



Unisys Corporation 2018 Annual Report

A Letter to Our Shareholders

Dear Shareholder,

Unisys entered 2018 with momentum, and we are excited that this momentum and continued execution against our strategy has resulted in the first full year of revenue growth for the company since 2003 and for Services since 2006. We also achieved or exceeded guidance on all metrics for the third-consecutive year. In addition to growing revenue, both our non-GAAP operating profit margin and adjusted EBITDA margin expanded, and we saw a modest reduction of our unfunded pension liability. We remain focused on continuing execution against our strategy of targeting industries where we have deep expertise and leverageable IP and related solutions, while also using security to differentiate our offerings.

Achieving Growth and Other Financial Goals

In 2018, we provided financial guidance for revenue, non-GAAP operating profit margin and adjusted EBITDA margin. We met or exceeded this guidance on all metrics – achieving revenue growth and exceeding guidance on non-GAAP operating profit margin and adjusted EBITDA margin.

Focused Execution Leading to Strong Results

In addition to the achievements noted above, continuing to execute against our strategy helped us produce the following results in 2018:

- The fifth-consecutive quarter of total company year-over-year revenue growth in 4Q 2018;
- 2018 Services revenue growth of 2.5 percent year over year, with 4Q 2018 marking the third-consecutive quarter of year-over-year growth for this segment;
- Services backlog growth of 13 percent year over year to \$4.8 billion as of YE 2018;
- Strong go-to-market efforts with significant new business signings and continued high client Net Promoter Scores;
- Traction with our strategy of using Unisys Stealth® and security in general to differentiate our broader offerings, with our pipeline of deals that include Stealth™ growing significantly; and
- Modest improvement of our pension deficit from its previously-reported amount, down to \$1.74 billion.

Driving Solutions and Shareholder Value

We are pleased with our achievements in 2018 and to see our focus on executing against our strategy make a meaningful impact on our financial performance. We are highly focused on maintaining this momentum in 2019 and on continuing to drive revenue growth and enhancing profitability over time.

Security continues to be a critical element of our strategy in both Services and Technology, providing standalone revenue opportunities while also helping differentiate our broader offerings. Our Stealth portfolio is expanding so it can support the entire digital enterprise, including desktops, servers, cloud, IoT devices, and mobile devices, and we just recently launched Stealth 4.0, with enhanced dynamic isolation™ and expanded automation. During 2018, we also launched Unisys TrustCheck™, which helps clients quantify cyber risk in dollars and cents based on objective breach data, and we recently launched Unisys Managed Public Key Infrastructure (PKI), a new service that centrally manages the process by which organizations authenticate users and devices on their networks, an important part of a Zero Trust security model.

We also continue our focus on enhancing the efficiency of our Services business while at the same time driving opportunities for growth. As part of these efforts, we are leveraging scalable and repeatable solutions within Services that can be sold in any of the industries that we target. Similar to productizing Technology solutions such as Stealth, during 2018 we also continued productizing a number of Services offerings, including Unisys IntelliServe™, Unisys CloudForte™ and TrustCheck™ (as mentioned above), to offer new solutions and streamline the selling process.

The momentum we saw in 2018 is exciting and is due to the efforts of all of our approximately 22,000 associates around the globe who continue to help us achieve our goals. Our strategy and our people are driving results, and we are looking forward to the opportunities that 2019 presents.

Peter A. Altabef

Chairman and CEO

Business Description

General

Unisys Corporation, a Delaware corporation (“Unisys,” “we,” “our,” or the “company”), is a global information technology (“IT”) company that builds high-performance, security-centric solutions for clients across the Government, Financial Services and Commercial markets. Unisys offerings include security software and services; digital transformation and workplace services; industry applications and services; and innovative software operating environments for high-intensity enterprise computing.

We operate in two business segments – Services and Technology.

Principal Products and Services

We deliver high-performance, security-centric, leveraged services across industries, industry-specific application products and technology solutions worldwide to our primary target markets: Government (the U.S. federal government and other public sector organizations around the world), Commercial (e.g., travel and transportation and life sciences and healthcare) and Financial Services (e.g., commercial and retail banking).

Our solutions are designed to build better outcomes - securely - for our clients, enabling them to:

- Enhance enterprise security;
- Transform core business processes to compete more effectively in their markets;
- Improve user engagement for customers and workers, streamline operations and enhance go-to-market efforts;
- Optimize IT infrastructure to meet digital-business requirements; and
- Simplify management of IT infrastructure and service delivery.

Within Services, our principal solutions include cloud and infrastructure services, application services and business process outsourcing services, each of which is delivered with advanced security built in.

- In cloud and infrastructure services, we help clients apply cloud and as-a-service delivery models to capitalize on business opportunities, make their end users more productive and manage and secure their IT infrastructure and operations more economically.
- In application services, we help clients transform their business processes by developing and managing new leading-edge applications for select industries, offering advanced data analytics and modernizing existing enterprise applications.
- In business process outsourcing services, we assume management of critical processes and functions for clients in target industries, helping them improve performance and reduce costs.

In Technology, we design and develop software and offer hardware and other related products to help clients improve security and flexibility, reduce costs and improve the efficiency of their data-center environments. As a pioneer in large-scale computing, we offer deep experience and rich technological capabilities in transaction-intensive, mission-critical operating environments. We provide a range of data-center, infrastructure management and cloud computing offerings to help clients virtualize and automate their data-center environments.

Our Technology products include:

- Unisys ClearPath Forward[®], a secure, scalable software operating environment for high-intensity enterprise computing capable of delivering Unisys security across multiple platforms. The ClearPath Forward operating environment is hardware-independent and provides a tested, integrated stack of software products that run on a range of contemporary, commonly-deployed Intel x86 server platforms and select virtualization environments of the client’s choice.

- Unisys Stealth[®] security software, which enables trusted identities to access micro-segmented critical assets and safely communicate through secure, encrypted channels. Stealth[™] establishes irrefutable user authentication, prevents lateral attacker movement and reduces data center, mobile and cloud attack surfaces. Stealth also reduces the cost and complexity of securing information and operation technology such as industrial control systems, allowing organizations to meet compliance and security mandates.

Our industry application products include solutions that securely help law enforcement agencies solve crime and social services case workers assist families; travel and transportation companies manage freight and distribution; life sciences and healthcare companies manage medical devices; and financial institutions deliver omnichannel banking.

We market our security-centric solutions primarily through a direct sales force. Complementing our direct sales force, we make use of a select group of resellers and alliance partners to market our services and product portfolio. In certain foreign countries, we market primarily through distributors.

Board of Directors

Peter A. Altabef

Chairman, President and Chief Executive Officer of Unisys Corporation

Jared L. Cohon

President Emeritus and University Professor of Civil and Environmental Engineering and Engineering and Public Policy at Carnegie Mellon University^{2,3}

Nathaniel A. Davis

Chairman of the Board and Chief Executive Officer of K12 Inc.³

Matthew J. Desch

Chief Executive Officer and Director of Iridium Communications Inc.

Denise K. Fletcher

Former Executive Vice President, Finance of Vulcan Inc.^{1,2}

Philippe Germond

Former Chairman of the Management Board of Europcar Groupe S.A.³

Lisa A. Hook

Former President and Chief Executive Officer at Neustar, Inc.

Deborah L. James

Former Secretary of the Air Force³

Paul E. Martin

Senior Vice President, Chief Information Officer of Baxter International, Inc.¹

Regina Paolillo

Executive Vice President, Chief Financial and Administrative Officer of TTEC Holdings, Inc.¹

Lee D. Roberts

Chief Executive Officer and President of BlueWater Consulting LLC^{1,2}

Board Committees

- 1 Audit and Finance Committee
- 2 Compensation Committee
- 3 Nominating and Corporate Governance Committee

Corporate Officers

Peter A. Altabef

Chairman, President and Chief Executive Officer

Katie Ebrahimi

Senior Vice President, Chief Human Resources Officer

Vishal Gupta

Senior Vice President, Technology, and Chief Technology Officer

Eric Hutto

Senior Vice President and President, Enterprise Solutions

Gerald P. Kenney

Senior Vice President, General Counsel and Secretary

Venkatapathi R. Puvvada

Senior Vice President and President, Unisys Federal

Jeffrey E. Renzi

Senior Vice President and President, Global Sales

Ann S. Ruckstuhl

Senior Vice President and Chief Marketing Officer

Inder M. Singh

Senior Vice President and Chief Financial Officer

Shalabh Gupta

Vice President and Treasurer

Michael M. Thomson

Vice President and Corporate Controller

UNISYS CORPORATION

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

This discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report. In this discussion and analysis of our financial condition and results of operations, we have included information that may constitute “forwardlooking” statements, as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements provide current expectations of future events and include any statement that does not directly relate to any historical or current fact. Words such as “anticipates,” “believes,” “expects,” “intends,” “plans,” “projects” and similar expressions may identify such forward-looking statements. All forward-looking statements rely on assumptions and are subject to risks, uncertainties and other factors that could cause the company’s actual results to differ materially from expectations. Factors that could affect future results include, but are not limited to, those discussed below under “Factors that may affect future results” and “Cautionary Statement Pursuant to the U.S. Private Securities Litigation Reform Act of 1995” in Part I, Item 1A of the 2018 Form 10-K. Any forward-looking statement speaks only as of the date on which that statement is made. The company assumes no obligation to update any forward-looking statement to reflect events or circumstances that occur after the date on which the statement is made.

Overview

As described in Note 2, “Recent accounting pronouncements and accounting changes,” of the Notes to Consolidated Financial Statements, effective January 1, 2018, the company adopted the requirements of Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* using the modified retrospective method whereby prior periods were not restated. Topic 606 required the company to recognize revenue for certain transactions, including extended payment term software licenses and short-term software licenses, sooner than the prior rules would allow and required the company to recognize software license extensions and renewals (the most significant impact upon adoption) later than the prior rules would allow. The cumulative effect of the adoption was recognized as an increase in the company’s accumulated deficit of \$21.4 million on January 1, 2018.

Included in 2018 Technology revenue and profit is a \$53.0 million (\$47.7 million, net of tax) adjustment that was recorded in the first quarter of 2018. The adjustment represents revenue from software license extensions and renewals, which were contracted for in the fourth quarter of 2017 and properly recorded as revenue at that time under the revenue recognition rules then in effect (Topic 605). Topic 606 requires revenue related to software license renewals or extensions to be recorded when the new license term begins, which in the case of the \$53.0 million, is January 1, 2018. Upon adoption of ASU No. 2014-09, the company was required to include this \$53.0 million in the cumulative effect adjustment to retained earnings on January 1, 2018.

The company reported 2018 net income attributable to Unisys Corporation of \$75.5 million, or income of \$1.30 per diluted share, compared with a 2017 net loss of \$65.3 million, or a loss of \$1.30 per diluted share. The company’s results of operations in the current year were positively impacted by the Topic 606 adjustment described above, lower cost-reduction charges and savings due to prior-years’ cost-reduction actions partially offset by a decline in Services gross margins due to the impact of new contracts in implementation stage.

Results of operations

Company results

Revenue for 2018 was \$2.83 billion compared with \$2.74 billion for 2017, an increase of 3.0% principally due to the impact of the Topic 606 adjustment described above. Excluding this adjustment, revenue increased 1.1%. Foreign currency fluctuations had an immaterial impact on revenue in the current year compared with the year-ago period.

Services revenue increased 2.5% and Technology revenue increased 6.1% year over year. Excluding the Topic 606 adjustment of \$53.0 million, Technology revenue decreased 6.7%. Foreign currency fluctuations had an immaterial impact on Services and Technology revenue in the current year compared with the year-ago period.

Revenue for 2017 was \$2.74 billion compared with 2016 revenue of \$2.82 billion, a decrease of 3%. Foreign currency had a 1-percentage-point positive impact on revenue in 2017 compared with 2016.

Services revenue in 2017 decreased by 3% compared with 2016. Technology revenue was relatively flat in 2017 compared with 2016.

Revenue from international operations in 2018, 2017 and 2016 was \$1.59 billion, \$1.48 billion and \$1.51 billion, respectively. Without the Topic 606 adjustment, 2018 revenue from international operations was \$1.54 billion. Foreign currency had an immaterial impact on international revenue in 2018 compared with 2017, and a 1-percentage-point positive impact on international revenue in 2017 compared with 2016. Revenue from U.S. operations was \$1.24 billion in 2018, \$1.26 billion in 2017 and \$1.31 billion in 2016. Excluding the Topic 606 adjustment, U.S. revenue was \$1.23 billion in 2018.

In the fourth quarter of 2018, the company committed to a reduction of 589 employees. This resulted in charges, principally related to severance costs, of \$27.7 million, which were comprised of: (a) a charge of \$5.2 million for 264 employees in the U.S. and (b) a charge of \$22.5 million for 325 employees outside the U.S. The charges were recorded in the following statement of income classifications: cost of revenue - services, \$25.4 million and selling, general and administrative expenses, \$2.3 million.

In connection with the company's prior-year cost-reduction program, a benefit of \$8.0 million was recorded in the current year for changes in estimates. The benefit was recorded in the following statement of income classifications: cost of revenue - services, \$7.3 million and selling, general and administrative expenses, \$0.7 million.

During 2017, the company recognized charges in connection with its cost-reduction plan and other costs of \$146.8 million. The charges related to work-force reductions were \$117.9 million, principally related to severance costs, and were comprised of: (a) a charge of \$9.4 million for 542 employees and \$(1.3) million for changes in estimates in the U.S. and (b) a charge of \$109.4 million for 2,274 employees, \$8.2 million for additional benefits provided in 2017 and \$(7.8) million for changes in estimates outside the U.S. In addition, the company recorded charges of \$28.9 million comprised of \$4.7 million for idle leased facilities costs, \$5.4 million for contract amendment and termination costs, \$5.2 million for professional fees and other expenses related to the cost-reduction effort, \$1.8 million for net asset sales and write-offs and \$11.8 million for net foreign currency losses related to exiting foreign countries. The 2017 charges were recorded in the following statement of income classifications: cost of revenue - services, \$99.6 million; cost of revenue - technology, \$0.4 million; selling, general and administrative expenses, \$33.6 million; research and development expenses, \$1.4 million; and other income (expense), net, \$11.8 million.

During 2016, the company recognized charges of \$82.1 million in connection with its cost-reduction plan. The charges related to work-force reductions were \$62.6 million, principally related to severance costs, and were comprised of: (a) a charge of \$8.3 million for 351 employees and \$(1.3) million for changes in estimates in the U.S. and (b) a charge of \$58.6 million for 1,048 employees and \$(3.0) million for changes in estimates outside the U.S. In addition, the company recorded charges of \$19.5 million comprised of \$1.4 million for idle leased facilities costs, \$4.1 million for contract amendment and termination costs, \$13.3 million for professional fees and other expenses related to the cost-reduction effort and \$0.7 million for net assets sales and write-offs. The 2016 charges were recorded in the following statement of income classifications: cost of revenue - services, \$42.4 million; selling, general and administrative expenses, \$38.0 million; and research and development expenses, \$1.7 million.

Gross profit as a percent of total revenue, or gross profit percent, was 24.3% in 2018, 20.0% in 2017 and 21.9% in 2016. Included in the 2018 gross profit were cost-reduction charges of \$18.1 million compared with charges of \$100.0 million in 2017. Gross profit in 2018 was positively impacted by the Topic 606 adjustment described above and benefits derived in

2018 from the prior-years' cost-reduction actions. Excluding the Topic 606 adjustment, total 2018 gross profit percent was 22.8%. The decline in 2017 compared to 2016 was principally due to higher cost-reduction charges in 2017 of \$57.6 million.

Selling, general and administrative expenses were \$370.3 million in 2018 (13.1% of revenue), \$411.9 million in 2017 (15.0% of revenue) and \$441.2 million in 2016 (15.6% of revenue). Cost-reduction charges of \$1.6 million, \$33.6 million and \$38.0 million were recorded in selling, general and administrative expenses in 2018, 2017 and 2016, respectively. Exclusive of these charges, the decline in 2018 was due to a \$7.3 million gain on the sale of property in the U.K. recorded in 2018 and benefits derived in 2018 from prior-years' cost-reduction actions.

Research and development ("R&D") expenses in 2018 were \$31.9 million compared with \$38.7 million in 2017 and \$47.0 million in 2016. The decline in 2018 was principally driven by an increase in capitalized marketable software, and in 2017 was principally driven by savings due to prior-years' cost-reduction actions.

In 2018, the company reported an operating profit of \$284.1 million compared with an operating profit of \$97.1 million and \$129.2 million in 2017 and 2016, respectively. The principal items affecting the comparison of 2018 to 2017 are the Topic 606 adjustment of \$53.0 million described above, a decrease of \$115.3 million in cost-reduction charges, a \$7.3 million gain on the sale of property in the U.K. recorded in 2018 and benefits derived in 2018 from prior-years' cost-reduction actions. Excluding the Topic 606 adjustment, operating profit in 2018 was \$231.1 million. The decline in 2017 compared to 2016 is principally attributed to an increase of \$52.9 million in cost-reduction charges partially offset by savings derived from prior-years' cost-reduction actions.

Interest expense was \$64.0 million in 2018, \$52.8 million in 2017 and \$27.4 million in 2016. The increase in 2017 compared with 2016 was principally caused by the issuance of senior secured notes (see Note 12, "Debt," of the Notes to Consolidated Financial Statements).

Pension expense for 2018 was \$79.7 million compared with \$92.4 million in 2017 and \$82.7 million in 2016. For 2019, the company expects to recognize pension expense of approximately \$90.5 million. The expected increase in pension expense in 2019 compared with 2018 is principally due to lower expected returns on plan assets and higher interest costs partially offset by lower amortization of net actuarial losses for the company's U.S. defined benefit pension plans. The company records the service cost component of pension income or expense, as well as other employee-related costs such as payroll taxes and medical insurance costs, in operating income in the following income statement categories: cost of revenue; selling, general and administrative expenses; and research and development expenses. The amount allocated to each category is based on where the salaries of active employees are charged. All other components of pension income or expense are recorded in other income (expense), net in the consolidated statements of income.

Other income (expense), net was expense of \$76.9 million in 2018, compared with expense of \$116.4 million and \$81.3 million in 2017 and 2016, respectively. Included in 2018 was postretirement expense of \$80.3 million, a foreign non-income tax settlement gain of \$13.9 million and foreign exchange losses of \$5.9 million. Included in 2017 was postretirement expense of \$92.5 million, \$11.8 million of net foreign currency losses related to exiting foreign countries in connection with the company's restructuring plan and \$9.9 million of foreign exchange losses. Other expense in 2016 included postretirement expense of \$81.6 million and \$2.3 million of foreign exchange gains.

Income (loss) before income taxes in 2018 was income of \$143.2 million compared with a loss of \$72.1 million in 2017 and income of \$20.5 million in 2016.

The provision (benefit) for income taxes in 2018, 2017 and 2016 was \$64.3 million, \$(5.5) million and \$57.2 million, respectively. Included in 2017 was a benefit of \$50.4 million principally related to the Tax Cuts and Jobs Act's elimination of the corporate Alternative Minimum Tax ("AMT") and refund of all remaining AMT credits (see Note 6, "Income taxes," of the Notes to Consolidated Financial Statements).

The company evaluates quarterly the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. The company records a tax provision or benefit for those international subsidiaries that do not have a full valuation allowance against their deferred tax assets. Any profit or loss recorded for the company's U.S. operations will have no provision or benefit associated with it due to the company's valuation allowance, except with respect to refundable tax credits and withholding taxes not creditable against future taxable income. As a result, the company's provision or benefit for taxes may vary significantly period to period depending on the geographic distribution of income.

The realization of the company's net deferred tax assets as of December 31, 2018 is primarily dependent on forecasted future taxable income within certain foreign jurisdictions. Any reduction in estimated forecasted future taxable income may require the company to record an additional valuation allowance against the remaining deferred tax assets. Any increase or decrease in the valuation allowance would result in additional or lower income tax expense in such period and could have a significant impact on that period's earnings.

Net income (loss) attributable to Unisys Corporation common shareholders for 2018 was income of \$75.5 million, or income of \$1.30 per diluted common share, compared with a loss of \$65.3 million, or loss of \$1.30 per diluted common share, in 2017 and a loss of \$47.7 million, or loss of \$0.95 per diluted common share, in 2016.

Segment results

Effective January 1, 2018, the company changed the grouping of certain of its classes of services. As a result, prior-periods' customer revenue by classes of similar services have been reclassified to conform to the current-year period.

The company has two business segments: Services and Technology. Revenue classifications within the Services and Technology segment are as follows:

- Cloud and infrastructure services. This represents revenue from helping clients apply cloud and as-a-service delivery models to capitalize on business opportunities, make their end users more productive and manage and secure their IT infrastructure and operations more economically.
- Application services. This represents revenue from helping clients transform their business processes by developing and managing new leading-edge applications for select industries, offering advanced data analytics and modernizing existing enterprise applications.
- Business process outsourcing ("BPO") services. This represents revenue from the management of critical processes and functions for clients in target industries, helping them improve performance and reduce costs.
- Technology. This represents revenue from designing and developing software and offering hardware and other related products to help clients improve security and flexibility, reduce costs and improve the efficiency of their data-center environments.

The accounting policies of each business segment are the same as those followed by the company as a whole.

Intersegment sales and transfers are priced as if the sales or transfers were to third parties. Accordingly, the Technology segment recognizes intersegment revenue and manufacturing profit on software and hardware shipments to customers under Services contracts. The Services segment, in turn, recognizes customer revenue and marketing profits on such shipments of company software and hardware to customers. The Services segment also includes the sale of software and hardware products sourced from third parties that are sold to customers through the company's Services channels. In the company's consolidated statements of income, the manufacturing costs of products sourced from the Technology segment and sold to Services customers are reported in cost of revenue for Services.

Also included in the Technology segment's sales and operating profit are sales of software and hardware sold to the Services segment for internal use in Services engagements. The amount of such profit included in operating income of the Technology segment for the years ended December 31, 2018, 2017 and 2016 was \$4.2 million, \$6.3 million and \$0.7 million, respectively. The profit on these transactions is eliminated in Corporate.

The company evaluates business segment performance based on operating income exclusive of postretirement income or expense, restructuring charges and unusual and nonrecurring items, which are included in Corporate. All other corporate and centrally incurred costs are allocated to the business segments based principally on revenue, employees, square footage or usage. See Note 17, "Segment information," of the Notes to Consolidated Financial Statements.

Information by business segment for 2018, 2017 and 2016 is presented below:

<i>(millions)</i>	Total	Corporate	Services	Technology
2018				
Customer revenue	\$2,825.0	\$ -	\$2,386.3	\$438.7
Intersegment	-	(24.7)	-	24.7
Total revenue	\$2,825.0	\$(24.7)	\$2,386.3	\$463.4
Gross profit percent	24.3%		16.0%	69.4%
Operating profit percent	10.1%		2.8%	51.3%
2017				
Customer revenue	\$2,741.8	\$ -	\$2,328.2	\$413.6
Intersegment	-	(25.9)	-	25.9
Total revenue	\$2,741.8	\$(25.9)	\$2,328.2	\$439.5
Gross profit percent	20.0%*		16.8%	59.4%
Operating profit percent	3.5%*		2.8%	38.8%
2016				
Customer revenue	\$2,820.7	\$ -	\$2,406.3	\$414.4
Intersegment	-	(22.6)	-	22.6
Total revenue	\$2,820.7	\$(22.6)	\$2,406.3	\$437.0
Gross profit percent	21.9%*		16.2%	59.9%
Operating profit percent	4.6%*		1.9%	37.0%

Gross profit percent and operating income percent are as a percent of total revenue.

*Amounts were changed to conform to the current-year presentation. See Note 2 of the Notes to Consolidated Financial Statements.

Customer revenue by classes of similar products or services, by segment, for 2018, 2017 and 2016 is presented below:

Year ended December 31 (millions)	2018	2017	Percentage Change	2016	Percentage Change
Services					
Cloud & infrastructure services	\$1,363.4	\$1,334.3*	2.2%	\$1,356.4*	(1.6)%
Application services	772.4	791.0*	(2.4)%	855.5*	(7.5)%
BPO services	250.5	202.9	23.5%	194.4	4.4%
Total Services	2,386.3	2,328.2	2.5%	2,406.3	(3.2)%
Technology	438.7	413.6	6.1%	414.4	(0.2)%
Total customer revenue	\$2,825.0	\$2,741.8	3.0%	\$2,820.7	(2.8)%

*Amounts were changed to conform to the current-year presentation.

In the Services segment, customer revenue was \$2.4 billion in 2018, \$2.3 billion in 2017 and \$2.4 billion in 2016. Foreign currency fluctuations had an immaterial impact on revenue in 2018 compared with 2017.

Revenue from cloud & infrastructure services was \$1.4 billion in 2018 up 2.2% compared with 2017, and 2017 was down 1.6% from 2016. Foreign currency fluctuations had an immaterial impact on cloud & infrastructure services revenue in the current period compared with the year-ago period.

Application services revenue decreased 2.4% in 2018 compared with 2017, and 2017 was down 7.5% compared with 2016. Foreign currency fluctuations had an immaterial impact on application services revenue in the current period compared with the year-ago period.

Business process outsourcing services revenue increased 23.5% in 2018 compared with 2017, and was up 4.4% in 2017 compared with 2016. Foreign currency fluctuations had a 2-percentage-point positive impact on business process outsourcing services revenue in the current period compared with the year-ago period. This services line contains the company's U.K. business process outsourcing joint venture, which contributed to the majority of the increase in 2018.

Services gross profit percent was 16.0% in 2018 compared with 16.8% in 2017 and 16.2% in 2016. Services operating profit percent was 2.8% in 2018 compared with 2.8% in 2017 and 1.9% in 2016. Current-period margins were negatively impacted by new Services contracts in implementation stage. Current-period operating profit margin, although negatively impacted by new Services contracts in implementation stage, was offset by a gain on the sale of property in the U.K.

In the Technology segment, customer revenue increased 6.1% to \$438.7 million in 2018 compared with \$413.6 million in 2017. The increase is principally attributed to the Topic 606 adjustment of \$53.0 million described above. Excluding the Topic 606 adjustment, customer revenue decreased 6.7% principally due to a lighter ClearPath Forward® renewal schedule. Foreign currency translation had an immaterial impact on Technology revenue in 2018 compared with 2017. Revenue in 2017 was relatively flat compared with 2016.

Technology gross profit percent was 69.4% in 2018 compared with 59.4% in 2017 and 59.9% in 2016. Technology operating profit percent was 51.3% in 2018 compared with 38.8% in 2017 and 37.0% in 2016. The increase in gross profit and operating profit percent in 2018 was primarily due to the Topic 606 adjustment coupled with an improved mix of higher margin software sales and lower R&D costs (due to an increase in capitalized marketable software). Excluding the impact of the Topic 606 adjustment, gross profit percent was 65.4% and operating profit percent was 45.0% in the current year.

New accounting pronouncements

See Note 2, "Recent accounting pronouncements and accounting changes," of the Notes to Consolidated Financial Statements for a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on the company's consolidated financial statements.

Financial condition

The company's principal sources of liquidity are cash on hand, cash from operations and its revolving credit facility, discussed below. The company and certain international subsidiaries have access to uncommitted lines of credit from various banks. The company believes that it will have adequate sources of liquidity to meet its expected 2019 cash requirements.

Cash and cash equivalents at December 31, 2018 were \$605.0 million compared with \$733.9 million at December 31, 2017.

As of December 31, 2018, \$325.8 million of cash and cash equivalents were held by the company's foreign subsidiaries and branches operating outside of the U.S. In the future, if these funds are needed for the company's operations in the U.S., it is expected the company would be required to pay taxes on only a limited portion of this balance. See Note 6, "Income taxes," of the Notes to Consolidated Financial Statements regarding the company's intention to indefinitely reinvest earnings of foreign subsidiaries.

During 2018, cash provided by operations was \$73.9 million compared with \$166.4 million in 2017. The fluctuation in cash flows from operating activities was principally driven by higher working capital needs, which included a delay in the collection of \$28.0 million of cash resulting from the U.S. Federal government shutdown.

Cash used for investing activities in 2018 was \$185.0 million compared with cash usage of \$152.5 million in 2017. Net purchases of investments in 2018 were \$14.0 million compared with net proceeds of \$24.8 million in 2017. Proceeds from

investments and purchases of investments represent derivative financial instruments used to manage the company's currency exposure to market risks from changes in foreign currency exchange rates. In addition, capital additions of properties were \$35.6 million in 2018 compared with \$25.8 million in 2017, capital additions of outsourcing assets were \$73.0 million in 2018 compared with \$86.3 million in 2017 and the investment in marketable software was \$80.7 million in 2018 compared with \$64.4 million in 2017. The increase in capital expenditures is due in part to new Public sector business signed in 2018, which required more capital investment. Additionally, the current year includes net proceeds of \$19.2 million related to the sale of property in the U.K.

Cash used for financing activities during 2018 was \$4.8 million compared with cash provided by financing activities of \$329.9 million in 2017. In 2017, the company issued \$440.0 million of senior notes and received net proceeds of \$427.9 million and retired the remaining aggregate principal amount of \$95.0 million of its 6.25% senior notes.

At December 31, 2018, total debt was \$652.8 million compared with \$644.7 million at December 31, 2017. The increase is primarily due to the amortization of debt issuance costs and fees.

The company has a secured revolving credit facility (the "Credit Agreement") that provides for loans and letters of credit. During the second quarter of 2018, the maximum amount available under the facility was increased from \$125.0 million to \$145.0 million (with a limit on letters of credit of \$30.0 million). The accordion feature contained in the Credit Agreement that permitted this increase allows for an increase in the facility up to \$150.0 million. Availability under the credit facility is subject to a borrowing base calculated by reference to the company's receivables. At December 31, 2018, the company had no borrowings and \$6.5 million of letters of credit outstanding, and availability under the facility was \$138.5 million net of letters of credit issued. The Credit Agreement expires October 5, 2022, subject to a springing maturity (i) on the date that is 91 days prior to the maturity date of the company's convertible notes due 2021 unless, on such date, certain conditions are met; or (ii) on the date that is 60 days prior to the maturity date of the company's secured notes due 2022 unless, by such date, such secured notes have not been redeemed or refinanced.

The credit facility is guaranteed by Unisys Holding Corporation, Unisys NPL, Inc., Unisys AP Investment Company I and any future material domestic subsidiaries. The facility is secured by the assets of the company and the subsidiary guarantors, other than certain excluded assets, under a security agreement entered into by the company and the subsidiary guarantors in favor of JPMorgan Chase Bank, N.A., as agent for the lenders under the credit facility.

The company is required to maintain a minimum fixed charge coverage ratio if the availability under the credit facility falls below the greater of 10% of the lenders' commitments under the facility and \$15.0 million.

The Credit Agreement contains customary representations and warranties, including that there has been no material adverse change in the company's business, properties, operations or financial condition. The Credit Agreement includes limitations on the ability of the company and its subsidiaries to, among other things, incur other debt or liens, dispose of assets and make acquisitions, loans and investments, repurchase its equity, and prepay other debt. Events of default include non-payment, failure to comply with covenants, materially incorrect representations and warranties, change of control and default under other debt aggregating at least \$50.0 million.

At December 31, 2018, the company has met all covenants and conditions under its various lending and funding agreements. The company expects to continue to meet these covenants and conditions.

At December 31, 2018, the company had outstanding standby letters of credit and surety bonds totaling approximately \$272 million related to performance and payment guarantees. On the basis of experience with these arrangements, the company believes that any obligations that may arise will not be material.

As described more fully in Note 3, “Cost-reduction actions,” Note 4, “Rental expense and commitments” and Note 12, “Debt,” of the Notes to Consolidated Financial Statements, at December 31, 2018, the company had certain cash obligations, which are due as follows:

(millions)	Total	Less than			
		1 year	1-3 years	4-5 years	After 5 years
Long-term debt (including current portion)	\$ 652.8	\$ 10.0	\$ 200.0	\$436.6	\$ 6.2
Interest payments on debt	200.0	60.1	114.1	24.9	0.9
Operating leases	180.1	48.5	72.1	35.1	24.4
Work-force reductions	86.2	74.4	9.5	2.2	0.1
Total	\$1,119.1	\$ 193.0	\$ 395.7	\$498.8	\$31.6

As described in Note 14, “Employee plans,” of the Notes to Consolidated Financial Statements, in 2019, the company expects to make cash contributions to its worldwide defined benefit pension plans of approximately \$105.6 million, which is comprised of \$38.4 million primarily for international defined benefit pension plans and \$67.2 million for the company’s U.S. qualified defined benefit pension plans.

The company maintains a shelf registration statement with the Securities and Exchange Commission that covers the offer and sale of up to \$700.0 million of debt or equity securities. Subject to the company’s ongoing compliance with securities laws, the company may offer and sell debt and equity securities from time to time under the shelf registration statement.

In addition, from time to time the company has explored, and expects to continue to explore, a variety of debt and equity sources to fund its liquidity and capital needs.

The company may, from time to time, redeem, tender for, or repurchase its securities in the open market or in privately negotiated transactions depending upon availability, market conditions and other factors.

Quantitative and Qualitative Disclosures About Market Risk

Interest rate risk

The company has exposure to interest rate risk from its debt. In general, the company’s long-term debt is fixed rate and, to the extent it has any, its short-term debt is variable rate. See Note 12, “Debt,” of the Notes to Consolidated Financial Statements for components of the company’s long-term debt. The company believes that the market risk assuming a hypothetical 10% increase in interest rates would not be material to the fair value of these financial instruments, or the related cash flows, or future results of operations.

Market risk

As of December 31, 2018, the company had outstanding \$432.0 million (\$440.0 million face value) of senior secured notes due 2022 and \$194.2 million (\$213.5 million face value) of convertible senior notes due 2021. The interest rates on these notes are fixed and therefore do not expose the company to risk related to rising interest rates. As of December 31, 2018, the fair value of the convertible senior notes was \$298.5 million. In connection with the offering of the convertible senior notes, the company paid \$27.3 million to purchase a capped call covering approximately 21.9 million shares of the company’s common stock. If the price per share of the company’s common stock is below \$9.76, these capped call transactions would provide no benefit from potential dilution. If the price per share of the company’s common stock is above \$12.75, then to the extent of the excess, these capped call transactions would result in no additional benefit for potential dilution at conversion.

Foreign currency exchange rate risk

The company is also exposed to foreign currency exchange rate risks. The company is a net receiver of currencies other than the U.S. dollar and, as such, can benefit from a weaker dollar, and can be adversely affected by a stronger dollar relative to currencies worldwide. Accordingly, changes in exchange rates, and in particular a strengthening of the U.S. dollar, may adversely affect consolidated revenue and operating margins as expressed in U.S. dollars. Currency exposure gains and losses are mitigated by purchasing components and incurring expenses in local currencies.

In addition, the company uses derivative financial instruments, primarily foreign exchange forward contracts, to reduce its exposure to market risks from changes in foreign currency exchange rates on intercompany balances. See Note 9, "Financial instruments and concentration of credit risks," of the Notes to Consolidated Financial Statements for additional information on the company's derivative financial instruments.

The company has performed a sensitivity analysis assuming a hypothetical 10% adverse movement in foreign currency exchange rates applied to these derivative financial instruments described above. As of December 31, 2018 and 2017, the analysis indicated that such market movements would have reduced the estimated fair value of these derivative financial instruments by approximately \$34 million and \$39 million, respectively. Based on changes in the timing and amount of interest rate and foreign currency exchange rate movements and the company's actual exposures and hedges, actual gains and losses in the future may differ from the above analysis.

Critical accounting policies and estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates, judgments and assumptions that affect the amounts reported in the financial statements and accompanying notes. Certain accounting policies, methods and estimates are particularly important because of their significance to the financial statements and because of the possibility that future events affecting them may differ from management's current judgments. The company bases its estimates and judgments on historical experience and on other assumptions that it believes are reasonable under the circumstances; however, to the extent there are material differences between these estimates, judgments and assumptions and actual results, the financial statements will be affected. Although there are a number of accounting policies, methods and estimates affecting the company's financial statements as described in Note 1, "Summary of significant accounting policies," of the Notes to Consolidated Financial Statements, the following critical accounting policies reflect the significant estimates, judgments and assumptions. The development and selection of these critical accounting policies have been determined by management of the company and the related disclosures have been reviewed with the Audit and Finance Committee of the Board of Directors.

Revenue recognition

Many of the company's sales agreements contain standard business terms and conditions; however, some agreements contain multiple elements or non-standard terms and conditions. As discussed in Note 1, "Summary of significant accounting policies," of the Notes to Consolidated Financial Statements, the company enters into multiple-element arrangements, which may include any combination of hardware, software or services. As a result, significant contract interpretation is sometimes required to determine the appropriate accounting, including whether the performance obligations specified in a multiple-element arrangement should be treated as separate performance obligations for revenue recognition purposes, and when to recognize revenue for each performance obligation.

The company must apply its judgment to determine the timing of the satisfaction of performance obligations as well as the transaction price and the amounts allocated to performance obligations including estimating variable consideration, adjusting the consideration for the effects of the time value of money and assessing whether an estimate of variable consideration is constrained.

Revenue and profit under systems integration contracts are recognized over time as the company transfers control of goods or services. The company measures its progress toward satisfaction of its performance obligations using the cost-to-cost method, or when services have been performed, depending on the nature of the project.

For contracts accounted for using the cost-to-cost method, revenue and profit recognized in any given accounting period are based on estimates of total projected contract costs. The estimates are continually reevaluated and revised, when necessary, throughout the life of a contract. The company follows this method because reasonably dependable estimates of the revenue and costs applicable to various elements of a contract can be made. The financial reporting of these contracts depends on estimates, which are assessed continually during the term of the contracts and therefore, recognized revenues

and profit are subject to revisions as the contract progresses to completion. Revisions in profit estimates are reflected in the period in which the facts that give rise to the revision become known. Accordingly, favorable changes in estimates result in additional revenue and profit recognition, and unfavorable changes in estimates result in a reduction of recognized revenue and profit. When estimates indicate that a loss will be incurred on a contract upon completion, a provision for the expected loss is recorded in the period in which the loss becomes evident. As work progresses under a loss contract, revenue continues to be recognized, and a portion of the contract costs incurred in each period is charged to the contract loss reserve.

Outsourcing

Typically, the initial terms of the company's outsourcing contracts are between 3 and 5 years. Revenue under these contracts is recognized when the company performs the services or processes transactions in accordance with contractual performance standards. Customer prepayments (even if nonrefundable) are deferred (classified as a liability) and recognized systematically as revenue over the initial contract term.

Costs on outsourcing contracts are charged to expense as incurred. However, direct costs incurred related to the inception of an outsourcing contract (principally initial customer setup) are deferred and charged to expense over the initial contract term. In addition, the costs of equipment and software, some of which are internally developed, are capitalized and depreciated over the shorter of their life or the initial contract term.

Recoverability of outsourcing assets is subject to various business risks. Quarterly, the company compares the carrying value of the outsourcing assets with the undiscounted future cash flows expected to be generated by the outsourcing assets to determine if the assets are impaired. If impaired, the outsourcing assets are reduced to an estimated fair value on a discounted cash flow approach. The company prepares its cash flow estimates based on assumptions that it believes to be reasonable but are also inherently uncertain. Actual future cash flows could differ from these estimates.

Income Taxes

Accounting rules governing income taxes require that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. These rules also require that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or the entire deferred tax asset will not be realized.

At December 31, 2018 and 2017, the company had deferred tax assets in excess of deferred tax liabilities of \$1,636.9 million and \$1,551.8 million, respectively. For the reasons cited below, at December 31, 2018 and 2017, management determined that it is more likely than not that \$89.4 million and \$110.7 million, respectively, of such assets will be realized, resulting in a valuation allowance of \$1,547.5 million and \$1,441.1 million, respectively.

The company evaluates the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization are the company's historical profitability, forecast of future taxable income and available tax-planning strategies that could be implemented to realize the net deferred tax assets. The company uses tax-planning strategies to realize or renew net deferred tax assets to avoid the potential loss of future tax benefits. Failure to achieve forecasted taxable income might affect the ultimate realization of the net deferred tax assets. Factors that may affect the company's ability to achieve sufficient forecasted taxable income include, but are not limited to, the following: increased competition, a decline in sales or margins, loss of market share, delays in product availability or technological obsolescence. See "Item 1A. Risk Factors."

Internal Revenue Code Sections 382 and 383 provide annual limitations with respect to the ability of a corporation to utilize its net operating loss (as well as certain built-in losses) and tax credit carryforwards, respectively ("Tax Attributes"), against future U.S. taxable income, if the corporation experiences an "ownership change." In general terms, an ownership change may result from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percentage points over a three-year period. The company regularly monitors ownership changes (as calculated for purposes

of Section 382). The company has determined that, for purposes of the rules of Section 382 described above, an ownership change occurred in February 2011. Any future transaction or transactions and the timing of such transaction or transactions could trigger additional ownership changes under Section 382.

As a result of the February 2011 ownership change, utilization for certain of the company's Tax Attributes, U.S. net operating losses and tax credits, is subject to an overall annual limitation of \$70.6 million. The cumulative limitation as of December 31, 2018 is approximately \$454.9 million. This limitation will be applied first to any recognized built in losses, then to any net operating losses, and then to any other Tax Attributes. Any unused limitation may be carried over to later years. Based on presently available information and the existence of tax planning strategies, the company does not expect to incur a U.S. cash tax liability in the near term. The company maintains a full valuation allowance against the realization of all U.S. deferred tax assets as well as certain foreign deferred tax assets in excess of deferred tax liabilities. See Note 6, "Income taxes," of the Notes to Consolidated Financial Statements.

The company's provision for income taxes and the determination of the resulting deferred tax assets and liabilities involve a significant amount of management judgment and are based on the best information available at the time. The company operates within federal, state and international taxing jurisdictions and is subject to audit in these jurisdictions. These audits can involve complex issues, which may require an extended period of time to resolve. As a result, the actual income tax liabilities in the jurisdictions with respect to any fiscal year are ultimately determined long after the financial statements have been published.

Accounting rules governing income taxes also prescribe a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The company maintains reserves for estimated tax exposures including penalties and interest. Income tax exposures include potential challenges of intercompany pricing and other tax matters. Exposures are settled primarily through the settlement of audits within these tax jurisdictions, but can also be affected by changes in applicable tax law or other factors, which could cause management of the company to believe a revision of past estimates is appropriate. Management believes that an appropriate liability has been established for estimated exposures; however, actual results may differ materially from these estimates. The liabilities are reviewed quarterly for their adequacy and appropriateness. See Note 6, "Income taxes," of the Notes to Consolidated Financial Statements.

Pensions

Accounting rules governing defined benefit pension plans require that amounts recognized in financial statements be determined on an actuarial basis. The measurement of the company's pension obligations, costs and liabilities is dependent on a variety of assumptions selected by the company and used by the company's actuaries. These assumptions include estimates of the present value of projected future pension payments to plan participants, taking into consideration the likelihood of potential future events such as demographic experience. The assumptions used in developing the required estimates include the following key factors: discount rates, retirement rates, inflation, expected return on plan assets and mortality rates.

As permitted for purposes of computing pension expense, the company uses a calculated value of plan assets (which is further described below). This allows the effects of the performance of the pension plan's assets on the company's computation of pension income or expense to be amortized over future periods. A substantial portion of the company's pension plan assets relates to its qualified defined benefit plans in the United States.

A significant element in determining the company's pension income or expense is the expected long-term rate of return on plan assets. The company sets the expected long-term rate of return based on the expected long-term return of the various asset categories in which it invests. The company considers the current expectations for future returns and the actual historical returns of each asset class. Also, because the company's investment policy is to actively manage certain asset classes where the potential exists to outperform the broader market, the expected returns for those asset classes are adjusted to reflect the expected additional returns. For 2019, the company has assumed that the expected long-term rate of

return on U.S. plan assets will be 6.80%, and on the company's non-U.S. plan assets will be 4.18%. A change of 25 basis points in the expected long-term rate of return for the company's U.S. and non-U.S. pension plans causes a change of approximately \$8 million and \$6 million, respectively, in 2019 pension expense. The assumed long-term rate of return on assets is applied to a calculated value of plan assets, which recognizes changes in the fair value of plan assets in a systematic manner over four years. This produces the expected return on plan assets that is included in pension income or expense. The difference between this expected return and the actual return on plan assets is deferred. The net deferral of past asset gains or losses affects the calculated value of plan assets and, ultimately, future pension income or expense. At December 31, 2018, for the company's U.S. qualified defined benefit pension plans, the calculated value of plan assets was \$3.35 billion and the fair value was \$3.11 billion.

At the end of each year, the company determines the discount rate to be used to calculate the present value of plan liabilities. The discount rate is an estimate of the current interest rate at which the pension liabilities could be effectively settled at the end of the year. In estimating this rate, the company looks to rates of return on high-quality, fixed-income investments that (a) receive one of the two highest ratings given by a recognized ratings agency and (b) are currently available and expected to be available during the period to maturity of the pension benefits. At December 31, 2018, the company determined this rate to be 4.50% for its U.S. defined benefit pension plans, an increase of 63 basis points from the rate used at December 31, 2017, and 2.55% for the company's non-U.S. defined benefit pension plans, an increase of 31 basis points from the rate used at December 31, 2017. A change of 25 basis points in the U.S. and non-U.S. discount rates causes a change in 2019 pension expense of approximately \$1 million and \$300 thousand, respectively, and a change of approximately \$104 million and \$109 million, respectively, in the benefit obligation. These estimates are intended to be illustrative based on a single 25 basis point change. The sensitivity to rate changes is not linear and additional changes in rates may result in a different impact on the pension liability. The net effect of changes in the discount rate, as well as the net effect of other changes in actuarial assumptions and experience, has been deferred, as permitted.

Funding requirements for its U.S. qualified pension plans are calculated by the plan's actuaries based on certain assumptions including, as permitted under the Bi-partisan Budget Act of 2015, a discount rate constrained to be within 10% of the 25-year average of the relevant rates. The effect of this limitation is that the funding discount rate is higher than the GAAP discount rate applied for balance sheet purposes, and the liability is therefore lower. In addition, this constraint mitigates the effect of changes in market interest rates on the funding discount rate and the funding liability. Changes to the benefit obligation caused by a 25 basis point change noted above are related to the balance sheet obligation and are not necessarily indicative of the impact on the funding liability.

Gains and losses are defined as changes in the amount of either the projected benefit obligation or plan assets resulting from experience different from that assumed and from changes in assumptions. Because gains and losses may reflect refinements in estimates as well as real changes in economic values and because some gains in one period may be offset by losses in another and vice versa, the accounting rules do not require recognition of gains and losses as components of net pension cost of the period in which they arise.

At a minimum, amortization of an unrecognized net gain or loss must be included as a component of net pension cost for a year if, as of the beginning of the year, that unrecognized net gain or loss exceeds 10 percent of the greater of the projected benefit obligation or the calculated value of plan assets. If amortization is required, the minimum amortization is that excess above the 10 percent divided by the average remaining life expectancy of the plan participants. For the company's U.S. qualified defined benefit pension plans and the company's non-U.S. pension plans, that period is approximately 17 and 24 years, respectively. At December 31, 2018, the estimated unrecognized loss for the company's U.S. qualified defined benefit pension plans and the company's non-U.S. pension plans was \$2.90 billion and \$0.76 billion, respectively.

For the year ended December 31, 2018, the company recognized consolidated pension expense of \$79.7 million, compared with \$92.4 million for the year ended December 31, 2017. For 2019, the company expects to recognize pension expense of approximately \$90.5 million. See Note 14, "Employee plans," of the Notes to Consolidated Financial Statements.

Goodwill

Accounting rules governing goodwill require a company test goodwill for impairment at least annually, as well as whenever there are events or changes in circumstances (triggering events) which suggest that the carrying amount may not be recoverable.

When determining the fair value of a reporting unit, as appropriate for the individual reporting unit, the company uses both an income and market approach. The methodology used to determine the fair values using the income and market approaches, as described below, are weighted to determine the fair value for each reporting unit.

The income approach is a forward-looking approach to estimating fair value and relies primarily on internal forecasts. Within the income approach, the method used is the discounted cash flow method. The company starts with a forecast of all expected net cash flows associated with the reporting unit, which includes the application of a terminal value, and then a reporting unit-specific discount rate is applied to arrive at a net present value amount. Some of the more significant estimates and assumptions inherent in this approach include the amount and timing of projected net cash flows, long-term growth rate and the discount rate. Cash flow projections are based on management's estimates of economic and market conditions, which drive key assumptions of revenue growth rates, operating margins, capital expenditures and working capital requirements. The discount rate in turn is based on various market factors and specific risk characteristics of each reporting unit.

The market approach relies primarily on external information for estimating the fair value. Some of the more significant estimates and assumptions inherent in this approach include the selection of appropriate guideline companies and the selected performance metric used in this approach.

Estimating the fair value of reporting units requires the use of estimates and significant judgments about key assumptions. There are a number of factors including potential events and changes in circumstances that could change in future periods, including: projected operating results; valuation multiples exhibited by the company and by companies considered comparable to the reporting units; and other macro-economic factors that could impact the discount rate. It is reasonably possible that the judgments and estimates described above could change in future periods.

Goodwill by reporting unit at December 31, 2018, was as follows (dollars in millions):

Reporting unit	Carrying Value
Cloud and infrastructure	\$ 32.4
Application services	26.3
Business process outsourcing	10.4
Technology	108.7
Total	\$177.8

As a result of the impairment review, the company concluded that none of its goodwill was impaired as of December 31, 2018, and does not believe that any of its reporting units are at risk of failing the impairment test since all reporting unit fair values were substantially in excess of carrying value as of the last impairment test.

Factors that may affect future results

Factors that could affect future results include the following:

Future results may be adversely impacted if the company is unable to improve revenue and margins in its Services business.

The company's strategy places an emphasis on an industry go-to-market approach with an increased focus within the company's Services business on improving revenue trends, including specifically on higher value and higher margin offerings. The company's ability to grow revenue and profitability in this business will depend on the level of demand for projects and the portfolio of solutions the company offers for specific industries. It will also depend on an efficient utilization of services delivery personnel. Revenue and profit margins in this business are a function of both the portfolio of solutions sold in a given period and the rates the company is able to charge for services and the chargeability of its professionals. If the

company is unable to attain sufficient rates and chargeability for its professionals, revenue and profit margins will be adversely affected. The rates the company is able to charge for services are affected by a number of factors, including clients' perception of the company's ability to add value through its services; introduction of new services or products by the company or its competitors; pricing policies of competitors; and general economic conditions. Chargeability is also affected by a number of factors, including the company's ability to transition resources from completed projects to new engagements and across geographies, and its ability to forecast demand for services and thereby maintain appropriate resource levels. The company's results of operations and financial condition may be adversely impacted if sales of higher margin offerings do not offset declines resulting from lower margin offerings.

Future results may be adversely impacted if the company is unable to maintain its installed base and sell new solutions in its Technology business.

The company continues to invest in its ClearPath Forward operating system software in order to retain existing clients in its Technology business. If clients do not believe in the value proposition provided by ClearPath Forward or choose not to renew their contracts for any other reason, there may not be a meaningful return on these investments, and revenue could decline meaningfully. The company also continues to invest in its Stealth family of software, as well as in industry-specific software and solutions for its focus industries. If the company is unsuccessful in selling these Stealth products or industry-specific solutions and related services, there may not be a meaningful return on these investments. Further, the revenues generated by Stealth and other new solutions and related services may be insufficient to offset any revenue declines caused if the company is unable to retain its installed base.

The company faces aggressive competition in the information services and technology marketplace, which could lead to reduced demand for the company's services and products and could have an adverse effect on the company's business.

The information services and technology markets in which the company operates include a large number of companies vying for customers and market share both domestically and internationally. The company's competitors include systems integrators, consulting and other professional services firms, outsourcing providers, infrastructure services providers, computer hardware manufacturers and software providers. Some of the company's competitors may develop competing services and products that offer better price-performance or that reach the market in advance of the company's offerings. Some competitors also have or may develop greater financial and other resources than the company, with enhanced ability to compete for market share, in some instances through significant economic incentives to secure contracts. Some also may be better able to compete for skilled professionals. Any of these factors could lead to reduced demand for the company's services and products and could have an adverse effect on the company's business. Future results will depend on the company's ability to mitigate the effects of aggressive competition on revenues, pricing and margins and on the company's ability to attract and retain talented people.

The company has significant pension obligations and required cash contributions and may be required to make additional significant cash contributions to its defined benefit pension plans.

The company has significant unfunded obligations under its U.S. and non-U.S. defined benefit pension plans. In 2018, the company made cash contributions of \$129.7 million to its worldwide defined benefit pension plans. Based on current legislation, global regulations, recent interest rates and expected returns, in 2019 the company estimates that it will make cash contributions to its worldwide defined benefit pension plans of approximately \$105.6 million, which are comprised of approximately \$67.2 million for the company's U.S. qualified defined benefit pension plans and approximately \$38.4 million primarily for non-U.S. defined benefit pension plans. Although estimates for future cash contributions are likely to change based on a number of factors including market conditions and changes in discount rates, the company currently anticipates that its required cash contributions will increase in 2020 and for the next several years.

Deterioration in the value of the company's worldwide defined benefit pension plan assets, as well as discount rate changes or changes in economic or demographic trends, could require the company to make cash contributions to its defined benefit pension plans in the future in an amount larger than currently anticipated. Increased cash contribution requirements or an

acceleration in the due date of such cash contributions would reduce the cash available for working capital, capital expenditures and other corporate uses and may have an adverse impact on the company's operations, financial condition and liquidity.

Cybersecurity breaches could result in the company incurring significant costs and could harm the company's business and reputation.

The company's business includes managing, processing, storing and transmitting proprietary and confidential data, including personal information, intellectual property and proprietary business information, within the company's own IT systems and those that the company designs, develops, hosts or manages for clients. Cybersecurity breaches involving these systems by hackers, other third parties or the company's employees, despite established security controls, could disrupt these systems or result in the loss or corruption of data or the unauthorized disclosure or misuse of information of the company, its clients or others. This could result in claims, investigations, litigation and legal liability for the company, lead to the loss of existing or potential clients and adversely affect the market's perception of the security and reliability of the company's services and products. In addition, such breaches could subject the company to fines and penalties for violations of laws and result in the company incurring other significant costs. This may negatively impact the company's reputation and financial results.

A U.S. Federal government shutdown may adversely affect the company's results of operations and cash flows.

Approximately 20% of the company's total consolidated revenue is derived from sales of commercial services and products to various agencies of the U.S. Federal government. The impact of a U.S. Federal government shutdown for a significant duration could result in the suspension of work on contracts in process or in payment delays which could have an adverse effect on the company's revenue, profit and cash flows.

The company's future results may be adversely impacted if it is unable to effectively anticipate and respond to volatility and rapid technological innovation in its industry.

The company operates in a highly volatile industry characterized by rapid technological innovation, evolving technology standards, short product life cycles and continually changing customer demand patterns. Future success will depend in part on the company's ability to anticipate and respond to these market trends and to design, develop, introduce, deliver or obtain new and innovative services and products on a timely and cost-effective basis using new delivery models such as cloud computing. The company may not be successful in anticipating or responding to changes in technology, industry standards or customer preferences, and the market may not demand or accept its services and product offerings. In addition, services and products developed by competitors may make the company's offerings less competitive.

The company's future results will depend on its ability to retain significant clients.

The company has a number of significant long-term contracts with clients, including governmental entities, and its future success will depend, in part, on retaining its relationships with these clients. The company could lose clients for reasons such as contract expiration, conversion to a competing service provider, disputes with clients or a decision to in-source services, including contracts with governmental entities as part of the rebid process. The company could also lose clients as a result of their merger, acquisition or business failure. The company may not be able to replace the revenue and earnings from any such lost client.

The company's contracts may not be as profitable as expected or provide the expected level of revenues.

In a number of the company's long-term services contracts, the company's revenue is based on the volume of services and products provided. As a result, revenue levels anticipated at the contract's inception are not guaranteed. In addition, some of these contracts may permit termination at the customer's discretion before the end of the contract's term or may permit termination or impose other penalties if the company does not meet the performance levels specified in the contracts.

The company's contracts with governmental entities are subject to the availability of appropriated funds. These contracts also contain provisions allowing the governmental entity to terminate the contract at the governmental entity's discretion before the end of the contract's term. In addition, if the company's performance is unacceptable to the customer under a government contract, the government retains the right to pursue remedies under the affected contract, which remedies could include termination.

Certain of the company's services agreements require that the company's prices be benchmarked if the customer requests it and provide that those prices may be adjusted downward if the pricing for similar services in the market has changed. As a result, revenues anticipated at the beginning of the terms of these contracts may decline in the future.

Some of the company's services contracts are fixed-price contracts under which the company assumes the risk for delivery of the contracted services and products at an agreed-upon fixed price. Should the company experience problems in performing fixed-price contracts on a profitable basis, adjustments to the estimated cost to complete may be required. Future results will depend on the company's ability to perform these services contracts profitably.

A significant portion of the company's revenue is derived from operations outside of the United States, and the company is subject to the risks of doing business internationally.

A significant portion of the company's total revenue is derived from international operations. The risks of doing business internationally include foreign currency exchange rate fluctuations, currency restrictions and devaluations, changes in political or economic conditions, trade protection measures, import or export licensing requirements, multiple and possibly overlapping and conflicting tax laws, new tax legislation, weaker intellectual property protections in some jurisdictions and additional legal and regulatory compliance requirements applicable to businesses that operate internationally, including the U.S. Foreign Corrupt Practices Act, economic and trade sanctions regulations administered by the U.S. Treasury Department's Office of Foreign Assets Control, regulations in the European Union such as the General Data Protection Regulation, the U.K. Bribery Act and other U.S. and non-U.S. laws and regulations.

If the company is unable to access the financing markets, it may adversely impact the company's business and liquidity.

Market conditions may impact the company's ability to access the financing markets on terms acceptable to the company or at all. If the company is unable to access the financing markets, the company would be required to use cash on hand to fund operations and repay outstanding debt as it comes due. There is no assurance that the company will generate sufficient cash to fund its operations and refinance such debt. A failure by the company to generate such cash would have a material adverse effect on its business if the company were unable to access financing markets. Market conditions may also impact the company's ability to utilize surety bonds, letters of credit, foreign exchange derivatives or other financial instruments the company uses to conduct its business.

If the company is unable to attract, motivate and retain experienced and knowledgeable personnel in key positions, its future results could be adversely impacted.

The success of the company's business is dependent upon its ability to employ and train individuals with the requisite knowledge, skills and experience to execute the company's business model and achieve its business objectives. The failure of the company to retain key personnel or implement an appropriate succession plan could adversely impact the company's ability to successfully carry out its business strategy and retain other key personnel.

The company's contracts with U.S. governmental agencies may subject the company to audits, criminal penalties, sanctions and other expenses and fines.

The company frequently enters into contracts with governmental entities. U.S. government agencies, including the Defense Contract Audit Agency and the Department of Labor, routinely audit government contractors. These agencies review a contractor's performance under its contracts, cost structure and compliance with applicable laws, regulations and standards. The U.S. government also may review the adequacy of, and a contractor's compliance with, contract terms and

conditions, and its systems and policies, including the contractor's purchasing, property, estimating, billing, accounting, compensation and management information systems. Any costs found to be overcharged or improperly allocated to a specific contract or any amounts improperly billed or charged for products or services will be subject to reimbursement to the government. In addition, government contractors, such as the company, are required to disclose credible evidence of certain violations of law and contract overcharging to the federal government. If the company is found to have participated in improper or illegal activities, the company may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from doing business with the U.S. government. Any negative publicity related to such contracts, regardless of the accuracy of such publicity, may adversely affect the company's business or reputation.

A significant disruption in the company's IT systems could adversely affect the company's business and reputation.

We rely extensively on our IT systems to conduct our business and perform services for our clients. Our systems are subject to damage or interruption from power outages, telecommunications failures, computer viruses and malicious attacks, cybersecurity breaches and catastrophic events. If our systems are accessed without our authorization, damaged or fail to function properly, we could incur substantial repair or replacement costs, experience data loss and impediments to our ability to conduct our business, and damage the market's perception of our services and products. In addition, a disruption could result in the company failing to meet performance standards and obligations in its client contracts, which could subject the company to liability, penalties and contract termination. This may adversely affect the company's reputation and financial results.

The company may face damage to its reputation or legal liability if its clients are not satisfied with its services or products.

The success of the company's business is dependent on strong, long-term client relationships and on its reputation for responsiveness and quality. As a result, if a client is not satisfied with the company's services or products, its reputation could be damaged and its business adversely affected. Allegations by private litigants or regulators of improper conduct, as well as negative publicity and press speculation about the company, whatever the outcome and whether or not valid, may harm its reputation. In addition to harm to reputation, if the company fails to meet its contractual obligations, it could be subject to legal liability, which could adversely affect its business, operating results and financial condition.

The company could face business and financial risk in implementing future acquisitions or dispositions.

As part of the company's business strategy, it may from time to time consider acquiring complementary technologies, products and businesses, or disposing of existing technologies, products and businesses that may no longer be in alignment with its strategic direction, including transactions of a material size. Any acquisitions may result in the incurrence of substantial additional indebtedness or contingent liabilities. Acquisitions could also result in potentially dilutive issuances of equity securities and an increase in amortization expenses related to intangible assets. Additional potential risks associated with acquisitions include integration difficulties; difficulties in maintaining or enhancing the profitability of any acquired business; risks of entering markets in which the company has no or limited prior experience; potential loss of employees or failure to maintain or renew any contracts of any acquired business; and expenses of any undiscovered or potential liabilities of the acquired product or business, including relating to employee benefits contribution obligations or environmental requirements. Potential risks with respect to dispositions include difficulty finding buyers or alternative exit strategies on acceptable terms in a timely manner; potential loss of employees or clients; dispositions at unfavorable prices or on unfavorable terms, including relating to retained liabilities; and post-closing indemnity claims. Further, with respect to both acquisitions and dispositions, management's attention could be diverted from other business concerns. Adverse credit conditions could also affect the company's ability to consummate acquisitions or dispositions. The risks associated with acquisitions and dispositions could have a material adverse effect upon the company's business, financial condition and results of operations. There can be no assurance that the company will be successful in consummating future acquisitions or dispositions on favorable terms or at all.

Future results will depend in part on the performance and capabilities of third parties with whom the company has commercial relationships.

The company maintains business relationships with suppliers, channel partners and other parties that have complementary products, services or skills. Future results will depend, in part, on the performance and capabilities of these third parties, on the ability of external suppliers to deliver components at reasonable prices and in a timely manner, and on the financial condition of, and the company's relationship with, distributors and other indirect channel partners, which can affect the company's capacity to effectively and efficiently serve current and potential customers and end users.

An involuntary termination of the company's U.S. qualified defined benefit pension plans would adversely affect the company's financial condition and results of operations.

As of December 31, 2018, the company had approximately \$1.4 billion of underfunded pension obligations under its U.S. qualified defined benefit pension plans. The Pension Benefit Guaranty Corporation (the "PBGC") has authority under the Employment Retirement Income Security Act of 1974, as amended, to terminate an underfunded defined benefit pension plan under certain circumstances, including when (1) the plan has not met the minimum funding requirements, (2) the plan cannot pay current benefits when due, or (3) the loss to the PBGC is reasonably expected to increase unreasonably over time if the plan is not terminated. If the PBGC were to terminate the company's U.S. qualified defined benefit pension plans, the company's obligations with respect to such plans would become due and payable in full. Any such event or the failure by the company to pay its pension plan insurance premiums with respect to its U.S. qualified defined benefit pension plans could result in the PBGC obtaining a lien on the company's assets. Such an event would result in an event of default under the company's debt agreements and would materially and adversely affect the Company's financial condition and results of operations.

The company's services or products may infringe upon the intellectual property rights of others.

The company cannot be sure that its services and products do not infringe on the intellectual property rights of third parties, and it may have infringement claims asserted against it or against its clients. These claims could cost the company money, prevent it from offering some services or products, or damage its reputation.

Legal proceedings could affect the company's results of operations or cash flow or may adversely affect the company's business or reputation.

There are various lawsuits, claims, investigations and proceedings that have been brought or asserted against the company, which arise in the ordinary course of business, including actions with respect to commercial and government contracts, labor and employment, employee benefits, environmental matters, intellectual property and non-income tax matters. See Note 15, "Litigation and contingencies," of the Notes to Consolidated Financial Statements for more information on litigation. The company believes that it has valid defenses with respect to legal matters pending against it. Litigation is inherently unpredictable, however, and it is possible that the company's results of operations or cash flows could be materially affected in any particular period by the resolution of one or more of the legal matters pending against it. Additional legal proceedings may arise in the future with respect to the company's existing and legacy operations, and may adversely affect the company's business or reputation.

The company's business can be adversely affected by global economic conditions, acts of war, terrorism or natural disasters.

If global economic conditions deteriorate, the company could see reductions in demand and increased pressure on revenue and profit margins. The company could also see a further consolidation of clients, which could also result in a decrease in demand. The company's business could also be affected by acts of war, terrorism or natural disasters. Current world tensions could escalate, and this could have unpredictable consequences on the world economy and on the company's business.

Other factors discussed in this report, although not listed here, also could materially affect our future results.

UNISYS CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME

(Millions, except per share data)

Year ended December 31,	2018	2017	2016
Revenue			
Services	\$2,386.3	\$2,328.2	\$2,406.3
Technology	438.7	413.6	414.4
	<u>2,825.0</u>	<u>2,741.8</u>	<u>2,820.7</u>
Costs and expenses			
Cost of revenue:			
Services	2,010.5	2,033.8*	2,035.2*
Technology	128.2	160.3*	168.1*
	<u>2,138.7</u>	<u>2,194.1*</u>	<u>2,203.3*</u>
Selling, general and administrative expenses	370.3	411.9*	441.2*
Research and development expenses	31.9	38.7*	47.0*
	<u>2,540.9</u>	<u>2,644.7*</u>	<u>2,691.5*</u>
Operating income	284.1	97.1*	129.2*
Interest expense	64.0	52.8	27.4
Other income (expense), net	(76.9)	(116.4)*	(81.3)*
Income (loss) before income taxes	143.2	(72.1)	20.5
Provision (benefit) for income taxes	64.3	(5.5)	57.2
Consolidated net income (loss)	78.9	(66.6)	(36.7)
Net income (loss) attributable to noncontrolling interests	3.4	(1.3)	11.0
Net income (loss) attributable to Unisys Corporation common shareholders	<u>\$ 75.5</u>	<u>\$ (65.3)</u>	<u>\$ (47.7)</u>
Earnings (loss) per common share attributable to Unisys Corporation			
Basic	\$ 1.48	\$ (1.30)	\$ (0.95)
Diluted	\$ 1.30	\$ (1.30)	\$ (0.95)

*Amounts were changed to conform to the current-year presentation. See Note 2.

See notes to consolidated financial statements.

UNISYS CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Millions)

Year ended December 31,	2018	2017	2016
Consolidated net income (loss)	\$ 78.9	\$ (66.6)	\$ (36.7)
Other comprehensive income			
Foreign currency translation	(81.8)	117.8	(108.4)
Postretirement adjustments, net of tax of \$7.1 in 2018, \$18.3 in 2017 and \$(13.3) in 2016	33.8	265.1	(137.6)
Total other comprehensive income (loss)	(48.0)	382.9	(246.0)
Comprehensive income (loss)	30.9	316.3	(282.7)
Comprehensive income (loss) attributable to noncontrolling interests	15.7	44.6	(27.5)
Comprehensive income (loss) attributable to Unisys Corporation	\$ 15.2	\$271.7	\$(255.2)

See notes to consolidated financial statements.

UNISYS CORPORATION

CONSOLIDATED BALANCE SHEETS

(Millions)

As of December 31,	2018	2017
Assets		
Current assets		
Cash and cash equivalents	\$ 605.0	\$ 733.9
Accounts receivable, net	509.2	503.3
Contract assets	29.7	-
Inventories:		
Parts and finished equipment	14.0	13.6
Work in process and materials	13.3	12.5
Prepaid expenses and other current assets	130.2	126.2
Total current assets	1,301.4	1,389.5
Properties	800.2	898.8
Less – Accumulated depreciation and amortization	678.9	756.3
Properties, net	121.3	142.5
Outsourcing assets, net	216.4	202.3
Marketable software, net	162.1	138.3
Prepaid postretirement assets	147.6	148.3
Deferred income taxes	109.3	119.9
Goodwill	177.8	180.8
Restricted cash	19.1	30.2
Other long-term assets	202.6	190.6
Total assets	\$ 2,457.6	\$ 2,542.4
Liabilities and deficit		
Current liabilities:		
Current maturities of long-term debt	\$ 10.0	\$ 10.8
Accounts payable	268.9	241.8
Deferred revenue	294.4	327.5
Other accrued liabilities	350.0	391.5
Total current liabilities	923.3	971.6
Long-term debt	642.8	633.9
Long-term postretirement liabilities	1,956.5	2,004.4
Long-term deferred revenue	157.2	159.0
Other long-term liabilities	77.4	100.0
Commitments and contingencies		
Deficit:		
Common stock, par value \$.01 per share (150.0 million shares authorized; 54.2 million shares and 53.4 million shares issued)	0.5	0.5
Accumulated deficit	(1,694.0)	(1,963.1)
Treasury stock, at cost	(105.0)	(102.7)
Paid-in capital	4,539.8	4,526.4
Accumulated other comprehensive loss	(4,084.8)	(3,815.8)
Total Unisys stockholders' deficit	(1,343.5)	(1,354.7)
Noncontrolling interests	43.9	28.2
Total deficit	(1,299.6)	(1,326.5)
Total liabilities and deficit	\$ 2,457.6	\$ 2,542.4

See notes to consolidated financial statements.

UNISYS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions)

Year ended December 31,	2018	2017	2016
Cash flows from operating activities			
Consolidated net income (loss)	\$ 78.9	\$ (66.6)	\$ (36.7)
Adjustments to reconcile consolidated net income (loss) to net cash provided by operating activities:			
Foreign currency transaction losses	7.4	21.7	0.4
Non-cash interest expense	10.5	9.5	7.0
Loss on debt extinguishment	–	1.5	4.0
Employee stock compensation	13.2	11.2	9.5
Depreciation and amortization of properties	40.4	39.7	38.9
Depreciation and amortization of outsourcing assets	66.8	53.7	51.9
Amortization of marketable software	56.9	63.1	64.8
Other non-cash operating activities	(4.8)	3.2	1.9
Loss on disposal of capital assets	0.8	5.0	6.2
Gain on sale of properties	(7.3)	–	–
Postretirement contributions	(138.7)	(150.6)*	(146.1)*
Postretirement expense	84.1	98.1*	89.4*
Decrease in deferred income taxes, net	8.2	3.4	2.7
Changes in operating assets and liabilities:			
Receivables, net	(50.5)	5.9	87.3
Inventories	(5.5)	4.1	15.3
Other assets	(23.9)	(27.5)	16.5
Accounts payable and other accrued liabilities	(62.2)	48.6	7.5
Other liabilities	(0.4)	42.4*	(2.3)*
Net cash provided by operating activities	73.9	166.4	218.2
Cash flows from investing activities			
Proceeds from investments	3,708.0	4,717.2	4,455.9
Purchases of investments	(3,722.0)	(4,692.4)	(4,490.0)
Capital additions of properties	(35.6)	(25.8)	(32.5)
Capital additions of outsourcing assets	(73.0)	(86.3)	(51.3)
Investment in marketable software	(80.7)	(64.4)	(63.3)
Net proceeds from sale of properties	19.2	–	–
Other	(0.9)	(0.8)	(0.9)
Net cash used for investing activities	(185.0)	(152.5)	(182.1)
Cash flows from financing activities			
Payments of long-term debt	(2.3)	(107.5)	(129.8)
Financing fees	(0.2)	(1.1)	–
Proceeds from issuance of long-term debt	–	452.9	213.5
Issuance costs relating to long-term debt	–	(12.1)	(7.3)
Net payments from short-term borrowings	–	–	(65.8)
Payments for capped call transactions	–	–	(27.3)
Other	(2.3)	(2.3)	(0.4)
Net cash (used for) provided by financing activities	(4.8)	329.9	(17.1)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(24.1)	19.2	(14.7)
(Decrease) increase in cash, cash equivalents and restricted cash	(140.0)	363.0	4.3
Cash, cash equivalents and restricted cash, beginning of year	764.1	401.1	396.8
Cash, cash equivalents and restricted cash, end of year	\$ 624.1	\$ 764.1	\$ 401.1

*Amounts were changed to conform to the current-year presentation. See Note 2.

See notes to consolidated financial statements.

UNISYS CORPORATION

CONSOLIDATED STATEMENTS OF DEFICIT

(Millions)

	Unisys Corporation							
	Total	Total Unisys Corporation	Common Stock Par Value	Accumulated Deficit	Treasury Stock At Cost	Paid-in Capital	Accumulated Other Comprehensive Loss	Non-controlling Interests
Balance at December 31, 2015	\$(1,378.6)	\$(1,389.7)	\$0.5	\$(1,845.7)	\$(100.1)	\$4,500.9	\$(3,945.3)	\$ 11.1
Consolidated net income (loss)	(36.7)	(47.7)		(47.7)				11.0
Stock-based compensation	8.8	8.8			(0.4)	9.2		
Discount on debt issuance	33.6	33.6				33.6		
Capped call on debt issuance	(27.3)	(27.3)				(27.3)		
Expenses of convertible notes	(1.2)	(1.2)				(1.2)		
Translation adjustments	(108.4)	(93.3)					(93.3)	(15.1)
Postretirement plans	(137.6)	(114.2)					(114.2)	(23.4)
Balance at December 31, 2016	\$(1,647.4)	\$(1,631.0)	\$0.5	\$(1,893.4)	\$(100.5)	\$4,515.2	\$(4,152.8)	\$(16.4)
Cumulative effect adjustment - ASU No. 2016-16	(4.4)	(4.4)		(4.4)				
Consolidated net loss	(66.6)	(65.3)		(65.3)				(1.3)
Stock-based compensation	9.0	9.0			(2.2)	11.2		
Translation adjustments	117.8	110.1					110.1	7.7
Postretirement plans	265.1	226.9					226.9	38.2
Balance at December 31, 2017	\$(1,326.5)	\$(1,354.7)	\$0.5	\$(1,963.1)	\$(102.7)	\$4,526.4	\$(3,815.8)	\$ 28.2
Cumulative effect adjustment - ASU No. 2014-09	(21.4)	(21.4)		(21.4)				
Cumulative effect adjustment - ASU No. 2017-05	6.3	6.3		6.3				
Reclassification pursuant to ASU No. 2018-02	—	—		208.7			(208.7)	
Consolidated net income	78.9	75.5		75.5				3.4
Stock-based compensation	11.1	11.1			(2.3)	13.4		
Translation adjustments	(81.8)	(79.7)					(79.7)	(2.1)
Postretirement plans	33.8	19.4					19.4	14.4
Balance at December 31, 2018	\$(1,299.6)	\$(1,343.5)	\$0.5	\$(1,694.0)	\$(105.0)	\$4,539.8	\$(4,084.8)	\$ 43.9

See notes to consolidated financial statements.

UNISYS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except share and per share amounts)

Note 1 – Summary of significant accounting policies

Principles of consolidation The consolidated financial statements include the accounts of all majority-owned subsidiaries.

Use of estimates The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions about future events. These estimates and assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities and the reported amounts of revenue and expenses. Such estimates include the valuation of accounts receivable, inventories, outsourcing assets, marketable software, goodwill and other long-lived assets, legal contingencies, indemnifications, assumptions used in the measurement of progress toward completion for systems integration projects, income taxes and retirement and other post-employment benefits, among others. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

Cash and Cash equivalents Cash and cash equivalents consist of cash on hand, short-term investments purchased with a maturity of three months or less and certificates of deposit which may be withdrawn at any time at the discretion of the company without penalty.

Cash and cash equivalents subject to contractual restrictions and not readily available are classified as restricted cash. Restricted cash primarily consists of cash the company is contractually obligated to maintain in accordance with the terms of its U.K. business process outsourcing joint venture agreement and other cash that is restricted from withdrawal.

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the consolidated balance sheets to the total of the amounts shown in the consolidated statements of cash flows.

As of December 31,	2018	2017
Cash and cash equivalents	\$605.0	\$733.9
Restricted cash	19.1	30.2
Total cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows	\$624.1	\$764.1

Inventories Inventories are valued at the lower of cost and net realizable value. Cost is determined on the first-in, first-out method.

Properties Properties are carried at cost and are depreciated over the estimated lives of such assets using the straight-line method. The estimated lives used, in years, are as follows: buildings, 20 – 50; machinery and office equipment, 4 – 7; rental equipment, 4; and internal-use software, 3 – 10.

Advertising costs All advertising costs are expensed as incurred. The amount charged to expense during 2018, 2017 and 2016 was \$2.8 million, \$1.6 million and \$2.7 million, respectively.

Shipping and handling Costs related to shipping and handling are included in cost of revenue.

Goodwill Goodwill arising from the acquisition of an entity represents the excess of the cost of acquisition over the fair value of the acquired identifiable assets, liabilities and contingent liabilities of the entity recognized at the date of acquisition. Goodwill is initially recognized as an asset and is subsequently measured at cost less any accumulated impairment losses. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each balance sheet date.

The company tests goodwill for impairment annually in the fourth quarter using data as of September 30th of that year, as well as whenever there are events or changes in circumstances (triggering events) that would more likely than not reduce the fair value of one or more reporting units below its respective carrying amount. The company compares the fair value of each of its reporting units to their respective carrying value. If the carrying value exceeds fair value, an impairment charge is recognized for the difference. Impaired goodwill is written down to its fair value through a charge to the consolidated statement of income in the period the impairment is identified.

The company estimates the fair value of each reporting unit using a combination of the income approach and market approach.

The income approach incorporates the use of a discounted cash flow method in which the estimated future cash flows and terminal values for each reporting unit are discounted to present value. Cash flow projections are based on management's estimates of economic and market conditions, which drive key assumptions of revenue growth rates, operating margins, capital expenditures and working capital requirements. The discount rate in turn is based on various market factors and specific risk characteristics of each reporting unit.

The market approach estimates fair value by applying performance metric multiples to the reporting unit's prior and expected operating performance. The multiples are derived from comparable publicly traded companies with similar operating and investment characteristics as the reporting unit.

If the fair value of the reporting unit derived using the income approach is significantly different from the fair value estimate using the market approach, the company reevaluates its assumptions used in the two models. When considering the weighting between the market approach and income approach, the company gave more weighting to the income approach. The higher weighting assigned to the income approach took into consideration that the guideline companies used in the market approach generally represent larger diversified companies relative to the reporting units and may have different long-term growth prospects, among other factors.

In order to assess the reasonableness of the calculated reporting unit fair values, the company also compares the sum of the reporting units' fair values to its market capitalization (per share stock price multiplied by shares outstanding) and calculates an implied control premium (the excess of the sum of the reporting units' fair values over the market capitalization).

Estimating the fair value of reporting units requires the use of estimates and significant judgments that are based on a number of factors including actual operating results. It is reasonably possible that the judgments and estimates described above could change in future periods.

Revenue recognition Revenue is recognized at an amount that reflects the consideration to which the company expects to be entitled in exchange for transferring goods and services to a customer. The company determines revenue recognition using the following five steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the company satisfies a performance obligation.

Revenue excludes taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue producing transaction and collected by the company from a customer (e.g., sales, use and value-added taxes). Revenue includes payments for shipping and handling activities.

At contract inception, the company assesses the goods and services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either: (1) a good or service (or a bundle of goods or services) that is distinct or (2) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. The company recognizes revenue only when it satisfies a performance obligation by transferring a promised good or service to a customer.

The company must apply its judgment to determine the timing of the satisfaction of performance obligations as well as the transaction price and the amounts allocated to performance obligations including estimating variable consideration,

adjusting the consideration for the effects of the time value of money and assessing whether an estimate of variable consideration is constrained.

Revenue from hardware sales is recognized upon the transfer of control to a customer, which is defined as an entity's ability to direct the use of and obtain substantially all of the remaining benefits of an asset.

Revenue from software licenses is recognized at the inception of either the initial license term or the inception of an extension or renewal to the license term.

Revenue for operating leases is recognized on a monthly basis over the term of the lease and for sales-type leases at the inception of the lease term.

Revenue from equipment and software maintenance and post-contract support is recognized on a straight-line basis as earned over the terms of the respective contracts. Cost related to such contracts is recognized as incurred.

Revenue and profit under systems integration contracts are recognized over time as the company transfers control of goods or services. The company measures its progress toward satisfaction of its performance obligations using the cost-to-cost method, or when services have been performed, depending on the nature of the project. For contracts accounted for using the cost-to-cost method, revenue and profit recognized in any given accounting period are based on estimates of total projected contract costs. The estimates are continually reevaluated and revised, when necessary, throughout the life of a contract. Any adjustments to revenue and profit resulting from changes in estimates are accounted for in the period of the change in estimate. When estimates indicate that a loss will be incurred on a contract upon completion, a provision for the expected loss is recorded in the period in which the loss becomes evident.

Revenue from time and materials service contracts and outsourcing contracts is recognized as the services are provided using either an objective measure of output or on a straight-line basis over the term of the contract.

The company also enters into multiple-element arrangements, which may include any combination of hardware, software or services. For example, a client may purchase an enterprise server that includes operating system software. In addition, the arrangement may include post-contract support for the software and a contract for post-warranty maintenance for service of the hardware. These arrangements consist of multiple performance obligations, with control over hardware and software transferred in one reporting period and the software support and hardware maintenance services performed across multiple reporting periods. In another example, the company may provide desktop managed services to a client on a long-term multiple-year basis and periodically sell hardware and license software products to the client. The services are provided on a continuous basis across multiple reporting periods and control over the hardware and software products occurs in one reporting period. To the extent that a performance obligation in a multiple-deliverable arrangement is subject to specific guidance, that performance obligation is accounted for in accordance with such specific guidance. An example of such an arrangement may include leased assets which are subject to specific leasing accounting guidance.

In multiple-element arrangements, the company allocates the total transaction price to be earned under the arrangement among the various performance obligations in proportion to their standalone selling prices (relative standalone selling price basis). The standalone selling price for a performance obligation is the price at which the company would sell a promised good or service separately to a customer.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Many of the company's contracts have a single performance obligation as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts and, therefore, not distinct. For contracts with multiple performance obligations, the company allocates the contract's transaction price to each performance obligation using its best estimate of the standalone selling price of each distinct good or service in the contract. The primary methods used to estimate standalone selling price are as follows: (1) the expected cost plus margin approach, under which the company forecasts its expected costs of satisfying a performance obligation and then adds an appropriate margin for that distinct good or service and (2) the percent discount off of list price approach.

In the Services segment, substantially all of the company's performance obligations are satisfied over time as work progresses and therefore substantially all of the revenue in this segment is recognized over time. The company generally receives payment for these contracts over time as the performance obligations are satisfied.

In the Technology segment, substantially all of the company's goods and services are transferred to customers at a single point in time. Revenue on these contracts is recognized when control over the product is transferred to the customer or a software license term begins. The company generally receives payment for these contracts upon signature or within 30 to 60 days.

At December 31, 2018, the company had approximately \$1.2 billion of remaining performance obligations of which approximately 40% is estimated to be recognized as revenue by the end of 2019. The company does not disclose the value of unsatisfied performance obligations for (1) contracts with an original expected length of one year or less and (2) contracts for which the company recognizes revenue at the amount to which it has the right to invoice for services performed.

The company discloses disaggregation of its customer revenue by geographic areas and by classes of similar products and services, by segment (see note 17).

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables, contract assets and deferred revenue (contract liabilities).

The disclosure of contract assets is a new requirement due to the adoption of Topic 606. At December 31, 2017, contract assets were included in accounts receivable, net on the company's consolidated balance sheet. At December 31, 2018, \$22.2 million of long-term contract assets were included in other long-term assets on the company's consolidated balance sheet.

At December 31, 2018, deposit liabilities of \$21.2 million were principally included in current deferred revenue. These deposit liabilities represent upfront consideration received from customers for services such as post-contract support and maintenance that allow the customer to terminate the contract at any time for convenience.

Significant changes during 2018 in the above contract asset and liability balances were as follows: revenue of \$307.1 million was recognized that was included in deferred revenue at December 31, 2017.

The company's incremental direct costs of obtaining a contract consist of sales commissions which are deferred and amortized ratably over the initial contract life. These costs are classified as current or noncurrent based on the timing of when the company expects to recognize the expense. The current and noncurrent portions of deferred commissions are included in prepaid expenses and other current assets and in other long-term assets, respectively, in the company's consolidated balance sheets. At December 31, 2018 and December 31, 2017, the company had \$12.1 million and \$11.0 million, respectively, of deferred commissions. For the year ended December 31, 2018, \$6.9 million of amortization expense related to deferred commissions was recorded in selling, general and administrative expense in the company's consolidated statement of income.

Costs to fulfill a contract, which are incurred upon initiation of certain services contracts and are related to initial customer setup, are included in outsourcing assets, net in the company's consolidated balance sheet. The amount of such cost at December 31, 2018 and December 31, 2017 was \$79.5 million and \$76.0 million, respectively. These costs are amortized over the initial contract life and reported in Services cost of sales. During 2018, \$21.7 million was amortized. Recoverability of these costs are subject to various business risks. Quarterly, the company compares the carrying value of these assets with the undiscounted future cash flows expected to be generated by them to determine if there is impairment. If impaired, these assets are reduced to an estimated fair value on a discounted cash flow basis. The company prepares its cash flow estimates based on assumptions that it believes to be reasonable but are also inherently uncertain. Actual cash flows could differ from these estimates.

Income taxes Income taxes are based on income before taxes for financial reporting purposes and reflect a current tax liability for the estimated taxes payable in the current-year tax returns and changes in deferred taxes. Deferred tax assets or

liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using enacted tax laws and rates. A valuation allowance is provided on deferred tax assets if it is determined that it is more likely than not that the asset will not be realized. The company releases the income tax effects of deferred tax balances that have a valuation allowance from accumulated other comprehensive income once the reason the tax effects were established ceases to exist (e.g. postretirement plan is liquidated). The company recognizes penalties and interest accrued related to income tax liabilities in provision for income taxes in its consolidated statements of income.

The company treats the global intangible low-taxed income tax, or GILTI, as a period cost when included in U.S. taxable income, and the base erosion and anti-abuse tax, or BEAT, as a period cost when incurred.

Marketable software The cost of development of computer software to be sold or leased, incurred subsequent to establishment of technological feasibility, is capitalized and amortized to cost of sales over the estimated revenue-producing lives of the products, which is generally 3 years following product release. The company continually reassesses the estimated revenue-producing lives of the products and will revise the lives as necessary. The company performs quarterly reviews to ensure that unamortized costs remain recoverable from future revenue.

Internal-use software The company capitalizes certain internal and external costs incurred to acquire or create internal-use software, principally related to software coding, designing system interfaces, and installation and testing of the software. These costs are amortized in accordance with the fixed asset policy described above.

Outsourcing assets Costs on outsourcing contracts are generally expensed as incurred. However, certain costs incurred upon initiation of an outsourcing contract (principally initial customer setup) are deferred and expensed over the initial contract life. Fixed assets and software used in connection with outsourcing contracts are capitalized and depreciated over the shorter of the initial contract life or in accordance with the fixed asset policy described above.

Recoverability of outsourcing assets is subject to various business risks. Quarterly, the company compares the carrying value of the outsourcing assets with the undiscounted future cash flows expected to be generated by the outsourcing assets to determine if there is impairment. If impaired, the outsourcing assets are reduced to an estimated fair value on a discounted cash flow basis. The company prepares its cash flow estimates based on assumptions that it believes to be reasonable but are also inherently uncertain. Actual future cash flows could differ from these estimates.

Translation of foreign currency The local currency is the functional currency for most of the company's international subsidiaries, and as such, assets and liabilities are translated into U.S. dollars at year-end exchange rates. Income and expense items are translated at average exchange rates during the year. Translation adjustments resulting from changes in exchange rates are reported in other comprehensive income (loss). Exchange gains and losses on intercompany balances are reported in other income (expense), net.

For those international subsidiaries operating in highly inflationary economies, the U.S. dollar is the functional currency, and as such, nonmonetary assets and liabilities are translated at historical exchange rates, and monetary assets and liabilities are translated at current exchange rates. Exchange gains and losses arising from translation are included in other income (expense), net.

Stock-based compensation plans Stock-based compensation represents the cost related to stock-based awards granted to employees and directors. Compensation expense for performance-based restricted stock unit awards is recognized as expense ratably for each installment from the date of the grant until the date the restrictions lapse and is based on the fair market value at the date of grant and the probability of achievement of the specific performance-related goals. Compensation expense for market-based awards is recognized as expense ratably over the measurement period, regardless of the actual level of achievement, provided the service requirement is met. The fair value of restricted stock units with time and performance conditions is determined based on the trading price of the company's common shares on the date of grant. The fair value of awards with market conditions is estimated using a Monte Carlo simulation. The company recognizes compensation expense for the fair value of stock options, which have graded vesting, on a straight-line basis over the

requisite service period. The company estimates the fair value of stock options using a Black-Scholes valuation model. The expense is recorded in selling, general and administrative expenses.

Retirement benefits Accounting rules covering defined benefit pension plans and other postretirement benefits require that amounts recognized in financial statements be determined on an actuarial basis. A significant element in determining the company's retirement benefits expense or income is the expected long-term rate of return on plan assets. This expected return is an assumption as to the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected pension benefit obligation. The company applies this assumed long-term rate of return to a calculated value of plan assets, which recognizes changes in the fair value of plan assets in a systematic manner over four years. This produces the expected return on plan assets that is included in retirement benefits expense or income. The difference between this expected return and the actual return on plan assets is deferred. The net deferral of past asset losses or gains affects the calculated value of plan assets and, ultimately, future retirement benefits expense or income.

At December 31 of each year, the company determines the fair value of its retirement benefits plan assets as well as the discount rate to be used to calculate the present value of plan liabilities. The discount rate is an estimate of the interest rate at which the retirement benefits could be effectively settled. In estimating the discount rate, the company looks to rates of return on high-quality, fixed-income investments currently available and expected to be available during the period to maturity of the retirement benefits. The company uses a portfolio of fixed-income securities, which receive at least the second-highest rating given by a recognized ratings agency.

Fair value measurements Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value measurements for assets and liabilities required to be recorded at fair value, the company assumes that the transaction is an orderly transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (for example, a forced liquidation or distress sale). The fair value hierarchy has three levels of inputs that may be used to measure fair value: Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the company can access at the measurement date; Level 2 – Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3 – Unobservable inputs for the asset or liability. The company has applied fair value measurements to its long-term debt (see note 12), derivatives (see note 9) and to its postretirement plan assets (see note 14).

Noncontrolling interest The company owns a fifty-one percent interest in Intelligent Processing Solutions Ltd. ("iPSL"), a U.K. business process outsourcing joint venture. The remaining interests, which are reflected as a noncontrolling interest in the company's financial statements, are owned by three financial institutions for which iPSL performs services.

Note 2 – Recent accounting pronouncements and accounting changes

Accounting Pronouncements Adopted

Effective January 1, 2018, the company adopted ASU No. 2017-07 *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* issued by the Financial Accounting Standards Board ("FASB") which requires employers to present the service cost component of net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. The other components of net periodic benefit cost are presented separately from the line items that include service cost and outside the subtotal of operating income. ASU No. 2017-07 allows a practical expedient that permits an entity to use amounts disclosed in its pension and other postretirement benefit plan footnote for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements. The new guidance has been applied on a retrospective basis, using the practical expedient, whereby prior-period financial statements have been adjusted to reflect the adoption of the new guidance, as required by the FASB. For the years ended December 31, 2017 and 2016, \$92.5 million and \$81.6 million, respectively, of net periodic benefit cost other than service cost, was

reclassified from cost of revenue, selling, general and administrative expenses and research and development expenses to other income (expense), net in the company's consolidated results of operations (see note 14).

Effective January 1, 2018, the company adopted ASU No. 2014-09 *Revenue from Contracts with Customers (Topic 606)* issued by the FASB which establishes principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer. Topic 606 allows for either "full retrospective" adoption, meaning the standard is applied to all periods presented, or "modified retrospective" adoption, meaning the standard is applied only to the most current period presented in the financial statements. Topic 606 requires the company to recognize revenue for certain transactions, including extended payment term software licenses and short-term software licenses, sooner than the prior rules would allow and requires the company to recognize software license extensions and renewals (the most significant impact upon adoption), later than the prior rules would allow. Topic 606 also requires significantly expanded disclosure requirements. The company has adopted the standard using the modified retrospective method and applied the standard to all contracts that were not completed as of January 1, 2018. The cumulative effect of the adoption was recognized as an increase in the company's accumulated deficit of \$21.4 million on January 1, 2018.

The following table summarizes the effects of adopting ASU No. 2014-09 on the company's consolidated financial statements as of and for the year ended December 31, 2018.

	As Reported	Adjustments	Balances Without Adoption of Topic 606
<i>For the year ended December 31, 2018</i>			
Statement of Income			
Revenue			
Services	\$ 2,386.3	\$ (6.2)	\$ 2,380.1
Technology	438.7	(139.9)	298.8
Costs and expenses			
Cost of revenue			
Services	2,010.5	(3.0)	2,007.5
Technology	128.2	(5.8)	122.4
Selling, general and administrative expenses	370.3	0.9	371.2
Operating income	284.1	(138.2)	145.9
Income before income taxes	143.2	(138.2)	5.0
Provision for income taxes	64.3	(18.6)	45.7
Consolidated net income	78.9	(119.6)	(40.7)
Net income attributable to Unisys Corporation	75.5	(119.6)	(44.1)
<i>As of December 31, 2018</i>			
Balance Sheet			
Assets			
Accounts receivable, net current	\$ 509.2	\$ 10.9	\$ 520.1
Contract assets	29.7	(29.7)	-
Inventories	27.3	10.6	37.9
Prepaid expenses and other current assets	130.2	1.5	131.7
Deferred income taxes – long-term	109.3	1.7	111.0
Other long-term assets	202.6	(27.8)	174.8
Total assets	2,457.6	(32.8)	2,424.8
Liabilities			
Deferred revenue – current	294.4	70.3	364.7
Other accrued liabilities – current	350.0	(20.7)	329.3
Long-term deferred revenue	157.2	10.4	167.6
Other long-term liabilities	77.4	5.5	82.9
Equity			
Accumulated deficit	(1,694.0)	(98.3)	(1,792.3)
Total liabilities and deficit	2,457.6	(32.8)	2,424.8

Included in the Technology revenue adjustments for the year ended December 31, 2018 in the above table is \$53.0 million of revenue from software license extensions and renewals which were contracted for in the fourth quarter of 2017 and properly recorded as revenue at that time under the revenue recognition rules then in effect (Topic 605). Upon adoption of the new revenue recognition rules (Topic 606) on January 1, 2018, and since the company adopted Topic 606 under the modified retrospective method whereby prior periods were not restated, the company was required to include this \$53.0 million in the cumulative effect adjustment to retained earnings on January 1, 2018. Topic 606 requires revenue related to software license renewals or extensions to be recorded when the new license term begins, which in the case of the \$53.0 million is January 1, 2018. The company has excluded revenue and related profit for these software licenses to reflect the balances without the adoption of Topic 606 in the above table. This is a one-time adjustment and it will not reoccur in future periods. There are additional adjustments being made in the above table, but they do not represent previously recorded revenue. Those additional adjustments represent other differences between Topic 605 and Topic 606, principally extended payment term software licenses and short-term software licenses both of which are recorded at the inception of the license term under Topic 606, but were required to be recognized ratably over the software license term under Topic 605. An additional adjustment is that under Topic 605, a company was not able to recognize software license revenue until the last software license is delivered due to the lack of vendor specific objective evidence, whereas under Topic 606, a company is required to use the standalone selling price for all performance obligations. This resulted in software license revenue being recognized sooner under Topic 606 compared with Topic 605.

In 2018, the company adopted ASU No. 2017-05 *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20)* issued by the FASB which clarifies the scope and application of ASC 610-20 on the sale or transfer of nonfinancial assets and in substance nonfinancial assets to noncustomers, including partial sales. The company adopted the standard using the modified retrospective method. The cumulative effect of the adoption was recognized as a decrease in the company's accumulated deficit of \$6.3 million.

Effective July 1, 2018, the company adopted ASU No. 2018-02 *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* by applying the changes in the period of adoption. The new guidance permits companies to reclassify stranded tax effects in accumulated other comprehensive income ("AOCI") caused by the U.S. Tax Cuts and Jobs Act of 2017 ("TCJA") to retained earnings. Upon enactment of the TCJA, the U.S. corporate tax rate was reduced from 35% to 21% and the Company's U.S. deferred tax balances and related valuation allowances were remeasured to the lower enacted U.S. corporate tax rate. In accordance with its accounting policy, the company releases the income tax effects of deferred tax balances that have a valuation allowance from AOCI once the reason the tax effects were established cease to exist (e.g. postretirement plan is liquidated). The new guidance allows for the reclassification of stranded tax effects as a result of the change in tax rates from the TCJA to be recorded upon adoption of the guidance rather than at cessation date. On July 1, 2018, \$208.7 million related to postretirement plans was reclassified from AOCI to retained earnings.

In September 2018, the company adopted SEC Release No. 33-10532, *Disclosure Update and Simplification* which amends certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the rule expands the disclosure requirements on changes in stockholders' equity for interim periods. Under this rule, a reconciliation of changes in stockholders' equity is required for each period for which an income statement is presented. The company applied the new disclosure requirements retrospectively to all periods presented. There was no overall impact on the company's consolidated financial statements.

Effective for the annual reporting period ended December 31, 2018, the company adopted ASU No. 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans* which adds, removes and clarifies disclosure requirements related to defined benefit pension and other postretirement plans. The company applied the changes on a retrospective basis for all periods presented. There was no overall impact on the company's consolidated financial statements.

Accounting Pronouncements Not Yet Adopted

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal—Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* which clarifies the accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. This update is effective for fiscal years ending after December 15, 2019, with earlier adoption permitted. The new guidance can be applied retrospectively or prospectively to all implementation costs incurred after the date of adoption. The company is currently assessing when it will choose to adopt, and is currently evaluating the impact of the adoption on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13 *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* which introduces a new model for recognizing credit losses on financial instruments based on an estimate of current expected losses. This includes trade and other receivables, loans and other financial instruments. This update is effective for annual periods beginning after December 15, 2019, with earlier adoption permitted. The company is currently assessing when it will choose to adopt, and is currently evaluating the impact of the adoption on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02 *Leases (Topic 842)*, which is intended to improve financial reporting about leasing transactions. The ASU requires organizations that lease assets, referred to as lessees, to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The standard also requires disclosures to help investors and other financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842), Targeted Improvements*, which provides an alternative transition method permitting the recognition of a cumulative-effect adjustment to retained earnings on the date of adoption rather than restating comparative periods in transition as originally prescribed by Topic 842. The standard is effective for annual reporting periods beginning after December 15, 2018, which for the company is January 1, 2019. The company will adopt the new guidance utilizing the alternative transition method. The company reviewed lease contracts, implemented new lease accounting software, established new processes and internal controls and evaluated the impact of certain accounting policy elections. The adoption is expected to have a material impact on the consolidated financial position, and is not expected to have a material impact on the consolidated results of operations and cash flows.

Note 3 – Cost-reduction actions

2018 Cost-reduction Plan

In the fourth quarter of 2018, the company committed to a reduction of 589 employees. This resulted in charges, principally related to severance costs, of \$27.7 million, which were comprised of: (a) a charge of \$5.2 million for 264 employees in the U.S. and (b) a charge of \$22.5 million for 325 employees outside the U.S. The charges were recorded in the following statement of income classifications: cost of revenue - services, \$25.4 million and selling, general and administrative expenses, \$2.3 million.

2015 Cost-reduction Plan

There were no additional cost-reduction charges recorded during 2018; however, a benefit of \$8.0 million was recorded in the current year for changes in estimates. The benefit was recorded in the following statement of income classifications: cost of revenue - services, \$7.3 million and selling, general and administrative expenses, \$0.7 million.

During 2017, the company recognized cost-reduction charges and other costs of \$146.8 million, principally related to a reduction in employees. The charges related to work-force reductions were \$117.9 million, principally related to severance costs, and were comprised of: (a) a charge of \$9.4 million for 542 employees and \$(1.3) million for changes in estimates in

the U.S. and (b) a charge of \$109.4 million for 2,274 employees, \$8.2 million for additional benefits provided in 2017 and \$(7.8) million for changes in estimates outside the U.S. In addition, the company recorded charges of \$28.9 million comprised of \$4.7 million for idle leased facilities costs, \$5.4 million for contract amendment and termination costs, \$5.2 million for professional fees and other expenses related to the cost-reduction effort, \$1.8 million for net asset sales and write-offs and \$11.8 million for net foreign currency losses related to exiting foreign countries. The charges were recorded in the following statement of income classifications: cost of revenue - services, \$99.6 million; cost of revenue - technology, \$0.4 million; selling, general and administrative expenses, \$33.6 million; research and development expenses, \$1.4 million; and other income (expense), net, \$11.8 million.

During 2016, the company recognized cost-reduction charges and other costs of \$82.1 million, principally related to a reduction in employees. The charges related to work-force reductions were \$62.6 million, principally related to severance costs, and were comprised of: (a) a charge of \$8.3 million for 351 employees and \$(1.3) million for changes in estimates in the U.S. and (b) a charge of \$58.6 million for 1,048 employees and \$(3.0) million for changes in estimates outside the U.S. In addition, the company recorded charges of \$19.5 million comprised of \$1.4 million for idle leased facilities costs, \$4.1 million for contract amendment and termination costs, \$13.3 million for professional fees and other expenses related to the cost-reduction effort and \$0.7 million for net asset sales and write-offs. The charges were recorded in the following statement of income classifications: cost of revenue - services, \$42.4 million; selling, general and administrative expenses, \$38.0 million; and research and development expenses, \$1.7 million.

Liabilities and expected future payments related to the company's cost-reduction actions are as follows:

	Total	Work-Force Reductions		Idle Leased Facilities Costs
		U.S.	International	
Balance at January 1, 2016	\$ 33.0	\$ 4.2	\$ 28.8	\$-
Additional provisions	68.3	8.3	58.6	1.4
Payments	(59.3)	(9.4)	(49.9)	-
Changes in estimates	(4.3)	(1.3)	(3.0)	-
Translation adjustments	(1.1)	-	(1.1)	-
Balance at December 31, 2016	36.6	1.8	33.4	1.4
Additional provisions	131.2	9.4	117.6	4.2
Payments	(49.3)	(6.0)	(41.3)	(2.0)
Changes in estimates	(8.6)	(1.3)	(7.8)	0.5
Translation adjustments	7.9	-	7.7	0.2
Balance at December 31, 2017	117.8	3.9	109.6	4.3
Additional provisions	27.7	5.2	22.5	-
Payments	(44.4)	(3.1)	(39.3)	(2.0)
Changes in estimates	(8.0)	0.1	(8.8)	0.7
Translation adjustments	(4.0)	-	(3.9)	(0.1)
Balance at December 31, 2018	\$ 89.1	\$ 6.1	\$ 80.1	\$2.9
Expected future payments on balance at December 31, 2018:				
In 2019	\$ 75.8	\$ 5.6	\$ 68.8	\$1.4
Beyond 2019	13.3	0.5	11.3	1.5

Note 4 – Rental expense and commitments

Rental expense and income from subleases for the three years ended December 31, 2018 were as follows:

Year ended December 31,	2018	2017	2016
Rental expense, less income from subleases	\$67.4	\$71.7	\$77.4
Income from subleases	\$ 3.1	\$ 4.4	\$ 7.8

Minimum net rental commitments under noncancelable operating leases, including idle leases, outstanding at December 31, 2018, substantially all of which relate to real properties, were as follows:

Year	
2019	\$ 48.5
2020	42.1
2021	30.0
2022	20.8
2023	14.3
Thereafter	24.4
Total	\$180.1

Such rental commitments have been reduced by minimum sublease rentals of \$2.7 million, due in the future under noncancelable subleases.

At December 31, 2018, the company had outstanding standby letters of credit and surety bonds totaling approximately \$272 million related to performance and payment guarantees. On the basis of experience with these arrangements, the company believes that any obligations that may arise will not be material. In addition, at December 31, 2018, the company had deposits and collateral of approximately \$15 million in other long-term assets, principally related to tax contingencies in Brazil.

Note 5 – Foreign currency

Effective July 1, 2018, the company's Argentinian subsidiary began to apply highly inflationary accounting due to cumulative inflation of approximately 100 percent or more over the last 3-year period. For those international subsidiaries operating in highly inflationary economies, the U.S. dollar is the functional currency, and as such, nonmonetary assets and liabilities are translated at historical exchange rates, and monetary assets and liabilities are translated at current exchange rates. Exchange gains and losses arising from translation are included in other income (expense), net. The impact of applying highly inflationary accounting in the third quarter of 2018 was immaterial. At December 31, 2018, the company's operations in Argentina had net monetary assets denominated in local currency of approximately \$5.1 million.

During the years ended December 31, 2018, 2017 and 2016, the company recognized foreign exchange gains (losses) in "Other income (expense), net" in its consolidated statements of income of \$(5.9) million, \$(9.9) million and \$2.3 million, respectively. The year ended December 31, 2017 also includes \$11.8 million of net foreign currency losses related to exiting foreign countries in connection with the company's restructuring plan.

Note 6 – Income taxes

Following is the total income (loss) before income taxes and the provision for income taxes for the three years ended December 31, 2018.

Year ended December 31,	2018	2017	2016
Income (loss) before income taxes			
United States	\$ (53.6)	\$(152.7)	\$ (88.3)
Foreign	196.8	80.6	108.8
Total income (loss) before income taxes	<u>\$143.2</u>	<u>\$ (72.1)</u>	<u>\$ 20.5</u>
Provision for income taxes			
Current			
United States	\$ 4.7	\$ (42.8)	\$ 6.7
Foreign	51.4	33.9	47.7
Total	<u>56.1</u>	<u>(8.9)</u>	<u>54.4</u>
Deferred			
Foreign	8.2	3.4	2.8
Total provision (benefit) for income taxes	<u>\$ 64.3</u>	<u>\$ (5.5)</u>	<u>\$ 57.2</u>

Following is a reconciliation of the provision (benefit) for income taxes at the United States statutory tax rate to the provision for income taxes as reported:

Year ended December 31,	2018	2017	2016
United States statutory income tax provision (benefit)	\$30.1	\$(25.2)	\$ 7.2
Income and losses for which no provision or benefit has been recognized	22.2	70.3	65.5
Foreign rate differential and other foreign tax expense	9.5	(11.3)	(21.1)
Income tax withholdings	19.3	16.8	22.8
Permanent items	(5.0)	(3.0)	(4.7)
Enacted rate changes	(2.3)	(0.4)	3.5
Change in uncertain tax positions	(1.2)	2.3	0.4
Change in valuation allowances due to changes in judgment	(5.9)	(4.6)	(16.4)
Income tax credits, U.S.	(2.4)	(50.4)	-
Provision (benefit) for income taxes	\$64.3	\$ (5.5)	\$ 57.2

The Tax Cuts & Jobs Act (“TCJA”) reduced the U.S. federal income tax rate from 35% to 21% effective January 1, 2018, with no net financial statement impact due to the valuation allowance recorded against all U.S. deferred tax assets.

Included in 2017 was a benefit of \$50.4 million principally related to the TCJA’s elimination of the corporate Alternative Minimum Tax (“AMT”) and refund of all remaining AMT credits.

The 2018 and 2016 provisions for income taxes included \$(2.2) million and \$3.5 million due to reductions in the Netherlands and U.K. income tax rates, respectively. The Netherlands rate reduction was enacted in the fourth quarter of 2018 and reduced the rate from 25% to 20.5% effective January 1, 2021. The U.K. rate reduction was enacted in the third quarter of 2016 and reduced the rate from 18% to 17% effective April 1, 2020.

The tax effects of temporary differences and carryforwards that give rise to significant portions of deferred tax assets and liabilities at December 31, 2018 and 2017 were as follows:

As of December 31,	2018	2017
Deferred tax assets		
Tax loss carryforwards	\$ 860.0	\$ 837.6
Postretirement benefits	440.3	437.7
Foreign tax credit carryforwards	221.6	127.0
Other tax credit carryforwards	29.8	29.1
Deferred revenue	37.1	40.9
Employee benefits and compensation	31.1	35.2
Purchased capitalized software	22.9	22.2
Depreciation	20.1	24.5
Warranty, bad debts and other reserves	4.8	5.3
Capitalized costs	5.1	3.1
Other	30.4	39.3
	1,703.2	1,601.9
Valuation allowance	(1,547.5)	(1,441.1)
Total deferred tax assets	\$ 155.7	\$ 160.8
Deferred tax liabilities		
Capitalized research and development	\$ 36.1	\$ 24.3
Other	30.2	25.8
Total deferred tax liabilities	\$ 66.3	\$ 50.1
Net deferred tax assets	\$ 89.4	\$ 110.7

2017 includes a remeasurement of U.S. deferred tax balances as the TCJA reduced the U.S. federal income tax rate from 35% to 21% effective January 1, 2018, with no net financial statement impact due to the valuation allowance recorded against all U.S. deferred tax assets.

At December 31, 2018, the company has tax effected tax loss carryforwards as follows:

As of December 31,	2018
U.S. Federal	\$349.6
State and local	257.5
Foreign	252.9
Total tax loss carryforwards	\$860.0

These carryforwards will expire as follows:

Year	
2019	\$ 7.7
2020	25.9
2021	14.1
2022	15.1
2023	14.3
Thereafter	782.9
Total	\$860.0

The company also has available tax credit carryforwards, which will expire as follows:

Year	
2019	\$ 11.8
2020	24.5
2021	41.9
2022	38.1
2023	27.0
Thereafter	108.1
Total	\$251.4

Failure to achieve forecasted taxable income might affect the ultimate realization of the company's net deferred tax assets. Factors that may affect the company's ability to achieve sufficient forecasted taxable income include, but are not limited to, the following: increased competition, a decline in sales or margins, loss of market share, the impact of the economic environment, delays in product availability and technological obsolescence.

Under U.S. tax law effective through December 31, 2017, undistributed earnings of foreign subsidiaries were generally taxable upon repatriation to the U.S. shareholder. Under the TCJA, effective January 1, 2018, distributions from foreign subsidiaries to U.S. shareholders are generally exempt from taxation.

With this change in U.S. taxation of earnings of foreign subsidiaries under the TCJA, future distributions of earnings from foreign subsidiaries will generally be exempt from U.S. taxation. Consequently, the deferred income tax liability on undistributed earnings is generally limited to any foreign withholding or other foreign taxes that will be imposed on such distributions. As the company currently intends to indefinitely reinvest the earnings of certain foreign subsidiaries, no provision has been made for income taxes that may become payable upon distribution of the earnings of such subsidiaries. The unrecognized deferred income tax liability at December 31, 2018 approximated \$25.3 million.

As of January 1, 2018 the U.S. taxable income will include GILTI, which essentially includes net foreign subsidiaries' earnings above a routine 10% return on their aggregate specified tangible assets. At December 31, 2017, the company made an accounting policy election to treat the GILTI as a period cost when included in U.S. taxable income.

Cash paid for income taxes, net of refunds, for the three years ended December 31, 2018, was as follows:

Year ended December 31,	2018	2017	2016
Cash paid for income taxes, net of refunds	\$39.1	\$34.3	\$46.4

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Year ended December 31,	2018	2017	2016
Balance at January 1	\$27.9	\$ 35.8	\$27.7
Additions based on tax positions related to the current year	2.6	4.2	2.7
Changes for tax positions of prior years	(6.1)	(11.2)	12.0
Reductions as a result of a lapse of applicable statute of limitations	(2.4)	(2.7)	(2.8)
Settlements	(1.5)	(0.2)	(0.1)
Changes due to foreign currency	(1.6)	2.0	(3.7)
Balance at December 31	\$18.9	\$ 27.9	\$35.8

The company recognizes penalties and interest accrued related to income tax liabilities in the provision for income taxes in its consolidated statements of income. At December 31, 2018 and 2017, the company had an accrual of \$2.6 million and \$2.3 million, respectively, for the payment of penalties and interest.

At December 31, 2018, all of the company's liability for unrecognized tax benefits, if recognized, would affect the company's effective tax rate. Within the next 12 months, the company believes that it is reasonably possible that the amount of unrecognized tax benefits may significantly change; however, various events could cause this belief to change in the future.

The company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. Several U.S. state and foreign income tax audits are in process. The company is under an audit in India, for which years prior to 2007 are closed. For the most significant jurisdictions outside the U.S., the audit periods through 2013 are closed for Brazil, and the audit periods through 2014 are closed for the United Kingdom. All of the various ongoing income tax audits throughout the world are not expected to have a material impact on the company's financial position.

Internal Revenue Code Sections 382 and 383 provide annual limitations with respect to the ability of a corporation to utilize its net operating loss (as well as certain built-in losses) and tax credit carryforwards, respectively ("Tax Attributes"), against future U.S. taxable income, if the corporation experiences an "ownership change." In general terms, an ownership change may result from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percentage points over a three-year period. The company regularly monitors ownership changes (as calculated for purposes of Section 382). The company has determined that, for purposes of the rules of Section 382 described above, an ownership change occurred in February 2011. Any future transaction or transactions and the timing of such transaction or transactions could trigger additional ownership changes under Section 382.

As a result of the February 2011 ownership change, utilization for certain of the company's Tax Attributes, U.S. net operating losses and tax credits, is subject to an overall annual limitation of \$70.6 million. The cumulative limitation as of December 31, 2018 is approximately \$454.9 million. This limitation will be applied first to any recognized built in losses, then to any net operating losses, and then to any other Tax Attributes. Any unused limitation may be carried over to later years. Based on presently available information and the existence of tax planning strategies, the company does not expect to incur a U.S. cash tax liability in the near term. The company maintains a full valuation allowance against the realization of all U.S. deferred tax assets as well as certain foreign deferred tax assets in excess of deferred tax liabilities.

Note 7 – Earnings per common share

The following table shows how earnings (loss) per common share attributable to Unisys Corporation was computed for the three years ended December 31, 2018 (shares in thousands).

Year ended December 31,	2018	2017	2016
Basic earnings (loss) per common share computation:			
Net income (loss) attributable to Unisys Corporation common shareholders	\$ 75.5	\$ (65.3)	\$ (47.7)
Weighted average shares	50,946	50,409	50,060
Basic earnings (loss) per common share	\$ 1.48	\$ (1.30)	\$ (0.95)
Diluted earnings (loss) per common share computation:			
Net income (loss) attributable to Unisys Corporation common shareholders	\$ 75.5	\$ (65.3)	\$ (47.7)
Add interest expense on convertible senior notes, net of tax of zero	19.6	–	–
Net income (loss) attributable to Unisys Corporation for diluted earnings per share	\$ 95.1	\$ (65.3)	\$ (47.7)
Weighted average shares	50,946	50,409	50,060
Plus incremental shares from assumed conversions:			
Employee stock plans	541	–	–
Convertible senior notes	21,868	–	–
Adjusted weighted average shares	73,355	50,409	50,060
Diluted earnings (loss) per common share	\$ 1.30	\$ (1.30)	\$ (0.95)
Anti-dilutive weighted-average stock options and restricted stock units ⁽ⁱ⁾	1,226	2,206	3,553
Anti-dilutive weighted-average common shares issuable upon conversion of the 5.50% convertible senior notes ⁽ⁱ⁾	–	21,868	17,230

⁽ⁱ⁾ Amounts represent shares excluded from the computation of diluted earnings per share, as their effect, if included, would have been anti-dilutive for the periods presented.

Note 8 – Accounts receivable

Accounts receivable consist principally of trade accounts receivable from customers and are generally unsecured and due within 30 to 90 days. Credit losses relating to these receivables consistently have been within management's expectations. Expected credit losses are recorded as an allowance for doubtful accounts in the consolidated balance sheets. Estimates of expected credit losses are based primarily on the aging of the accounts receivable balances. The company records a specific reserve for individual accounts when it becomes aware of a customer's inability to meet its financial obligations, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position. The collection policies and procedures of the company vary by credit class and prior payment history of customers.

Revenue recognized in excess of billings on services contracts, or unbilled accounts receivable, was \$94.4 million and \$109.4 million at December 31, 2018 and 2017, respectively.

As of December 31, 2018, receivables under sales-type leases before the allowance for unearned income were collectible as follows:

Year	
2019	\$36.2
2020	15.2
2021	10.7
2022	10.1
2023	10.2
Thereafter	8.6
Total	\$91.0

Unearned income, which is deducted from accounts receivable, was \$8.4 million and \$12.5 million at December 31, 2018 and 2017, respectively. The allowance for doubtful accounts, which is reported as a deduction from accounts receivable, was \$13.7 million and \$22.0 million at December 31, 2018 and 2017, respectively. The provision for doubtful accounts, which is reported in selling, general and administrative expenses in the consolidated statements of income, was (income) expense of \$(5.1) million, \$3.1 million and \$2.2 million, in 2018, 2017 and 2016, respectively.

Note 9 – Financial instruments and concentration of credit risks

Due to its foreign operations, the company is exposed to the effects of foreign currency exchange rate fluctuations on the U.S. dollar, principally related to intercompany account balances. The company uses derivative financial instruments to reduce its exposure to market risks from changes in foreign currency exchange rates on such balances. The company enters into foreign exchange forward contracts, generally having maturities of three months or less, which have not been designated as hedging instruments. At December 31, 2018 and 2017, the notional amount of these contracts was \$384.7 million and \$514.0 million, respectively. The fair value of these forward contracts is based on quoted prices for similar but not identical financial instruments; as such, the inputs are considered Level 2 inputs.

The following table summarizes the fair value of the company's foreign exchange forward contracts as of December 31, 2018 and 2017.

As of December 31,	2018	2017
Balance Sheet Location		
Prepaid expenses and other current assets	\$3.4	\$4.9
Other accrued liabilities	0.3	1.6
Total fair value	\$3.1	\$3.3

The following table summarizes the location and amount of gains and losses recognized on foreign exchange forward contracts for the three years ended December 31, 2018.

Year Ended December 31,	2018	2017	2016
Statement of Income Location			
Other income (expense), net	\$(14.2)	\$27.5	\$(29.1)

Financial instruments also include temporary cash investments and customer accounts receivable. Temporary investments are placed with creditworthy financial institutions, primarily in money market funds, time deposits and certificate of deposits which may be withdrawn at any time at the discretion of the company without penalty. At December 31, 2018 and 2017, the company's cash equivalents principally have maturities of less than one month or can be withdrawn at any time at the discretion of the company without penalty. Due to the short maturities of these instruments, they are carried on the consolidated balance sheets at cost plus accrued interest, which approximates market value. Receivables are due from a large number of customers that are dispersed worldwide across many industries. At December 31, 2018 and 2017, the company had no significant concentrations of credit risk with any one customer. At December 31, 2018 and 2017, the company had \$85.8 million and \$75.8 million, respectively, of receivables due from various U.S. federal governmental agencies. At December 31, 2018 and 2017, the carrying amount of cash and cash equivalents approximated fair value.

Note 10 – Properties

Properties comprise the following:

As of December 31,	2018	2017
Land	\$ 2.3	\$ 2.8
Buildings	63.5	91.3
Machinery and office equipment	530.0	601.7
Internal-use software	164.7	157.4
Rental equipment	39.7	45.6
Total properties	\$800.2	\$898.8

In the second quarter of 2018, the company sold a building and land located in the United Kingdom. The company received net proceeds of \$19.2 million and recorded a pretax gain of \$7.3 million which was recorded in selling, general and administrative expenses in the consolidated statements of income.

Note 11 – Goodwill

During the fourth quarter of 2018, the company performed its annual impairment test of goodwill for all of our reporting units. The fair values of each of the reporting units exceeded their carrying values; therefore, no goodwill impairment was required.

At December 31, 2018, the amount of goodwill allocated to reporting units with negative net assets was as follows: Business Process Outsourcing Services, \$10.4.

Changes in the carrying amount of goodwill by segment for the years ended December 31, 2018 and 2017 were as follows:

	Total	Services	Technology
Balance at December 31, 2016	\$178.6	\$69.9	\$108.7
Translation adjustments	2.2	2.2	–
Balance at December 31, 2017	180.8	72.1	108.7
Translation adjustments	(3.0)	(3.0)	–
Balance at December 31, 2018	\$177.8	\$69.1	\$108.7

Note 12 – Debt

Long-term debt is comprised of the following:

As of December 31,	2018	2017
10.75% senior secured notes due April 15, 2022 (\$440.0 million face value less unamortized discount and fees of \$8.0 million and \$10.4 million at December 31, 2018 and 2017, respectively)	\$432.0	\$429.6
5.50% convertible senior notes due March 1, 2021 (\$213.5 million face value less unamortized discount and fees of \$19.3 million and \$27.2 million at December 31, 2018 and 2017, respectively)	194.2	186.3
Capital leases	5.8	7.5
Other debt	20.8	21.3
Total	652.8	644.7
Less – current maturities	10.0	10.8
Total long-term debt	\$642.8	\$633.9

Long-term debt is carried at amortized cost and its estimated fair value is based on market prices classified as Level 2 in the fair value hierarchy. Presented below are the estimated fair values of long-term debt as of December 31, 2018 and 2017.

As of December 31,	2018	2017
10.75% senior secured notes due April 15, 2022	\$486.8	\$492.8
5.50% convertible senior notes due March 1, 2021	298.5	237.9

Maturities of long-term debt, including capital leases, in each of the next five years and thereafter are as follows:

Year	Total	Long-Term Debt	Capital Leases
2019	\$ 10.0	\$ 8.4	\$1.6
2020	2.5	0.9	1.6
2021	197.5	195.9	1.6
2022	434.8	433.8	1.0
2023	1.8	1.8	–
Thereafter	6.2	6.2	–
Total	\$652.8	\$647.0	\$5.8

Cash paid for interest and capitalized interest expense during the three years ended December 31, 2018 was as follows:

Year ended December 31,	2018	2017	2016
Cash paid for interest	\$59.5	\$39.9	\$22.1
Capitalized interest expense	\$ 6.0	\$ 4.2	\$ 3.0

Senior Secured Notes

In 2017, the company issued \$440.0 million aggregate principal amount of 10.75% Senior Secured Notes due 2022 (the “2022 Notes”). The 2022 Notes are initially fully and unconditionally guaranteed on a senior secured basis by Unisys Holding Corporation, Unisys AP Investment Company I and Unisys NPL, Inc. (together with the Company, the “Grantors”). In the future, the 2022 Notes will be guaranteed by each material domestic subsidiary and each restricted subsidiary that guarantees the secured revolving credit facility and other indebtedness of the company or another subsidiary guarantor. The 2022 Notes and the guarantees will rank equally in right of payment with all of the existing and future senior debt of the company and the subsidiary guarantors. The 2022 Notes and the guarantees will be structurally subordinated to all existing and future liabilities (including preferred stock, trade payables and pension liabilities) of the company’s subsidiaries that are not subsidiary guarantors.

The 2022 Notes pay interest semiannually on April 15 and October 15 at an annual rate of 10.75%, and will mature on April 15, 2022, unless earlier repurchased or redeemed.

The company may, at its option, redeem some or all of the 2022 Notes at any time on or after April 15, 2020 at a redemption price determined in accordance with the redemption schedule set forth in the indenture governing the Notes (the “indenture”), plus accrued and unpaid interest, if any.

Prior to April 15, 2020, the company may, at its option, redeem some or all of the 2022 Notes at any time, at a price equal to 100% of the principal amount of the 2022 Notes redeemed plus a “make-whole” premium, plus accrued and unpaid interest, if any. The company may also redeem, at its option, up to 35% of the 2022 Notes at any time prior to April 15, 2020, using the proceeds of certain equity offerings at a redemption price of 110.75% of the principal amount thereof, plus accrued and unpaid interest, if any. In addition, the company may redeem all (but not less than all) of the 2022 Notes at any time that the Collateral Coverage Ratio is less than the Required Collateral Coverage Ratio (as such terms are described below and further defined in the indenture) at a price equal to 100% of the principal amount of the 2022 Notes plus accrued and unpaid interest, if any.

The indenture contains covenants that limit the ability of the company and its restricted subsidiaries to, among other things: (i) incur additional indebtedness and guarantee indebtedness; (ii) pay dividends or make other distributions or repurchase or redeem its capital stock; (iii) prepay, redeem or repurchase certain debt; (iv) make certain prepayments in respect of pension obligations; (v) issue certain preferred stock or similar equity securities; (vi) make loans and investments (including investments by the company and subsidiary guarantors in subsidiaries that are not guarantors); (vii) sell assets; (viii) create or incur liens; (ix) enter into transactions with affiliates; (x) enter into agreements restricting its subsidiaries’ ability to pay dividends; and (xi) consolidate, merge or sell all or substantially all of its assets. These covenants are subject to several important limitations and exceptions.

The indenture also includes a covenant requiring that the company maintain a Collateral Coverage Ratio of not less than 1.50:1.00 (the “Required Collateral Coverage Ratio”) as of any test date. The Collateral Coverage Ratio is based on the ratio of (A) Grantor unrestricted cash and cash equivalents plus 4.75 multiplied by of the greater of (x) Grantor EBITDA for the most recently ended four fiscal quarters and (y) (i) the average quarterly Grantor EBITDA for the most recently ended seven fiscal quarters, multiplied by (ii) four, to (B) secured indebtedness of the Grantors. The Collateral Coverage Ratio is tested quarterly. If the Collateral Coverage Ratio is less than the Required Collateral Coverage Ratio as of any test date, and the company has not redeemed the 2022 Notes within 90 days thereafter, this will be an event of default under the indenture.

If the company experiences certain kinds of changes of control, it must offer to purchase the 2022 Notes at 101% of the principal amount of the 2022 Notes, plus accrued and unpaid interest, if any. In addition, if the company sells assets under certain circumstances it must apply the proceeds towards an offer to repurchase the 2022 Notes at a price equal to par plus accrued and unpaid interest, if any.

The indenture also provides for events of default, which, if any of them occurs, would permit or require the principal, premium, if any, interest and any other monetary obligations on all the then outstanding 2022 Notes to be due and payable immediately.

Interest expense related to the 2022 Notes is comprised of the following:

Year ended December 31,	2018	2017	2016
Contractual interest coupon	\$47.3	\$33.2	\$-
Amortization of debt issuance costs	2.4	1.7	-
Total	\$49.7	\$ 34.9	\$-

Convertible Senior Notes

In 2016, the company issued \$213.5 million aggregate principal amount of Convertible Senior Notes due 2021 (the “2021 Notes”). The 2021 Notes, which are senior unsecured obligations, bear interest at a coupon rate of 5.50% (or 9.5% effective interest rate) per year until maturity, payable semiannually in arrears on March 1 and September 1 of each year. The 2021 Notes are not redeemable prior to maturity and are convertible into shares of the company’s common stock. The conversion rate for the 2021 Notes is 102.4249 shares of the company’s common stock per \$1,000 principal amount of the 2021 Notes (or a total amount of 21,867,716 shares), which is equivalent to an initial conversion price of approximately \$9.76 per share of the company’s common stock. Upon any conversion, the company will settle its conversion obligation in cash, shares of its common stock, or a combination of cash and shares of its common stock, at its election.

In connection with the issuance of the 2021 Notes, the company also paid \$27.3 million to enter into privately negotiated capped call transactions with the initial purchasers and/or affiliates of the initial purchasers. The capped call transactions will cover, subject to customary anti-dilution adjustments, the number of shares of the company’s common stock that will initially underlie the 2021 Notes. The capped call transactions will effectively raise the conversion premium on the 2021 Notes from approximately 22.5% to approximately 60%, which raises the initial conversion price from approximately \$9.76 per share of common stock to approximately \$12.75 per share of common stock. The capped call transactions are expected to reduce potential dilution to the company’s common stock and/or offset potential cash payments the company is required to make in excess of the principal amount upon any conversion of the 2021 Notes.

Interest expense related to the 2021 Notes is comprised of the following:

Year ended December 31,	2018	2017	2016
Contractual interest coupon	\$11.8	\$11.8	\$ 9.2
Amortization of debt discount	6.6	6.0	4.3
Amortization of debt issuance costs	1.2	1.2	1.0
Total	\$19.6	\$ 19.0	\$14.5

Revolving Credit Facility

The company has a secured revolving credit facility (the “Credit Agreement”) that provides for loans and letters of credit. During the second quarter of 2018, the maximum amount available under the facility was increased from \$125.0 million to \$145.0 million (with a limit on letters of credit of \$30.0 million). The accordion feature contained in the Credit Agreement that permitted this increase allows for an increase in the amount of the facility up to \$150.0 million. Availability under the credit facility is subject to a borrowing base calculated by reference to the company’s receivables. At December 31, 2018, the company had no borrowings and \$6.5 million of letters of credit outstanding, and availability under the facility was \$138.5 million net of letters of credit issued. The Credit Agreement expires October 5, 2022, subject to a springing maturity (i) on the date that is 91 days prior to the maturity date of the 2021 Notes unless, on such date, certain conditions are met; or (ii) on the date that is 60 days prior to the maturity date of the 2022 Notes unless, by such date, such secured notes have not been redeemed or refinanced.

The credit facility is guaranteed by Unisys Holding Corporation, Unisys NPL, Inc., Unisys AP Investment Company I and any future material domestic subsidiaries. The facility is secured by the assets of the company and the subsidiary guarantors, other than certain excluded assets, under a security agreement entered into by the company and the subsidiary guarantors in favor of JPMorgan Chase Bank, N.A., as agent for the lenders under the credit facility.

The company is required to maintain a minimum fixed charge coverage ratio if the availability under the credit facility falls below the greater of 10% of the lenders' commitments under the facility and \$15.0 million.

The Credit Agreement contains customary representations and warranties, including that there has been no material adverse change in the company's business, properties, operations or financial condition. The Credit Agreement includes limitations on the ability of the company and its subsidiaries to, among other things, incur other debt or liens, dispose of assets and make acquisitions, loans and investments, repurchase its equity, and prepay other debt. Events of default include non-payment, failure to comply with covenants, materially incorrect representations and warranties, change of control and default under other debt aggregating at least \$50.0 million.

At December 31, 2018, the company has met all covenants and conditions under its various lending agreements. The company expects to continue to meet these covenants and conditions.

The company's principal sources of liquidity are cash on hand, cash from operations and its revolving credit facility, discussed above. The company and certain international subsidiaries have access to uncommitted lines of credit from various banks.

The company's anticipated future cash expenditures include anticipated contributions to its defined benefit pension plans. The company believes that it has adequate sources of liquidity to meet its expected 2019 cash requirements.

Note 13 – Other accrued liabilities

Other accrued liabilities (current) are comprised of the following:

As of December 31,	2018	2017
Payrolls and commissions	\$108.1	\$120.2
Cost-reduction	75.8	87.7
Accrued vacations	41.2	42.8
Income taxes	32.3	26.0
Taxes other than income taxes	31.2	29.1
Postretirement	14.8	18.5
Accrued interest	13.8	13.8
Other	32.8	53.4
Total other accrued liabilities	\$350.0	\$391.5

Note 14 – Employee plans

Stock plans Under stockholder approved stock-based plans, stock options, stock appreciation rights, restricted stock and restricted stock units may be granted to officers, directors and other key employees. At December 31, 2018, 2.4 million shares of unissued common stock of the company were available for granting under these plans.

As of December 31, 2018, the company has granted non-qualified stock options and restricted stock units under these plans. The company recognizes compensation cost, net of a forfeiture rate, in selling, general and administrative expenses, and recognizes the compensation cost for only those awards expected to vest. The company estimates the forfeiture rate based on its historical experience and its expectations about future forfeitures.

During the years ended December 31, 2018, 2017 and 2016, the company recognized \$13.2 million, \$11.2 million and \$9.5 million of share-based compensation expense, which is comprised of \$13.1 million, \$10.1 million and \$7.5 million of restricted stock unit expense and \$0.1 million, \$1.1 million and \$2.0 million of stock option expense, respectively.

There were no grants of stock option awards for the years ended December 31, 2018 and 2017. In 2016, the company granted 11 thousand stock option awards. The weighted-average fair value of the grant, which was estimated using the

Black-Scholes option pricing model was \$4.53. As of December 31, 2018, 1.1 million stock option awards with a weighted-average exercise price of \$27.90 are outstanding.

Restricted stock unit awards may contain time-based units, performance-based units, total shareholder return market-based units, or a combination of these units. Each performance-based and market-based unit will vest into zero to two shares depending on the degree to which the performance or market conditions are met. Compensation expense for performance-based awards is recognized as expense ratably for each installment from the date of grant until the date the restrictions lapse and is based on the fair market value at the date of grant and the probability of achievement of the specific performance-related goals. Compensation expense for market-based awards is recognized as expense ratably over the measurement period, regardless of the actual level of achievement, provided the service requirement is met. Time-based restricted stock unit grants for the company's directors vest upon award and compensation expense for such awards is recognized upon grant.

A summary of restricted stock unit activity for the year ended December 31, 2018 follows (shares in thousands):

	Restricted Stock Units	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2017	1,688	\$13.39
Granted	1,449	12.53
Vested	(778)	13.43
Forfeited and expired	(208)	12.53
Outstanding at December 31, 2018	2,151	12.90

The aggregate weighted-average grant-date fair value of restricted stock units granted during the years ended December 31, 2018, 2017 and 2016 was \$17.9 million, \$14.4 million and \$12.9 million, respectively. The fair value of restricted stock units with time and performance conditions is determined based on the trading price of the company's common shares on the date of grant. The fair value of awards with market conditions is estimated using a Monte Carlo simulation with the following weighted-average assumptions.

Year Ended December 31,	2018
Weighted-average fair value of grant	\$15.20
Risk-free interest rate ⁽ⁱ⁾	2.26%
Expected volatility ⁽ⁱⁱ⁾	52.97%
Expected life of restricted stock units in years ⁽ⁱⁱⁱ⁾	2.88
Expected dividend yield	-

⁽ⁱ⁾ Represents the continuously compounded semi-annual zero-coupon U.S. treasury rate commensurate with the remaining performance period

⁽ⁱⁱ⁾ Based on historical volatility for the company that is commensurate with the length of the performance period

⁽ⁱⁱⁱ⁾ Represents the remaining life of the longest performance period

As of December 31, 2018, there was \$12.2 million of total unrecognized compensation cost related to outstanding restricted stock units granted under the company's plans. That cost is expected to be recognized over a weighted-average period of 1.9 years. The aggregate weighted-average grant-date fair value of restricted stock units vested during the years ended December 31, 2018, 2017 and 2016 was \$10.4 million, \$7.4 million and \$3.5 million, respectively.

Common stock issued upon exercise of stock options or upon lapse of restrictions on restricted stock units are newly issued shares. During 2018 and 2017, the company did not recognize any tax benefits from the exercise of stock options or upon issuance of stock upon lapse of restrictions on restricted stock units because of its tax position. Any such tax benefits resulting from tax deductions in excess of the compensation costs recognized are classified as operating cash flows.

Defined contribution and compensation plans U.S. employees are eligible to participate in an employee savings plan. Under this plan, employees may contribute a percentage of their pay for investment in various investment alternatives. The company matches 50 percent of the first 6 percent of eligible pay contributed by participants to the plan on a before-tax basis (subject to IRS limits). The company funds the match with cash. The charge to income related to the company match for the years ended December 31, 2018, 2017 and 2016, was \$11.1 million, \$10.8 million and \$10.7 million, respectively.

The company has defined contribution plans in certain locations outside the United States. The charge to income related to these plans was \$21.3 million, \$18.5 million and \$19.0 million, for the years ended December 31, 2018, 2017 and 2016, respectively.

The company has non-qualified compensation plans, which allow certain highly compensated employees and directors to defer the receipt of a portion of their salary, bonus and fees. Participants can earn a return on their deferred balance that is based on hypothetical investments in various investment vehicles. Changes in the market value of these investments are reflected as an adjustment to the liability with an offset to expense. As of December 31, 2018 and 2017, the liability to the participants of these plans was \$11.6 million and \$13.4 million, respectively. These amounts reflect the accumulated participant deferrals and earnings thereon as of that date. The company makes no contributions to the deferred compensation plans and remains contingently liable to the participants.

Retirement benefits For the company's more significant defined benefit pension plans, including the U.S., U.K. and the Netherlands, accrual of future benefits under the plans has ceased.

During 2018, cash lump-sum payments were paid to certain plan participants in two of the company's international defined benefit pension plans which resulted in a non-cash pension settlement charge of \$6.4 million for the year ended December 31, 2018.

Retirement plans' funded status and amounts recognized in the company's consolidated balance sheets at December 31, 2018 and 2017 follows:

As of December 31,	U.S. Plans		International Plans	
	2018	2017	2018	2017
Change in projected benefit obligation				
Benefit obligation at beginning of year	\$ 5,001.6	\$ 4,972.0	\$ 3,189.7	\$ 3,076.2
Service cost	-	-	3.2	5.1
Interest cost	186.6	211.3	67.3	72.8
Plan participants' contributions	-	-	1.5	1.9
Plan amendment	-	-	20.6	(52.5)
Plan curtailment	-	-	-	(2.2)
Plan settlement	-	-	(16.4)	-
Actuarial loss (gain)	(270.7)	177.0	(169.5)	(93.8)
Benefits paid	(359.5)	(358.7)	(108.7)	(117.1)
Foreign currency translation adjustments	-	-	(158.2)	299.3
Benefit obligation at end of year	\$ 4,558.0	\$ 5,001.6	\$ 2,829.5	\$ 3,189.7
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 3,578.4	\$ 3,452.1	\$ 2,833.9	\$ 2,429.7
Actual return on plan assets	(193.3)	424.0	(75.4)	172.3
Employer contribution	87.2	61.0	42.5	77.4
Plan participants' contributions	-	-	1.5	1.9
Plan settlement	-	-	(16.4)	-
Benefits paid	(359.5)	(358.7)	(108.7)	(117.1)
Foreign currency translation and other adjustments	-	-	(138.0)	269.7
Fair value of plan assets at end of year	\$ 3,112.8	\$ 3,578.4	\$ 2,539.4	\$ 2,833.9
Funded status at end of year	\$(1,445.2)	\$(1,423.2)	\$ (290.1)	\$ (355.8)
Amounts recognized in the consolidated balance sheets consist of:				
Prepaid postretirement assets	\$ -	\$ -	\$ 146.4	\$ 147.4
Other accrued liabilities	(6.7)	(6.8)	(0.1)	(0.2)
Long-term postretirement liabilities	(1,438.5)	(1,416.4)	(436.4)	(503.0)
Total funded status	\$(1,445.2)	\$(1,423.2)	\$ (290.1)	\$ (355.8)
Accumulated other comprehensive loss, net of tax				
Net loss	\$ 2,718.6	\$ 2,960.6	\$ 988.0	\$ 1,067.8
Prior service credit	\$ (37.3)	\$ (39.8)	\$ (46.8)	\$ (69.8)
Accumulated benefit obligation	\$ 4,558.0	\$ 5,001.6	\$ 2,828.2	\$ 3,188.0

Information for defined benefit retirement plans with an accumulated benefit obligation in excess of plan assets at December 31, 2018 and 2017 follows:

As of December 31,	2018	2017
Accumulated benefit obligation	\$6,433.6	\$7,151.7
Fair value of plan assets	\$4,553.2	\$5,227.0

Information for defined benefit retirement plans with a projected benefit obligation in excess of plan assets at December 31, 2018 and 2017 follows:

As of December 31,	2018	2017
Projected benefit obligation	\$6,434.9	\$7,153.4
Fair value of plan assets	\$4,553.2	\$5,227.0

Net periodic pension cost (income) for 2018, 2017 and 2016 includes the following components:

Year ended December 31,	U.S. Plans			International Plans		
	2018	2017	2016	2018	2017	2016
Service cost ⁽ⁱ⁾	\$ -	\$ -	\$ -	\$3.2	\$ 5.1	\$ 7.4
Interest cost	186.6	211.3	231.3	67.3	72.8	87.8
Expected return on plan assets	(230.6)	(235.2)	(253.1)	(114.4)	(127.5)	(139.5)
Amortization of prior service credit	(2.5)	(2.5)	(2.5)	(3.7)	(2.4)	(3.0)
Recognized net actuarial loss	125.1	126.4	116.0	42.3	49.8	40.3
Curtailement gain	-	-	-	-	(5.4)	(2.0)
Settlement loss	-	-	-	6.4	-	-
Net periodic pension cost (income)	\$ 78.6	\$ 100.0	\$ 91.7	\$1.1	\$(7.6)	\$(9.0)

⁽ⁱ⁾ Service cost is reported in cost of revenue - services and selling, general and administrative expenses. All other components of net periodic pension cost are reported in other income (expense), net in the consolidated statements of income.

Weighted-average assumptions used to determine net periodic pension cost for the years ended December 31 were as follows:

Year ended December 31,	U.S. Plans			International Plans		
	2018	2017	2016	2018	2017	2016
Discount rate	3.87%	4.38%	4.56%	2.24%	2.34%	3.30%
Expected long-term rate of return on assets	6.80%	6.80%	6.80%	4.38%	5.30%	5.99%

Weighted-average assumptions used to determine benefit obligations at December 31 were as follows:

Discount rate	4.50%	3.87%	4.38%	2.55%	2.24%	2.34%
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The company's investment policy targets and ranges for each asset category are as follows:

Asset Category	U.S.		International	
	Target	Range	Target	Range
Equity securities	42%	36-48%	22%	16-28%
Debt securities	38%	35-41%	62%	55-68%
Real estate	0%	0%	1%	0-3%
Cash	0%	0-5%	1%	0-5%
Other	20%	10-30%	14%	7-21%

The company periodically reviews its asset allocation, taking into consideration plan liabilities, local regulatory requirements, plan payment streams and then-current capital market assumptions. The actual asset allocation for each plan is monitored at least quarterly, relative to the established policy targets and ranges. If the actual asset allocation is close to or out of any of the ranges, a review is conducted. Rebalancing will occur toward the target allocation, with due consideration given to the liquidity of the investments and transaction costs.

The objectives of the company's investment strategies are as follows: (a) to provide a total return that, over the long term, increases the ratio of plan assets to liabilities by maximizing investment return on assets, at a level of risk deemed

appropriate, (b) to maximize return on assets by investing primarily in equity securities in the U.S. and for international plans by investing in appropriate asset classes, subject to the constraints of each plan design and local regulations, (c) to diversify investments within asset classes to reduce the impact of losses in single investments, and (d) for the U.S. plan to invest in compliance with the Employee Retirement Income Security Act of 1974 (“ERISA”), as amended and any subsequent applicable regulations and laws, and for international plans to invest in a prudent manner in compliance with local applicable regulations and laws.

The company sets the expected long-term rate of return based on the expected long-term return of the various asset categories in which it invests. The company considered the current expectations for future returns and the actual historical returns of each asset class. Also, since the company’s investment policy is to actively manage certain asset classes where the potential exists to outperform the broader market, the expected returns for those asset classes were adjusted to reflect the expected additional returns.

In 2019, the company expects to make cash contributions of \$105.6 million to its worldwide defined benefit pension plans, which are comprised of \$38.4 million primarily for international defined benefit pension plans and \$67.2 million for the company’s U.S. qualified defined benefit pension plans.

As of December 31, 2018, the following benefit payments are expected to be paid from the defined benefit pension plans:

Year ending December 31,	U.S.	International
2019	\$ 362.2	\$ 97.8
2020	359.4	101.2
2021	357.1	104.2
2022	354.4	112.2
2023	350.9	118.2
2024 – 2028	1,652.1	627.4

Other postretirement benefits A reconciliation of the benefit obligation, fair value of the plan assets and the funded status of the postretirement benefit plans at December 31, 2018 and 2017, follows:

As of December 31,	2018	2017
Change in accumulated benefit obligation		
Benefit obligation at beginning of year	\$103.2	\$120.1
Service cost	0.6	0.5
Interest cost	4.8	5.6
Plan participants' contributions	3.1	3.5
Amendments	-	(7.4)
Actuarial gain	(4.2)	(4.3)
Federal drug subsidy	0.2	0.3
Benefits paid	(11.5)	(15.7)
Foreign currency translation and other adjustments	-	0.6
Benefit obligation at end of year	<u>\$ 96.2</u>	<u>\$103.2</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 7.6	\$ 7.9
Actual return on plan assets	(0.4)	(0.3)
Employer contributions	9.0	12.2
Plan participants' contributions	3.1	3.5
Benefits paid	(11.5)	(15.7)
Fair value of plan assets at end of year	<u>\$ 7.8</u>	<u>\$ 7.6</u>
Funded status at end of year	<u>\$ (88.4)</u>	<u>\$ (95.6)</u>
Amounts recognized in the consolidated balance sheets consist of:		
Prepaid postretirement assets	\$ 1.2	\$ 0.9
Other accrued liabilities	(8.0)	(11.5)
Long-term postretirement liabilities	(81.6)	(85.0)
Total funded status	<u>\$ (88.4)</u>	<u>\$ (95.6)</u>
Accumulated other comprehensive loss, net of tax		
Net loss	\$ 10.5	\$ 14.9
Prior service credit	(8.2)	(9.8)

Net periodic postretirement benefit cost for 2018, 2017 and 2016, follows:

Year ended December 31,	2018	2017	2016
Service cost ⁽ⁱ⁾	\$ 0.6	\$ 0.5	\$ 0.4
Interest cost	4.8	5.6	6.2
Expected return on assets	(0.4)	(0.5)	(0.4)
Amortization of prior service cost	(1.6)	(0.7)	-
Recognized net actuarial loss	1.0	0.8	0.5
Net periodic benefit cost	<u>\$ 4.4</u>	<u>\$ 5.7</u>	<u>\$ 6.7</u>

⁽ⁱ⁾ Service cost is reported in selling, general and administrative expenses. All other components of net periodic benefit cost are reported in other income (expense), net in the consolidated statements of income.

Weighted-average assumptions used to determine net periodic postretirement benefit cost for the years ended December 31 were as follows:

Year ended December 31,	2018	2017	2016
Discount rate	5.30%	5.53%	5.61%
Expected return on plan assets	5.50%	5.50%	5.50%

Weighted-average assumptions used to determine benefit obligation at December 31 were as follows:

Year ended December 31,	2018	2017	2016
Discount rate	5.67%	5.30%	5.53%

The company reviews its asset allocation periodically, taking into consideration plan liabilities, plan payment streams and then-current capital market assumptions. The company sets the long-term expected return on asset assumption, based principally on the long-term expected return on debt securities. These return assumptions are based on a combination of current market conditions, capital market expectations of third-party investment advisors and actual historical returns of the asset classes. In 2019, the company expects to contribute approximately \$8 million to its postretirement benefit plans.

Assumed health care cost trend rates at December 31,	2018	2017
Health care cost trend rate assumed for next year	6.8%	6.6%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.8%	4.8%
Year that the rate reaches the ultimate trend rate	2023	2023

As of December 31, 2018, the following benefits are expected to be paid from the company's postretirement plans:

Year ending December 31,	Expected Payments
2019	\$ 9.1
2020	9.6
2021	9.1
2022	8.5
2023	7.9
2024 – 2028	30.9

The following provides a description of the valuation methodologies and the levels of inputs used to measure fair value, and the general classification of investments in the company's U.S. and international defined benefit pension plans, and the company's other postretirement benefit plan.

Level 1 – These investments include cash, common stocks, real estate investment trusts, exchange traded funds, futures and options and U.S. government securities. These investments are valued using quoted prices in an active market. Payables, receivables and cumulative futures contracts variation margin received from brokers are also included as Level 1 investments and are valued at face value.

Level 2 – These investments include the following:

Pooled Funds – These investments are comprised of money market funds and fixed income securities. The money market funds are valued using the readily determinable fair value ("RDFV") provided by trustees of the funds. The fixed income securities are valued based on quoted prices for identical or similar investments in markets that may not be active.

Commingled Funds – These investments are comprised of debt, equity and other securities and are valued using the RDFV provided by trustees of the funds. The fair value per share for these funds are published and are the basis for current transactions.

Other Fixed Income – These investments are comprised of corporate and government fixed income investments and asset and mortgage-backed securities for which there are quoted prices for identical or similar investments in markets that may not be active.

Derivatives – These investments include forward exchange contracts and options, which are traded on an active market, but not on an exchange; therefore, the inputs may not be readily observable. These investments also include fixed income futures and other derivative instruments.

Level 3 – These investments include the following:

Insurance Contracts – These investments are insurance contracts which are carried at book value, are not publicly traded and are reported at a fair value determined by the insurance provider.

Certain investments are valued using net asset value (“NAV”) as a practical expedient. These investments may not be redeemable on a daily basis and may have redemption notice periods of up to 90 days. These investments include the following:

Commingled Funds – These investments are comprised of debt, equity and other securities.

Private Real Estate and Private Equity – These investments represent interests in limited partnerships which invest in privately-held companies or privately-held real estate or other real assets. Net asset values are developed and reported by the general partners that manage the partnerships. These valuations are based on property appraisals, utilization of market transactions that provide valuation information for comparable companies, discounted cash flows, and other methods. These valuations are reported quarterly and adjusted as necessary at year end based on cash flows within the most recent period.

The following table sets forth by level, within the fair value hierarchy, the plans' assets (liabilities) at fair value at December 31, 2018.

As of December 31, 2018	U.S. Plans				International Plans			
	Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
<i>Pension plans</i>								
Equity Securities								
Common Stocks	\$ 911.7	\$ 909.0	\$ 2.7	\$ -	\$ -	\$ -	\$ -	\$ -
Commingled Funds	494.8		494.8		165.6		165.6	
Debt Securities								
U.S. Govt. Securities	498.5	498.5						
Other Fixed Income	374.6		374.6		145.5	0.2	145.3	
Insurance Contracts					123.7			123.7
Commingled Funds	196.6		196.6		321.4		321.4	
Real Estate								
Real Estate Investment Trusts	17.0	17.0			1.3	-	1.3	
Commingled Funds	156.7		156.7					
Other								
Derivatives ⁽ⁱ⁾	35.8	33.6	2.2		2.4		2.4	
Commingled Funds					317.0		317.0	
Pooled Funds	143.7		143.7		123.6		123.6	
Cumulative futures contracts variation margin received from brokers	(29.3)	(29.3)						
Cash	3.7	3.7			29.6	29.6		
Receivables	20.5	20.5			2.0	2.0		
Payables	(1.4)	(1.4)			(2.3)	(2.3)		
Total plan assets in fair value hierarchy	\$2,822.9	\$1,451.6	\$1,371.3	\$ -	\$1,229.8	\$29.5	\$1,076.6	\$123.7
Plan assets measured using NAV as a practical expedient ⁽ⁱⁱ⁾ :								
Commingled Funds								
Equity	\$ -				\$ 454.9			
Debt	-				814.0			
Other	110.2				23.9			
Private Real Estate	179.1				16.8			
Private Equity	0.6				-			
Total pension plan assets	\$3,112.8				\$2,539.4			
<i>Other postretirement plans</i>								
Insurance Contracts	\$ 7.8			\$7.8				

⁽ⁱ⁾ Level 1 derivatives represent unrealized appreciation or depreciation on open futures contracts. The value of open futures contracts includes derivatives and the cumulative futures contracts variation margin received from brokers.

⁽ⁱⁱ⁾ Investments measured at fair value using NAV as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table for these investments are included to permit reconciliation of the fair value hierarchy to the total plan assets.

The following table sets forth by level, within the fair value hierarchy, the plans' assets (liabilities) at fair value at December 31, 2017.

As of December 31, 2017	U.S. Plans				International Plans			
	Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
Pension plans								
Equity Securities								
Common Stocks	\$ 1,465.1	\$ 1,461.9	\$ 3.2	\$ -	\$ -	\$-	\$-	\$-
Commingled Funds	584.4		584.4		84.0		84.0	
Debt Securities								
U.S. Govt. Securities	139.8	139.8						
Other Fixed Income	830.6		830.6		254.1	2.6	251.5	
Insurance Contracts					135.8			135.8
Commingled Funds					267.5		267.5	
Real Estate								
Real Estate Investment								
Trusts	113.5	113.5			1.4	0.4	1.0	
Other								
Derivatives	2.6	13.1	(10.5)		1.2		1.2	
Commingled Funds					357.1		357.1	
Pooled Funds	228.0		228.0		29.2		29.2	
Cash	34.8	34.8			25.1	25.1		
Receivables	58.1	58.1			19.9	19.9		
Payables	(116.7)	(116.7)			(1.5)	(1.5)		
Total plan assets in fair value hierarchy	\$3,340.2	\$1,704.5	\$1,635.7	\$-	\$1,173.8	\$46.5	\$991.5	\$135.8
Plan assets measured using NAV as a practical expedient ⁽ⁱ⁾ :								
Commingled Funds								
Equity	\$ -				\$ 780.7			
Debt	19.8				837.7			
Other	105.1				25.2			
Private Real Estate	112.4				16.5			
Private Equity	0.9				-			
Total pension plan assets	\$ 3,578.4				\$2,833.9			
Other postretirement plans								
Insurance Contracts	\$ 7.6			\$7.6				

⁽ⁱ⁾ Investments measured at fair value using NAV as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table for these investments are included to permit reconciliation of the fair value hierarchy to the total plan assets.

The following table sets forth a summary of changes in the fair value of the plans' Level 3 assets for the year ended December 31, 2018.

	January 1, 2018	Realized gains (losses)	Purchases or acquisitions	Sales or dispositions	Currency and unrealized gains (losses) relating to instruments still held at December 31, 2018	December 31, 2018
U.S. plans						
Other postretirement plans						
Insurance Contracts	\$ 7.6	\$(0.4)	\$0.6	\$ -	\$ -	\$ 7.8
International pension plans						
Insurance Contracts	\$135.8	\$ -	\$3.5	\$(11.7)	\$(3.9)	\$123.7

The following table sets forth a summary of changes in the fair value of the plans' Level 3 assets for the year ended December 31, 2017.

	January 1, 2017	Realized gains (losses)	Purchases or acquisitions	Sales or dispositions	Currency and unrealized gains (losses) relating to instruments still held at December 31, 2017	December 31, 2017
U.S. plans						
<i>Other postretirement plans</i>						
Insurance Contracts	\$ 7.9	\$(0.2)	\$ 0.2	\$ (0.3)	\$ -	\$ 7.6
International pension plans						
Insurance Contracts	\$116.2	\$ -	\$10.8	\$(11.4)	\$20.2	\$135.8

The following table presents additional information about plan assets valued using the net asset value as a practical expedient within the fair value hierarchy table.

	2018				2017			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period Range	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period Range
U.S. plans								
<i>Commingled Funds</i>								
Debt	\$ -	\$-			\$ 19.8	\$-	Daily	5 days
Other	110.2	-	Monthly	5 days	105.1	-	Monthly	5 days
Private Real Estate ⁽ⁱ⁾	179.1	-	Quarterly	60-90 days	112.4	-	Quarterly	Up to 90 days
Private Equity ⁽ⁱⁱ⁾	0.6	-			0.9	-		
Total	\$ 289.9	\$-			\$ 238.2	\$-		
International pension plans								
<i>Commingled Funds</i>								
Equity	\$ 454.9	\$-	Weekly	Up to 2 days	\$ 780.7	\$-	Weekly, Monthly	Up to 30 days
Debt	814.0	-	Daily, Weekly, Biweekly, Bimonthly	Up to 30 days	837.7	-	Weekly, Biweekly, Bimonthly, Monthly	Up to 30 days
Other	23.9	-	Monthly	Up to 30 days	25.2	-	Monthly	Up to 30 days
Private Real Estate	16.8	-	Monthly	Up to 90 days	16.5	-	Monthly	Up to 90 days
Total	\$1,309.6	\$-			\$1,660.1	\$-		

⁽ⁱ⁾ Includes investments in private real estate funds and limited partnerships. The funds invest in U.S. real estate and allow redemptions quarterly, though queues, restrictions and gates may extend the period. The limited partnerships include investments in primarily U.S. real estate, and can never be redeemed. The partnerships are all currently being wound up, and are expected to make all distributions over the next year.

⁽ⁱⁱ⁾ Includes investments in limited partnerships, which invest primarily in U.S. buyouts and venture capital. The investments can never be redeemed. The partnerships are all currently being wound up, and are expected to make all distributions over the next three years.

Note 15 – Litigation and contingencies

There are various lawsuits, claims, investigations and proceedings that have been brought or asserted against the company, which arise in the ordinary course of business, including actions with respect to commercial and government contracts, labor and employment, employee benefits, environmental matters, intellectual property, and non-income tax matters. The company records a provision for these matters when it is both probable that a liability has been incurred and the amount of

the loss can be reasonably estimated. Any provisions are reviewed at least quarterly and are adjusted to reflect the impact and status of settlements, rulings, advice of counsel and other information and events pertinent to a particular matter.

The company believes that it has valid defenses with respect to legal matters pending against it. Based on its experience, the company also believes that the damage amounts claimed in the lawsuits disclosed below are not a meaningful indicator of the company's potential liability. Litigation is inherently unpredictable, however, and it is possible that the company's results of operations or cash flows could be materially affected in any particular period by the resolution of one or more of the legal matters pending against it.

In April 2007, the Ministry of Justice of Belgium sued Unisys Belgium SA-NV, a Unisys subsidiary ("Unisys Belgium"), in the Court of First Instance of Brussels. The Belgian government had engaged the company to design and develop software for a computerized system to be used to manage the Belgian court system. The Belgian State terminated the contract and in its lawsuit has alleged that the termination was justified because Unisys Belgium failed to deliver satisfactory software in a timely manner. It claims damages of approximately €28.0 million. Unisys Belgium filed its defense and counterclaim in April 2008, in the amount of approximately €18.5 million. The company believes it has valid defenses to the claims and contends that the Belgian State's termination of the contract was unjustified.

The company's Brazilian operations, along with those of many other companies doing business in Brazil, are involved in various litigation matters, including numerous governmental assessments related to indirect and other taxes, as well as disputes associated with former employees and contract labor. The tax-related matters pertain to value-added taxes, customs, duties, sales and other non-income-related tax exposures. The labor-related matters include claims related to compensation. The company believes that appropriate accruals have been established for such matters based on information currently available. At December 31, 2018, excluding those matters that have been assessed by management as being remote as to the likelihood of ultimately resulting in a loss, the amount related to unreserved tax-related matters, inclusive of any related interest, is estimated to be up to approximately \$101.0 million.

On June 26, 2014, the State of Louisiana filed a Petition for Damages against, among other defendants, the company and Molina Information Systems, LLC, in the Parish of East Baton Rouge, 19th Judicial District. The State alleged that between 1989 and 2012 the defendants, each acting successively as the State's Medicaid fiscal intermediary, utilized an incorrect reimbursement formula for the payment of pharmaceutical claims causing the State to pay excessive amounts for prescription drugs. The State contends overpayments of approximately \$68.0 million for the period January 2002 through July 2011 and sought data to identify the claims at issue for the remaining time period. On August 14, 2018, the Louisiana Court of Appeal for the First Circuit dismissed the case. On September 27, 2018, the Court denied the State's motion for a rehearing. On October 26, 2018, the State applied for a writ of review to the Louisiana Supreme Court, which was granted on January 18, 2019. The Louisiana Supreme Court will calendar the case for further briefing.

With respect to the specific legal proceedings and claims described above, except as otherwise noted, either (i) the amount or range of possible losses in excess of amounts accrued, if any, is not reasonably estimable or (ii) the company believes that the amount or range of possible losses in excess of amounts accrued that are estimable would not be material.

Litigation is inherently unpredictable and unfavorable resolutions could occur. Accordingly, it is possible that an adverse outcome from such matters could exceed the amounts accrued in an amount that could be material to the company's financial condition, results of operations and cash flows in any particular reporting period.

Notwithstanding that the ultimate results of the lawsuits, claims, investigations and proceedings that have been brought or asserted against the company are not currently determinable, the company believes that at December 31, 2018, it has adequate provisions for any such matters.

Note 16 – Stockholders' equity

The company has 150 million authorized shares of common stock, par value \$.01 per share, and 40 million shares of authorized preferred stock, par value \$1 per share, issuable in series.

At December 31, 2018, 34.4 million shares of unissued common stock of the company were reserved for stock-based incentive plans and the company's convertible senior notes.

Accumulated other comprehensive income (loss) as of December 31, 2018, 2017 and 2016, is as follows:

	Total	Translation Adjustments	Postretirement Plans
Balance at December 31, 2015	\$(3,945.3)	\$(833.8)	\$(3,111.5)
Other comprehensive income before reclassifications	(64.9)	(93.3)	28.4
Amounts reclassified from accumulated other comprehensive income	(142.6)	-	(142.6)
Current period other comprehensive income	(207.5)	(93.3)	(114.2)
Balance at December 31, 2016	(4,152.8)	(927.1)	(3,225.7)
Other comprehensive income before reclassifications	506.8	121.9	384.9
Amounts reclassified from accumulated other comprehensive income	(169.8)	(11.8)	(158.0)
Current period other comprehensive income	337.0	110.1	226.9
Balance at December 31, 2017	(3,815.8)	(817.0)	(2,998.8)
Reclassification pursuant to ASU No. 2018-02	(208.7)	-	(208.7)
Other comprehensive income before reclassifications	96.7	(79.7)	176.4
Amounts reclassified from accumulated other comprehensive income	(157.0)	-	(157.0)
Current period other comprehensive income	(269.0)	(79.7)	(189.3)
Balance at December 31, 2018	\$(4,084.8)	\$(896.7)	\$(3,188.1)

Amounts reclassified out of accumulated other comprehensive income for the three years ended December 31, 2018 are as follows:

Year ended December 31,	2018	2017	2016
Translation Adjustments:			
Adjustment for substantial completion of liquidation of foreign subsidiaries ⁽ⁱ⁾	\$ -	\$ (11.8)	\$ -
Postretirement Plans:			
Amortization of prior service cost ⁽ⁱⁱ⁾	7.1	5.6	5.6
Amortization of actuarial losses ⁽ⁱⁱ⁾	(165.9)	(174.1)	(155.2)
Curtailment gain ⁽ⁱⁱ⁾	-	5.4	2.0
Settlement loss ⁽ⁱⁱ⁾	(3.9)	-	-
Total before tax	(162.7)	(174.9)	(147.6)
Income tax benefit	5.7	5.1	5.0
Total reclassifications for the period	\$(157.0)	\$(169.8)	\$(142.6)

⁽ⁱ⁾ Reported in other income (expense), net in the consolidated statements of income

⁽ⁱⁱ⁾ Included in net periodic postretirement cost (see Note 14)

The following table summarizes the changes in shares of common stock and treasury stock during the three years ended December 31, 2018:

	Common Stock	Treasury Stock
Balance at December 31, 2015	52.6	2.7
Stock-based compensation	0.2	-
Balance at December 31, 2016	52.8	2.7
Stock-based compensation	0.6	0.2
Balance at December 31, 2017	53.4	2.9
Stock-based compensation	0.8	0.2
Balance at December 31, 2018	54.2	3.1

Note 17 – Segment information

As described in Note 2, effective January 1, 2018, the company adopted the requirements of Topic 606 which resulted in an adjustment to Technology revenue and profit of \$53.0 million in the first quarter of 2018. The adjustment represents revenue from software license extensions and renewals, which were contracted for in the fourth quarter of 2017 and properly recorded as revenue at that time under the revenue recognition rules then in effect (Topic 605). Topic 606 requires revenue related to software license renewals or extensions to be recorded when the new license term begins, which in the case of the \$53.0 million, is January 1, 2018.

Effective January 1, 2018, the company changed the grouping of certain of its classes of services. As a result, prior-periods' customer revenue by classes of similar services have been reclassified to conform to the current-year period.

The company has two business segments: Services and Technology. Revenue classifications within the Services and Technology segment are as follows:

- Cloud and infrastructure services. This represents revenue from helping clients apply cloud and as-a-service delivery models to capitalize on business opportunities, make their end users more productive and manage and secure their IT infrastructure and operations more economically.
- Application services. This represents revenue from helping clients transform their business processes by developing and managing new leading-edge applications for select industries, offering advanced data analytics and modernizing existing enterprise applications.
- Business process outsourcing (“BPO”) services. This represents revenue from the management of critical processes and functions for clients in target industries, helping them improve performance and reduce costs.
- Technology. This represents revenue from designing and developing software and offering hardware and other related products to help clients improve security, reduce costs and flexibility and improve the efficiency of their data-center environments.

The accounting policies of each business segment are the same as those followed by the company as a whole.

Intersegment sales and transfers are priced as if the sales or transfers were to third parties. Accordingly, the Technology segment recognizes intersegment revenue and manufacturing profit on software and hardware shipments to customers under Services contracts. The Services segment, in turn, recognizes customer revenue and marketing profits on such shipments of company software and hardware to customers. The Services segment also includes the sale of software and hardware products sourced from third parties that are sold to customers through the company's Services channels. In the company's consolidated statements of income, the manufacturing costs of products sourced from the Technology segment and sold to Services customers are reported in cost of revenue for Services.

Also included in the Technology segment's sales and operating profit are sales of software and hardware sold to the Services segment for internal use in Services engagements. The amount of such profit included in operating income of the Technology segment for the years ended December 31, 2018, 2017 and 2016 was \$4.2 million, \$6.3 million and \$0.7 million, respectively. The profit on these transactions is eliminated in Corporate.

The company evaluates business segment performance based on operating income exclusive of postretirement income or expense, restructuring charges and unusual and nonrecurring items, which are included in Corporate. All other corporate and centrally incurred costs are allocated to the business segments based principally on revenue, employees, square footage or usage. No single customer accounts for more than 10% of revenue. Revenue from various agencies of the U.S. Government, which is reported in both business segments, was approximately \$574 million, \$571 million and \$564 million in 2018, 2017 and 2016, respectively.

Corporate assets are principally cash and cash equivalents, prepaid postretirement assets and deferred income taxes. The expense or income related to corporate assets is allocated to the business segments.

Customer revenue by classes of similar products or services, by segment, is presented below:

Year ended December 31,	2018	2017	2016
Services			
Cloud & infrastructure services	\$1,363.4	\$1,334.3*	\$1,356.4*
Application services	772.4	791.0*	855.5*
BPO services	250.5	202.9	194.4
Total Services	2,386.3	2,328.2	2,406.3
Technology	438.7	413.6	414.4
Total customer revenue	\$2,825.0	\$2,741.8	\$2,820.7

* Amounts were changed to conform to the current-year presentation.

Presented below is a reconciliation of segment operating income to consolidated income (loss) before income taxes:

Year ended December 31,	2018	2017	2016
Total segment operating income	\$305.4	\$ 235.4	\$208.4
Interest expense	(64.0)	(52.8)	(27.4)
Other income (expense), net	(76.9)	(116.4)*	(81.3)*
Cost reduction charges ⁽ⁱ⁾	(19.7)	(135.0)	(82.1)
Corporate and eliminations	(1.6)	(3.3)*	2.9*
Total income (loss) before income taxes	\$143.2	\$ (72.1)	\$ 20.5

* Amounts were changed to conform to the current-year presentation. See Note 2

⁽ⁱ⁾ Year ended December 31, 2017 excludes \$11.8 million for net foreign currency losses related to exiting foreign countries which are reported in other income (expense), net in the consolidated statements of income.

Presented below is a reconciliation of total business segment assets to consolidated assets:

As of December 31,	2018	2017	2016
Total segment assets	\$1,436.6	\$1,364.5	\$1,339.0
Cash and cash equivalents	605.0	733.9	370.6
Deferred income taxes	109.3	119.9	146.1
Prepaid postretirement assets	147.6	148.3	33.3
Other corporate assets	159.1	175.8	132.6
Total assets	\$2,457.6	\$2,542.4	\$2,021.6

A summary of the company's operations by business segment for 2018, 2017 and 2016 is presented below:

	Total	Corporate	Services	Technology
2018				
Customer revenue	\$2,825.0	\$ -	\$2,386.3	\$438.7
Intersegment	-	(24.7)	-	24.7
Total revenue	\$2,825.0	\$ (24.7)	\$2,386.3	\$463.4
Operating income (loss)	\$ 284.1	\$ (21.3)	\$ 67.6	\$237.8
Depreciation and amortization	164.1	-	97.2	66.9
Total assets	2,457.6	1,021.0	1,013.1	423.5
Capital expenditures	189.3	8.0	92.9	88.4
2017				
Customer revenue	\$2,741.8	\$ -	\$2,328.2	\$413.6
Intersegment	-	(25.9)	-	25.9
Total revenue	\$2,741.8	\$ (25.9)	\$2,328.2	\$439.5
Operating income (loss)	\$ 97.1*	\$ (138.3)*	\$ 64.8	\$170.6
Depreciation and amortization	156.5	-	84.6	71.9
Total assets	2,542.4	1,177.9	985.9	378.6
Capital expenditures	176.5	4.3	102.7	69.5
2016				
Customer revenue	\$2,820.7	\$ -	\$2,406.3	\$414.4
Intersegment	-	(22.6)	-	22.6
Total revenue	\$2,820.7	\$ (22.6)	\$2,406.3	\$437.0
Operating income (loss)	\$ 129.2*	\$ (79.2)*	\$ 46.9	\$161.5
Depreciation and amortization	155.6	-	81.8	73.8
Total assets	2,021.6	682.6	963.3	375.7
Capital expenditures	147.1	3.0	74.8	69.3

* Amounts were changed to conform to the current-year presentation. See Note 2

Geographic information about the company's revenue, which is principally based on location of the selling organization, properties and outsourcing assets, is presented below:


Year ended December 31,	2018	2017	2016
Revenue			
United States	\$1,240.0	\$1,257.0	\$1,309.3
United Kingdom	360.7	315.8	348.0
Other foreign	1,224.3	1,169.0	1,163.4
Total Revenue	\$2,825.0	\$2,741.8	\$2,820.7
Properties, net			
United States	\$ 85.3	\$ 85.8	\$ 91.4
United Kingdom	5.3	16.7	15.1
Other foreign	30.7	40.0	38.8
Total Properties, net	\$ 121.3	\$ 142.5	\$ 145.3
Outsourcing assets, net			
United States	\$ 97.6	\$ 81.1	\$ 105.1
United Kingdom	86.5	89.9	39.0
Australia	21.7	18.1	11.5
Other foreign	10.6	13.2	16.9
Total Outsourcing assets, net	\$ 216.4	\$ 202.3	\$ 172.5

Report of Management on the Financial Statements

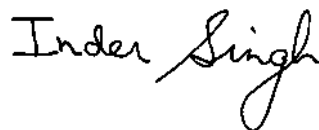
The management of the company is responsible for the integrity of its financial statements. These statements have been prepared in conformity with U.S. generally accepted accounting principles and include amounts based on the best estimates and judgments of management. Financial information included elsewhere in this report is consistent with that in the financial statements.

KPMG LLP, an independent registered public accounting firm, has audited the company's financial statements. Its accompanying report is based on an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States).

The Board of Directors, through its Audit and Finance Committee, which is composed entirely of independent directors, oversees management's responsibilities in the preparation of the financial statements and selects the independent registered public accounting firm, subject to stockholder ratification. The Audit and Finance Committee meets regularly with the independent registered public accounting firm, representatives of management, and the internal auditors to review the activities of each and to assure that each is properly discharging its responsibilities. To ensure complete independence, the internal auditors and representatives of KPMG LLP have full access to meet with the Audit and Finance Committee, with or without management representatives present, to discuss the results of their audits and their observations on the adequacy of internal controls and the quality of financial reporting.



Peter A. Altabef
Chairman, President and Chief Executive Officer



Inder M. Singh
Senior Vice President and Chief Financial Officer

Report of Independent Registered Public Accounting Firm on the Financial Statements

To the stockholders and board of directors

Unisys Corporation:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Unisys Corporation and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, cash flows and deficit for each of the years in the three-year period ended December 31, 2018, and the related notes and financial statement Schedule II referred to in Item 15(1) of this Form 10-K (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 4, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Changes in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for revenue recognition effective January 1, 2018 due to the adoption of Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*.

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for pensions effective January 1, 2018 due to the adoption of ASU No. 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*.

Basis for Opinion

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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

KPMG LLP

We have served as the Company's auditor since 2008.

Philadelphia, Pennsylvania
March 4, 2019

Report of Management on Internal Control over Financial Reporting

The management of the company is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

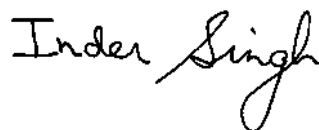
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree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

Management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, we concluded that the company maintained effective internal control over financial reporting as of December 31, 2018, based on the specified criteria.

KPMG LLP, an independent registered public accounting firm, has audited the company's internal control over financial reporting as of December 31, 2018, as stated in its report that appears herein.



Peter A. Altabef
Chairman, President and Chief Executive Officer



Inder M. Singh
Senior Vice President and Chief Financial Officer

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

To the stockholders and board of directors
Unisys Corporation:

Opinion on Internal Control Over Financial Reporting

We have audited Unisys Corporation and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, cash flows and deficit for each of the years in the three-year period ended December 31, 2018, and the related notes and financial statement Schedule II referred to in Item 15(1) of this Form 10-K (collectively, the consolidated financial statements), and our report dated March 4, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

KPMG LLP

Philadelphia, Pennsylvania
March 4, 2019

Unisys Corporation

Supplemental Financial Data (Unaudited)

Quarterly financial information

<i>(millions, except per share data)</i>		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2018						
Revenue		\$ 708.4	\$ 667.4	\$ 688.3	\$ 760.9	\$2,825.0
Gross profit		201.2	152.9	153.8	178.4	686.3
Income before income taxes		62.6	20.3	22.2	38.1	143.2
Net income attributable to Unisys Corporation common shareholders		40.6	3.8	6.1	25.0	75.5
Earnings per common share attributable to Unisys Corporation						
Basic		0.80	0.07	0.12	0.49	1.48
Diluted		0.62	0.07	0.12	0.41	1.30
Market price per share	– high	\$ 12.20	\$ 13.90	\$ 20.95	\$ 20.44	\$ 20.95
	– low	8.00	9.70	12.25	10.46	8.00
2017						
Revenue		\$ 664.5	\$ 666.2	\$ 666.3	\$ 744.8	\$2,741.8
Gross profit		138.6*	118.7*	103.6*	186.8*	547.7*
Income (loss) before income taxes		(16.8)	(42.3)	(40.4)	27.4	(72.1)
Net income (loss) attributable to Unisys Corporation common shareholders		(32.7)	(42.0)	(41.1)	50.5	(65.3)
Earnings (loss) per common share attributable to Unisys Corporation						
Basic		(0.65)	(0.83)	(0.81)	1.00	(1.30)
Diluted		(0.65)	(0.83)	(0.81)	0.76	(1.30)
Market price per share	– high	15.25	14.15	13.25	9.15	15.25
	– low	11.55	10.75	6.90	7.20	6.90

* Amounts were changed to conform to the current-year presentation. See Note 2

In the first, second, third and fourth quarters of 2018, the company recorded pretax cost-reduction and other charges (benefits) of \$(2.9) million, \$0.7 million, \$(0.9) million and \$22.8 million, respectively. See Note 3, "Cost reduction actions," of the Notes to Consolidated Financial Statements.

In the first, second, third and fourth quarters of 2017, the company recorded pretax cost-reduction and other charges of \$25.4 million, \$27.5 million, \$46.1 million and \$47.8 million, respectively. See Note 3, "Cost reduction actions," of the Notes to Consolidated Financial Statements.

The individual quarterly per-share amounts may not total to the per-share amount for the full year because of accounting rules governing the computation of earnings per share.

Market prices per share are quoted on the New York Stock Exchange Composite listing.

Five-year summary of selected financial data

(Dollars in millions, except per share data)

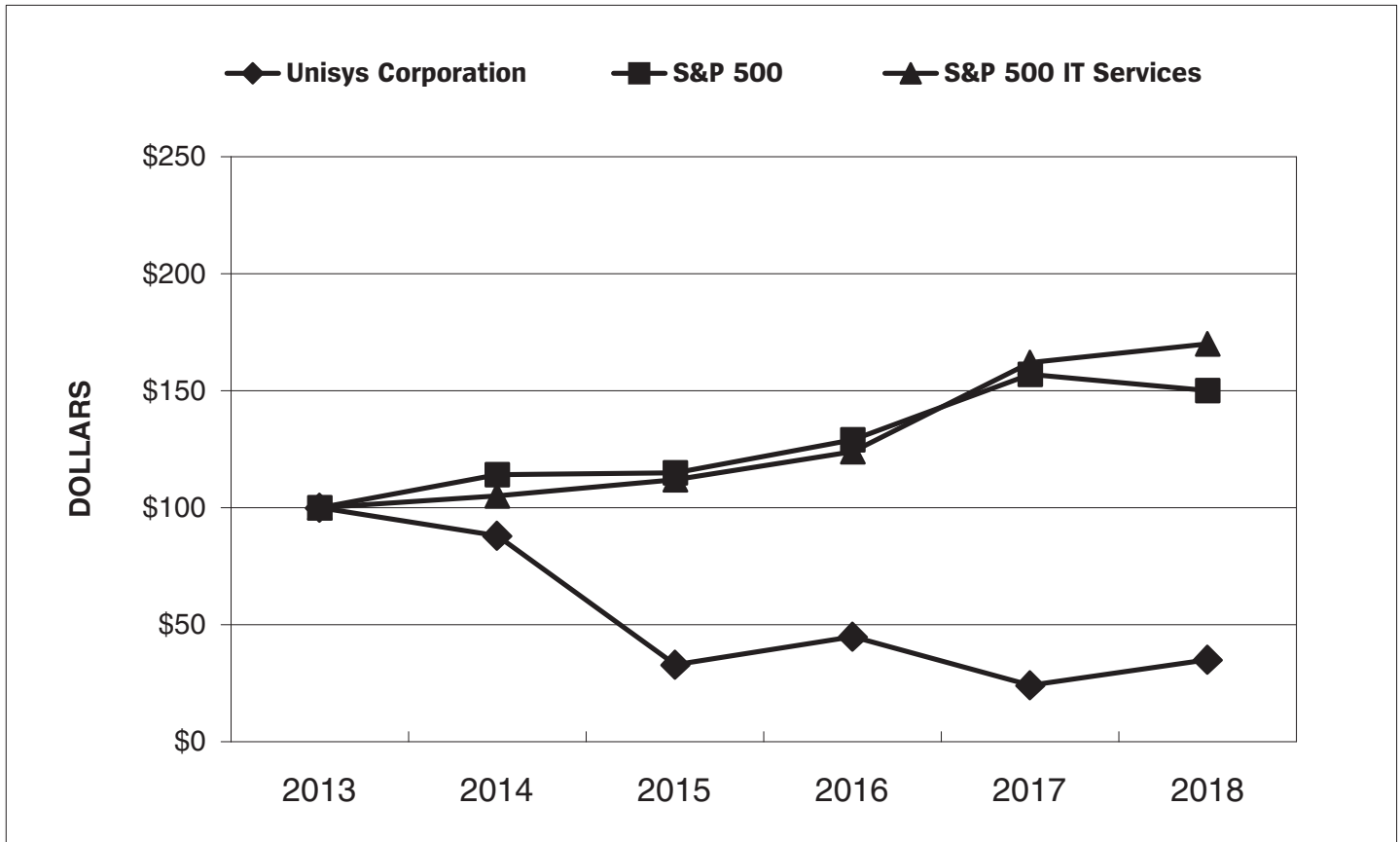
	2018 ⁽ⁱ⁾	2017 ⁽ⁱ⁾	2016 ⁽ⁱ⁾	2015 ⁽ⁱ⁾	2014
Results of operations					
Revenue	\$ 2,825.0	\$ 2,741.8	\$ 2,820.7	\$ 3,015.1	\$ 3,356.4
Operating profit	284.1	97.1*	129.2*	54.3*	230.8*
Income (loss) before income taxes	143.2	(72.1)	20.5	(58.8)	145.5
Net income (loss) attributable to noncontrolling interests	3.4	(1.3)	11.0	6.7	12.6
Net income (loss) attributable to Unisys Corporation common shareholders	75.5	(65.3)	(47.7)	(109.9)	44.0
Earnings (loss) per common share					
Basic	1.48	(1.30)	(0.95)	(2.20)	0.89
Diluted	1.30	(1.30)	(0.95)	(2.20)	0.89
Financial position					
Total assets	\$ 2,457.6	\$ 2,542.4	\$ 2,021.6	\$ 2,130.0	\$ 2,321.0
Long-term debt	642.8	633.9	194.0	233.7	219.2
Deficit	(1,299.6)	(1,326.5)	(1,647.4)	(1,378.6)	(1,452.4)
Other data					
Capital additions of properties	\$ 35.6	\$ 25.8	\$ 32.5	\$ 49.6	\$ 53.3
Capital additions of outsourcing assets	73.0	86.3	51.3	102.0	85.9
Investment in marketable software	80.7	64.4	63.3	62.1	73.6
Depreciation and amortization					
Properties	40.4	39.7	38.9	57.5	52.0
Outsourcing assets	66.8	53.7	51.9	55.7	58.1
Amortization of marketable software	56.9	63.1	64.8	66.9	58.5
Common shares outstanding (millions)	51.1	50.5	50.1	49.9	49.7
Stockholders of record (thousands)	5.2	5.6	6.0	6.2	11.1
Employees (thousands)	21.7	20.5	21.0	23.0	23.2

* Amounts were changed to conform to the current-year presentation. See Note 2 of the Notes to Consolidated Financial Statements.

⁽ⁱ⁾ Includes pretax cost-reduction and other charges of \$19.7 million, \$146.8 million, \$82.1 million and \$118.5 million for the years ended December 31, 2018, 2017, 2016 and 2015, respectively. See Note 3, "Cost-reduction actions," of the Notes to Consolidated Financial Statements.

Stock Performance

The following graph compares the cumulative total stockholder return on Unisys common stock during the five fiscal years ended December 31, 2018, with the cumulative total return on the Standard & Poor's 500 Stock Index and the Standard & Poor's 500 IT Services Index. The comparison assumes \$100 was invested on December 31, 2013, in Unisys common stock and in each of such indices and assumes reinvestment of any dividends.



	2013	2014	2015	2016	2017	2018
Unisys Corporation	\$ 100	\$ 88	\$ 33	\$ 45	\$ 24	\$ 35
S&P 500	\$ 100	\$ 114	\$ 115	\$129	\$157	\$150
S&P 500 IT Services	\$ 100	\$ 105	\$ 112	\$124	\$162	\$170

Investor Information

Stock Information

- **Common Stock:** The company has the authority to issue 150 million shares of common stock, par value \$0.01 per share. At December 31, 2018, there were approximately 51.0 million shares outstanding and approximately 5,200 stockholders of record. Unisys common stock is listed for trading on the New York Stock Exchange (trading symbol “UIS”) and the London Stock Exchange (code “USY”).
 - **Preferred Stock:** The company has the authority to issue 40 million shares of preferred stock, par value \$1 per share, issuable in series. At December 31, 2018, there were no shares of preferred stock outstanding.
 - **Voting Rights:** Each share of Unisys common stock outstanding on the record date for the annual meeting is entitled to one vote on each matter to be voted upon at the meeting.
-

Annual Meeting

Stockholders are invited to attend the Unisys 2019 Annual Meeting of Stockholders, which will be held at the Courtyard Philadelphia Downtown, which is located at 21 North Juniper Street in Philadelphia, Pennsylvania, on May 10, 2019, at 8:00 a.m. Eastern Time. Formal notice of the meeting, along with the proxy statement and proxy materials, was mailed or otherwise made available on or about March 29, 2019, to stockholders of record as of March 11, 2019.

Independent Auditors

KPMG LLP Philadelphia, Pennsylvania

Stockholder Services

Computershare Inc. is the company’s stock transfer agent and registrar.

Note: Effective October 23, 2009, Unisys declared a one-for-ten reverse split of its common stock. Pre-split stock certificates must be submitted for exchange into post-split shares. If you are holding pre-split stock certificates, please contact Computershare.

Administrative inquiries relating to stockholder records, lost stock certificates, change of ownership or change of address should be directed to: Unisys Corporation, c/o Computershare, PO BOX 505000, Louisville, KY 40233-5000.

Account Access & Share Selling Program: www.computershare.com/investor

Telephone within the U.S. and Canada:

- Telephone toll free: 866-405-6564
- TDD for hearing impaired: 800-231-5469

Telephone outside the U.S.:

- Telephone: 201-680-6578
 - TDD for hearing impaired: 201-680-6610
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Investor Relations

- **Web Site:** The Unisys Investor Web site at www.unisys.com/investor-relations provides news and events as well as quarterly earnings releases and financial data, Unisys stock price and tools, officer and board biographies, corporate governance materials, annual reports and more. We invite you to visit www.unisys.com/investor-relations to learn more about Unisys.
- **Email:** Unisys provides investor-related news releases, SEC filings, webcast and event details, and daily/weekly stock information via email. To sign up for email or to amend your current investor e-mail selection, visit www.unisys.com/investor-relations.
- **Printed Materials:** Visit www.unisys.com/investor-relations to select from the current list of printed materials offered. Printed materials also may be requested by calling 215-986-6999.
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