate administration and telecommunications. Unit mission critical projects include, for example, systems for unit payroll, unit invoice generation, country-specific tax administration and localized networks. We have identified additional projects which we deem to be non-mission critical, such as projects covering certain non-IT systems, systems relating to employee training, and other systems which may enhance efficiency or productivity but the failure of which would not materially impact our business. Although our evaluation is substantially complete, we continue to actively categorize new inventory of Y2K projects.

For internal and external reporting purposes, we have divided the Y2K remediation process into the following four stages: assessment and planning, renovation, testing and implementation. For purposes of the completion percentages set forth below, the testing stage for a project is not deemed to be complete until the integration

Electronic Data Systems Corporation and subsidiaries 23

testing of that project with the other systems with which it interacts has been completed (although unit and systems testing and implementation of that project may have already been completed). After implementation, final end-to-end integration testing occurs. Until this post-implementation testing is finished, testing is not considered completed. As a result, the testing completion percentages set forth below, especially of corporate mission critical systems that entail many interfaces, may lag implementation completion percentages.

As of January 25, 1999, we had identified approximately 35 corporate mission critical projects. Through December 31, 1998, we had completed assessment of approximately 97% of such projects, renovation of approximately 85% of such projects, testing of approximately 15% of such projects (see discussion in preceding paragraph) and implementation of approximately 35% of such projects. We expect to complete the Y2K remediation for such projects by the end of the second quarter of 1999.

As of January 25, 1999, we had identified approximately 35 unit mission critical projects. Through December 31, 1998, we had completed assessment of approximately 60% of such projects, renovation of approximately 23% of such projects, testing of approximately 11% of such projects and implementation of approximately 4% of such projects. We expect to complete the Y2K remediation for such projects by the end of the second quarter of 1999.

The foregoing percentages are based on the percentage of the total number of identified corporate or unit projects, as the case may be, for which the applicable stage has been completed at December 31, 1998, and is not necessarily indicative of the percentage of the total labor or expense remaining with respect to the mission critical projects as a whole.

We have also identified more than 400 projects, on both a corporate and unit basis, which we deem to be non-mission critical. These projects include non-IT systems, such as those which may be used in the operation of elevators, machinery and equipment and HVAC, lighting and building security systems, as well as IT systems the general function of which is to enhance efficiency or productivity but the failure of which would not materially impact our business. We have determined that many of the non-mission critical projects identified to date will not be remediated for Y2K compliance for one or more reasons, including the retirement of the system, redundancy with other systems, the ability to leverage common systems, and the fact that the expense of remediation may be greater than the benefits obtained from the system. Of those non-mission critical projects identified for remediation at January 25, 1999, approximately 69% and 53% of the corporate and unit projects, respectively, had completed the assessment stage, approximately 59% and 31% had completed the renovation stage, approximately 27% and 27% had completed the testing stage, and approximately 28% and 19% had completed the implementation stage as of December 31, 1998. The remediation process for all non-mission critical projects identified for remediation is scheduled to be substantially completed by the end of the third quarter of 1999, although the remediation of certain non-mission critical

projects may extend into the fourth quarter of 1999.

Although we currently expect that the remedial actions described above will be completed on a timely basis, the failure to complete certain critical projects could have a material adverse effect on our business, results of operations or financial condition.

Third-party compliance. In 1997, we commenced mailing questionnaires to substantially all of our vendors and suppliers requesting information regarding the Y2K compliance of their products and services. As a result of this and other inquiries, we have compiled a database listing thousands of IT-related products, including hardware, software, network operating systems and physical plant equipment from a wide range of suppliers and indicating which products are Y2K-compliant and which need to be replaced or upgraded. This database, which had been initially prepared for internal use, has recently been made available to the public through our Web site.

In addition to these formal inquiries, we have been working closely with those third parties with whom we have a material relationship regarding the Y2K compliance of their products and services. These third parties include, in particular, leading telecommunications providers. Our business is substantially dependent on the ability to transmit our data and the data of our clients and their customers on a worldwide basis through data, voice and video networks. These networks include EDSNET, (R) our proprietary network, which integrates multiple third-party network owners with EDS-controlled and managed components, as well as the "extended" networks (i.e., networks outside of EDSNET(R)) of third-party international, national and local telecommunications providers which are used to transmit data by EDS as well as thousands of other organizations.

The Y2K remediation of EDSNET(R) is a corporate mission critical project and is expected to be completed by the second quarter of 1999. Although we expect such remediation to be completed on a timely basis, there is a significant likelihood that non-EDS related Y2K problems will cause interruptions of the "extended" networks utilized by EDS and other third parties. The interruptions on these third-party networks may result from the Y2K-related failure of some of these non-EDS networks, as well as the increased volume on the remaining networks due to the rejection of data transmitted by third parties containing Y2K-related errors.

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We continue to prepare contingency plans for such potential network failures. Personnel at all relevant data centers and client locations will closely monitor the "traffic" on networks we utilize and will be prepared to shut down segments of networks and use alternative networks where necessary and possible. We are also seeking to increase network capacity where cost-efficient to prepare for this possibility.

As do most other organizations, we rely on the continued performance of public utilities for the operation of our business. Due to the reliance of our data centers around the world on a continuous source of electric power, we already have in place, at substantially all EDS-owned data centers, extensive contingency plans in the event of the disruption of electric service. These contingency plans include the availability of backup generators to supply power for a period of time following the power disruption and the ability to transfer operations to an alternative center. Data centers operated at client locations are dependent on the contingency plans put in place by those clients. We believe that our existing contingency plans are adequate for any reasonably likely Y2K-related disruption of electric or other utility services to EDS-owned data centers. However, a lengthy disruption in utility services or lack of Y2K readiness by financial institutions, governmental agencies and other providers of general infrastructure could materially adversely impact our ability to conduct normal business in the areas so affected.

Estimated costs. We currently estimate that we will incur a total of approximately \$95.0 million in costs related to the remediation of our internal systems, of which approximately \$15.0 million is attributable to the operation of our Y2K Program Office. Of the approximately \$80.0 million estimated cost for remediation projects, approximately \$32.0 million has been incurred through December 31, 1998, and substantially all of the remainder should be incurred by the end of the third quarter of 1999. This estimate in part reflects an estimate of potential remediation costs for systems which have not yet been identified or assessed. Because our hardware and software are generally refreshed on an ongoing basis in accordance with normal business practices, the substantial majority of these estimated remediation costs are attributed to labor expense. The remediation effort is generally being performed by internal business units

which also provide Y2K remediation services to EDS clients. As of December 31, 1998, approximately \$8.0 million had been incurred for the operation of the Y2K Program Office. The majority of the remaining costs will be incurred and expensed ratably during 1999.

Client obligations. We have completed an assessment of our obligations to make client systems Y2K-compliant and to remediate certain EDS-owned systems which are directly used to support client obligations. This assessment, which is monitored on a monthly basis, includes an estimate of the cost and revenues to EDS for performing such work. Based on such assessment, we do not believe that our client obligations with respect to the Y2K issue will have a material adverse impact on the company.

The estimated cost of the Y2K remediation of client systems and client-related systems has generally been treated as a contract cost and is included in the estimate of total contract costs for the related contract under our revenue recognition policy.

Revenue opportunities. Aside from the cost impact discussed above, the Y2K issue presents opportunities for revenue growth for our CIO Services unit, which provides a full range of Y2K services to new and existing clients.

Forward-looking statements. The forward-looking statements contained in this Y2K discussion should be read in conjunction with the applicable risk factors identified under the heading "Forward-Looking Statements" above. The foregoing discussion does not relate to Systemhouse which, as noted above, EDS has agreed to acquire from MCI WorldCom.

EURO CONVERSION

Effective as of January 1, 1999, 11 of the 15 member countries of the European Union adopted the euro as their common legal currency and established fixed conversion rates between their existing sovereign currencies and the euro. Since that date, the euro has traded on currency exchanges and been available for non-cash transactions. The existing sovereign currencies remain legal tender in the participating countries during the transition period ending on January 1, 2002. Beginning on that date, the participating countries will issue new euro-denominated currency for use in cash transactions, and the existing sovereign currencies will no longer be legal tender.

Although during the transition period our internal business systems are permitted to continue to process information based on currently existing sovereign currencies, we expect that by the fourth quarter of 1999 our European systems will have the capability to provide for dual reporting in the euro currency and the applicable sovereign currency and to allow migration from the sovereign currencies to the euro over the remainder of the transition period. We do not expect to incur any material incremental cost to incorporate functionality relating to the euro into our systems. In addition, substantially all banking clients supported by EDS in Europe have completed the conversion to euro accounts and can now report in both euro and sovereign currencies.

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We do not believe that the adoption of the euro will negatively impact the enforceability of our client contracts or require us to incur any material cost under client contracts for which we will not be paid. In addition, we do not believe the conversion will have a material impact on our competitiveness in Europe. Our revenues are generally derived from sales of services rather than products. Because the nature of these services varies from client to client and the fees for these services are based in large part on our costs in the area in which the services are provided, there is no significant price transparency which would be highlighted by the adoption of the euro.

RESULTS OF OPERATIONS

Years Ended December 31, 1998, 1997 and 1996

Revenues. We operate primarily in the following business lines: systems and technology services, business process management, and management consulting services. Systems and technology services encompasses systems development, systems integration and systems management. Also included in this area are desktop services, Year 2000 conversions and enterprise software solutions. Business process management focuses on the use of technology to manage various business processes within the client's enterprise, including such activities as remittance processing, procurement logistics, enterprise customer management, customer service and training, as well as IT operations. Management consulting

services are provided by A.T. Kearney, an EDS subsidiary. Services in this area provide clients with high value-added strategy, operations and information technology capabilities combined with implementation skills that improve overall business performance and competitive positioning.

The following table displays the percentage of revenues by various categories for the years ended December 31, 1998, 1997 and 1996:

Percentage of Revenues	1998	1997	1996
Business Line:			
Systems and technology services	73%	73%	74%
Business process management	19	18	16
Management consulting services	6	5	5
All other	2	4	5
	---	---	---
Total	100%	100%	100%
GM/NON-GM:			
Non-GM clients	75%	72%	70%
GM and affiliates	25	28	30
	---	---	---
Total	100%	100%	100%
GEOGRAPHIES:			
United States	61%	65%	67%
United Kingdom	11	10	9
All other, none greater than 10%	28	25	24
	---	---	---
Total	100%	100%	100%

Total revenues increased 11% in 1998 to \$16,891.0 million, up from \$15,235.6 million in 1997, which represented a 6% increase over 1996 total revenues of \$14,441.3 million. Revenues from non-GM clients grew 17% in 1998 to \$12,725.7 million, compared with a 7% increase to \$10,921.6 million in 1997, up from \$10,163.1 million in 1996. Revenues in 1998 included a negative adjustment of \$200.0 million, recorded in the fourth quarter, primarily as a result of a legal dispute with Xerox Corporation. On February 4, 1999, EDS filed suit against Xerox Corporation over its obligation to pay for certain infrastructure services related to laptops and desktops. Total revenues related to GM and its affiliates were \$4,165.3 million, \$4,314.0 million and \$4,278.2 million in 1998, 1997 and 1996, respectively. We estimate that revenues from GM in 1999 will decrease compared to 1998. The percentage of total revenues from GM and its affiliates declined to 25% in 1998 from 28% in 1997 and 30% in 1996. We expect this trend to continue as revenues from non-GM clients are anticipated to increase, whereas revenues from GM are anticipated to decline. See "Master Services Agreement with GM" below.

Total domestic revenues from non-GM clients increased 8% in 1998 to \$7,175.9 million, compared with \$6,634.5 million in 1997. This increase compares with an increase of 1% in 1997, up from \$6,577.2 million in 1996. The increase in 1998 was primarily attributable to revenues on contracts that began in late 1997 and early 1998. In addition, domestic revenues from non-GM clients in 1998 include a gain of \$69.0 million resulting from the sale of a portion of our leasing portfolio. Domestic revenues from non-GM clients in 1997 were negatively affected by a limited number of non-performing contracts primarily accounted for under the percentage-of-completion method, the exit from certain businesses not aligned with our strategic direction, and contracts that ended in 1996 and early 1997.

During 1998, revenues from non-GM clients in the United Kingdom increased 25% to \$1,846.6 million, up from \$1,474.4 million in 1997. This increase compares with an increase of 27% in 1997, up from \$1,163.0 million in 1996. These increases were primarily due to new contract signings.

Revenues for all other geographies from non-GM clients in 1998 increased 32% to \$3,703.2 million, compared with \$2,812.7 million in 1997. This increase compares with an increase of 16% in 1997, up from \$2,422.9 million in 1996. These increases were primarily due to new contract signings.

Other than GM, no client accounted for more than 5% of our total revenues in 1998, 1997 or 1996.

Costs and expenses. Our gross margin [(revenues less cost of revenues)/revenues] declined to 17% in 1998, compared with 20% in 1997 and 21% in 1996. The decrease in 1998 was due primarily

to a decrease in the gross margin on contracts with GM. During 1998, we incurred additional costs necessary for the successful long-term support of our contracts with GM. In addition, billing rates for certain services provided to GM decreased in 1998, and commensurate cost reductions were not realized during the year. Although the decline in revenues related to these existing services was partially offset by new contracts with GM for additional products and services, the gross margins on these new contracts were lower than historical levels. Although we believe that gross margins on contracts with GM will stabilize in 1999, the renegotiation of certain sector agreements under the Master Services Agreement (the "MSA"), including the agreement covering GM's North American operations, which expires in December 1999, and the renegotiation of the current terms of the Delphi automotive sector agreement, are expected to adversely impact revenues and margins attributable to GM subsequent to 1999. See "Master Services Agreement with GM" below. The decrease in gross margin in 1998 was also due in part to the \$200.0 million negative adjustment to revenues, which was partially offset by the gain of \$69.0 million. See "Revenues" above.

The decrease in gross margin in 1997 compared to the prior year was due primarily to the writeoff of unbilled receivables associated with a limited number of non-performing and/or terminated contracts accounted for under the percentage-of-completion method. For 1996, cost of revenues included \$60.0 million of charges associated with restructuring activities. In addition to the factors discussed above, the gross margin in each of the past three years was negatively impacted by a small number of non-performing contracts. We are currently actively evaluating strategies to reduce growth rates in costs of revenues to achieve long-term operating margin stabilization and improvement.

Expenses recorded for selling, general and administrative (SG&A) costs increased 20% in 1998, to \$1,837.9 million, up from \$1,528.3 million in 1997. This increase compares with an increase of 9% in 1997, up from \$1,403.3 million in 1996. As a percentage of revenues, SG&A expenses increased to 11% in 1998, up from 10% in 1997 and 1996. The increase in 1998 was due in part to the recognition of \$49.4 million related to the retirements of the former chairman and vice chairman. In addition, we incurred incremental SG&A expenses during 1998 related to the Y2K remediation of our internal systems, the implementation of the SAP enterprise resource process system, increased spending on employee development and a management retention plan. We also experienced rapid growth in our A.T. Kearney management consulting business, our Unigraphics Solutions Inc. software business and our Centrobe subsidiary, each of which has inherently higher SG&A costs as a percentage of revenues than traditional systems and technology services.

RESTRUCTURING AND OTHER CHARGES

The following table sets forth restructuring activity through December 31, 1998 (in millions):

	1996 Restructuring Charge -----	1997 Restructuring Charge -----	Total -----
1996 restructuring charge, excluding early retirement offer of \$87.4 million included in pension obligations	\$ 198.2	\$ -	\$ 198.2
Cash payments	(100.7)	-	(100.7)
	-----	-----	-----
Balance at December 31, 1996	97.5	-	97.5
1997 restructuring charge	-	125.3	125.3
Cash payments	(51.2)	(55.1)	(106.3)
	-----	-----	-----
Balance at December 31, 1997	46.3	70.2	116.5
Cash payments	(7.4)	(53.1)	(60.5)
Reversal of residual accruals	(11.4)	(10.8)	(22.2)
	-----	-----	-----
Balance at December 31, 1998	\$ 27.5	\$ 6.3	\$ 33.8
	=====	=====	=====

The reversal of the residual accruals was recorded in 1998 as a reduction of restructuring and other charges.

During 1996, we identified certain actions to maintain and improve operating efficiencies and accelerate the move toward user-centered computing. To effect these actions, we adopted formal restructuring plans and recorded charges in 1996, including a \$285.6 million charge primarily for work force reductions of approximately 4,900 employees. The total employee-related termination and early retirement offer charges were \$258.1 million, \$137.0 million of which related to special termination benefits, including amounts under our defined benefit pension plan. In addition, we wrote down certain assets by approximately \$503.9

million. This amount related to writedowns of computers and other assets to their estimated fair values due to formal plans to consolidate certain processing centers; discontinuation of certain business activities; reductions in certain inventory due to our decision to exit the computer product reseller market; assets written down in relation to a client in reorganization; and the writedown of fixed assets, software licenses and other assets no longer used to support operations. The 1996 consolidated financial statements also include \$60.0 million charged to cost of revenues, the largest portion of which related to current assets written down in connection with the decision to exit certain business activities related to the aforementioned client in reorganization. In addition, we recognized \$45.5 million of costs directly associated with the split-off from GM.

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In 1997, we began implementation of an enterprise-wide business transformation initiative to reduce costs, streamline our organizational structure and align our strategy, services and delivery with market opportunities. This initiative involved the elimination of approximately 8,500 positions through reassignment of personnel, elimination of open personnel requisitions, normal attrition and termination of employees. As a result of this initiative, we recorded restructuring charges totaling \$125.3 million, primarily relating to the severance costs associated with the planned involuntary termination of approximately 2,600 employees. In addition, we recorded asset writedowns of \$99.7 million relating to discontinued operations, including several processing centers that were consolidated and certain product lines and related services. Asset writedowns relating to these product lines included investments; software, goodwill and other intangibles; and buildings and computer equipment. We also recorded asset writedowns of \$104.6 million in 1997 and \$27.8 million in 1998 primarily relating to operating assets initially identified for sale in 1997. As of December 31, 1998, all such assets were sold.

As of December 31, 1998, the combined restructuring activities resulted in approximately 4,750 employees being involuntarily terminated and approximately 1,750 employees accepting early retirement offers. Such activities have resulted in cash expenditures of \$267.5 million since the second quarter of 1996. The restructuring actions contemplated under the 1996 and 1997 plans are essentially complete as of December 31, 1998.

SOLID EDGE ACQUISITION

On March 2, 1998, EDS' then wholly owned subsidiary Unigraphics Solutions Inc. ("UGS") completed the acquisition of Intergraph Corporation's mechanical CAD/CAM business for a purchase price of \$105.0 million, excluding approximately \$2.0 million of acquisition costs. In connection with the allocation of the purchase price to identifiable intangible assets, UGS allocated \$42.5 million to in-process research and development ("R&D") that was expensed upon acquisition. The in-process R&D related to the modification of Solid Edge Version 4.0 software to include UGS' Parasolid solid modeling kernel software. This project commenced in July 1997 and was completed in May 1998. Initial sales of Solid Edge Version 5.0 ("Solid Edge 5.0") occurred shortly thereafter. The value assigned to in-process R&D was determined based on estimates of the resulting net cash flows from Solid Edge 5.0 and the discounting of such cash flows to present value.

In projecting net cash flows resulting from Solid Edge 5.0, management estimated revenues, cost of sales, R&D, SG&A and income taxes for the software. These estimates were based on the following assumptions:

- Estimated revenues projected a compound annual growth rate over five years of approximately 46%, with annual growth rates ranging from 33% to 75%. Virtually all projected revenues were ascribed to Solid Edge 5.0 because the integration of the Parasolid solid modeling kernel software into Solid Edge 4.0 was the critical enabling factor to allow the Solid Edge product to provide the geometric modeling capabilities and user interfaces necessary to compete with other products in the product design and consumer products markets. In addition, management expected sales of Solid Edge 4.0 to cease subsequent to May 1998. Projections of revenue growth were based on management's estimates of market size and growth, supported by independent market data and by the nature and expected timing of the development of product enhancements and new products by UGS and its competitors.

- The estimated cost of sales as a percentage of revenue (11-12%) was consistent with the historical rates for the Solid Edge business as well as industry standards.

- Estimated SG&A costs were expected to increase as a percentage of sales, from 37% in 1998 to 45% in 2002. Incremental sales in later years were expected to require proportionally greater selling efforts to meet revenue growth plans.

- The estimated R&D costs are expected to decrease as a percentage of sales, from 22% in 1998 to 12% in 2002. R&D costs in 1998 were higher as a percentage of sales than projected for later years due to the costs of combining two R&D departments in 1998 and the continuing R&D efforts.

- Royalty income on the Parasolid solid modeling kernel software was expected to be received by UGS from outside persons. The royalty income associated with Solid Edge 5.0 was assumed to be 6%, the standard royalty rate for the Parasolid solid modeling kernel software. Due to the declining value of Solid Edge 5.0 over the future periods, the royalty income associated with Solid Edge 5.0, to determine the R&D valuation, is reduced accordingly from 6.0% in 1998 to 3.7% in 2002.

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The projected net cash flows for Solid Edge 5.0 were discounted using a 15% weighted-average cost of capital ("WACC") based upon an analysis of the WACC for publicly traded companies within UGS' industry. The calculation produces the average required rate of return of an investment in an operating enterprise. A WACC of 15% was also used to determine the value of the return on working capital and return on work force acquired as part of the purchase of Solid Edge. In determining the appropriate WACC, UGS considered the attribution of a higher WACC to the in-process technology due to the risks inherent in the development process; however, a higher WACC was not used because these risks had been significantly reduced by the acquisition date (as evidenced by the completion of the development in early May 1998). In addition, the impact of the use of a higher WACC (e.g., 16-20%) on the amount of the purchase price allocated to in-process R&D was not material.

Revenues of Solid Edge 5.0 in 1998, subsequent to the completion of development, were lower than those used in projected net cash flows for purchase price allocation due to a three-month delay in the integration of Solid Edge distribution channels into UGS' existing distribution network. However, management believes that the original net cash flow projections for Solid Edge 5.0 are still reasonable.

Operating income. Operating income (including all charges, gains and adjustments discussed above) decreased \$146.8 million in 1998, to \$1,066.8 million, compared to \$1,213.6 million in 1997. Operating income was \$796.1 million in 1996. For the year ended December 31, 1998, the operating margin decreased to 6.3% from 8.0% in 1997. The 1996 operating margin was 5.5%.

Other income (expense). The components of other income (expense) are presented below (in millions) for the years ended December 31, 1998, 1997 and 1996:

	1998	1997	1996
Interest and other income	\$ 148.6	\$ 117.8	\$ 86.4
Interest expense	(131.3)	(189.8)	(162.9)
Gain on sale of stock of subsidiary	49.6	-	-
One-time split-off costs	-	-	(45.5)
	-----	-----	-----
Total	\$ 66.9	\$ (72.0)	\$(122.0)
	=====	=====	=====

Other income (expense) increased \$138.9 million in 1998 to \$66.9 million, compared with \$(72.0) million in 1997 and \$(122.0) million in 1996. Interest and other income increased \$30.8 million to \$148.6 million in 1998, up from \$117.8 million in 1997, due primarily to incremental gains resulting from sales of assets and additional income from investments accounted for under the equity method of accounting. The increase in 1997 compared to 1996 was due primarily to additional income received from limited partnership investments and gains on the sale of certain non-core operations. Interest and other income was \$86.4 million in 1996. Interest expense decreased \$58.5 million to \$131.3 million in 1998, compared with \$189.8 million in 1997. Interest expense was \$162.9 million in 1996. The decrease in 1998 is the result of a reduced level of debt. The increase in 1997 compared to 1996 was primarily due to full-year interest associated with borrowings to fund the \$500.0 million payment to GM at the time of the split-off, and the issuance of redeemable preferred stock of subsidiaries during 1996. Also included in other income (expense) during 1998 was the recognition of a non-taxable gain of \$49.6 million resulting from the sale of

stock in connection with the initial public offering of UGS. No taxes were provided for this gain as we believe we will recover our basis in the shares sold in a tax-free manner.

Income taxes. The effective income tax rate decreased to 34% in 1998 from 36% in both 1997 and 1996.

Net income. Net income (including all charges, gains and adjustments discussed above) increased to \$743.4 million in 1998, compared with \$730.6 million in 1997 and \$431.5 million in 1996. Basic earnings per share increased to \$1.51 in 1998, up from \$1.49 in 1997. Diluted earnings per share increased to \$1.50 in 1998, up from \$1.48 in 1997. Basic and diluted earnings per share for the year ended December 31, 1996, were \$0.89 and \$0.88, respectively.

As discussed above, during 1998 we recorded certain pre-tax charges and adjustments, including \$49.4 million related to senior executive retirements, \$27.8 million for asset writedowns, \$42.5 million for a writeoff associated with acquired in-process R&D, and \$200.0 million primarily related to the litigation with Xerox Corporation. The negative impact of these items was partially offset by a non-taxable gain of \$49.6 million associated with the sale of stock of UGS, a gain of \$69.0 million related to the sale of a portion of our leasing portfolio, and positive adjustments of \$22.2 million to reverse residual accruals related to previously recorded restructuring charges. These pre-tax charges, gains and adjustments totaled a negative \$178.9 million. Excluding these charges, gains

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and adjustments, revenues for 1998 would have been \$17,022.0 million, net income would have been \$840.1 million, and basic and diluted earnings per share would have been \$1.71 and \$1.70, respectively.

Excluding pre-tax charges of approximately \$329.6 million in 1997 related to restructuring activities and asset writedowns, net income would have been \$941.6 million, and basic and diluted earnings per share would have been \$1.92 and \$1.91. Excluding pre-tax charges of approximately \$895.0 million recognized in 1996 related to restructuring activities and other related charges, and one-time split-off costs, net income would have been \$1,004.2 million, and basic and diluted earnings per share would have been \$2.07 and \$2.04, respectively.

We may from time to time modify our contractual arrangements with clients. For client contracts accounted for under the percentage-of-completion method, such changes would be reflected in results of operations as a change in accounting estimate in the period the revisions are determined.

Master services agreement with GM. The MSA with GM entered into at the time of the split-off and certain related sector agreements (collectively, the "IT Services Agreements"), provided for certain significant changes to the pricing and terms under which EDS provides IT services to GM. Among other things, the IT Services Agreements reduced the rates charged by EDS to GM for certain information-processing activities and communications services. In addition, the MSA established specified structural cost-reduction targets of \$100.0 million for each of the years from 1996 through 1998, and \$50.0 million for 1999. These targets, which are not performance guarantees, were achieved in 1996 through 1998, and we anticipate that they will be achieved in 1999.

The terms of the MSA and the related IT Services Agreements have had an adverse effect on our revenues and operating margins attributable to GM. During 1998, we incurred additional costs related to our efforts to effect future reductions in costs related to services provided to GM. Although we expect these efforts to stabilize gross margins on contracts with GM in 1999, the renegotiation of certain sector agreements under the MSA, including the agreement covering GM's North American operations, which expires in December 1999, and the renegotiation of the current terms of the Delphi automotive sector agreement, are expected to adversely impact revenues and margins attributable to GM subsequent to 1999.

Seasonality and inflation. Our revenues and net income vary over the calendar year, with the fourth quarter generally reflecting the highest revenues and net income for the year due to certain services that are purchased more heavily in that quarter as a result of the spending patterns of several clients. In addition, revenues generally increase from quarter to quarter as a result of new business added throughout the year. Due to this pattern, as well as the anticipated implementation of our efforts to reduce the growth rate of costs of revenues, we expect the latter half of 1999 to be stronger than the first half of the year. Inflation generally had little effect on our results of operations during the past three years.

FINANCIAL POSITION

Assets. Total assets increased to \$11,526.1 million at December 31, 1998, up from \$11,174.1 million at December 31, 1997, due primarily to an increase of \$361.4 million in cash and cash equivalents. At December 31, 1998, we held cash and cash equivalents of \$1,038.8 million, had working capital of \$1,976.5 million and had a current ratio of 1.5-to-1. This compares with cash and cash equivalents of \$677.4 million, \$1,911.8 million in working capital and a 1.6-to-1 current ratio at December 31, 1997.

Liabilities and shareholders' equity. Total debt was \$1,411.1 million and \$2,075.4 million at December 31, 1998 and 1997, respectively. Total debt consists of notes payable, commercial paper and redeemable preferred stock of subsidiaries. The total debt-to-capital ratio (which includes the current portion of long-term debt and redeemable preferred stock of subsidiaries as components of debt and capital) was 19.3% and 28.1% at December 31, 1998 and 1997, respectively. The ratio of non-current debt-to-capital was 18.7% and 27.0% at December 31, 1998 and 1997, respectively. We have committed lines of credit of \$2,500.0 million, all of which was unused at both December 31, 1998 and 1997. These lines of credit serve as backup for our commercial paper borrowings.

Shareholders' equity was \$5,916.5 million at December 31, 1998, and \$5,309.4 million at December 31, 1997. Return on shareholders' equity (including all charges, gains and adjustments discussed above) was 13.2%, 14.5% and 8.8% in 1998, 1997 and 1996, respectively.

ACCOUNTING STANDARDS

Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities, was issued in June 1998. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The provisions of SFAS No. 133 are effective for financial statements for fiscal years beginning after June 15, 1999, although early

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adoption is allowed. We have not determined the financial impact of adopting this SFAS nor whether we will adopt its provisions prior to its effective date.

Statement of Position ("SOP") 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, was issued in March 1998. This SOP requires that certain costs related to the development or purchase of internal-use software be capitalized and amortized over the estimated useful life of the software. The provisions of this SOP are effective for financial statements issued for fiscal years beginning after December 15, 1998. We adopted the provisions of this SOP on January 1, 1999. It is not expected to have a material impact on our financial statements.

SOP 98-5, Reporting on the Costs of Start-up Activities, was issued in April 1998. This SOP provides guidance on the financial reporting of start-up and organization costs and requires that these costs be expensed as incurred. The provisions of this SOP are effective for financial statements for fiscal years beginning after December 15, 1998. We adopted the provisions of this SOP on January 1, 1999. It is not expected to have a material impact on our financial statements.

DERIVATIVE FINANCIAL INSTRUMENTS

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 and are not a party to any leveraged derivative transactions. A discussion of our accounting policies for financial instruments, and further disclosure relating to financial instruments, are included in Note 14: "Financial Instruments and Risk Management."

Interest rate risk. Our earnings are affected by changes in short-term interest rates as a result of the issuance of short-term commercial paper and variable-rate notes. However, the effects of interest rate changes are reduced by utilization of 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 1999 than in 1998, there would be no material adverse impact on our results of operations. During 1998, had

short-term market interest rates averaged 10% more than in 1997, there would have been no material adverse impact on our results of operations.

Publicly traded equity price sensitivity. Our financial position is affected by changes in publicly traded 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 publicly traded equity security investments. If the market price of our investments in publicly traded equity securities in 1999 were to fall by 10% below the level at the end of 1998, there would be no material adverse impact on our financial position. During 1998, had the market price of our investments in publicly traded equity securities fallen by 10% below the end of 1997, there would have been no material adverse impact on our financial position.

Foreign exchange risk. We conduct business in the United States and approximately 50 other countries. Our most significant foreign currency transaction exposures relate to Canada, Western European countries (primarily Germany, the United Kingdom, Italy, the Netherlands, Spain and Switzerland), Australia and New Zealand. The primary purpose of our foreign exchange hedging activities is to protect against foreign exchange risk from intercompany financing and trading transactions. We enter into foreign currency forward contracts to hedge such transactions with durations of generally less than 12 months.

Gains and losses related to hedges of firm commitments or other transactions qualifying for hedge accounting treatment are deferred in accrued liabilities and recognized in earnings at the time of recognition of the underlying hedged transaction. All other foreign exchange contracts are marked-to-market on a current basis. To the extent hedges of firm commitments are no longer effective as hedges of the underlying transaction, they are closed, with gains and losses recognized in earnings on a current basis.

We use a value-at-risk model to assess the foreign exchange market risk of derivative and other financial instruments. Value-at-risk represents the potential loss due to adverse changes in exchange rates, given a specified time period and confidence level. It is estimated by using a model with volatilities and correlations derived from historical data. This model uses the variance/covariance methodology and measures the potential fair value loss at a 95% confidence level. At December 31, 1998, the value-at-risk amount representing the potential loss we could incur from adverse foreign exchange rate movements for a one-month period would not materially affect our results of operations, financial position or cash flows. At December 31, 1997, the value-at-risk amount would also not have materially affected our results of operations, financial position or cash flows.

Electronic Data Systems Corporation and subsidiaries 31

The value-at-risk exposure represents an estimate of reasonably possible fair value losses to our portfolio of derivative and other financial instruments, assuming hypothetical movements in foreign exchange rates, and does not necessarily indicate actual results which may occur. It does not represent the maximum possible loss nor any expected loss, since actual future gains and losses will differ from estimates due to fluctuations in market rates, exposures and changes in our portfolio of derivative and other financial instruments.

LIQUIDITY AND CAPITAL RESOURCES

For the year ended December 31, 1998, net cash provided by operating activities was \$2,087.6 million, a decrease of \$102.5 million from \$2,190.1 million in 1997. This decrease is due primarily to a decrease in net income prior to non-cash items. For the year ended December 31, 1997, net cash provided by operating activities increased \$638.3 million, up from \$1,551.8 million in 1996. This increase was due primarily to increases in invoiced revenues and an improvement in days sales outstanding in accounts receivable.

For the year ended December 31, 1998, net cash used in investing activities decreased \$469.2 million from 1997, to \$778.8 million, due primarily to proceeds of divestitures. For the year ended December 31, 1997, net cash used in investing activities decreased \$22.8 million, to \$1,248.0 million, compared to the prior year, and consisted primarily of payments for the purchase of property and equipment, marketable securities, and investments and other assets.

For the year ended December 31, 1998, free cash flow (net cash provided by operating activities less net cash used in investing activities) increased to \$1,308.8 million, up from \$942.1 million and \$281.0 million in 1997 and 1996,

respectively.

For the year ended December 31, 1998, net cash used in financing activities decreased \$188.4 million, to \$941.4 million, compared to the prior year, due primarily to a decrease in the amount of reduction of debt. Net cash used in financing activities was \$1,129.8 million for the year ended December 31, 1997, up \$1,196.1 million from the prior year, due primarily to the reduction of debt. For the year ended December 31, 1996, net cash provided by financing activities was \$66.3 million and included a \$500.0 million payment to GM at the time of the split-off. We paid cash dividends totaling \$295.3 million, \$293.8 million and \$291.4 million in 1998, 1997 and 1996 respectively.

We expect that the principal use of funds for the foreseeable future will be for capital expenditures, working capital and the acquisition of Systemhouse, referred to under "Recent Announcement" above. Capital expenditures may consist of purchases of computer and telecommunications equipment, buildings and facilities, land, and software, as well as acquisitions and joint ventures. We estimate that projected gross capital expenditures during 1999, excluding acquisition and joint venture activities as well as anticipated proceeds from divestitures, will be approximately \$1,000.0 million to \$1,300.0 million. As discussed above, EDS has agreed to purchase Systemhouse for \$1,650.0 million in cash. Total capital expenditures for 1999 will depend to a significant extent on the level of additional acquisition and joint venture activities by EDS, capital requirements for new business and proceeds from divestitures. We anticipate that cash reserves, cash flows from operations and unused borrowing capacity under the existing lines of credit will provide sufficient funds to meet our needs for at least the next year, including the purchase price for Systemhouse.

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<TABLE>
<CAPTION>

CONSOLIDATED STATEMENTS OF INCOME (in millions, except per share amounts)

Years Ended December 31,	1998	1997	1996
	----	----	----
<S>	<C>	<C>	<C>
Revenues	\$16,891.0	\$15,235.6	\$14,441.3
	-----	-----	-----
Costs and expenses			
Cost of revenues (Note 20)	13,938.2	12,164.1	11,452.4
Selling, general and administrative	1,837.9	1,528.3	1,403.3
Restructuring and other charges (Note 20)	48.1	329.6	789.5
	-----	-----	-----
Total costs and expenses	15,824.2	14,022.0	13,645.2
	-----	-----	-----
Operating income	1,066.8	1,213.6	796.1
	-----	-----	-----
Other income (expense)			
Interest expense and other, net	17.3	(72.0)	(76.5)
Gain on sale of stock of subsidiary (Note 9)	49.6	-	-
One-time split-off costs (Note 20)	-	-	(45.5)
	-----	-----	-----
Total other income (expense)	66.9	(72.0)	(122.0)
	-----	-----	-----
Income before income taxes	1,133.7	1,141.6	674.1
Provision for income taxes	390.3	411.0	242.6
	-----	-----	-----
Net income	\$ 743.4	\$ 730.6	\$ 431.5
	-----	-----	-----
Basic earnings per share of common stock	\$ 1.51	\$ 1.49	\$ 0.89
	-----	-----	-----
Diluted earnings per share of common stock	\$ 1.50	\$ 1.48	\$ 0.88
	-----	-----	-----

</TABLE>

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS
(in millions, except share and per share amounts)

December 31,	1998	1997
	----	----
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,038.8	\$ 677.4
Marketable securities	272.9	347.5
Accounts receivable, net	3,835.0	3,736.8
Prepays and other	486.6	407.7
	-----	-----
Total current assets	5,633.3	5,169.4
	-----	-----
Property and equipment, net	2,708.1	2,868.4
	-----	-----
Operating and other assets		
Land held for development, at cost	86.2	87.2
Investments and other assets	1,631.4	1,501.2
Software, goodwill and other intangibles, net	1,467.1	1,547.9
	-----	-----
Total operating and other assets	3,184.7	3,136.3
	-----	-----
Total assets	\$11,526.1	\$11,174.1
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,840.9	\$ 2,579.7
Deferred revenue	593.3	430.8
Income taxes	174.9	137.6
Current portion of long-term debt	47.7	109.5
	-----	-----
Total current liabilities	3,656.8	3,257.6
	-----	-----
Deferred income taxes	362.6	474.8
Long-term debt, less current portion	1,184.3	1,790.9
Redeemable preferred stock of subsidiaries and minority interests	405.9	341.4
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; 493,131,404 shares issued at December 31, 1998; 491,567,240 shares issued and outstanding at December 31, 1997	4.9	4.9
Additional paid-in capital	958.3	855.7
Retained earnings	5,049.7	4,601.6
Accumulated other comprehensive income	(96.2)	(152.8)
Treasury stock, at cost, 7,160 shares at December 31, 1998	(0.2)	-
	-----	-----
Total shareholders' equity	5,916.5	5,309.4
	-----	-----
Total liabilities and shareholders' equity	\$11,526.1	\$11,174.1
	=====	=====

See accompanying notes to consolidated financial statements.

<TABLE>
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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(in millions)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock		Consolidated Shareholders' Equity
	Shares Outstanding	Amount				Shares Held	Amount	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1995	483.7	\$517.7	\$ -	\$ (99.7)	\$4,560.5	-	\$ -	\$4,978.5
Recapitalization (Note 1)	-	(512.8)	512.8	-	(500.0)	2.0	(20.3)	(520.3)
Comprehensive income:								
Net income	-	-	-	-	431.5	-	-	431.5
Currency translation adjustment	-	-	-	1.6	-	-	-	1.6
Unrealized loss on securities, net of tax effect of \$0.3 and reclassification adjustment	-	-	-	(0.1)	-	-	-	(0.1)
Total comprehensive income								433.0
Dividends declared	-	-	-	-	(291.4)	-	-	(291.4)
Stock award transactions	3.5	-	170.0	-	-	(1.6)	13.3	183.3
Balance at December 31, 1996	487.2	4.9	682.8	(98.2)	4,200.6	0.4	(7.0)	4,783.1
Comprehensive income:								
Net income	-	-	-	-	730.6	-	-	730.6
Currency translation adjustment	-	-	-	(82.4)	-	-	-	(82.4)
Unrealized gains on securities, net of tax effect of \$14.7 and reclassification adjustment	-	-	-	27.8	-	-	-	27.8
Total comprehensive income								676.0
Dividends declared	-	-	-	-	(293.8)	-	-	(293.8)
Stock award transactions	4.4	-	172.9	-	-	(0.4)	7.0	179.9
Preacquisition losses of a previous cost basis investee	-	-	-	-	(35.8)	-	-	(35.8)
Balance at December 31, 1997	491.6	4.9	855.7	(152.8)	4,601.6	-	-	5,309.4
Purchase of treasury shares	-	-	-	-	-	2.2	(93.3)	(93.3)
Comprehensive income:								
Net income	-	-	-	-	743.4	-	-	743.4
Currency translation adjustment	-	-	-	5.3	-	-	-	5.3
Unrealized gains on securities, net of tax effect of \$34.3 and reclassification adjustment	-	-	-	51.3	-	-	-	51.3
Total comprehensive income								800.0
Dividends declared	-	-	-	-	(295.3)	-	-	(295.3)
Stock award transactions	1.5	-	102.6	-	-	(2.2)	93.1	195.7
Balance at December 31, 1998	\$493.1	\$ 4.9	\$958.3	\$ (96.2)	\$5,049.7	-	\$ (0.2)	\$5,916.5

See accompanying notes to consolidated financial statements.

</TABLE>

<TABLE>
<CAPTION>

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

Years Ended December 31,	1998	1997	1996
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 743.4	\$ 730.6	\$ 431.5
Adjustments to reconcile net income to net cash provided by operating activities:			
Asset writedowns	70.3	204.3	503.9
Depreciation and amortization	1,393.7	1,208.5	1,180.8
Deferred compensation	156.2	103.2	81.9
Gain on sale of stock of subsidiary	(49.6)	-	-
Other	(145.6)	83.9	46.2
Changes in operating assets and liabilities, net of effects of acquired companies:			
Accounts receivable	(129.3)	(209.7)	(374.1)
Prepays and other	(155.9)	(77.9)	(315.4)
Accounts payable and accrued liabilities	181.2	263.4	274.4
Deferred revenue	133.7	(148.7)	(27.4)
Taxes payable	(110.5)	32.5	(250.0)
Total adjustments	1,344.2	1,459.5	1,120.3
Net cash provided by operating activities	2,087.6	2,190.1	1,551.8
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of marketable securities	134.1	90.8	78.9
Proceeds from investments and other assets	271.4	255.4	184.9
Proceeds from divestitures	408.4	36.5	-
Payments for purchases of property and equipment	(870.3)	(769.2)	(1,158.2)
Payments for investments and other assets	(440.6)	(308.8)	(244.4)
Payments related to acquisitions, net of cash acquired	(108.1)	(180.4)	(46.7)
Payments for purchases of software and other intangibles	(110.0)	(132.3)	(107.5)
Payments for purchases of marketable securities	(120.8)	(326.2)	(79.3)
Other	57.1	86.2	101.5
Net cash used in investing activities	(778.8)	(1,248.0)	(1,270.8)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term debt	7,254.8	8,377.3	11,238.6
Payments on long-term debt	(7,911.7)	(9,155.3)	(10,871.2)
Proceeds from sale of stock of subsidiaries	65.1	553.3	440.3
Redemption of stock of subsidiaries	-	(688.1)	(9.2)
Purchase of treasury stock	(93.3)	-	-
Employee stock transactions and related tax benefits	39.0	76.8	59.2
One-time intercompany payment to General Motors (Note 1)	-	-	(500.0)
Dividends paid	(295.3)	(293.8)	(291.4)
Net cash provided by (used in) financing activities	(941.4)	(1,129.8)	66.3
Effect of exchange rate changes on cash and cash equivalents	(6.0)	(14.8)	(16.3)
Net increase (decrease) in cash and cash equivalents	361.4	(202.5)	331.0
Cash and cash equivalents at beginning of year	677.4	879.9	548.9
Cash and cash equivalents at end of year	\$ 1,038.8	\$ 677.4	\$ 879.9

</TABLE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

Electronic Data Systems Corporation ("EDS") is a professional services firm which offers its clients a portfolio of related services worldwide within the broad categories of systems and technology services, business process management, management consulting and electronic business. Services include the management of computers, networks, information systems, information processing facilities, business operations and related personnel. EDS offers its clients a continuum of services in the United States and approximately 50 other countries. As used herein, the terms "EDS" and the "Company" refer to Electronic Data Systems Corporation, its predecessor and its consolidated subsidiaries.

On June 7, 1996, General Motors Corporation ("GM") split-off (the "Split-Off") EDS to the holders of GM's Class E common stock in a transaction that was tax-free for U.S. federal income tax purposes, and EDS became a publicly held company. In connection therewith, EDS paid GM a one-time intercompany payment of \$500.0 million in cash. Under the terms of the Split-Off, one share of EDS common stock was exchanged for each share of GM's Class E common stock.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of EDS and all majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. The Company's investments in companies in which it has the ability to exercise significant influence over operating and financial policies are accounted for under the equity method.

EARNINGS PER SHARE

Basic earnings per share of common stock is computed using the weighted-average number of EDS common shares outstanding during the period. Diluted earnings per share reflects the incremental increase in common shares outstanding, assuming the exercise of all employee stock options and restricted stock units that would have had a dilutive effect on earnings per share. A reconciliation of the number of shares used in the calculation of basic and diluted earnings per share is as follows (in millions):

Years Ended December 31,	1998	1997	1996

Basic earnings per share of common stock:			
Weighted-average common shares outstanding	492.2	489.8	485.8
Effect of dilutive securities (Note 11):			
Restricted stock units	2.7	3.7	5.4
Stock options	0.6	0.4	-

Diluted earnings per share:			
Weighted-average common and common equivalent shares outstanding	495.5	493.9	491.2
	=====		

Securities that were outstanding but were not included in the computation of diluted earnings per share because their effect was antidilutive include restricted stock units of 0.4 million and 5.4 million shares for the years ended December 31, 1998 and 1997, and options to purchase 9.6 million, 10.1 million and 1.0 million shares of common stock for the years ended December 31, 1998, 1997 and 1996, respectively.

MARKETABLE SECURITIES

Marketable securities at December 31, 1998 and 1997 consist of securities issued by the U.S. Treasury, states and political subdivisions, as well as mortgage-backed debt, corporate debt and corporate equity securities. The Company classifies all of its debt and marketable equity securities as available-for-sale, and they are recorded at fair value. Unrealized holding gains (losses), net of the related tax effect, totaling \$74.8 million, \$23.5 million and \$(4.3) million at December 31, 1998, 1997 and 1996, respectively, are excluded from earnings and are reported as a component of shareholders' equity until realized. A decline in the fair value of any available-for-sale security below cost that is deemed other than temporary is charged to earnings, resulting in the establishment of a new cost basis for the security.

PROPERTY AND EQUIPMENT

Property and equipment are carried at cost. Depreciation of property and equipment is calculated using the straight-line method over the lesser of the asset's estimated useful life, the life of the

related customer contract, or the term of the lease in the case of leasehold improvements. The ranges of estimated useful lives are as follows:

	Years
Buildings	20-40
Facilities	5-20
Computer equipment	3-8
Other equipment and furniture	3-15

SOFTWARE, GOODWILL AND OTHER INTANGIBLES

Software purchased by the Company and utilized in designing, installing and operating business information and communications systems is capitalized and amortized on a straight-line basis over a two- to eight-year period. Costs of developing and maintaining software systems are incurred primarily in connection with client contracts and are considered contract costs. Software development costs that meet the capitalization and recoverability requirements of Statement of Financial Accounting Standards ("SFAS") No. 86, Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed, are capitalized and generally amortized on a straight-line basis over three years. Amounts capitalized under SFAS No. 86 were not significant for the years ended December 31, 1998, 1997 and 1996.

The cost of acquired companies is allocated first to identifiable assets based on estimated fair values. Costs allocated to identifiable intangible assets are amortized on a straight-line basis over the remaining estimated useful lives of the assets, as determined by underlying contract terms or independent appraisals. Such lives range from two to ten years. The excess of the purchase price over the fair value of identifiable assets acquired, net of liabilities assumed, is recorded as goodwill and amortized on a straight-line basis over the useful life. The useful life is determined based on the individual characteristics of the acquired entity and ranges from five to forty years.

The Company periodically evaluates the carrying amounts of goodwill, as well as the related amortization periods, to determine whether adjustments to these amounts or useful lives are required, based on current events and circumstances. The evaluation is based on the Company's projection of the undiscounted future operating cash flows of the acquired operation over the remaining useful lives of the related goodwill. To the extent such projections indicate that future undiscounted cash flows are not sufficient to recover the carrying amounts of related goodwill, the underlying assets are written down by charges to expense so that the carrying amount is equal to future undiscounted cash flows. The assessment of the recoverability of goodwill will be affected if estimated future operating cash flows are not achieved.

REVENUE RECOGNITION

The Company provides services under level-of-effort and fixed-price contracts, which extend up to ten years. Under level-of-effort contracts, revenue is recognized as services are provided to the client in accordance with contractual billing schedules. For certain fixed-price contracts, revenue is recognized on the percentage-of-completion method, based on the percentage that incurred contract costs to date bear to total estimated contract costs after giving effect to the most recent estimates of total cost. The effect of changes to total estimated contract costs is recognized in the period such changes are determined. Provisions for estimated losses are made in the period in which the loss first becomes apparent. Revenue under non-refundable fixed-price contracts for software licenses is recognized after the software has been delivered, all significant obligations of the Company have been fulfilled, and all significant uncertainties regarding client acceptance have expired. The portion of the fixed-fee revenue related to maintenance is deferred and recognized ratably over the contract period.

Deferred revenues of \$593.3 million and \$430.8 million at December 31, 1998 and 1997, respectively, represent billings in excess of costs and related profits on certain contracts. Included in accounts receivable are unbilled receivables of \$821.0 million and \$963.7 million at December 31, 1998 and 1997, respectively. Unbilled receivables represent costs and related profits in excess of billings on certain fixed-price contracts. Unbilled receivables were not billable at the balance sheet date but are recoverable over the remaining life of the contract through billings which will be made in accordance with contractual agreements. Of the unbilled receivables at December 31, 1998, billings to such clients totaling \$208.2 million are expected to be collected in 2000 and thereafter. A specific client's unbilled receivable balance may not be directly decreased for such future years' billings because additional costs may also be incurred in the future in accordance with the contractual agreements.

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, but are reflected as a component of shareholders' equity. Cumulative currency translation adjustment losses included in shareholders' equity were \$171.0 million, \$176.3 million and \$93.9 million at December 31, 1998, 1997 and 1996, respectively. Non-functional currency transaction losses are included in determining net income and were \$11.1 million, \$22.6 million and \$11.8 million, net of income taxes, for the years ended December 31, 1998, 1997 and 1996, respectively.

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COMPREHENSIVE INCOME

On January 1, 1998, the Company adopted SFAS No. 130, Reporting Comprehensive Income, which establishes standards for reporting and presentation of comprehensive income and its components in the financial statements. Comprehensive income includes all changes in equity during a period except those resulting from investments by and distributions to owners. SFAS No. 130 only requires additional disclosures in the consolidated financial statements and does not affect the Company's financial position or results of operations. Prior year financial statements have been reclassified to conform to the requirements of SFAS No. 130.

The related tax effect allocated to each component of other comprehensive income is as follows (in millions):

December 31, 1998	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Foreign currency translation adjustments	\$ 5.3	\$ -	\$ 5.3
Unrealized holding gains on securities:			
Unrealized holding gains arising during the period	95.2	(34.3)	60.9
Reclassification adjustment for gains realized in income	(15.0)	5.4	(9.6)
Net unrealized gains	80.2	(28.9)	51.3
Other comprehensive income	\$ 85.5	\$ (28.9)	\$ 56.6

For the years ended December 31, 1997 and 1996, reclassification adjustments for losses realized in income were \$2.5 million and \$0.7 million, respectively, net of the related tax effect of \$0.9 million and \$0.2 million, 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. Prior to the Split-Off, the Company was included in the consolidated federal tax returns filed by GM. Current federal income taxes were calculated on a separate return basis and remitted to GM.

STATEMENTS OF CASH FLOWS

The Company uses the indirect method to present cash flows from operating activities and considers certificates of deposit, as well as the following items with original maturities of three months or less, to be cash equivalents: commercial paper, repurchase agreements and money market funds. (See Note 19.)

FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the Company's financial instruments at December 31, 1998 and 1997 (in millions):

December 31,	1998		1997	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Current available-for-sale marketable securities (Note 2)	\$ 272.9	\$ 272.9	\$ 347.5	\$ 347.5
Investment in securities, joint ventures and partnerships, under the cost method of accounting (Note 5)	564.8	584.1	379.1	480.6
Long-term debt (Note 8)	(1,232.0)	(1,332.7)	(1,900.4)	(1,960.4)
Redeemable preferred stock of subsidiaries and related interest rate swap agreements (Note 9)	(179.1)	(179.1)	(175.0)	(175.0)
Foreign exchange forward contracts, net asset (liability) (Note 14)	(7.8)	(7.8)	10.5	10.2

Current available-for-sale 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 and redeemable preferred stock of subsidiaries, including related interest rate swap agreements, is estimated 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 exchange forward contracts is based on the estimated amount to settle the contracts using current market exchange rates. The carrying value of other financial instruments, such as cash equivalents, accounts and notes receivable, and accounts payable, approximates their fair value.

USE OF ESTIMATES

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates 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.

CONCENTRATION OF CREDIT RISK

Concentrations of credit risk with respect to accounts receivable are limited due to the large number of clients forming the Company's client base and their dispersion across different industry and geographic areas. Accounts receivable are shown net of allowances of \$144.7 million and \$105.4 million at December 31, 1998 and 1997, respectively. During the years ended December 31, 1998, 1997 and 1996, the portion of EDS revenues attributable to GM was 25%, 28% and 30%, respectively. Due to the signing of the new information technology ("IT") services agreements prior to the Split-Off, EDS does not anticipate the loss of GM as an ongoing major client in the near future. Other than GM, no single client accounted for more than 5% of the Company's revenues in 1998, 1997 or 1996.

STOCK-BASED COMPENSATION

The Company records stock-based compensation using provisions of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, for the preparation of its basic consolidated financial statements. (See Note 11.) Such provisions require the Company to recognize compensation cost over the vesting period for the difference between the quoted market price of an award at the date of grant and the purchase or exercise price of the share.

IMPAIRMENT OF LONG-LIVED ASSETS AND LONG-LIVED ASSETS TO BE DISPOSED OF

The Company reviews its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

RECLASSIFICATIONS

Certain reclassifications have been made to the 1997 and 1996 consolidated financial statements to conform to the 1998 presentation.

NOTE 2: MARKETABLE SECURITIES

The following is a summary of current available-for-sale marketable securities (in millions):

December 31, 1998	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government and agency obligations	\$187.4	\$ 3.9	\$(0.2)	\$191.1
Other debt securities	68.7	1.0	(0.1)	69.6
Total debt securities	256.1	4.9	(0.3)	260.7
Equity securities	4.2	8.0	-	12.2
Total current available-for-sale securities	\$260.3	\$12.9	\$(0.3)	\$272.9

Gross Gross Estimated

December 31, 1997	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government and agency obligations	\$215.8	\$ 0.4	\$ -	\$216.2
Other debt securities	11.7	-	-	11.7
Total debt securities	227.5	0.4	-	227.9
Equity securities	92.3	27.3	-	119.6
Total current available-for-sale securities	\$319.8	\$27.7	\$ -	\$347.5

Non-current securities are included in Investments and Other Assets (Note 5). During 1998, certain available-for-sale marketable securities with a carrying amount of \$111.0 million, including unrealized gains of \$24.6 million, were reclassified to Investments and Other Assets. Such reclassification resulted from the Company being restricted in its ability to sell the securities before 2001 due to a contractual obligation with a client.

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The amortized cost and estimated fair value of current debt securities at December 31, 1998, by contractual maturity, are shown below (in millions). Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to repay obligations without prepayment penalties.

December 31, 1998	Amortized Cost	Estimated Fair Value
Debt securities:		
Due in one year or less	\$ 35.0	\$ 35.4
Due after one year through five years	215.9	220.1
Due after five years through ten years	0.2	0.2
Due after ten years	5.0	5.0
Total debt securities	\$256.1	\$260.7

The following table summarizes sales of available-for-sale securities (in millions):

Years Ended December 31,	1998	1997	1996
Proceeds from sales	\$134.1	\$90.8	\$78.9
Gross realized gains	\$ 32.2	\$ -	\$ 0.2
Gross realized losses	\$ -	\$(1.4)	\$(1.7)

Specific identification was used to determine cost in computing realized gain or loss.

NOTE 3: PROPERTY AND EQUIPMENT (IN MILLIONS)

December 31,	1998	1997

Land	\$ 136.1	\$ 135.9
Buildings and facilities	1,146.7	1,062.6
Computer equipment	4,975.9	4,979.5
Other equipment and furniture	683.6	723.2
	6,942.3	6,901.2
Less accumulated depreciation	(4,234.2)	(4,032.8)
	-----	-----
Total	\$2,708.1	\$2,868.4
	=====	=====

NOTE 4: LAND HELD FOR DEVELOPMENT

At December 31, 1998, land held for development consists of approximately 1,103 acres located primarily in Plano, Texas. The carrying value of land is periodically compared to current sales, market analyses and appraisals to determine whether an adjustment is required.

NOTE 5: INVESTMENTS AND OTHER ASSETS (IN MILLIONS)

December 31,	1998	1997
Lease contracts receivable (net of principal and interest on non-recourse debt)	\$ 340.5	\$ 346.9
Estimated residual values of leased assets (not guaranteed)	267.5	289.2
Unearned income, including deferred investment tax credits	(223.7)	(224.7)
Investment in leveraged leases (excluding deferred taxes of \$305.7 and \$319.6 at December 31, 1998 and 1997, respectively)	384.3	411.4
Investment in securities, joint ventures and partnerships	626.9	471.7
Deferred pension costs	263.8	172.2
Deferred software license fees	211.3	157.2
Investment in direct financing leases, net of unearned income	4.1	145.0
Other	141.0	143.7
	-----	-----
Total	\$1,631.4	\$1,501.2
	=====	=====

Leases that are financed with non-recourse borrowings at lease inception are accounted for as leveraged leases. Such borrowings are secured by substantially all of the lessor's rights under the lease plus the residual value of the asset. 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. A portion of the Company's leveraged lease portfolio is concentrated within the airline industry. The Company historically has not experienced credit losses from these transactions, and the portfolios are diversified among unrelated lessees.

Investment in securities, joint ventures and partnerships includes investments accounted for under the equity method of \$62.1 million and \$92.6 million at December 31, 1998 and 1997,

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respectively. A decline in the market value of any investments that is deemed to be other than temporary is charged to earnings. Investments and Other Assets was net of an allowance of \$122.4 million at December 31, 1997.

NOTE 6: SOFTWARE, GOODWILL AND OTHER INTANGIBLES (IN MILLIONS)

December 31,	1998	1997
--------------	------	------

Software	\$ 928.2	\$1,003.6
Goodwill	1,392.8	1,295.7
Other intangibles	468.3	495.1
	2,789.3	2,794.4
Less accumulated amortization	(1,322.2)	(1,246.5)
Total	\$ 1,467.1	\$1,547.9

NOTE 7: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (IN MILLIONS)

December 31,	1998	1997
Accounts payable	\$ 329.8	\$ 372.4
Contract-related	743.7	590.6
Payroll-related	849.5	676.5
Operating expenses	683.3	682.1
Property, sales and franchise taxes	191.8	115.0
Other	42.8	143.1
Total	\$2,840.9	\$2,579.7

NOTE 8: LONG-TERM DEBT (IN MILLIONS)

December 31,	1998	1997
Commercial paper, weighted-average interest rate of 5.44%	\$ -	\$ 662.7
Notes to banks, fixed rate, weighted-average interest rate of 5.40%, due 1999 to 2003	217.7	263.3
Notes payable, fixed rate, weighted-average interest rate of 7.03% to 7.05%, due 1999 to 2014, net of discount	996.5	935.1
Other	17.8	39.3
Total	1,232.0	1,900.4
Less current portion of long-term debt	(47.7)	(109.5)
Long-term debt	\$1,184.3	\$1,790.9

Commercial paper is classified as non-current debt, as it was intended to be maintained on a long-term basis, with ongoing credit availability provided by the Company's revolving, committed lines of credit. The Company maintains a credit agreement with a syndicate of banks which provides for \$2,500.0 million of committed lines of credit, of which \$1,250.0 million expires in 1999, with the option to convert any outstanding amounts under these lines into term loans that mature in 2001. The remaining \$1,250.0 million expires in 2002. The Company pays annual commitment fees of .05% to .06% on the unused portion of the lines of credit.

Maturities of long-term debt for years subsequent to December 31, 1998, are as follows (in millions):

1999	\$ 47.7
2000	529.2
2001	8.7
2002	4.1
2003	3.6
Thereafter	638.7

Total \$1,232.0
 =====

 The Company's credit facilities and the indenture governing its medium-term notes contain certain financial and other covenants, including the maintenance of a minimum net worth and restrictions on mergers, consolidations and sales of substantially all of the assets of the Company. As of December 31, 1998, the Company was in compliance with all of these covenants.

NOTE 9: REDEEMABLE PREFERRED STOCK OF SUBSIDIARIES AND MINORITY INTERESTS

At December 31, 1998 and 1997, consolidated subsidiaries of the Company had redeemable preferred stock outstanding of \$179.1 million and \$175.0 million, respectively. Holders of the preferred shares have the right to redeem such shares from 2001 to 2003 for cash equal to the issue amount plus cumulative unpaid dividends. Dividends on such preferred shares are cumulative from the effective date of issue at fixed rates ranging from 6.95% to 7.7%. (See Note 14 for a discussion of related interest rate swap agreements.) The preferred shares are non-voting and provide the holders with a priority position with respect to any class of the issuing subsidiary's stock in the event of dissolution. The Company may call the redeemable preferred stock outstanding in 2003.

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On June 23, 1998, Unigraphics Solutions Inc., a then wholly owned subsidiary of the Company, sold five million shares of its Class A common stock, representing 13.8% of its total outstanding common stock, in an initial public offering. Net proceeds from the offering were \$65.1 million. The Company recognized a gain on the sale of stock of this subsidiary of \$49.6 million. Income taxes have not been provided for this gain, as the Company believes that it will recover its basis in the shares sold in a tax-free manner.

On September 1, 1997, the Company sold a 35% share in EDS' Australia operations to an unrelated third party for \$140.5 million. The proceeds from the sale were recorded in Redeemable Preferred Stock of Subsidiaries and Minority Interests in the consolidated financial statements.

NOTE 10: INCOME TAXES

The current and deferred income tax liabilities (assets) are summarized as follows (in millions):

December 31,	1998	1997
Current payable	\$ 57.7	\$(25.3)
Current deferred	117.2	162.9
Total income taxes - current	174.9	137.6
Non-current deferred	362.6	474.8
Total current and non-current income taxes	\$537.5	\$612.4

The provision for income tax expense is summarized as follows (in millions):

	U.S. Federal	Non-U.S.	State	Total
YEAR ENDED DECEMBER 31, 1998				
Current	\$391.8	\$121.6	\$ 58.2	\$571.6
Deferred	(169.0)	9.7	(22.0)	(181.3)

Total	\$222.8	\$131.3	\$ 36.2	\$390.3
	=====	=====	=====	=====
YEAR ENDED DECEMBER 31, 1997				
Current	\$243.9	\$ 60.3	\$ 32.4	\$336.6
Deferred	51.7	11.7	11.0	74.4
	-----	-----	-----	-----
Total	\$295.6	\$ 72.0	\$ 43.4	\$411.0
	=====	=====	=====	=====
YEAR ENDED DECEMBER 31, 1996				
Current	\$303.2	\$ 69.1	\$ 42.4	\$414.7
Deferred	(94.3)	(77.2)	(0.6)	(172.1)
	-----	-----	-----	-----
Total	\$208.9	\$ (8.1)	\$ 41.8	\$242.6
	=====	=====	=====	=====

Income before income taxes included the following components (in millions):

Years Ended December 31,	1998	1997	1996
	-----	-----	-----
U.S. income	\$ 806.2	\$1,017.8	\$705.1
Non-U.S. income	327.5	123.8	(31.0)
	-----	-----	-----
Total	\$1,133.7	\$1,141.6	\$674.1
	=====	=====	=====

A reconciliation of income tax expense using the statutory U.S. federal income tax rate of 35.0% to the actual income tax expense follows (in millions):

Years Ended December 31,	1998	1997	1996
	-----	-----	-----
Income before income taxes	\$1,133.7	\$1,141.6	\$674.1
	-----	-----	-----
Statutory U.S. federal income tax	396.8	399.6	235.9
State income tax, net	23.5	28.2	27.2
Non-U.S. taxes, net of credit	13.2	11.4	(3.9)
Change in the beginning-of-the-year valuation allowance	(35.0)	-	-
Sale of stock of subsidiary	(17.4)	-	-
Research and experimentation credits	(36.8)	(28.0)	(13.1)
Other	46.0	(0.2)	(3.5)
	-----	-----	-----
Total	\$ 390.3	\$ 411.0	\$242.6
	=====	=====	=====
Effective income tax rate	34.4%	36.0%	36.0%
	=====	=====	=====

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

December 31,	1998		1997	
	-----	-----	-----	-----
	Assets	Liabilities	Assets	Liabilities
	-----	-----	-----	-----
Leasing basis differences	\$ -	\$ 491.5	\$ -	\$ 490.9
Accrual accounting				

differences	181.6	246.1	158.3	289.0
Employee benefit plans	22.4	111.9	25.6	112.6
Depreciation/amortization	69.8	269.8	18.5	194.5
Effect on deferred taxes of carryforwards	251.4	-	265.8	-
Employee-related compensation	179.4	-	143.4	-
Other	273.9	249.0	236.0	222.3
	-----	-----	-----	-----
Subtotal	978.5	1,368.3	847.6	1,309.3
Less valuation allowance	(90.0)	-	(176.0)	-
	-----	-----	-----	-----
Total deferred taxes	\$888.5	\$1,368.3	\$671.6	\$1,309.3
	=====	=====	=====	=====

The net changes in the total valuation allowance for the years ended December 31, 1998, 1997 and 1996 were a decrease of \$86.0 million, an increase of \$1.4 million and an increase of \$48.3 million, respectively. A majority of the valuation allowance relates to net operating loss carryforwards of foreign subsidiaries which expire over an indefinite period. 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.

NOTE 11: STOCK PURCHASE AND INCENTIVE PLANS

Compensation cost charged against income in connection with stock plans was \$156.2 million, \$103.2 million and \$81.9 million for the years ended December 31, 1998, 1997 and 1996, respectively. The difference between the quoted market price as of the date of the grant and the purchase price of shares is charged to operations over the vesting period. No compensation cost has been recognized for fixed stock options and shares acquired by employees under the EDS Stock Purchase Plan. All references to common stock prior to the Split-Off are to GM's Class E common stock. If compensation cost for the Company's stock-based compensation plans had been determined in accordance with SFAS No. 123, Accounting for Stock-Based Compensation, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below (in millions, except per share amounts):

Years Ended December 31,		1998	1997	1996
Net Income	As reported	\$743.4	\$730.6	\$431.5
	Pro forma	\$710.7	\$701.5	\$416.6
Earnings per share of common stock:				
Basic	As reported	\$1.51	\$1.49	\$0.89
	Pro forma	\$1.44	\$1.43	\$0.86
Diluted	As reported	\$1.50	\$1.48	\$0.88
	Pro forma	\$1.43	\$1.42	\$0.85

The weighted-average fair value of options granted during the year is \$14.07, \$14.48 and \$18.66 for 1998, 1997 and 1996, respectively. The fair value of each option is estimated at the date of grant using a modified Black-Scholes option pricing model, with the following weighted-average assumptions for 1998, 1997 and 1996, respectively: dividend yields of 1.5%, 1.6% and 1.3%; expected volatility of 29.5%, 25.5% and 23.9%; risk-free interest rate of 5.1%, 6.4% and 6.5%; and expected lives of 7.1 years, 7.8 years and 8.2 years.

EDS STOCK PURCHASE PLAN

The EDS Stock Purchase Plan enables EDS employees to purchase up to 57.5 million shares of EDS common stock at 85% of the quoted market price through payroll deductions of up to 10% of their compensation. Shares of EDS common stock purchased under the EDS Stock Purchase Plan may not be sold or transferred within two years of the date of purchase unless they are first offered to EDS at the lesser of the original purchase price or the fair market value on the date of sale. The number of shares available for future sale under the EDS Stock Purchase Plan was 53.4 million shares at December 31, 1998.

PERFORMANCE SHARE PLAN

The PerformanceShare Plan covers up to 20.0 million shares of EDS common stock and permits the granting of stock-based awards in the form of stock options to eligible employees. In 1998, the Compensation and Benefits Committee of the Board of Directors (the "Committee") granted to employees stock options to

acquire 0.3 million shares of EDS common stock that vest after ten years of service, subject to accelerated vesting based on the appreciation in quoted market price of the Company's common stock. The exercise price equals the quoted market price on the date of grant. The maximum number of shares for which future options may be granted under the provisions of the PerformanceShare Plan was 8.2 million shares at December 31, 1998.

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INCENTIVE PLAN

The Incentive Plan covers up to 60.0 million shares of EDS common stock, in addition to 17.0 million unvested shares that were outstanding at the date of the Split-Off. The Incentive Plan permits the granting of stock-based awards in the form of restricted shares, restricted stock units, stock options or stock appreciation rights to eligible employees, officers and non-employee directors. The maximum number of shares for which additional shares, rights or options may be granted or sold under the provisions of the Incentive Plan was 32.5 million shares at December 31, 1998.

During the years ended December 31, 1998, 1997 and 1996, 1.7 million, 5.2 million and 0.6 million restricted stock units, respectively, were granted. A restricted stock unit is the right to receive shares. Units granted are generally scheduled to vest over a period of five to ten years. The weighted-average fair value of the restricted stock units granted was \$41.01, \$42.92 and \$54.85 for the years ended December 31, 1998, 1997 and 1996, respectively. The quoted market price as of the date of grant is charged to operations over the vesting period. The total unvested number of units at December 31, 1998 was 16.1 million.

In 1998, the Committee granted to employees 10.9 million stock options which vest ratably over five to ten years of service under the Incentive Plan. The vesting of 1.9 million of these options is subject to accelerated vesting based on the appreciation in quoted market price of the Company's common stock. The exercise price for these grants is equal to the quoted market price on the date of the grant.

During 1998, the Company recognized compensation expense totaling \$49.4 million due to the retirement of its former chairman and vice chairman. Such expense resulted from changes to vesting conditions for unvested restricted stock units and the grant of additional supplemental executive retirement and other cash benefits. The Company also adopted a retention plan for its corporate officers that provides for cash benefits and accelerated vesting of restricted stock units and options in the event of termination of employment without cause and other benefits in the event the officer remained employed at the end of the retention period.

In 1998, 1997 and 1996, non-employee directors were granted a total of 4,411, 7,349 and 3,500 restricted shares, respectively, of EDS common stock that vest over a three-year period. The quoted market price on the date of grant is charged to expense over the vesting period for these shares.

A summary of the Company's stock options issued under the PerformanceShare and Incentive Plans is presented below (in millions, except per share amounts):

Year Ended December 31, 1998

Fixed Options	Shares	Weighted- Average Exercise Price

Outstanding at beginning of year	23.2	\$41
Granted	11.2	\$40
Exercised	-	-
Forfeited	(1.7)	\$41

Outstanding at end of year	32.7	\$41
	=====	

Year Ended December 31, 1997

Fixed Options	Shares	Weighted- Average Exercise Price
Outstanding at beginning of year	6.1	\$48
Granted	19.0	\$39
Exercised	-	-
Forfeited	(1.9)	\$39

Outstanding at end of year	23.2	\$41
	=====	

Year Ended December 31, 1996

Fixed Options	Shares	Weighted- Average Exercise Price
Outstanding at beginning of year	-	-
Granted	6.1	\$48
Exercised	-	-
Forfeited	-	-

Outstanding at end of year	6.1	\$48
	=====	

At December 31, 1998 and 1997, 600,245 and 18,906 options were exercisable, with a weighted-average exercise price of \$43 and \$41 per share, respectively. At December 31, 1998, 26.7 million options outstanding with exercise prices of \$36 to \$44 had a weighted-average remaining contractual life and exercise price of thirteen years and \$39, respectively, and 6.0 million options with exercise prices of \$45 to \$61 had a weighted-average remaining contractual life and exercise price of nine years and \$47, respectively.

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NOTE 12: DEFERRED COMPENSATION PLAN

The EDS Deferred Compensation Plan (the "Plan") provides a long-term savings program for participants. This 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. The Company amended the Plan, effective July 1, 1998, to provide for employer-matching contributions in the form of EDS stock. During the year ended December 31, 1998, employer-matching contributions totaled \$14.3 million.

NOTE 13: SEGMENT INFORMATION

The Company aggregates its client contracts by business line for management reporting purposes. Reportable segments consist of systems and technology services, business process management and management consulting services. Systems and technology services encompasses systems development, systems integration and systems management. Also included in this area are desktop services, Year 2000 conversions and enterprise software solutions. Business process management focuses on the use of technology to manage various business processes within the client's enterprise, including such activities as remittance processing, procurement logistics, enterprise customer management, customer service and training, as well as IT operations. Management consulting services are provided by A.T. Kearney, an EDS subsidiary. Services in this area provide clients with high value-added strategy, operations and information technology capabilities combined with implementation skills that improve overall business performance and competitive positioning.

The Company uses gross profit, which consists of segment revenues less cost of revenues, to measure segment profit or loss. Segment gross profit excludes selling, general and administrative expenses; restructuring charges; and asset writedowns that are not allocated to individual segments for management reporting purposes.

The following is a summary of certain financial information by reportable segment (in millions):

As of and for the Year Ended December 31, 1998

	Revenue	Gross Profit	Total Assets
Systems and technology services	\$12,248.6	\$2,189.2	\$ 4,950.2
Business process management	3,281.6	537.1	1,995.2
Management consulting services	999.9	171.4	836.1
All other	360.9	55.1	3,744.6
	-----	-----	-----
Total	\$16,891.0	\$2,952.8	\$11,526.1
	=====	=====	=====

As of and for the Year Ended December 31, 1997

	Revenue	Gross Profit	Total Assets
Systems and technology services	\$11,145.9	\$2,489.9	\$ 4,804.2
Business process management	2,700.1	502.7	2,007.9
Management consulting services	835.2	130.7	736.2
All other	554.4	(51.8)	3,625.8
	-----	-----	-----
Total	\$15,235.6	\$3,071.5	\$11,174.1
	=====	=====	=====

As of and for the Year Ended December 31, 1996

	Revenue	Gross Profit	Total Assets
Systems and technology services	\$10,721.4	\$2,331.6	\$ 5,049.8
Business process management	2,354.1	348.7	1,640.0
Management consulting services	703.0	75.5	632.8
All other	662.8	233.1	3,870.3
	-----	-----	-----
Total	\$14,441.3	\$2,988.9	\$11,192.9
	=====	=====	=====

The following is a summary of depreciation and amortization included in the calculation of gross profit above (in millions):

Years Ended December 31,	1998	1997	1996
Systems and technology services	\$ 685.7	\$ 604.8	\$ 626.5
Business process management	223.2	189.5	165.2
Management consulting services	45.9	41.9	37.8
All other	284.1	245.7	250.9
	-----	-----	-----
Total	\$1,238.9	\$1,081.9	\$1,080.4
	=====	=====	=====

Depreciation and amortization of \$154.8 million, \$126.6 million and \$100.4

million for the years ended December 31, 1998, 1997 and 1996, respectively, are included in selling, general and administrative expenses.

Total assets in the "all other" category include \$2,641.3 million, \$2,423.8 million and \$2,815.1 million of unallocated assets, primarily certain intangible assets and corporate fixed assets and investments, as of December 31, 1998, 1997 and 1996, respectively.

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The following reconciles segment gross profit to the Company's consolidated operating income (in millions):

Years Ended December 31,	1998	1997	1996
Total gross profit for reportable segments	\$2,952.8	\$3,071.5	\$2,988.9
Selling, general and administrative	(1,837.9)	(1,528.3)	(1,403.3)
Restructuring and other charges	(48.1)	(329.6)	(789.5)
Consolidated operating income	\$1,066.8	\$1,213.6	\$ 796.1

The following presents information about the Company's operations in different geographic regions (in millions):

As of and for the Year Ended December 31, 1998

	Revenues	Long-Lived Assets
United States	\$10,302.9	\$3,276.8
United Kingdom	1,910.6	371.3
Other	4,677.5	777.6
Totals	\$16,891.0	\$4,425.7

As of and for the Year Ended December 31, 1997

	Revenues	Long-Lived Assets
United States	\$ 9,939.1	\$3,370.5
United Kingdom	1,562.5	436.2
Other	3,734.0	650.1
Totals	\$15,235.6	\$4,456.8

As of and for the Year Ended December 31, 1996

	Revenues	Long-Lived Assets
United States	\$ 9,756.2	\$3,736.2
United Kingdom	1,232.2	338.1
Other	3,452.9	766.6
Totals	\$14,441.3	\$4,840.9

For the years ended December 31, 1998, 1997 and 1996, total revenues from GM and its affiliates totaled \$4,165.3 million, \$4,314.0 million and \$4,278.2 million, respectively. Revenues from GM were reported in each of the Company's reportable segments.

NOTE 14: FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company operates on a global basis, receiving revenues and incurring expenses in many countries. As a result of these activities, the Company has exposure to market risks arising from changes in interest rates and foreign exchange rates. Derivative financial instruments are used by the Company for the purpose of hedging 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 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. The Company is not a party to leveraged derivatives. Net payments or receipts under the Company's interest rate swap agreements are recorded as adjustments to interest expense. Gains and losses on foreign exchange forward contracts that are designated as and effective as a hedge of a foreign currency firm commitment are deferred and included in the measurement of the hedged transaction upon settlement. Deferred gains and losses relating to these instruments were not material in the years ended December 31, 1998, 1997 and 1996. Gains and losses on other foreign currency forward contracts are reflected in other income in the period in which the currency fluctuation occurs.

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The Company is exposed to credit risk in the event of non-performance by counterparties to interest rate swaps and foreign exchange contracts. However, because the Company deals only with major commercial banks with high-quality credit ratings, the Company does not anticipate non-performance by any of these counterparties.

INTEREST RISK MANAGEMENT

As of December 31, 1998 and 1997, in connection with a debt issuance transaction, the Company had interest rate swaps outstanding in the notional amount of \$200.0 million. Under the swaps, the Company pays a fixed rate of 6.975% and receives a floating rate tied to the London Interbank Offered Rate ("LIBOR"), which was 6.34% and 7.54% at December 31, 1998 and 1997, respectively. Also, in connection with the preferred stock transactions discussed in Note 9, the Company had three fixed-to-variable interest rate swaps outstanding in the combined notional amount of \$179.1 million as of December 31, 1998, two of which were also outstanding in the combined notional amount of \$175.0 million at December 31, 1997, with floating-rate payments tied to the LIBOR. At December 31, 1998, the floating rates to pay were 5.09% to 6.73%, and the fixed rates to receive were 6.95% to 7.70%. The Company also had three currency swaps outstanding at December 31, 1998, for \$179.1 million, two of which were also outstanding in the combined amount of \$175.0 million at December 31, 1997, which converted the British pound LIBOR paid by the Company in the swaps related to the preferred stock to the U.S. dollar LIBOR.

FOREIGN EXCHANGE RISK MANAGEMENT

The Company uses derivative financial instruments, particularly foreign exchange forward contracts, to hedge transactions denominated in different currencies on a continuing basis. The purpose of the Company's hedging activities is to reduce the levels of risk of exposure to exchange rate movements, most significantly in Canada, Western European countries (primarily Germany, the United Kingdom, Italy, the Netherlands, Spain and Switzerland), Australia and New Zealand. At December 31, 1998 and 1997, the Company had forward exchange contracts maturing predominantly in the following year to purchase various foreign currencies in the amount of \$671.0 million and \$1,105.5 million, respectively, and to sell various foreign currencies in the amount of \$1,538.7 million and \$2,023.5 million, respectively.

NOTE 15: RETIREMENT PLANS

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

The following tables provide a reconciliation of the changes in the Plans' benefit obligations and fair value of assets over the two-year period ending December 31, 1998, and a statement of the funded status as of December 31 of both years (in millions):

	1998	1997
RECONCILIATION OF BENEFIT OBLIGATION		
Obligation at January 1	\$2,511.3	\$1,961.7
Service cost	186.9	135.8
Interest cost	162.7	159.8
Plan amendments	(440.3)	0.1
Actuarial loss	169.0	324.7
Foreign currency exchange rate changes	17.3	(43.3)
Benefit payments	(55.9)	(45.6)
Other	17.6	18.1
Obligation at December 31	\$2,568.6	\$2,511.3
RECONCILIATION OF FAIR VALUE OF PLAN ASSETS		
Fair value of plan assets at January 1	\$2,376.9	\$1,799.7
Actual return on plan assets	75.2	458.2
Foreign currency exchange rate changes	3.6	(23.0)
Employer contributions	145.2	168.2
Benefit payments	(55.9)	(45.6)
Other	17.5	19.4
Fair value of plan assets at December 31	\$2,562.5	\$2,376.9
FUNDED STATUS		
Funded status at December 31	\$ (6.1)	\$ (134.4)
Unrecognized transition obligation	17.6	17.6
Unrecognized prior-service cost	(412.5)	8.8
Unrecognized loss	438.9	98.2
Net amount recognized	\$ 37.9	\$ (9.8)

The following table provides the amounts recognized in the balance sheets for pension benefits (in millions):

December 31,	1998	1997
Prepaid benefit cost	\$225.7	\$138.0
Accrued benefit liability	(214.2)	(147.8)
Intangible asset	26.4	-
Net amount recognized	\$ 37.9	\$ (9.8)

The Company has certain pension plans, primarily international plans, with accumulated benefit obligations in excess of plan assets. The accumulated benefit obligations for these plans were \$178.5 million and \$105.8 million at December 31, 1998 and 1997, respectively. Total plan assets for these plans were \$16.0 million and \$8.3 million at December 31, 1998 and 1997, respectively.

The following table provides the components of net periodic pension cost (in millions):

Years Ended December 31,	1998	1997	1996
Service cost	\$ 186.9	\$ 135.8	\$ 119.8
Interest cost	162.7	159.8	121.8
Expected return on plan assets	(246.1)	(181.9)	(129.5)
Amortization of transition obligation	1.1	1.2	0.9
Amortization of prior-service cost	(27.1)	1.3	1.2
Amortization of net loss	-	7.8	10.2
Net periodic benefit cost	\$ 77.5	\$ 124.0	\$ 124.4

The 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.

In connection with its 1996 restructuring (See Note 20), the Company recognized a charge of \$87.4 million for special termination benefits for employees who accepted early retirement or were involuntarily terminated. The curtailment loss incurred by the Company in connection with this restructuring was not material.

At December 31, 1998 and 1997, the Plans' assets consisted primarily of equity and fixed-income securities and U.S. government obligations. During 1998, the Company amended the U.S. pension plan to convert it to a cash balance plan, using a benefit formula based on years of service, age and career-average earnings. These amendments to the U.S. Pension plan were effective July 1, 1998. The impact of these amendments on the Company's 1998 financial position and results of operations was to reduce the benefit obligation by approximately \$492.0 million and pension cost by \$57.0 million, respectively.

The weighted-average assumptions used in the measurement of the Company's benefit obligation are shown in the following table:

Years Ended December 31,	1998	1997	1996
Discount rate	6.8%	7.3%	8.0%
Rate of increase in compensation levels	5.2%	5.5%	5.4%
Long-term rate of return on assets	9.9%	10.1%	9.7%

During 1998, the Company elected to change the measurement date for pension plan assets and liabilities from September 30 to October 31. The change in measurement date had no effect on pension expense for 1998 or prior years.

NOTE 16: COMMITMENTS AND RENTAL EXPENSE

Commitments for rental payments for each of the next five years and thereafter under non-cancelable operating leases for computer equipment, software and facilities are \$429.0 million, \$355.3 million, \$295.3 million, \$219.5 million, \$173.3 million and \$618.0 million.

Total rentals under cancelable and non-cancelable leases, principally leased facilities, software, computer equipment and other leased assets, included in costs and charged to expenses (net of non-cancelable sublease rental income) were \$1,132.6 million, \$1,005.6 million and \$1,017.0 million for the years ended December 31, 1998, 1997 and 1996, respectively.

At December 31, 1998, the Company had \$70.1 million outstanding under standby letters of credit related to payment and performance guarantees.

NOTE 17: CONTINGENCIES

There are various claims and pending actions against the Company arising in the ordinary course of the conduct of its business. Certain of these actions seek damages in significant amounts. However, the amount of liability on claims and pending actions at December 31, 1998 was not determinable. In the opinion of management, the ultimate liability, if any, resulting from the aforementioned contingencies will not have a material adverse effect on the Company's consolidated results of operations or financial position.

In the normal course of business, the Company provides IT consulting and processing services to its clients under contracts that sometimes require the Company to comply with certain project-related performance criteria, including project deadlines, defined IT system deliverables or level-of-effort measurements. Under certain contracts, the Company could be required to purchase project-related IT processing assets of its clients totaling \$447.9 million if the Company does not comply with such criteria. The Company believes that it is in compliance with the performance provisions of these contracts and that the ultimate liability, if any, incurred under these contracts will not have a material adverse effect on the Company's consolidated results of operations or financial position.

Electronic Data Systems Corporation and subsidiaries 49

The Company is exposed to market risk on investments it holds in trust on behalf of one of its clients. These investments, which consist primarily of corporate and government bonds, had a market value of \$228.5 million and \$282.1 million at December 31, 1998 and 1997, respectively.

NOTE 18: ACQUISITIONS

On March 2, 1998, the Company's subsidiary, Unigraphics Solutions Inc., acquired the Mechanical CAD/CAM business of Intergraph Corporation (the "Solid Edge Acquisition") for a purchase price of \$105.0 million, excluding approximately \$2.0 million of acquisition costs, in a transaction accounted for as a purchase. The cost of the Solid Edge Acquisition was allocated to identifiable assets based on estimated fair values. Costs allocated to in-process research and development in the amount of \$42.5 million were expensed upon acquisition. The remaining purchase price of \$64.5 million was assigned to the various intangible assets and is being amortized over periods of two to seven years.

On August 29, 1997, EDS acquired all remaining outstanding equity interests in Neodata Corporation ("Neodata"), a Colorado-based integrated marketing communications services company, for \$61.7 million, net of cash acquired, in a transaction accounted for as a purchase. The excess purchase price over the fair value of tangible assets acquired and liabilities assumed was \$260.5 million and is being amortized to expense over periods ranging from three to twenty years. Prior to August 29, 1997, the Company's investment in Neodata, which was first made in 1993, was accounted for under the cost method. With the acquisition of the remaining outstanding equity interests of Neodata, preacquisition losses totaling \$35.8 million for years prior to 1997 were charged to retained earnings.

The accompanying consolidated financial statements include the operations of Neodata and Solid Edge since the dates of acquisition. Pro forma disclosure relating to such acquisitions is not presented, as the impact is immaterial to EDS.

The Company made various other acquisitions during the years ended December 31, 1998, 1997 and 1996, none of which had a material effect on the Company's financial position or results of operations during the periods presented. In conjunction with the aforementioned acquisitions, assets acquired and liabilities assumed are summarized as follows (in millions):

Years Ended December 31,	1998	1997	1996
Fair value of assets acquired	\$269.0	\$526.9	\$78.1
Less cash paid for stock and assets, net of cash acquired	(108.1)	(180.4)	(46.7)
Liabilities assumed	\$160.9	\$346.5	\$31.4

NOTE 19: SUPPLEMENTARY FINANCIAL INFORMATION

The following summarizes supplemental financial information (in millions):

Years Ended December 31,	1998	1997	1996
Depreciation of property and equipment	\$906.2	\$876.1	\$873.8
Amortization	487.5	332.4	307.0
Interest and other income	148.6	117.8	86.4
Interest expense	(131.3)	(189.9)	(162.9)
Cash paid for:			
Income taxes, net of refunds	408.9	346.5	390.8
Interest	132.3	191.2	160.4

NOTE 20: RESTRUCTURING AND OTHER CHARGES

The following table depicts the restructuring activity for the years ended December 31, 1998, 1997 and 1996 (in millions):

	1996 Restructuring Charge	1997 Restructuring Charge	Total
1996 restructuring charge, excluding early retirement offer of \$87.4 million included in pension obligations (See Note 15)	\$198.2	\$ -	\$198.2
Cash payments	(100.7)	-	(100.7)
Balance at December 31, 1996	97.5	-	97.5
1997 restructuring charge	-	125.3	125.3
Cash payments	(51.2)	(55.1)	(106.3)
Balance at December 31, 1997	46.3	70.2	116.5
Cash payments	(7.4)	(53.1)	(60.5)
Reversal of residual accruals	(11.4)	(10.8)	(22.2)
Balance at December 31, 1998	\$ 27.5	\$ 6.3	\$ 33.8

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The reversal of the residual accruals was recorded in 1998 as a reduction of restructuring and other charges.

During 1996, the Company identified certain actions necessary to maintain and improve operating efficiencies and accelerate its move toward user-centered computing. To effect these actions, the Company adopted formal restructuring plans and recorded charges in 1996, including a \$285.6 million charge primarily for work force reductions of approximately 4,900 employees who accepted early retirement or were to be involuntarily terminated under a planned work force realignment. The total employee-related termination and early retirement offer charges amounted to approximately \$258.1 million, \$137.0 million of which related to special termination benefits, including amounts under the Company's defined benefit pension plan. In addition, the Company wrote down certain of its assets by approximately \$503.9 million. This amount related to writedowns of computers and other assets to their estimated fair values due to formal plans to consolidate certain processing centers; discontinuation of certain business activities; reductions in certain inventory due to the Company's decision to exit the computer product reseller market; assets written down in relation to a client in reorganization; and the writedown of fixed assets, software licenses and other assets no longer used to support the Company's operations. The 1996 consolidated financial statements also include \$60.0 million charged to cost of revenues, the largest portion of which related to current assets written down in

connection with the Company's decision to exit certain business activities related to the aforementioned client in reorganization.

During 1997, the Company began implementation of an enterprise-wide business transformation initiative to reduce its costs, streamline its organizational structure and align its strategy, services and delivery with market opportunities. This initiative involved the elimination of approximately 8,500 positions through reassignment of personnel, elimination of open personnel requisitions, normal attrition and termination of employees. As a result of this initiative, the Company recorded restructuring charges totaling \$125.3 million, primarily relating to the severance costs associated with the planned involuntary termination of approximately 2,600 employees. In addition, the Company recorded asset writedowns of \$99.7 million relating to operations that the Company discontinued. These operations primarily consisted of several processing centers that the Company consolidated and certain product lines and related services provided to certain industries. Asset writedowns relating to these product lines included investments; software, goodwill and other intangibles; and buildings and computer equipment. The Company also recorded asset writedowns of \$104.6 million in 1997 and \$27.8 million in 1998 primarily relating to operating assets initially identified for sale in 1997. As of December 31, 1998, all such assets have been sold.

As of December 31, 1998, the combined restructuring activities have resulted in approximately 4,750 employees involuntarily terminated and approximately 1,750 employees accepting early retirement offers. The restructuring activities have resulted in cash expenditures of \$267.5 million since the second quarter of 1996.

The restructuring actions contemplated under the 1996 and 1997 plans are essentially complete as of December 31, 1998. The remaining accrued restructuring charge balance of \$33.8 million is comprised of \$23.6 million for severance-related payments to employees who have already been terminated, \$7.6 million for lease termination and facility exit costs and \$2.6 million for other restructuring activities.

Costs allocated to in-process research and development in the amount of \$42.5 million in connection with the Solid Edge Acquisition were expensed in 1998 (See Note 18). The in-process research and development related to the modification of certain CAD/CAM software, known as Solid Edge Version 4.0, to include the Unigraphics' Parasolid solid modeling kernel software. This project commenced in July 1997 and was completed in May 1998. Initial sales of the resulting product, Solid Edge Version 5.0, occurred shortly thereafter. The value assigned to in-process research and development was determined based on management's estimates of the remaining costs to develop the in-process technology (e.g., Solid Edge Version 5.0) into a commercially viable product, the estimated future net cash flows from Solid Edge Version 5.0 and the discounting of such cash flows back to their present value.

Electronic Data Systems Corporation and subsidiaries 51

<TABLE>
<CAPTION>
NOTE 21: QUARTERLY FINANCIAL DATA (UNAUDITED)
(in millions, except per share amounts)

Year Ended December 31, 1998	First Quarter	Second Quarter(1)	Third Quarter(2)	Fourth Quarter(3)	Year
<S>	<C>	<C>	<C>	<C>	<C>
Revenues	\$3,942.0	\$4,186.1	\$4,352.7	\$4,410.2	\$16,891.0
Gross profit from operations	713.8	732.9	797.5	708.6	2,952.8
Restructuring and other charges	42.5	27.8	-	(22.2)	48.1
Income before income taxes	287.7	318.9	304.9	222.2	1,133.7
Net income	184.2	221.9	195.1	142.2	743.4
Basic earnings per share of common stock	0.37	0.45	0.40	0.29	1.51
Diluted earnings per share of common stock	0.37	0.45	0.39	0.29	1.50
Cash dividends per share of common stock	0.15	0.15	0.15	0.15	0.60

Year Ended December 31, 1997	First Quarter	Second Quarter(1)	Third Quarter(2)	Fourth Quarter(3)	Year
<S>	<C>	<C>	<C>	<C>	<C>
Revenues	\$3,591.6	\$3,682.1	\$3,733.7	\$4,228.2	\$15,235.6

Gross profit from operations	698.0	695.9	788.6	889.0	3,071.5
Restructuring and other charges	-	265.0	25.9	38.7	329.6
Income before income taxes	303.3	35.7	359.7	442.9	1,141.6
Net income	194.1	22.9	230.2	283.4	730.6
Basic earnings per share of common stock	0.40	0.05	0.47	0.58	1.49
Diluted earnings per share of common stock	0.39	0.05	0.47	0.57	1.48
Cash dividends per share of common stock	0.15	0.15	0.15	0.15	0.60

-
- (1) Includes gain on sale of stock of subsidiary of \$49.6 million
(2) Includes gain on sale of leases of \$69.0 million and senior executive retirement charges of \$36.7 million
(3) Includes negative contract adjustments of \$200.0 million and senior executive retirement charges of \$12.7 million
</TABLE>

NOTE 22: SUBSEQUENT EVENT (UNAUDITED)

On February 11, 1999, EDS announced the principal terms of a framework agreement with MCI WorldCom. Under that agreement, MCI WorldCom will outsource major portions of its IT operations to EDS, and EDS will become MCI WorldCom's preferred provider of IT services. In addition, EDS will outsource the bulk of its global network to MCI WorldCom, which will handle end-to-end management of voice and data communications services on a preferred basis for EDS and its clients. In connection with this framework agreement, EDS agreed to purchase MCI WorldCom's IT services unit, MCI Systemhouse ("Systemhouse"), for \$1,650.0 million in cash. Systemhouse had 1998 revenues of approximately \$1,700.0 million.

52 Electronic Data Systems Corporation and subsidiaries

<TABLE>
<CAPTION>
Selected Financial Data
(in millions, except per share amounts)

As of and for the Years Ended December 31,	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
OPERATING RESULTS					
Revenues	\$16,891.0	\$15,235.6	\$14,441.3	\$12,422.1	\$9,960.1
Cost of revenues	13,938.2	12,164.1	11,452.4	9,601.6	7,529.4
Selling, general and administrative	1,837.9	1,528.3	1,403.3	1,291.5	1,187.1
Restructuring and other charges	48.1	329.6	789.5	-	-
One-time split-off costs	-	-	45.5	-	-
Interest expense and other, net	(17.3)	72.0	76.5	62.0	(40.6)
Gain on sale of stock of subsidiary	49.6	-	-	-	-
Provision for income taxes	390.3	411.0	242.6	528.1	462.3
Net income	\$ 743.4	\$ 730.6	\$ 431.5	\$ 938.9	\$ 821.9
	=====	=====	=====	=====	=====
PER SHARE DATA					
Basic earnings per share of common stock	\$ 1.51	\$ 1.49	\$ 0.89	\$ 1.96	\$ 1.71
Diluted earnings per share of common stock	\$ 1.50	\$ 1.48	\$ 0.88	\$ 1.94	\$ 1.69
Cash dividends per share of common stock	\$ 0.60	\$ 0.60	\$ 0.60	\$ 0.52	\$ 0.48
FINANCIAL POSITION					
Current assets	\$ 5,633.3	\$ 5,169.4	\$ 4,945.2	\$ 4,381.5	\$3,354.1
Property and equipment, net	2,708.1	2,868.4	3,097.0	3,242.4	2,756.6
Operating and other assets	3,184.7	3,136.3	3,150.7	3,208.5	2,675.8
Total assets	11,526.1	11,174.1	11,192.9	10,832.4	8,786.5
Current liabilities	3,656.8	3,257.6	3,162.8	3,221.5	2,873.2
Long-term debt, less current portion	1,184.3	1,790.9	2,324.3	1,852.8	1,021.0
Redeemable preferred stock of subsidiaries and minority interests	405.9	341.4	493.3	39.9	-
Shareholders' equity	5,916.5	5,309.4	4,783.1	4,978.5	4,232.5

</TABLE>

STOCK PRICE RANGE

	1998		1997	
	High	Low	High	Low
First quarter	\$50.88	\$40.50	\$49.63	\$40.13
Second quarter	46.75	33.94	44.75	31.75
Third quarter	42.25	30.56	46.75	34.50
Fourth quarter	51.31	30.44	44.19	29.56

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Subsidiaries of the Registrant as of December 31, 1998

A.T. Kearney (Hong Kong) Limited, a Hong Kong corporation
A.T. Kearney Australia Pty Ltd., an Australia corporation
A.T. Kearney GmbH, a Germany corporation
A.T. Kearney International, Inc., a Delaware corporation
A.T. Kearney K.K., a Japan corporation
A.T. Kearney Limited, an England corporation
A.T. Kearney Ltd., an Ontario corporation
A.T. Kearney New Zealand Limited, a New Zealand corporation
A.T. Kearney S.A. de C.V., a Mexico corporation
A.T. Kearney S.A.S., a France corporation
A.T. Kearney S.p.A., an Italy corporation
A.T. Kearney, Inc., a Delaware corporation
Centrobe, Inc., a Delaware corporation
Citymax Integrated Information Systems Ltd., an England corporation
E.D.S. de Mexico, Sociedad Anonima de Capital Variable, a Mexico corporation
E.D.S. International Corporation, a Texas corporation
E.D.S. of Canada, Ltd., an Ontario corporation
E.D.S. Service, Ltd., a Japan corporation
E.D.S. World Corporation (Far East), a Nevada corporation
E.D.S. World Corporation (Netherlands), a Texas corporation
EDS (Australia) Pty Limited, an Australia corporation
EDS (Electronic Data Systems) Limited, an England corporation
EDS (Europe) S.A., a Switzerland corporation
EDS (Operations) Pty Ltd., an Australia corporation
EDS (Schweiz) AG, a Switzerland corporation
EDS Desenvolvimento de Produtos Ltda., a Brazil corporation
EDS Elecktronikus Adatrendszer Kft, a Hungary corporation
EDS Electronic Data System Luxembourg S.A., a Luxembourg corporation
EDS Electronic Data Systems (Hong Kong) Limited, a Hong Kong corporation
EDS Electronic Data Systems (Philippines), Inc., a Philippines corporation
EDS Electronic Data Systems (Thailand) Co., Ltd., a Thailand corporation
EDS Electronic Data Systems Fertigungsindustrie (Deutschland) GmbH, a Germany corporation
EDS Electronic Data Systems Industrien (Deutschland) GmbH, a Germany corporation
EDS Electronic Data Systems Italia S.p.A., an Italy corporation
EDS Electronic Financial Services, Inc., a Delaware corporation
EDS Finance plc, an England corporation
EDS France S.A.S., a France corporation
EDS Holding GmbH, a Germany corporation
EDS Industrie A.G., a Switzerland corporation
EDS Information Services L.L.C., a Delaware limited liability company

EDS Informationstechnologie und Service (Deutschland) GmbH, a Germany corporation
EDS Informatique S.A. a Switzerland corporation
EDS Infrastructure Corporation, a Delaware corporation
EDS Ingevision S.A.S., a France corporation
EDS International (Greece), a Greece corporation
EDS International (Singapore) Pte. Limited, a Singapore corporation
EDS Kaufmannische Dienste und Informatik GmbH, a Germany corporation
EDS New Zealand Limited, a New Zealand corporation
EDS Personal Communications Corporation, a Delaware corporation
EDS Poland Sp.z.o.o., a Poland corporation

EDS Properties Corporation, a Delaware corporation
EDS Sycon Oy, a Finland corporation
EDS Technical Products Corporation, a Delaware corporation
EDS UK Limited, an England corporation
EDS, s.r.o. a Czech Republic corporation
EDS-Electronic Data Systems de Portugal Lda., a Portugal corporation
EDS-Electronic Data Systems do Brasil Ltda, a Brazil corporation
EDS-FLS Data A/S, a corporation in the Municipality of Copenhagen
Electronic Data Systems (EDS Austria) GmbH, an Austria corporation
Electronic Data Systems (EDS) A/S, a Norway corporation
Electronic Data Systems (EDS) CVI N.V., a Netherlands corporation
Electronic Data Systems (EDS) de Argentina S.A., an Argentina corporation
Electronic Data Systems (EDS) International B.V., a Netherlands corporation
Electronic Data Systems (EDS) Israel, Ltd., an Israel corporation
Electronic Data Systems (EDS) Sweden AB, a Sweden corporation
Electronic Data Systems (EDS-IPG) Inc., a Canada corporation
Electronic Data Systems (Ireland) Limited, an Ireland corporation
Electronic Data Systems Belgium N.V., a Belgium corporation
Electronic Data Systems Colombia, S.A., a Colombia corporation
Electronic Data Systems Danmark A/S, a Denmark corporation
Electronic Data Systems de Venezuela "EDS" C.A., a Venezuela corporation
Electronic Data Systems Espana S.A., a Spain corporation
Electronic Data Systems IT Services (M) Sdn. Bhd., a Malaysia corporation
Electronic Data Systems Limited, an England corporation
Electronic Data Systems Taiwan corporation, a Taiwan corporation
Electronic Data Systems, Ltd., a Japan corporation
Istiservice S.p.A., an Italy corporation
Japan Systems Company Limited, a Japan corporation
La Francaise De Maintenance SCS, a France corporation
LG-EDS Systems, Inc., a Korea corporation
National Heritage Insurance Company, a Texas insurance corporation
Neodata Creative Services, Inc., a Delaware corporation
Paymaster (1836) Limited, an England corporation
Power Investment Corporation, a Nevada corporation
Progical S.A., a France corporation

S.D. International Limited, an England corporation
Sarsfield Systems Limited, an Ireland corporation
SmartHealth Inc., a Canada corporation
Subarban Limited-Liability Company, a Nevada corporation
Telecommunications International, Inc., a California corporation
Unigraphics Solutions France SAS, a France corporation
Unigraphics Solutions GmbH, a Germany corporation
Unigraphics Solutions Inc., a Delaware corporation
Unigraphics Solutions Japan, Ltd., a Japan corporation
Unigraphics Solutions Limited, an England corporation
Wendover Financial Services Corporation, a North Carolina corporation

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
Electronic Data Systems Corporation:

We consent to incorporation by reference in the following registration statements of Electronic Data Systems Corporation of our reports dated February 1, 1999, relating to the consolidated balance sheets of Electronic Data Systems Corporation and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 1998, and the related schedule, which reports appear in or are incorporated by reference in the 1998 annual report on Form 10-K of Electronic Data Systems Corporation.

Form ----	Registration Statement No. -----	Description -----
S-3	333-50971	Electronic Data Systems Corporation Common Stock
S-3	333-10145	Electronic Data Systems Corporation Debt Securities
S-8	2-94690	1996 Electronic Data Systems Corporation Stock Purchase Plan (Post Effective Amendment No. 2)
S-8	2-94691	Electronic Data Systems Corporation 1996 Incentive Plan (Post Effective Amendment No. 2)
S-8	33-64681	EDS Deferred Compensation Plan (Post Effective Amendment No. 1)
S-8	33-36443	EDS Deferred Compensation Plan (Post Effective Amendment No. 1)
S-8	33-54833	EDS Puerto Rico Savings Plan (Post Effective Amendment No. 1)
S-8	333-22077	Performance Share, 1997 Nonqualified Stock Option Plan of Electronic Data Systems Corporation
S-3	333-08621	Electronic Data Systems Dividend Reinvestment Plan

Dallas, Texas
March 24, 1999

POWER OF ATTORNEY

I, the undersigned director of Electronic Data Systems Corporation, a Delaware corporation ("EDS"), hereby constitute and appoint Richard H. Brown, Jeffrey M. Heller, and D. Gilbert Friedlander, and each of them, my true and lawful attorneys-in-fact and agents, with full power to them and each of them to sign for me, and in my name and the capacity indicated below, EDS' Annual Report on Form 10-K for the fiscal year ended December 31, 1998, and any and all amendments thereto, with power to file said Form 10-K and any and all other documents in connection therewith, with the Securities and Exchange Commission, hereby granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform any and all acts and things requisite and necessary to be done as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, may lawfully do or cause to be done by virtue hereof.

Dated: February 2, 1999

By: /s/ James A. Baker, III

James A. Baker, III
Director

POWER OF ATTORNEY

I, the undersigned director of Electronic Data Systems Corporation, a Delaware corporation ("EDS"), hereby constitute and appoint Richard H. Brown, Jeffrey M. Heller, and D. Gilbert Friedlander, and each of them, my true and lawful attorneys-in-fact and agents, with full power to them and each of them to sign for me, and in my name and the capacity indicated below, EDS' Annual Report

on Form 10-K for the fiscal year ended December 31, 1998, and any and all amendments thereto, with power to file said Form 10-K and any and all other documents in connection therewith, with the Securities and Exchange Commission, hereby granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform any and all acts and things requisite and necessary to be done as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, may lawfully do or cause to be done by virtue hereof.

Dated: February 2, 1999

By: /s/ Richard B. Cheney

Richard B. Cheney
Director

POWER OF ATTORNEY

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Dated: February 2, 1999

By: /s/ William H. Gray

William H. Gray

POWER OF ATTORNEY

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Dated: February 2, 1999

By: /s/ Ray J. Groves

Ray J. Groves
Director

POWER OF ATTORNEY

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Dated: February 2, 1999

By: /s/ Ray L. Hunt

Ray L. Hunt
Director

POWER OF ATTORNEY

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Dated: February 2, 1999

By: /s/ C. Robert Kidder

C. Robert Kidder
Director

POWER OF ATTORNEY

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Dated: February 2, 1999

By: /s/ Judith Rodin

Judith Rodin
Director

POWER OF ATTORNEY

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Dated: February 2, 1999

By: /s/ Enrique J. Sosa

Enrique J. Sosa
Director

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