# Unisys Corporation
# 2014 Annual Report

# Business Description

## General

Unisys Corporation is a global information technology ("IT") company. We work with many of the world's largest companies and government organizations to secure and keep their mission-critical operations running at peak performance; streamline and transform their data centers; enhance support to their end users and constituents; and modernize their enterprise applications. We do this while protecting and building on their legacy IT investments. Our offerings include outsourcing and managed services, systems integration and consulting services, high-end server technology, cybersecurity and cloud management software, and maintenance and infrastructure support services. We have more than 20,000 employees serving clients around the world.

## Principal Products and Services

Unisys brings together services and technology into solutions that solve mission-critical problems for organizations around the world.

In the Services segment, we provide services to help our clients improve their competitiveness, security and cost efficiency. Our services include outsourcing, systems integration and consulting, infrastructure services and core maintenance.

- In outsourcing, we manage clients' data centers, computer servers and end-user computing environments as well as specific business processes.
- In systems integration and consulting, we consult with clients to assess the security and cost effectiveness of their IT systems and help them design, integrate and modernize their mission-critical applications to achieve their business goals.
- In infrastructure services, we provide design, warranty and support services for our customers' IT infrastructure, including their networks, desktops, servers, and mobile and wireless devices.
- In core maintenance, we provide maintenance of Unisys systems and products as well as of those of third party technology providers.

In the Technology segment, we design and develop software, servers and related products to help clients reduce costs, improve security, create agility and improve the efficiency of their data center environments. As a pioneer in large-scale computing, Unisys offers deep experience and rich technological capabilities in transaction-intensive, mission-critical environments. We provide a range of data center, infrastructure management and cloud computing offerings to help clients virtualize and automate their data-center environments. Product offerings include enterprise-class servers, such as the ClearPath family of servers, the *Forward!* by Unisys line of fabric servers, and the ES family of servers; the Unisys Stealth™ family of cybersecurity software; and operating system software and middleware.

The primary vertical markets Unisys serves worldwide include commercial, financial services, public sector (outside the U.S. federal government) and the U.S. federal government.

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

# Board of Directors

### Peter A. Altabef

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]

### Alison Davis

Former Managing Partner of Belvedere Capital Partners, Inc.[1, 2]

### Nathaniel A. Davis

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

### Denise K. Fletcher

Former Executive Vice President, Finance of Vulcan Inc.[1,3]

### Leslie F. Kenne

Retired U.S. Air Force Lieutenant General [2,3]

### Lee D. Roberts

Chief Executive Officer and President of BlueWater Consulting LLC [1, 2]

### Paul E. Weaver

Chairman of the Board of Unisys Corporation. Former Vice Chairman of PricewaterhouseCoopers[1]

# Corporate Officers

### Quincy L. Allen

Senior Vice President and Chief Marketing and Strategy Officer

### Peter A. Altabef

President and Chief Executive Officer

### Scott A. Battersby

Vice President and Treasurer

### Ronald S. Frankenfield

Senior Vice President and President, Enterprise Solutions

### Janet Brutschea Haugen

Senior Vice President and Chief Financial Officer

### Gerald P. Kenney

Senior Vice President, General Counsel and Secretary

### David A. Loeser

Senior Vice President, Worldwide Human Resources

### Suresh V. Mathews

Senior Vice President and Chief Information Officer

### Venkatapathi R. Puvvada

Senior Vice President and President, Federal Systems

### Jeffrey E. Renzi

Senior Vice President and President, Global Sales

### Board Committees

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

# Unisys Corporation

## Management's Discussion and Analysis of Financial Condition and Results of Operations

### Overview

The company's revenue in 2014 declined 3% to $3.36 billion compared to $3.46 billion in 2013. Foreign currency had a 1-percentage-point negative impact thereby causing 1% of the revenue decline in 2014 compared to 2013. Lower services revenue, particularly lower infrastructure services revenue, contributed to the year over year decline. Income in 2014 was impacted by lower revenue, lower services gross margins and higher investments in new technology offerings. The company reported 2014 net income attributable to Unisys Corporation common shareholders of $44.0 million, or $.89 per diluted share, which included $73.8 million of pretax pension expense. This compared with 2013 net income attributable to Unisys Corporation common shareholders of $92.3 million, or $2.08 per diluted share, which included $93.5 million in pretax pension expense.

The company's underfunded defined benefit pension plan obligations increased by approximately $750 million to $2.2 billion at December 31, 2014 from $1.5 billion at December 31, 2013, principally due to a decrease in discount rates. This increase in the unfunded position was the principal reason the company's deficit increased by approximately $788 million from $664 million at December 31, 2013 to $1,452 million at December 31, 2014.

During 2014, the company reported net cash from operating activities of $121.4 million and ended the year with $494.3 million in cash and $224.0 million in debt.

### Results of operations

*Company results*

Revenue for 2014 was $3.36 billion compared with 2013 revenue of $3.46 billion, a decrease of 3%. Foreign currency had a 1-percentage-point negative impact on revenue in 2014 compared with 2013.

Services revenue in 2014 decreased by 4% compared with 2013. Technology revenue in 2014 increased by 2% compared with 2013.

Revenue for 2013 was $3.46 billion compared with 2012 revenue of $3.71 billion, a decrease of 7%. Foreign currency had a 1-percentage-point negative impact on revenue in 2013 compared with 2012.

Revenue from international operations in 2014, 2013 and 2012 was $1.98 billion, $2.09 billion and $2.25 billion, respectively. Foreign currency had a 1-percentage-point negative impact on international revenue in 2014 compared with 2013, and a 1-percentage-point negative impact on international revenue in 2013 compared with 2012. Revenue from U.S. operations was $1.38 billion in 2014, $1.37 billion in 2013 and $1.46 billion in 2012.

Gross profit percent was 23.2% in 2014, 24.5% in 2013 and 26.3% in 2012. The decline in 2014 from 2013 was primarily attributable to lower Services margins during 2014 as the company faced lower revenue and delivery issues on some projects. The change in 2013 from 2012 principally reflects the relative mix of high-end enterprise server sales.

Selling, general and administrative expenses were $554.1 million in 2014 (16.5% of revenue), $559.4 million in 2013 (16.2% of revenue) and $572.8 million in 2012 (15.5% of revenue). In 2012, a gain of $10.6 million related to the sale of a subsidiary was recorded as a reduction of selling, general and administrative expense (see Note 15 of the Notes to Consolidated Financial Statements).

Research and development (R&D) expenses in 2014 were $68.8 million compared with $69.5 million in 2013 and $81.5 million in 2012.

In 2014, the company reported an operating profit of $154.9 million compared with $219.5 million in 2013 and $319.2 million in 2012.

Pension expense for 2014 was $73.8 million compared with $93.5 million in 2013 and $108.2 million in 2012. For 2015, the company expects to recognize pension expense of approximately $111.8 million. The expected increase in pension expense in 2015 compared with 2014 is principally due to higher amortization of net actuarial losses. The company records 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.

Interest expense was $9.2 million in 2014, $9.9 million in 2013 and $27.5 million in 2012. The decline from 2012 was due to the company's debt reduction actions.

Other income (expense), net was expense of $.2 million in 2014, compared with income of $9.8 million 2013 and expense of $37.6 million in 2012. Included in 2014 were foreign exchange losses of $7.0 million. Included in 2013 were foreign exchange gains of $10.4 million. Included in 2012 were charges of $30.6 million related to the debt reductions and foreign exchange losses of $8.1 million offset in part by interest income of $10.3 million.

Income before income taxes in 2014 was $145.5 million compared with $219.4 million in 2013 and $254.1 million in 2012.

The provision for income taxes in 2014, 2013 and 2012 was $86.2 million, $99.3 million and $97.3 million, respectively. The 2013 and 2012 income tax provisions include charges of $11.4 million and $9.2 million, respectively, due to reductions in the UK income tax rate (see Note 6 of the Notes to Consolidated Financial Statements). The 2012 income tax provision also includes a $5.6 million benefit related to a UK tax credit.

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 will record 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 its full 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, 2014 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 attributable to Unisys Corporation common shareholders for 2014 was $44.0 million, or $.89 per diluted common share, compared with income of $92.3 million, or $2.08 per diluted common share, in 2013 and income of $129.4 million, or $2.84 per diluted common share, in 2012.

Due to inflation rates in recent years, the company's Venezuelan subsidiary has applied highly inflationary accounting beginning January 1, 2010. 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. Effective February 13, 2013, the Venezuelan government devalued its currency, the bolivar, by resetting the official exchange rate from 4.30 to the U.S. dollar to 6.30 to the U.S. dollar. As a result, the company recorded a pretax foreign exchange loss in 2013 of $6.5 million.

In January of 2014, the Venezuelan government announced that the exchange rate to be applied to the settlement of certain transactions, including foreign investments and royalties, would be changed to the Complementary System of Foreign Currency Administration (SICAD I) auction rate. As a result, the company changed the exchange rate used to remeasure its Venezuelan subsidiary's financial statements in U.S. dollars from the official rate of 6.3 bolivars to the new SICAD I rate. At December 31, 2014, the SICAD I exchange rate used was 12.0 bolivars to the U.S. dollar. The change in the rate resulted in the company recording a pretax foreign exchange loss in 2014 of $7.4 million. The company believes that using the SICAD I exchange rate is economically representative of what it might expect to receive in a dividend transaction.

At December 31, 2014, the company's operations in Venezuela had net monetary assets denominated in local currency equivalent to approximately $8 million. As indicated above, the SICAD I exchange rate is determined by periodic auctions and, therefore, the potential exists for it to change significantly in future quarters. Additionally, the Venezuelan government may make further changes or introduce new exchange rate mechanisms, which could result in further changes in the exchange rate used by the company to remeasure its Venezuelan subsidiary's financial statements in U.S. dollars.

*Segment results*

The company has two business segments: Services and Technology. The products and services of each segment are marketed throughout the world to commercial businesses and governments. Revenue classifications by segment are as follows: Services – systems integration and consulting, outsourcing, infrastructure services and core maintenance; Technology – enterprise-class software and servers and other technology.

The accounting policies of each business segment are the same as those described in the summary of significant accounting policies. 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 hardware and software shipments to customers under Services contracts. The Services segment, in turn, recognizes customer revenue and marketing profit on such shipments of company hardware and software to customers. The Services segment also includes hardware and software 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 hardware and software 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, 2014, 2013 and 2012, was $17.0 million, $6.0 million and $11.5 million, respectively. The profit on these transactions is eliminated in Corporate.

The company evaluates business segment performance based on operating income exclusive of pension 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 14 of the Notes to Consolidated Financial Statements.

Information by business segment for 2014, 2013 and 2012 is presented below:

| (millions of dollars) | Total | Eliminations | Services | Technology |
|---|---|---|---|---|
| 2014 | | | | |
| Customer revenue | $3,356.4 | | $2,887.7 | $468.7 |
| Intersegment | | $(112.3) | .4 | 111.9 |
| Total revenue | $3,356.4 | $(112.3) | $2,888.1 | $580.6 |
| Gross profit percent | 23.2% | | 17.5% | 56.3% |
| Operating income percent | 4.6% | | 4.2% | 19.1% |
| 2013 | | | | |
| Customer revenue | $3,456.5 | | $2,996.1 | $460.4 |
| Intersegment | | $(122.5) | 1.7 | 120.8 |
| Total revenue | $3,456.5 | $(122.5) | $2,997.8 | $581.2 |
| Gross profit percent | 24.5% | | 19.7% | 53.9% |
| Operating income percent | 6.4% | | 6.2% | 21.1% |
| 2012 | | | | |
| Customer revenue | $3,706.4 | | $3,192.4 | $514.0 |
| Intersegment | | $(123.1) | 3.8 | 119.3 |
| Total revenue | $3,706.4 | $(123.1) | $3,196.2 | $633.3 |
| Gross profit percent | 26.3% | | 20.0% | 63.9% |
| Operating income percent | 8.6% | | 6.4% | 33.1% |

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

Customer revenue by classes of similar products or services, by segment, for 2014, 2013 and 2012 is presented below:

| Year ended December 31 (millions) | **2014** | 2013 | Percent Change | 2012 | Percent Change |
|---|---|---|---|---|---|
| Services | | | | | |
| Systems integration and consulting | **$ 942.8** | $ 956.9 | (1.5)% | $1,079.3 | (11.3)% |
| Outsourcing | **1,412.7** | 1,428.7 | (1.1)% | 1,475.5 | (3.2)% |
| Infrastructure services | **347.4** | 428.1 | (18.9)% | 442.4 | (3.2)% |
| Core maintenance | **184.8** | 182.4 | 1.3% | 195.2 | (6.6)% |
| | **2,887.7** | 2,996.1 | (3.6)% | 3,192.4 | (6.1)% |
| Technology | | | | | |
| Enterprise-class software and servers | **429.0** | 402.7 | 6.5% | 480.3 | (16.2)% |
| Other technology | **39.7** | 57.7 | (31.2)% | 33.7 | 71.2% |
| | **468.7** | 460.4 | 1.8% | 514.0 | (10.4)% |
| Total | **$3,356.4** | $3,456.5 | (2.9)% | $3,706.4 | (6.7)% |

In the Services segment, customer revenue was $2.89 billion in 2014, $3.00 billion in 2013 and $3.19 billion in 2012. The decline in 2014 was principally due to infrastructure services. The decline in 2013 was principally due to soft demand in systems integration and consulting. Foreign currency had about a 1-percentage-point negative impact on Services revenue in 2014 compared with 2013, and a 1-percentage-point negative impact in 2013 compared with 2012.

Revenue from systems integration and consulting decreased 1.5% in 2014 compared with 2013, and 2013 revenue declined 11.3% compared with 2012. The decline in 2014 was due to lower demand for project-based services and solutions. The decline in 2013 was due to lower demand for project-based services and solutions, particularly public sector in-period sell and bill revenue.

Outsourcing revenue declined 1.1% in 2014 compared with 2013. In 2013, outsourcing revenue declined 3.2% compared with 2012.

Infrastructure services revenue decreased 18.9% in 2014 compared with 2013 and decreased 3.2% in 2013 compared with 2012. The decline in 2014 compared with 2013 reflects lower volumes on some existing contracts and the conclusion of other contracts that the company did not renew.

Core maintenance revenue increased 1.3% in 2014 compared with 2013. Core maintenance revenue declined 6.6% in 2013 compared with 2012.

Services gross profit percent was 17.5% in 2014, 19.7% in 2013 and 20.0% in 2012. Services operating income percent was 4.2% in 2014 compared with 6.2% in 2013 and 6.4% in 2012. The decline in 2014 from 2013 reflects lower revenue and some delivery challenges on a few projects.

In the Technology segment, customer revenue increased 1.8% in 2014 compared with 2013, and 2013 revenue decreased 10.4% compared with 2012. Foreign currency translations had a 1-percentage-point negative impact in 2014 compared with 2013 and a negligible impact on Technology revenue in 2013 compared with 2012.

Revenue from the company's enterprise-class software and servers increased 6.5% in 2014 compared with 2013 and decreased 16.2% in 2013 compared with 2012. The increase or decrease in revenue from enterprise-class software and servers revenue in the respective years was due to either an increase or decrease in revenue from the company's ClearPath product revenue.

Revenue from other technology (which is principally sales of third-party equipment) decreased $18.0 million in 2014 compared with 2013 and increased $24.0 million in 2013 compared with 2012.

Technology gross profit percent was 56.3% in 2014, 53.9% in 2013 and 63.9% in 2012. Technology operating income percent was 19.1% in 2014 compared with 21.1% in 2013 and 33.1% in 2012. The changes were due to the relative mix of ClearPath sales as well as increased investments in new offerings in 2014.

## New accounting pronouncements

See Note 4 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 2015 cash requirements.

Cash and cash equivalents at December 31, 2014 were $494.3 million compared with $639.8 million at December 31, 2013.

As of December 31, 2014, $316.4 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., the company may be required to accrue and pay taxes to repatriate these funds. See Note 6 of the Notes to Consolidated Financial Statements regarding the company's intention to indefinitely reinvest earnings of foreign subsidiaries.

During 2014, cash provided by operations was $121.4 million compared with $187.4 million in 2013. Cash provided by operations during 2014 was negatively impacted by lower income and an increase in cash contributions to the company's defined benefit pension plans. During 2014, the company contributed cash of $183.4 million to its defined benefit pension plans, which included $79.6 million to its U.S. qualified defined benefit pension plan, compared with $147.2 million, which included $33.8 million to its U.S. qualified defined benefit pension plan during 2013.

Cash used for investing activities in 2014 was $195.3 million compared with cash used of $162.7 million in 2013. Net proceeds of investments in 2014 were $13.7 million compared with net purchases of $9.9 million in 2013. 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, the investment in marketable software was $73.6 million in 2014 compared with $64.3 million in 2013, capital additions of properties were $53.3 million in 2014 compared with $47.2 million in 2013 and capital additions of outsourcing assets were $85.9 million in 2014 compared with $39.9 million in 2013. The higher capital expenditures largely reflected increased investments in outsourcing assets within the company's IT outsourcing business as the company won a number of new contracts, increased investments in new products, as well as expenditures on automation tools and leasehold improvements that support further consolidation of the company's real estate.

Cash used for financing activities during 2014 was $36.9 million compared with cash used of $23.0 million in 2013. Cash used for common stock repurchases was $35.7 million and $11.7 million in 2014 and 2013, respectively.

On March 1, 2014, all of the outstanding shares of 6.25% mandatory convertible preferred stock (2,587,400 shares) were automatically converted (in accordance with its terms) into 6,912,756 shares of the company's common stock. Because March 1, 2014 was not a business day, the mandatory conversion was effected on Monday, March 3, 2014.

The company has a secured revolving credit facility, expiring in June 2018, which provides for loans and letters of credit up to an aggregate amount of $150 million (with a limit on letters of credit of $100 million). Borrowing limits under the credit agreement are based upon the amount of eligible U.S. accounts receivable. At December 31, 2014, the company had no borrowings and $18.8 million of letters of credit outstanding under the facility. At December 31, 2014, availability under the facility was $100.0 million net of letters of credit issued. Borrowings under the facility will bear interest based on short-term rates. 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 company is required to maintain a minimum fixed charge coverage ratio if the company's availability under the credit facility falls below the greater of 12.5% of the lenders' commitments under the facility and $18.75 million. The credit agreement allows the company to pay dividends on its capital stock in an amount up to $22.5 million per year unless the company is in default and to, among

other things, repurchase its equity, prepay other debt, incur other debt or liens, dispose of assets and make acquisitions, loans and investments, provided the company complies with certain requirements and limitations set forth in the agreement. 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 million. 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 Unisys Corporation and the subsidiary guarantors, other than certain excluded assets. The company may elect to prepay or terminate the credit facility without penalty.

At December 31, 2014, the company has met all covenants and conditions under its various lending agreements. The company expects to continue to meet these covenants and conditions.

At December 31, 2014, the company had outstanding standby letters of credit and surety bonds totaling approximately $343 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 Notes 8 and 10 of the Notes to Consolidated Financial Statements, at December 31, 2014, the company had certain cash obligations, which are due as follows:

| (millions of dollars) | Total | Less than 1 year | 1-3 years | 4-5 years | After 5 years |
|---|---|---|---|---|---|
| Long-term debt | $224.0 | $ 1.8 | $215.3 | $ 3.7 | $ 3.2 |
| Interest payments on long-term debt | 40.9 | 13.6 | 26.9 | .3 | .1 |
| Operating leases | 225.1 | 58.2 | 86.1 | 46.5 | 34.3 |
| Total | $490.0 | $73.6 | $328.3 | $50.5 | $37.6 |

As described in Note 16 of the Notes to Consolidated Financial Statements, in 2015, the company expects to make cash contributions to its worldwide defined benefit pension plans of approximately $128.8 million, which is comprised of $76.2 million primarily for non-U.S. defined benefit pension plans and $52.6 million for the company’s U.S. qualified defined benefit pension plan.

The company has on file with the Securities and Exchange Commission an effective registration statement, expiring in June of 2015, covering debt or equity securities, which enables the company to be prepared for future market opportunities.

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.

On December 10, 2012, the company announced that its Board of Directors had authorized the company to purchase up to an aggregate of $50 million of the company’s common stock and mandatory convertible preferred stock through December 31, 2014. Through December 31, 2014, the company repurchased an aggregate of 2.2 million shares of common stock for approximately $47.3 million. At December 31, 2014, the Board’s repurchase authorization expired.

## Market risk

The company has exposure to interest rate risk from its short-term and long-term 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 8 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.

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 11 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, 2014 and 2013, the analysis indicated that such market movements would have reduced the estimated fair value of these derivative financial instruments by approximately $39 million and $48 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

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 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.

*Outsourcing*

Typically, the initial terms of the company's outsourcing contracts are between 5 and 10 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.

*Revenue recognition*

The majority 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 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 deliverables specified in a multiple-element arrangement should be treated as separate units of accounting for revenue recognition purposes, and, if so, how the price should be allocated among the elements and when to recognize revenue for each element. The company recognizes revenue on delivered

elements only if: (a) any undelivered products or services are not essential to the functionality of the delivered products or services, (b) the company has an enforceable claim to receive the amount due in the event it does not deliver the undelivered products or services, (c) there is evidence of the selling price for each undelivered product or service, and (d) the revenue recognition criteria otherwise have been met for the delivered elements. Otherwise, revenue on delivered elements is recognized as the undelivered elements are delivered. For arrangements with multiple elements involving the licensing or sale of software and software-related elements, the allocation of revenue is based on vendor-specific objective evidence (VSOE), which is based upon normal pricing and discounting practices for those products and services when sold separately. The company's continued ability to determine VSOE of fair value will depend on continued sufficient volumes and sufficient consistent pricing of stand-alone sales of such undelivered elements. In addition, the company's revenue recognition policy states that revenue is not recognized until collectability is deemed probable. Changes in judgments on these assumptions and estimates could materially impact the timing of revenue recognition.

For long-term fixed price systems integration contracts, the company recognizes revenue and profit as the contracts progress using the percentage-of-completion method of accounting, which relies on estimates of total expected contract revenues and costs. 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. For other systems integration projects, the company recognizes revenue when the services have been performed.

In addition to outright sales, the company sells hardware under bundled lease arrangements which typically include hardware, services and a financing component. Recognizing revenue under these arrangements requires the company to allocate the total consideration received to the lease and non-lease deliverables included in the bundled arrangement, based upon the estimated fair values of each element.

*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, 2014 and 2013, the company had deferred tax assets in excess of deferred tax liabilities of $2,244.1 million and $2,112.7 million, respectively. For the reasons cited below, at December 31, 2014 and 2013, management determined that it is more likely than not that $136.3 million and $113.9 million, respectively, of such assets will be realized, resulting in a valuation allowance of $2,107.8 million and $1,998.8 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 "Factors that may affect future results."

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 ownership change, utilization of the company's Tax Attributes will be subject to an overall annual limitation of $70.6 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. As of December 31, 2013, due to the ownership change in 2011, the Section 382 limitation and accompanying built in losses caused the company to reduce its deferred tax assets and related valuation allowance by $389.6 million. 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 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 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 salary increases and demographic experience. The assumptions used in developing the required estimates include the following key factors: discount rates, salary growth, 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 that the effects of the performance of the pension plan's assets on the company's computation of pension income or expense be amortized over future periods. A substantial portion of the company's pension plan assets relates to its qualified defined benefit plan 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 2015 and 2014, the company has assumed that the expected long-term rate of return on U.S. plan assets will be 6.80% and 7.72%, respectively, and on the company's non-U.S. plan assets will be 6.45% for both years. 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 $9 million and $6 million, respectively, in 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, 2014, for the company's U.S. qualified defined benefit pension plan, the calculated value of plan assets was $3.90 billion and the fair value was $4.07 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, 2014, the company determined this rate to be 4.09% for its U.S. defined benefit pension plans, a decrease of 93 basis points from the rate used at December 31, 2013, and 3.05% for the company's non-U.S. defined benefit pension plans, a decrease of 110 basis points from the rate used at December 31, 2013. A change of 25 basis points in the U.S. and non-U.S. discount rates causes a change in pension expense of approximately $1 million and $5 million, respectively, and a change of approximately $150 million and $146 million, respectively, in the benefit obligation. 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.

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 plan and the company's non-U.S. pension plans, that period is approximately 19 years for each. At December 31, 2014, the estimated unrecognized loss for the company's U.S. qualified defined benefit pension plan and the company's non-U.S. pension plans was $3.11 billion and $1.05 billion, respectively.

For the year ended December 31, 2014, the company recognized consolidated pension expense of $73.8 million, compared with $93.5 million for the year ended December 31, 2013. For 2015, the company expects to recognize pension expense of approximately $111.8 million. See Note 16 of the Notes to Consolidated Financial Statements.

## Factors that may affect future results

From time to time, the company provides information containing "forward-looking" 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. 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.

Factors that could affect future results include the following:

*The company's future results will depend upon its ability 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 products, services and software 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, products and services developed by competitors may make the company's offerings less competitive.

*Future results will also depend on the company's ability to maintain and grow its technology business.* The company continues to invest in developing new high-end enterprise server products, cybersecurity software, cloud-based products and other offerings to meet client needs, including the *Forward!* by Unisys line of fabric servers and the Unisys Stealth family of cybersecurity software. Future results will depend on the company's ability to effectively market and sell these new products while maintaining its installed base for ClearPath and developing next-generation ClearPath products.

*Future results will depend on the company's ability to drive profitable growth in consulting and systems integration.* The company's ability to grow profitably in this business will depend on the level of demand for systems integration projects and the portfolio of solutions the company offers for specific industries. It will also depend on an efficient utilization of services delivery personnel. In addition, 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, 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 employees from completed projects to new engagements, and its ability to forecast demand for services and thereby maintain an appropriate headcount.

*The company's future results will depend on its ability to profitably grow its outsourcing business.* The company's outsourcing contracts are multiyear engagements under which the company takes over management and support of a client's data center operations, end user devices, business processes or applications. System development activity on outsourcing contracts may require the company to make upfront investments. The company will need to have available sufficient financial resources in order to make these investments. Outsourcing contracts can be highly complex and can involve the design, development, implementation and operation of new solutions and the transitioning of clients from their existing processes to the new environment. Future results will depend on the company's ability to effectively and timely complete these implementations and transitions.

*The company's future results will depend in part on its ability to attract, motivate and retain experienced and knowledgeable personnel in key positions.* 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 faces aggressive competition in the information services and technology marketplace, which could lead to reduced demand for the company's products and services 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 consulting and other professional services firms, systems integrators, outsourcing providers, infrastructure services providers, computer hardware manufacturers and software providers. Some of the company's competitors may develop competing products and services 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 products and services 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'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 such reasons 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 contracts for infrastructure services, outsourcing, help desk and similar services, the company's revenue is based on the volume of products and services 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 outsourcing 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 systems integration 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.

*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 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 products and services. 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 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 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 products and services. 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.

*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.

*The company has significant pension obligations and may be required to make additional significant cash contributions to its defined benefit pension plans.* The company has unfunded obligations under its U.S. and non-U.S. defined benefit pension plans. In 2014, the company made cash contributions of $183.4 million to its worldwide defined benefit pension plans. Based on current legislation, recent interest rates and expected returns, in 2015 the company estimates that it will make cash contributions to its worldwide defined benefit pension plans of approximately $128.8 million, which is comprised of $52.6 million for the company's U.S. qualified defined benefit pension plan and $76.2 million primarily for non-U.S. defined benefit pension plans.

Deterioration in the value of the company's worldwide defined benefit pension plan assets, as well as discount rate changes, could require the company to make larger cash contributions to its defined benefit pension plans in the future. In addition, the funding of plan deficits over a shorter period of time than currently anticipated could result in making cash contributions to these plans on a more accelerated basis. Either of these events would reduce the cash available for working capital and other corporate uses and may have an adverse impact on the company's operations, financial condition and liquidity.

*The company's future results will depend on its ability to continue to simplify its operations and provide services more cost efficiently.* Over the past several years, the company has implemented significant cost-reduction measures and continues to focus on measures intended to further improve cost efficiency. Future results will depend on the success of these efforts as well as on the company's continued ability to focus its global resources and simplify its business structure.

*The company's business can be adversely affected by global economic conditions, acts of war, terrorism or natural disasters.* The company's financial results have been impacted by the global economic slowdown in recent years. If economic conditions worsen, 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.

*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, 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 overpayments 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.

*More than half 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.* More than half 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 Foreign Corrupt Practices Act and non-U.S. laws and regulations.

*Financial market conditions may inhibit the company's ability to access capital and credit markets to address its liquidity needs.* Financial market conditions may impact the company's ability to borrow, to refinance its outstanding debt, or to utilize surety bonds, letters of credit, foreign exchange derivatives and other financial instruments the company uses to conduct its business. Although the company primarily uses cash on hand to address its liquidity needs, its ability to do so assumes that its operations will continue to generate sufficient cash.

*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.

*Pending litigation could affect the company's results of operations or cash flow.* 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 and employment compensation in Brazil. See Note 13 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 flow could be materially affected in any particular period by the resolution of one or more of the legal matters pending against it.

*The company could face business and financial risk in implementing future dispositions or acquisitions.* As part of the company's business strategy, it may from time to time consider disposing of existing technologies, products and businesses that may no longer be in alignment with its strategic direction, including transactions of a material size, or acquiring complementary technologies, products and businesses. 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. 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. Further, with respect to both dispositions and acquisitions, management's attention could be diverted from other business concerns. Adverse credit conditions could also affect the company's ability to consummate dispositions or acquisitions. The risks associated with dispositions and acquisitions 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 dispositions or acquisitions on favorable terms or at all.

# Unisys Corporation

## Consolidated Financial Statements

### Consolidated Statements of Income

| Year ended December 31 (millions, except per share data) | 2014 | 2013 | 2012 |
|---|---|---|---|
| **Revenue** | | | |
| Services | **$2,887.7** | $2,996.1 | $3,192.4 |
| Technology | **468.7** | 460.4 | 514.0 |
| | **3,356.4** | 3,456.5 | 3,706.4 |
| **Costs and expenses** | | | |
| Cost of revenue: | | | |
| Services | **2,394.2** | 2,405.5 | 2,567.7 |
| Technology | **184.4** | 202.6 | 165.2 |
| | **2,578.6** | 2,608.1 | 2,732.9 |
| Selling, general and administrative expenses | **554.1** | 559.4 | 572.8 |
| Research and development expenses | **68.8** | 69.5 | 81.5 |
| | **3,201.5** | 3,237.0 | 3,387.2 |
| **Operating profit** | **154.9** | 219.5 | 319.2 |
| **Interest expense** | **9.2** | 9.9 | 27.5 |
| **Other income (expense), net** | **(.2)** | 9.8 | (37.6) |
| **Income before income taxes** | **145.5** | 219.4 | 254.1 |
| **Provision for income taxes** | **86.2** | 99.3 | 97.3 |
| **Consolidated net income** | **59.3** | 120.1 | 156.8 |
| **Net income attributable to noncontrolling interests** | **12.6** | 11.6 | 11.2 |
| **Net income attributable to Unisys Corporation** | **46.7** | 108.5 | 145.6 |
| **Preferred stock dividends** | **2.7** | 16.2 | 16.2 |
| **Net income attributable to Unisys Corporation common shareholders** | **$ 44.0** | $ 92.3 | $ 129.4 |
| **Earnings per common share attributable to Unisys Corporation** | | | |
| Basic | **$ .89** | $ 2.10 | $ 2.95 |
| Diluted | **$ .89** | $ 2.08 | $ 2.84 |

*See notes to consolidated financial statements.*

# Unisys Corporation

## Consolidated Statements of Comprehensive Income

| Year ended December 31 (millions) | **2014** | 2013 | 2012 |
|---|---|---|---|
| **Consolidated net income** | **$ 59.3** | $120.1 | $ 156.8 |
| **Other comprehensive income** | | | |
| **Foreign currency translation** | **(66.3)** | (40.1) | 17.7 |
| **Postretirement adjustments, net of tax of $(42.5) in 2014, $14.6 in 2013 and $(28.3) in 2012** | **(756.8)** | 853.8 | (452.3) |
| **Total other comprehensive income (loss)** | **(823.1)** | 813.7 | (434.6) |
| **Comprehensive income (loss)** | **(763.8)** | 933.8 | (277.8) |
| **Comprehensive income (loss) attributable to noncontrolling interests** | **30.5** | (25.1) | (9.3) |
| **Comprehensive income (loss) attributable to Unisys Corporation** | **$(733.3)** | $908.7 | $(287.1) |

*See notes to consolidated financial statements.*

# Unisys Corporation

## Consolidated Balance Sheets

| December 31 (millions) | **2014** | 2013 |
| --- | --- | --- |
| ***Assets*** | | |
| **Current assets** | | |
| Cash and cash equivalents | **$ 494.3** | $ 639.8 |
| Accounts and notes receivable, net | **619.3** | 683.1 |
| Inventories: | | |
| Parts and finished equipment | **22.2** | 32.8 |
| Work in process and materials | **24.5** | 22.3 |
| Deferred income taxes | **16.4** | 24.1 |
| Prepaid expenses and other current assets | **140.6** | 138.7 |
| Total | **1,317.3** | 1,540.8 |
| **Properties** | **1,059.4** | 1,095.5 |
| Less – Accumulated depreciation and amortization | **890.7** | 920.8 |
| Properties, net | **168.7** | 174.7 |
| **Outsourcing assets, net** | **150.9** | 115.5 |
| **Marketable software, net** | **144.1** | 129.1 |
| **Prepaid postretirement assets** | **19.9** | 83.7 |
| **Deferred income taxes** | **154.6** | 112.3 |
| **Goodwill** | **183.9** | 188.7 |
| **Other long-term assets** | **209.3** | 165.2 |
| **Total** | **$ 2,348.7** | $ 2,510.0 |
| ***Liabilities and deficit*** | | |
| **Current liabilities** | | |
| Current maturities of long-term debt | **$ 1.8** | $ – |
| Accounts payable | **262.5** | 246.7 |
| Deferred revenue | **348.3** | 402.4 |
| Other accrued liabilities | **385.1** | 375.7 |
| Total | **997.7** | 1,024.8 |
| **Long-term debt** | **222.2** | 210.0 |
| **Long-term postretirement liabilities** | **2,369.9** | 1,697.2 |
| **Long-term deferred revenue** | **119.5** | 122.7 |
| **Other long-term liabilities** | **91.8** | 119.2 |
| **Commitments and contingencies** | | |
| **Deficit** | | |
| 6.25% mandatory convertible preferred stock | **–** | 249.7 |
| Common stock, par value $.01 per share (100.0 million shares authorized; 52.4 million shares and 45.1 million shares issued) | **.5** | .4 |
| Accumulated deficit | **(1,735.8)** | (1,782.5) |
| Treasury stock, at cost | **(99.6)** | (62.4) |
| Paid-in capital | **4,488.3** | 4,227.7 |
| Accumulated other comprehensive loss | **(4,113.4)** | (3,333.4) |
| Total Unisys stockholders' deficit | **(1,460.0)** | (700.5) |
| Noncontrolling interests | **7.6** | 36.6 |
| Total deficit | **(1,452.4)** | (663.9) |
| **Total** | **$ 2,348.7** | $ 2,510.0 |

*See notes to consolidated financial statements.*

# Unisys Corporation

## Consolidated Statements of Cash Flows

| Year ended December 31 (millions) | **2014** | 2013 | 2012 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Consolidated net income | **$ 59.3** | $ 120.1 | $ 156.8 |
| Add (deduct) items to reconcile consolidated net income to net cash provided by operating activities: | | | |
| Company stock issued for U.S. 401(k) plan | **–** | – | 6.2 |
| Foreign currency transaction losses | **7.4** | 6.5 | – |
| Loss on debt extinguishment | **–** | – | 30.6 |
| Employee stock compensation | **10.4** | 12.5 | 14.3 |
| Depreciation and amortization of properties | **52.0** | 46.7 | 54.7 |
| Depreciation and amortization of outsourcing assets | **58.1** | 53.5 | 57.9 |
| Amortization of marketable software | **58.5** | 59.4 | 62.0 |
| Other non-cash operating activities | **7.8** | (.6) | (2.7) |
| Disposal of capital assets | **1.8** | 2.0 | 6.3 |
| (Gain) loss on sale of businesses and assets | **(.7)** | 1.5 | (11.7) |
| Pension contributions | **(183.4)** | (147.2) | (201.5) |
| Pension expense | **73.8** | 93.5 | 108.2 |
| Decrease in deferred income taxes, net | **24.8** | 29.4 | 26.3 |
| Increase in receivables, net | **(14.3)** | (63.5) | (11.2) |
| Decrease (increase) in inventories | **6.3** | (6.5) | 14.2 |
| (Increase) decrease in other assets | **(23.7)** | (16.5) | 32.2 |
| Increase (decrease) in accounts payable and other accrued liabilities | **14.4** | 1.9 | (80.7) |
| Decrease in other liabilities | **(31.1)** | (5.3) | (.6) |
| Net cash provided by operating activities | **121.4** | 187.4 | 261.3 |
| **Cash flows from investing activities** | | | |
| Proceeds from investments | **5,654.0** | 5,315.9 | 4,108.5 |
| Purchases of investments | **(5,640.3)** | (5,325.8) | (4,107.2) |
| Investment in marketable software | **(73.6)** | (64.3) | (56.4) |
| Capital additions of properties | **(53.3)** | (47.2) | (40.1) |
| Capital additions of outsourcing assets | **(85.9)** | (39.9) | (36.1) |
| Other | **3.8** | (1.4) | 4.6 |
| Net cash used for investing activities | **(195.3)** | (162.7) | (126.7) |
| **Cash flows from financing activities** | | | |
| Common stock repurchases | **(35.7)** | (11.7) | – |
| Dividends paid on preferred stock | **(4.0)** | (16.2) | (16.2) |
| Proceeds from exercise of stock options | **3.4** | 4.9 | .4 |
| Financing fees | **(.6)** | – | – |
| Proceeds from issuance of long-term debt | **–** | – | 204.8 |
| Payments of long-term debt | **–** | – | (388.9) |
| Dividends paid to noncontrolling interest | **–** | – | (4.5) |
| Net cash used for financing activities | **(36.9)** | (23.0) | (204.4) |
| **Effect of exchange rate changes on cash and cash equivalents** | **(34.7)** | (17.5) | 10.5 |
| **Decrease in cash and cash equivalents** | **(145.5)** | (15.8) | (59.3) |
| **Cash and cash equivalents, beginning of year** | **639.8** | 655.6 | 714.9 |
| **Cash and cash equivalents, end of year** | **$ 494.3** | $ 639.8 | $ 655.6 |

*See notes to consolidated financial statements.*

# Unisys Corporation

## Consolidated Statements of Deficit

| (millions) | Total | Total Unisys Corporation | Preferred Stock | Common Stock Par Value | Accumulated Deficit | Treasury Stock At Cost | Paid-in Capital | Accumulated Other Comprehensive Loss | Noncontrolling Interests |
|---|---|---|---|---|---|---|---|---|---|
| | | Unisys Corporation | | | | | | | |
| Balance at December 31, 2011 | $(1,311.0) | $(1,318.1) | $ 249.7 | $.4 | $(2,036.6) | $(48.1) | $4,217.4 | $(3,700.9) | $ 7.1 |
| Consolidated net income | 156.8 | 145.6 | | | 145.6 | | | | 11.2 |
| Stock-based compensation | 21.2 | 21.2 | | | | (.7) | 21.9 | | |
| Dividends declared to preferred holders | (16.2) | (16.2) | | | | | (16.2) | | |
| Dividends declared to noncontrolling interests | (3.5) | | | | | | | | (3.5) |
| Sale of subsidiary | (1.4) | | | | | | | | (1.4) |
| Translation adjustments | 17.7 | 14.8 | | | | | | 14.8 | 2.9 |
| Postretirement plans | (452.3) | (447.5) | | | | | | (447.5) | (4.8) |
| Balance at December 31, 2012 | (1,588.7) | (1,600.2) | 249.7 | .4 | (1,891.0) | (48.8) | 4,223.1 | (4,133.6) | 11.5 |
| Consolidated net income | 120.1 | 108.5 | | | 108.5 | | | | 11.6 |
| Stock-based compensation | 14.8 | 14.8 | | | | (1.9) | 16.7 | | |
| Dividends declared to preferred holders | (12.1) | (12.1) | | | | | (12.1) | | |
| Common stock repurchases | (11.7) | (11.7) | | | | (11.7) | | | |
| Translation adjustments | (40.1) | (42.5) | | | | | | (42.5) | 2.4 |
| Postretirement plans | 853.8 | 842.7 | | | | | | 842.7 | 11.1 |
| Balance at December 31, 2013 | (663.9) | (700.5) | 249.7 | .4 | (1,782.5) | (62.4) | 4,227.7 | (3,333.4) | 36.6 |
| Consolidated net income | 59.3 | 46.7 | | | 46.7 | | | | 12.6 |
| Stock-based compensation | 13.5 | 13.5 | | | | (1.5) | 15.0 | | |
| Dividends declared to preferred holders | (4.0) | (4.0) | | | | | (4.0) | | |
| Preferred stock conversion | – | – | (249.7) | .1 | | | 249.6 | | |
| Sale of subsidiary | 1.5 | | | | | | | | 1.5 |
| Common stock repurchases | (35.7) | (35.7) | | | | (35.7) | | | |
| Translation adjustments | (66.3) | (61.0) | | | | | | (61.0) | (5.3) |
| Postretirement plans | (756.8) | (719.0) | | | | | | (719.0) | (37.8) |
| Balance at December 31, 2014 | $(1,452.4) | $(1,460.0) | $ – | $.5 | $(1,735.8) | $(99.6) | $4,488.3 | $(4,113.4) | $ 7.6 |

*See notes to consolidated financial statements.*

# Unisys Corporation

## Notes to Consolidated Financial Statements

### 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, and assumptions used in the calculation 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 equivalents** All 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 are classified as cash equivalents.

**Inventories** Inventories are valued at the lower of cost or market. 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 2014, 2013 and 2012 was $8.0 million, $2.5 million and $3.1 million, respectively.

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

**Revenue recognition** Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the fee is fixed or determinable, and collectability is probable.

Revenue from hardware sales with standard payment terms is recognized upon the passage of title and the transfer of risk of loss. Outside the United States, the company recognizes revenue even if it retains a form of title to products delivered to customers, provided the sole purpose is to enable the company to recover the products in the event of customer payment default and the arrangement does not prohibit the customer's use of the product in the ordinary course of business.

Revenue from software licenses with standard payment terms is recognized at the inception of the initial license term and upon execution of an extension to the license term.

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 deliverables, with hardware and software delivered in one reporting period and the software support and hardware maintenance services delivered 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 software products to the client. The services are provided on a continuous basis across multiple reporting periods and the hardware and software products are delivered in one reporting period. To the extent that a deliverable in a multiple-deliverable arrangement is subject to specific guidance, that deliverable is accounted for in accordance with such

specific guidance. Examples of such arrangements may include leased hardware which is subject to specific leasing guidance or software which is subject to specific software revenue recognition guidance.

In these transactions, the company allocates the total revenue to be earned under the arrangement among the various elements based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence (VSOE) if available, third party evidence (TPE) if VSOE is not available, or the best estimated selling price (ESP) if neither VSOE nor TPE is available. VSOE of selling price is based upon the normal pricing and discounting practices for those products and services when sold separately. TPE of selling price is based on evaluating largely similar and interchangeable competitor products or services in standalone sales to similarly situated customers. ESP is established considering factors such as margin objectives, discounts off of list prices, market conditions, competition and other factors. ESP represents the price at which the company would transact for the deliverable if it were sold by the company regularly on a standalone basis.

As mentioned above, some of the company's multiple-element arrangements may include leased hardware which is subject to specific leasing guidance. Revenue under these arrangements is allocated considering the relative selling prices of the lease and non-lease elements. Lease deliverables include hardware, financing, maintenance and other executory costs, while non-lease deliverables generally consist of non-maintenance services. The amount of revenue allocated to the lease deliverables begins by allocating revenue to maintenance and other executory costs plus a profit thereon. These elements are generally recognized over the term of the lease. The remaining amounts are allocated to the hardware and financing elements. The amount allocated to hardware is recognized as revenue monthly over the term of the lease for those leases which are classified as operating leases and at the inception of the lease term for those leases which are classified as sales-type leases. The amount of finance income attributable to sales-type leases is recognized on the accrual basis using the effective interest method.

For multiple-element arrangements that involve the licensing, selling or leasing of software, for software and software-related elements, the allocation of revenue is based on VSOE. There may be cases in which there is VSOE of fair value of the undelivered elements but no such evidence for the delivered elements. In these cases, the residual method is used to allocate the arrangement consideration. Under the residual method, the amount of consideration allocated to the delivered elements equals the total arrangement consideration less the aggregate VSOE of fair value of the undelivered elements.

For multiple-element arrangements that include products or services that (a) do not include the licensing, selling or leasing of software, or (b) contain software that is incidental to the products or services as a whole or (c) contain software components that are sold, licensed or leased with tangible products when the software components and non-software components (i.e., the hardware and software) of the tangible product function together to deliver the tangible product's essential functionality (e.g., sales of the company's enterprise-class servers including hardware and software), or some combination of the above, the allocation of revenue is based on the relative selling prices of each of the deliverables in the arrangement based on the selling price hierarchy, discussed above.

For multiple-element arrangements that include both software and non-software deliverables, the company allocates arrangement consideration to the software group and to the non-software group based on the relative selling prices of the deliverables in the arrangement based on the selling price hierarchy discussed above. For the software group, arrangement consideration is further allocated using VSOE as described above.

The company recognizes revenue on delivered elements only if: (a) any undelivered products or services are not essential to the functionality of the delivered products or services, (b) the company has an enforceable claim to receive the amount due in the event it does not deliver the undelivered products or services, (c) there is evidence of the selling price for each undelivered products or services, and (d) the revenue recognition criteria otherwise have been met for the delivered elements. Otherwise, revenue on delivered elements is recognized as the undelivered elements are delivered.

The company evaluates each deliverable in an arrangement to determine whether it represents a separate unit of accounting. A delivered element constitutes a separate unit of accounting when it has standalone value and there is no customer-negotiated refund or return right for the delivered elements. If these criteria are not met, the deliverable is combined with the undelivered elements and the allocation of the arrangement consideration and revenue recognition are determined for the combined unit as a single unit.

Revenue from hardware sales and software licenses with extended payment terms is recognized as payments from customers become due (assuming that all other conditions for revenue recognition have been satisfied).

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 either on the percentage-of-completion method of accounting using the cost-to-cost method, or when services have been performed, depending on the nature of the project. For contracts accounted for on the percentage-of-completion basis, 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.

**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 return 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 has elected the policy of not providing for intra-period tax allocations between pretax earnings and other comprehensive income in instances where there is no net tax provision. This determination is made for each tax jurisdiction.

The company recognizes penalties and interest accrued related to income tax liabilities in provision for income taxes in its consolidated statements of income.

**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, but not in excess of three years following product release. 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. The company quarterly 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. 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 8), derivatives (see note 11) and to its postretirement plan assets (see note 16).

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

## 2. Earnings per common share

The following table shows how the earnings per common share attributable to Unisys Corporation were computed for the three years ended December 31, 2014.

| Year ended December 31 (millions, except per share data) | **2014** | 2013 | 2012 |
|---|---|---|---|
| **Basic earnings per common share computation** | | | |
| Net income attributable to Unisys Corporation common stockholders | **$ 44.0** | $ 92.3 | $ 129.4 |
| Weighted average shares (thousands) | **49,280** | 43,899 | 43,864 |
| **Basic earnings per common share** | **$ .89** | $ 2.10 | $ 2.95 |
| **Diluted earnings per common share computation** | | | |
| Net income attributable to Unisys Corporation common stockholders | **$ 44.0** | $ 92.3 | $ 129.4 |
| Add preferred stock dividends | **–** | – | 16.2 |
| Net income attributable to Unisys Corporation for diluted earnings per share | **$ 44.0** | $ 92.3 | $ 145.6 |
| Weighted average shares (thousands) | **49,280** | 43,899 | 43,864 |
| Plus incremental shares from assumed conversions | | | |
| Employee stock plans | **304** | 448 | 439 |
| Preferred stock | **–** | – | 6,913 |
| Adjusted weighted average shares | **49,584** | 44,347 | 51,216 |
| **Diluted earnings per common share** | **$ .89** | $ 2.08 | $ 2.84 |

In 2014, 2013 and 2012, the following weighted-average number of stock options and restricted stock units were antidilutive and therefore excluded from the computation of diluted earnings per common share (in thousands): 1,929; 2,142; and 2,261, respectively. In 2014 and 2013, the following weighted-average mandatory convertible preferred stock was antidilutive and therefore excluded from the computation of diluted earnings per share (in thousands): 1,171 and 6,913, respectively.

## 3. Goodwill

Goodwill is reviewed annually for impairment and whenever events or circumstances occur indicating that goodwill may be impaired. The company performed its annual impairment test in the fourth quarter of 2014, which indicated that goodwill was not impaired.

Changes in the carrying amount of goodwill by segment for the years ended December 31, 2014 and 2013 were as follows:

| (millions) | Total | Services | Technology |
|---|---|---|---|
| Balance at December 31, 2012 | $192.3 | $83.6 | $108.7 |
| Translation adjustments | (3.6) | (3.6) | – |
| Balance at December 31, 2013 | 188.7 | 80.0 | 108.7 |
| Translation adjustments | (4.8) | (4.8) | – |
| Balance at December 31, 2014 | $183.9 | $75.2 | $108.7 |

## 4. Recent accounting pronouncements and accounting changes

Effective January 1, 2014, the company adopted the Financial Accounting Standards Board (FASB) accounting guidance on reporting discontinued operations. The new guidance is aimed at reducing the frequency of disposals reported as discontinued operations by focusing on strategic shifts that have or are expected to have a major effect on an entity's operations and financial results. Such a shift could include the disposal of a major line of business, a major geographical area, a major equity method investment or other major parts of the entity. In another change from current U.S. GAAP, the guidance permits companies to have continuing cash flows and significant continuing involvement with the disposed component. The guidance does not change the presentation requirements for discontinued operations in the statement of income. The guidance requires expanded disclosures for discontinued operations and new disclosures for individually material disposals that do not meet the definition of a discontinued operation. Since the company did not dispose of any operations in 2014, adoption of the guidance did not have an impact on the company's consolidated financial statements.

Effective January 1, 2013, the company adopted the FASB's authoritative guidance that requires companies to disclose the following: (a) for items reclassified out of accumulated other comprehensive income (AOCI) and into net income in their entirety, the effect of the reclassification on each affected income statement line item; and (b) for AOCI reclassification items that are not reclassified in their entirety into net income, a cross reference to other required U.S. GAAP disclosures. The new standard was required to be applied prospectively. Other than additional disclosure, the adoption of the new standard did not have an impact on the company's consolidated financial statements.

In May of 2014, the FASB issued a new revenue recognition standard entitled "Revenue from Contracts with Customers." The objective of the standard is to establish the 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. The standard is effective for annual reporting periods beginning after December 15, 2016, which for the company is January 1, 2017. Earlier application is not permitted. The standard 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. The company is currently assessing which method it will choose for adoption, and is evaluating the impact of the adoption on its consolidated results of operations and financial position.

## 5. 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 $100.1 million and $125.0 million at December 31, 2014 and 2013, respectively.

At December 31, 2014, receivables under sales-type leases before the allowance for unearned income were collectible as follows (in millions): 2015, $32.5; 2016, $27.6; 2017, $23.1; 2018, $22.9; 2019, $7.1; and $2.6 thereafter.

Unearned income, which is deducted from accounts and notes receivable, was $11.8 million and $10.5 million at December 31, 2014 and 2013, respectively. The allowance for doubtful accounts, which is reported as a deduction from accounts and notes receivable, was $30.1 million and $28.3 million at December 31, 2014 and 2013, respectively. The provision for doubtful accounts, which is reported in selling, general and administrative expenses in the consolidated statements of income, was expense (income) of $2.7 million, $(.6) million and $(2.7) million, in 2014, 2013 and 2012, respectively.

## 6. Income taxes

Following is the total income before income taxes and the provision for income taxes for the three years ended December 31, 2014.

| Year ended December 31 (millions) | **2014** | 2013 | 2012 |
|---|---|---|---|
| Income before income taxes | | | |
| United States | **$ (19.9)** | $ 28.4 | $ 32.5 |
| Foreign | **165.4** | 191.0 | 221.6 |
| Total income before income taxes | **$145.5** | $219.4 | $254.1 |
| Provision for income taxes | | | |
| Current | | | |
| United States | **$ 2.1** | $ 8.0 | $ 3.6 |
| Foreign | **59.4** | 63.0 | 66.5 |
| State and local | **1.0** | (.2) | – |
| Total | **62.5** | 70.8 | 70.1 |
| Deferred | | | |
| Foreign | **23.7** | 28.5 | 27.2 |
| Total provision for income taxes | **$ 86.2** | $ 99.3 | $ 97.3 |

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

| Year ended December 31 (millions) | **2014** | 2013 | 2012 |
|---|---|---|---|
| United States statutory income tax provision | **$ 50.9** | $ 76.8 | $ 88.9 |
| Income and losses for which no provision or benefit has been recognized | **35.7** | 13.5 | 7.0 |
| Foreign rate differential and other foreign tax expense | **(22.0)** | (23.0) | (32.2) |
| Income tax withholdings | **17.1** | 15.4 | 20.3 |
| Permanent items | **1.1** | 4.0 | 4.0 |
| Enacted rate changes | **–** | 8.9 | 9.0 |
| Change in uncertain tax positions | **.2** | 4.4 | 4.5 |
| Change in valuation allowances due to changes in judgment | **7.0** | (.5) | – |
| Income tax credits, U.S. | **(3.9)** | – | (4.0) |
| Other | **.1** | (.2) | (.2) |
| Provision for income taxes | **$ 86.2** | $ 99.3 | $ 97.3 |

The 2013 and 2012 provision for income taxes included $11.4 million and $9.2 million, respectively, due to a reduction in the UK income tax rate. The rate reductions were enacted in the third quarters of 2013 and 2012, and reduced the rate from 26% to 24% effective April 1, 2012, to 23% effective April 1, 2013, to 21% effective April 1, 2014 and to 20% effective April 1, 2015. The tax provisions were caused by a write down of the UK net deferred tax assets.

The tax effects of temporary differences and carryforwards that give rise to significant portions of deferred tax assets and liabilities at December 31, 2014 and 2013 were as follows:

| December 31 (millions) | 2014 | 2013 |
|---|---|---|
| **Deferred tax assets** | | |
| Tax loss carryforwards | **$ 883.3** | $ 888.8 |
| Postretirement benefits | **791.3** | 566.3 |
| Foreign tax credit carryforwards | **245.5** | 252.4 |
| Other tax credit carryforwards | **88.0** | 88.9 |
| Deferred revenue | **60.5** | 86.4 |
| Employee benefits and compensation | **44.6** | 42.4 |
| Purchased capitalized software | **39.3** | 41.3 |
| Capitalized research and development | **36.0** | 89.7 |
| Depreciation | **34.9** | 31.6 |
| Capitalized costs | **16.3** | 16.5 |
| Warranty, bad debts and other reserves | **12.8** | 14.6 |
| Other | **29.5** | 26.8 |
| | **2,282.0** | 2,145.7 |
| Valuation allowance | **(2,107.8)** | (1,998.8) |
| Total deferred tax assets | **$ 174.2** | $ 146.9 |
| **Deferred tax liabilities** | | |
| Other | **$ 37.9** | $ 33.0 |
| Total deferred tax liabilities | **$ 37.9** | $ 33.0 |
| Net deferred tax assets | **$ 136.3** | $ 113.9 |

At December 31, 2014, the company has U.S. Federal ($431.6 million), state and local ($204.5 million), and foreign ($247.2 million) tax loss carryforwards, the total tax effect of which is $883.3 million. These carryforwards will expire as follows (in millions): 2015, $11.1; 2016, $8.7; 2017, $11.9; 2018, $24.6; 2019, $8.4; and $818.6 thereafter. The company also has available tax credit carryforwards of approximately $333.5 million, which will expire as follows (in millions): 2015, $7.5; 2016, $10.5; 2017, $48.2; 2018, $20.8; 2019, $20.6; and $225.9 thereafter.

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.

Cumulative undistributed earnings of foreign subsidiaries, for which no U.S. income or foreign withholding taxes have been recorded, approximated $1,279.7 million at December 31, 2014. As the company currently intends to indefinitely reinvest all such earnings, no provision has been made for income taxes that may become payable upon distribution of such earnings, and it is not practicable to determine the amount of the related unrecognized deferred income tax liability.

Cash paid for income taxes, net of refunds, during 2014, 2013 and 2012 was $73.9 million, $63.8 million and $39.9 million, respectively.

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

| Year ended December 31 (millions) | 2014 | 2013 | 2012 |
|---|---|---|---|
| Balance at January 1 | **$26.3** | $29.2 | $24.3 |
| Additions based on tax positions related to the current year | **14.4** | (2.4) | 3.5 |
| Changes for tax positions of prior years | **(1.4)** | (.1) | 1.4 |
| Reductions as a result of a lapse of applicable statute of limitations | **(1.6)** | – | (.4) |
| Settlements | **(.9)** | (.2) | (.7) |
| Changes due to foreign currency | **(1.8)** | (.2) | 1.1 |
| Balance at December 31 | **$35.0** | $26.3 | $29.2 |

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, 2014 and 2013, the company had an accrual of $1.6 million and $2.1 million, respectively, for the payment of penalties and interest.

At December 31, 2014, 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 2006 are closed. For Brazil and the United Kingdom, which are the most significant jurisdictions outside the U.S., the audit periods through 2009 and 2010, respectively, are closed. 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 ownership change, utilization of the company's Tax Attributes will be subject to an overall annual limitation of $70.6 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. As of December 31, 2013, due to the ownership change in 2011, the Section 382 limitation and accompanying built in losses caused the company to reduce its deferred tax assets and related valuation allowance by $389.6 million. 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.

## 7. Properties

Properties comprise the following:

| December 31 (millions) | **2014** | 2013 |
|---|---|---|
| Land | **$ 2.8** | $ 3.2 |
| Buildings | **80.1** | 86.1 |
| Machinery and office equipment | **644.9** | 677.8 |
| Internal-use software | **257.7** | 244.6 |
| Rental equipment | **73.9** | 83.8 |
| Total properties | **$1,059.4** | $1,095.5 |

## 8. Debt

Long-term debt is comprised of the following:

| December 31 (millions) | **2014** | 2013 |
|---|---|---|
| 6.25% senior notes due 2017 | **$210.0** | $210.0 |
| Capital leases | **14.0** | – |
| Total | **224.0** | 210.0 |
| Less – current maturities | **1.8** | – |
| Total long-term debt | **$222.2** | $210.0 |

All $210.0 million of 6.25% long-term debt matures in 2017. Capital leases maturities in 2015, 2016, 2017, 2018, 2019 and thereafter are $1.8 million, $2.6 million, $2.7 million, $2.4 million, $1.3 million and $3.2 million, respectively.

Cash paid for interest during 2014, 2013 and 2012 was $13.2 million, $12.9 million and $42.5 million, respectively. Capitalized interest expense during 2014, 2013 and 2012 was $4.0 million, $3.2 million and $5.3 million, respectively.

The company has a secured revolving credit facility, expiring in June 2018, which provides for loans and letters of credit up to an aggregate amount of $150 million (with a limit on letters of credit of $100 million). Borrowing limits under the credit agreement are based upon the amount of eligible U.S. accounts receivable. At December 31, 2014, the company had no borrowings and $18.8 million of letters of credit outstanding under the facility. At December 31, 2014, availability under the facility was $100.0 million net of letters of credit issued. Borrowings under the facility will bear interest based on short-term rates. 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 company is required to maintain a minimum fixed charge coverage ratio if the company's availability under the credit facility falls below the greater of 12.5% of the lenders' commitments under the facility and $18.75 million. The credit agreement allows the company to pay dividends on its capital stock in an amount up to $22.5 million per year unless the company is in default and to, among other things, repurchase its equity, prepay other debt, incur other debt or liens, dispose of assets and make acquisitions, loans and investments, provided the company complies with certain requirements and limitations set forth in the agreement. 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 million. 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 Unisys Corporation and the subsidiary guarantors, other than certain excluded assets. The company may elect to prepay or terminate the credit facility without penalty.

At December 31, 2014, 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 2015 cash requirements.

## 9. Other liabilities

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

| December 31 (millions) | **2014** | 2013 |
|---|---|---|
| Payrolls and commissions | **$109.3** | $103.9 |
| Accrued vacations | **60.8** | 67.2 |
| Income taxes | **58.3** | 40.9 |
| Taxes other than income taxes | **53.8** | 62.4 |
| Postretirement | **22.6** | 25.1 |
| Accrued interest | **4.9** | 4.9 |
| Other | **75.4** | 71.3 |
| Total other accrued liabilities | **$385.1** | $375.7 |

## 10. Rental expense and commitments

Rental expense, less income from subleases, for 2014, 2013 and 2012 was $83.7 million, $85.3 million and $84.7 million, respectively. Income from subleases, for 2014, 2013 and 2012 was $8.5 million, $7.4 million and $8.5 million, respectively.

Minimum net rental commitments under noncancelable operating leases, including idle leases, outstanding at December 31, 2014, substantially all of which relate to real properties, were as follows: 2015, $58.2 million; 2016, $47.2 million; 2017, $38.9 million; 2018, $26.6 million; 2019, $19.9 million; and $34.3 million thereafter. Such rental commitments have been reduced by minimum sublease rentals of $32.0 million, due in the future under noncancelable subleases.

At December 31, 2014, the company had outstanding standby letters of credit and surety bonds totaling approximately $343 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, 2014, the company had deposits and collateral of approximately $58 million in other long-term assets, principally related to collateralized letters of credit, and to tax and labor contingencies in Brazil.

## 11. 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 one month, which have not been designated as hedging instruments. At December 31, 2014 and 2013, the notional amount of these contracts was $403.9 million and $482.6 million, respectively, and the fair value of such contracts was a net gain of $5.3 million and a net gain of $1.7 million, respectively, of which a gain of $6.1 million and $2.0 million, respectively, has been recognized in "Prepaid expenses and other current assets" and a loss of $.8 million and $.3 million, respectively, has been recognized in "Other accrued liabilities." Changes in the fair value of these instruments was a gain of $17.3 million, a loss of $7.3 million and a loss of $.4 million, respectively, for years ended December 31, 2014, 2013 and 2012, which has been recognized in earnings in "Other income (expense), net" in the company's consolidated statement of income. 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.

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, 2014 and 2013, 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. Realized gains or losses during 2014, 2013 and 2012, as well as unrealized gains or losses at December 31, 2014 and 2013, were immaterial. Receivables are due from a large number of customers that are dispersed worldwide across many industries. At December 31, 2014 and 2013, the company had no significant concentrations of credit risk with any one customer. At December 31, 2014 and 2013, the company had approximately $94 million and $79 million, respectively, of receivables due from various U.S. federal governmental agencies. At December 31, 2014 and 2013, the carrying amount of cash and cash equivalents approximated fair value; and the carrying amount of long-term debt was less than the fair value, which is based on market prices (Level 2 inputs), of such debt by approximately $9 million and $15 million, respectively.

## 12. Foreign currency translation

Due to inflation rates in recent years, the company's Venezuelan subsidiary has applied highly inflationary accounting beginning January 1, 2010. 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. Effective February 13, 2013, the Venezuelan government devalued its currency, the bolivar, by resetting the official exchange rate from 4.30 to the U.S. dollar to 6.30 to the U.S. dollar. As a result, the company recorded a pretax foreign exchange loss in 2013 of $6.5 million.

In January of 2014, the Venezuelan government announced that the exchange rate to be applied to the settlement of certain transactions, including foreign investments and royalties, would be changed to the Complementary System of Foreign Currency Administration (SICAD I) auction rate. As a result, the company changed the exchange rate used to remeasure its Venezuelan subsidiary's financial statements in U.S. dollars from the official rate of 6.3 bolivars to the new SICAD I rate. At December 31, the SICAD I exchange rate used was 12.0 bolivars to the U.S. dollar. The changes in the rate resulted in the company recording a pretax foreign exchange loss in 2014 of $7.4 million. The company believes that using the SICAD I exchange rate is economically representative of what it might expect to receive in a dividend transaction.

At December 31, 2014, the company's operations in Venezuela had net monetary assets denominated in local currency equivalent to approximately $8 million. As indicated above, the SICAD I exchange rate is determined by periodic auctions and, therefore, the potential exists for it to change significantly in future quarters. Additionally, the Venezuelan government may make further changes or introduce new exchange rate mechanisms, which could result in further changes in the exchange rate used by the company to remeasure its Venezuelan subsidiary's financial statements in U.S. dollars.

During the years ended December 31, 2014, 2013 and 2012, the company recognized foreign exchange (losses) gains in "Other income (expense), net" in its consolidated statements of income of $(7.0) million, $10.4 million and $(8.1) million, respectively.

### 13. 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 and employment compensation in Brazil. 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 flow 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 million Euros. Unisys Belgium filed its defense and counterclaim in April 2008, in the amount of approximately 18.5 million Euros. The company believes it has valid defenses to the claims and contends that the Belgian State's termination of the contract was unjustified.

In December 2007, Lufthansa AG sued Unisys Deutschland GmbH, a Unisys subsidiary (Unisys Germany), in the District Court of Frankfurt, Germany, for allegedly failing to perform properly its obligations during the initial phase of a 2004 software design and development contract relating to a Lufthansa customer loyalty program. Under the contract, either party was free to withdraw from the project at the conclusion of the initial design phase. Rather than withdraw, Lufthansa instead terminated the contract and failed to pay the balance owed to Unisys Germany for the initial phase. Lufthansa's lawsuit alleges that Unisys Germany breached the contract by failing to deliver a proper design for the new system and seeks approximately 21.4 million Euros in damages. The company believes it has valid defenses and filed its defense and a counterclaim in the amount of approximately 1.5 million Euros. In July 2013, the District Court issued a decision finding Unisys Germany liable for failing to perform its obligations under the initial phase of the contract. It also dismissed Unisys Germany's counterclaim. The District Court did not conduct the damage phase of the proceeding. Unisys Germany appealed the decision on liability in August 2013. In December 2014, the Appellate Court found that Lufthansa was not entitled to terminate the contract for breach and dismissed Lufthansa's 21.4 million Euros damages claim. It also dismissed Unisys Germany's 1.5 million Euros counterclaim, finding the contract required Unisys Germany to return to Lufthansa a 2.2 million Euros advance payment that Lufthansa made upon contract signing. Accordingly, the Appellate Court entered a judgment against Unisys Germany for 2.2 million Euros plus interest (currently estimated to be approximately 1.16 million Euros). Under the judgment, the court also awarded costs of approximately 240,000 Euros to Unisys. In January 2015, the parties agreed to settle the case by waiving their rights to seek permission from Germany's highest court to appeal and Unisys

paying the amount due under the judgment. Unisys may either pay Lufthansa cash or, subject to further agreement of the parties, credits on a new project involving Unisys and Lufthansa.

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 matters. The company believes that appropriate accruals have been established for such matters based on information currently available. At December 31, 2014, 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 $127 million.

The company has been involved in a matter arising from the sale of its Health Information Management (HIM) business to Molina Information Systems, LLC (Molina) under a 2010 Asset Purchase Agreement (APA). The HIM business provided system solutions and services to state governments, including the state of Idaho, for administering Medicaid programs. In August 2012, Molina sued the company in Federal District Court in Delaware alleging breaches of contract, negligent misrepresentation and intentional misrepresentation with respect to the APA and the Medicaid contract with Idaho. Molina sought compensatory damages, punitive damages, lost profits, indemnification, and declaratory relief. Molina alleged losses of approximately $35 million in the complaint. In June 2013, the District Court granted the company's motion to dismiss the complaint and allowed Molina to replead certain claims and file an amended complaint. In August 2013, Molina filed an amended complaint. The company filed a motion to dismiss the amended complaint. On September 2, 2014, the District Court granted the company's motion to dismiss the negligent misrepresentation claim, but denied the company's motion with respect to Molina's intentional misrepresentation and breach of contract claims. The litigation continues on the remaining claims.

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, 2014, it has adequate provisions for any such matters.

## 14. Segment information

The company has two business segments: Services and Technology. The products and services of each segment are marketed throughout the world to commercial businesses and governments. Revenue classifications by segment are as follows: Services – systems integration and consulting, outsourcing, infrastructure services and core maintenance; Technology – enterprise-class software and servers and other technology.

The accounting policies of each business segment are the same as those described in the summary of significant accounting policies. 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 hardware and software shipments to customers under Services contracts. The Services segment, in turn, recognizes customer revenue and marketing profit on such shipments of company hardware and software to customers. The Services segment also includes hardware and software 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 hardware and software 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, 2014, 2013 and 2012, was $17.0 million, $6.0 million and $11.5 million, respectively. The profit on these transactions is eliminated in Corporate.

The company evaluates business segment performance based on operating income exclusive of pension 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 $529 million, $512 million and $523 million in 2014, 2013 and 2012, 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 (millions) | **2014** | 2013 | 2012 |
|---|---|---|---|
| Services | | | |
| Systems integration and consulting | **$ 942.8** | $ 956.9 | $1,079.3 |
| Outsourcing | **1,412.7** | 1,428.7 | 1,475.5 |
| Infrastructure services | **347.4** | 428.1 | 442.4 |
| Core maintenance | **184.8** | 182.4 | 195.2 |
| | **2,887.7** | 2,996.1 | 3,192.4 |
| Technology | | | |
| Enterprise-class software and servers | **429.0** | 402.7 | 480.3 |
| Other technology | **39.7** | 57.7 | 33.7 |
| | **468.7** | 460.4 | 514.0 |
| Total | **$3,356.4** | $3,456.5 | $3,706.4 |

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

| Year ended December 31 (millions) | **2014** | 2013 | 2012 |
|---|---|---|---|
| Total segment operating income | **$233.6** | $309.6 | $414.3 |
| Interest expense | **(9.2)** | (9.9) | (27.5) |
| Other income (expense), net | **(.2)** | 9.8 | (37.6) |
| Corporate and eliminations | **(78.7)** | (90.1) | (95.1) |
| Total income before income taxes | **$145.5** | $219.4 | $254.1 |

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

| December 31 (millions) | **2014** | 2013 | 2012 |
|---|---|---|---|
| Total segment assets | **$1,533.8** | $1,530.5 | $1,469.1 |
| Cash and cash equivalents | **494.3** | 639.8 | 655.6 |
| Deferred income taxes | **171.0** | 136.4 | 184.3 |
| Prepaid postretirement assets | **19.9** | 83.7 | 3.3 |
| Other corporate assets | **129.7** | 119.6 | 108.1 |
| Total assets | **$2,348.7** | $2,510.0 | $2,420.4 |

A summary of the company's operations by business segment for 2014, 2013 and 2012 is presented below:

| (millions) | Total | Corporate | Services | Technology |
|---|---|---|---|---|
| 2014 | | | | |
| Customer revenue | $3,356.4 | | $2,887.7 | $ 468.7 |
| Intersegment | | $ (112.3) | .4 | 111.9 |
| Total revenue | $3,356.4 | $ (112.3) | $2,888.1 | $ 580.6 |
| Operating income | $ 154.9 | $ (78.7) | $ 122.7 | $ 110.9 |
| Depreciation and amortization | 168.6 | | 103.2 | 65.4 |
| Total assets | 2,348.7 | 814.9 | 1,099.2 | 434.6 |
| Capital expenditures | 212.8 | 4.9 | 133.8 | 74.1 |
| 2013 | | | | |
| Customer revenue | $3,456.5 | | $2,996.1 | $ 460.4 |
| Intersegment | | $ (122.5) | 1.7 | 120.8 |
| Total revenue | $3,456.5 | $ (122.5) | $2,997.8 | $ 581.2 |
| Operating income | $ 219.5 | $ (90.1) | $ 186.7 | $ 122.9 |
| Depreciation and amortization | 159.6 | | 91.8 | 67.8 |
| Total assets | 2,510.0 | 979.5 | 1,126.7 | 403.8 |
| Capital expenditures | 151.4 | 2.9 | 78.8 | 69.7 |
| 2012 | | | | |
| Customer revenue | $3,706.4 | | $3,192.4 | $ 514.0 |
| Intersegment | | $ (123.1) | 3.8 | 119.3 |
| Total revenue | $3,706.4 | $ (123.1) | $3,196.2 | $ 633.3 |
| Operating income | $ 319.2 | $ (95.1) | $ 204.6 | $ 209.7 |
| Depreciation and amortization | 174.6 | | 102.4 | 72.2 |
| Total assets | 2,420.4 | 951.3 | 1,085.9 | 383.2 |
| Capital expenditures | 132.6 | 3.7 | 64.7 | 64.2 |

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 (millions) | **2014** | 2013 | 2012 |
|---|---|---|---|
| Revenue | | | |
| United States | **$1,378.1** | $1,370.6 | $1,455.0 |
| United Kingdom | **435.4** | 414.0 | 496.9 |
| Other foreign | **1,542.9** | 1,671.9 | 1,754.5 |
| Total | **$3,356.4** | $3,456.5 | $3,706.4 |
| Properties, net | | | |
| United States | **$ 111.9** | $ 112.4 | $ 112.7 |
| United Kingdom | **22.0** | 24.7 | 23.1 |
| Other foreign | **34.8** | 37.6 | 40.6 |
| Total | **$ 168.7** | $ 174.7 | $ 176.4 |
| Outsourcing assets, net | | | |
| United States | **$ 99.7** | $ 56.2 | $ 67.1 |
| United Kingdom | **25.8** | 28.1 | 30.3 |
| Other foreign | **25.4** | 31.2 | 28.9 |
| Total | **$ 150.9** | $ 115.5 | $ 126.3 |

## 15. Sale of business

On March 30, 2012, the company completed the sale of its interest in its South African joint venture and reported a pretax gain of $10.6 million, which was reported as a reduction of selling, general and administrative expense in the company's consolidated statement of income. Since the sale, the company has served this market through a distributor. The joint venture, which had operations in both of the company's reporting segments of Services and Technology, generated 2012 (through the date of sale) revenue and pretax income of $47.6 million and $7.6 million, respectively.

## 16. 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, 2014, 2.7 million shares of unissued common stock of the company were available for granting under these plans.

As of December 31, 2014, 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.

The company's employee stock option grants include a provision that, if termination of employment occurs after the participant has attained age 55 and completed 5 years of service with the company, the participant shall continue to vest in each of his or her awards in accordance with the vesting schedule set forth in the applicable award agreement. Compensation expense for such awards is recognized over the period to the date the employee first becomes eligible for retirement. Time-based restricted stock unit grants for the company's directors vest upon award and compensation expense for such awards is recognized upon grant.

Options have been granted to purchase the company's common stock at an exercise price equal to or greater than the fair market value at the date of grant, generally have a maximum duration of five years and become exercisable in annual installments over a three-year period following date of grant.

During the years ended December 31, 2014, 2013 and 2012, the company recognized $10.4 million, $12.5 million and $14.3 million of share-based compensation expense, which is comprised of $3.3 million, $3.2 million and $5.4 million of restricted stock unit expense and $7.1 million, $9.3 million and $8.9 million of stock option expense, respectively.

For stock options, the fair value is estimated at the date of grant using a Black-Scholes option pricing model. Principal assumptions used are as follows: (a) expected volatility for the company's stock price is based on historical volatility and implied market volatility, (b) historical exercise data is used to estimate the options' expected term, which represents the period of time that the options granted are expected to be outstanding, and (c) the risk-free interest rate is the rate on zero-coupon U.S. government issues with a remaining term equal to the expected life of the options. The company recognizes compensation expense for the fair value of stock options, which have graded vesting, on the straight-line basis over the requisite service period of the awards. The compensation expense recognized as of any date must be at least equal to the portion of the grant-date fair value that is vested at that date.

The fair value of stock option awards was estimated using the Black-Scholes option pricing model with the following assumptions and weighted-average fair values as follows:

| Year Ended December 31 | **2014** | 2013 | 2012 |
|---|---|---|---|
| Weighted-average fair value of grant | **$11.24** | $ 8.79 | $ 9.73 |
| Risk-free interest rate | **1.04%** | .54% | .54% |
| Expected volatility | **45.65%** | 50.19% | 71.29% |
| Expected life of options in years | **3.71** | 3.69 | 3.65 |
| Expected dividend yield | **–** | – | – |

A summary of stock option activity for the year ended December 31, 2014 follows (shares in thousands):

| Options | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (years) | Aggregate Intrinsic Value ($ in millions) |
|---|---|---|---|---|
| Outstanding at December 31, 2013 | 2,698 | $32.74 | | |
| Granted | 756 | 32.20 | | |
| Exercised | (272) | 14.25 | | |
| Forfeited and expired | (366) | 70.30 | | |
| Outstanding at December 31, 2014 | 2,816 | 29.51 | 2.37 | $9.1 |
| Expected to vest at December 31, 2014 | 1,335 | 27.37 | 3.49 | $4.7 |
| Exercisable at December 31, 2014 | 1,456 | 31.47 | 1.31 | $4.4 |

The aggregate intrinsic value represents the total pretax value of the difference between the company's closing stock price on the last trading day of the period and the exercise price of the options, multiplied by the number of in-the-money stock options that would have been received by the option holders had all option holders exercised their options on December 31, 2014. The intrinsic value of the company's stock options changes based on the closing price of the company's stock. The total intrinsic value of options exercised for the years ended December 31, 2014, 2013 and 2012 was $4.7 million, $7.9 million and $.9 million, respectively. As of December 31, 2014, $3.2 million of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 1.8 years.

Restricted stock unit awards may contain time-based units, performance-based units or a combination of both. Each performance-based unit will vest into zero to 1.5 shares depending on the degree to which the performance goals are met. Compensation expense resulting from these 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.

A summary of restricted stock unit activity for the year ended December 31, 2014 follows (shares in thousands):

| | Restricted Stock Units | Weighted-Average Grant-Date Fair Value |
|---|---|---|
| Outstanding at December 31, 2013 | 401 | $23.45 |
| Granted | 397 | 32.16 |
| Vested | (124) | 26.76 |
| Forfeited and expired | (320) | 27.03 |
| Outstanding at December 31, 2014 | 354 | 28.81 |

The fair value of restricted stock units is determined based on the trading price of the company's common shares on the date of grant. The aggregate weighted-average grant-date fair value of restricted stock units granted during the years ended December 31, 2014, 2013 and 2012 was $12.8 million, $5.3 million and $3.3 million, respectively. As of December 31, 2014, there was $2.0 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 2.1 years. The aggregate weighted-average grant-date fair value of restricted stock units vested during the years ended December 31, 2014, 2013 and 2012 was $3.3 million, $4.5 million and $4.1 million, respectively.

Common stock issued upon exercise of stock options or upon lapse of restrictions on restricted stock units is newly issued shares. Cash received from the exercise of stock options was $3.4 million and $4.9 million for the years ended December 31, 2014 and 2013, respectively. During 2014 and 2013, 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 financing 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). In 2014, 2013 and 2012, the company funded the match with cash, a combination of cash and company common stock and company common stock, respectively. The charge to income related to the company match for the years ended December 31, 2014, 2013 and 2012, was $10.6 million, $11.8 million and $12.1 million, respectively.

The company has defined contribution plans in certain locations outside the United States. The charge to income related to these plans was $25.2 million, $26.7 million and $30.0 million, for the years ended December 31, 2014, 2013 and 2012, 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, 2014 and 2013, the liability to the participants of these plans was $12.1 million and $13.2 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. and the UK, accrual of future benefits under the plans has ceased.

Retirement plans' funded status and amounts recognized in the company's consolidated balance sheets at December 31, 2014 and 2013 follow:

| | U.S. Plans | | International Plans | |
|---|---|---|---|---|
| December 31 (millions) | **2014** | 2013 | **2014** | 2013 |
| Change in projected benefit obligation | | | | |
| Benefit obligation at beginning of year | **$ 5,158.8** | $ 5,646.8 | **$3,059.2** | $2,945.4 |
| Service cost | **–** | – | **8.4** | 10.4 |
| Interest cost | **248.3** | 220.4 | **117.9** | 106.6 |
| Plan participants' contributions | **–** | – | **3.1** | 3.1 |
| Plan amendment | **(46.3)** | – | **(1.0)** | (6.3) |
| Plan curtailment | **–** | – | **(.3)** | – |
| Actuarial loss (gain) | **670.0** | (355.9) | **559.4** | (19.3) |
| Benefits paid | **(365.3)** | (352.5) | **(115.4)** | (100.8) |
| Foreign currency translation adjustments | **–** | – | **(276.4)** | 120.1 |
| Benefit obligation at end of year | **$ 5,665.5** | $ 5,158.8 | **$3,354.9** | $3,059.2 |
| Change in plan assets | | | | |
| Fair value of plan assets at beginning of year | **$ 4,048.0** | $ 3,786.7 | **$2,681.8** | $2,399.2 |
| Actual return on plan assets | **299.9** | 572.6 | **278.0** | 166.3 |
| Employer contribution | **87.1** | 41.2 | **96.3** | 106.0 |
| Plan participants' contributions | **–** | – | **3.1** | 3.1 |
| Benefits paid | **(365.3)** | (352.5) | **(115.4)** | (100.8) |
| Foreign currency translation adjustments | **–** | – | **(224.9)** | 108.0 |
| Fair value of plan assets at end of year | **$ 4,069.7** | $ 4,048.0 | **$2,718.9** | $2,681.8 |
| Funded status at end of year | **$(1,595.8)** | $(1,110.8) | **$ (636.0)** | $ (377.4) |
| Amounts recognized in the consolidated balance sheets consist of: | | | | |
| Prepaid postretirement assets | **$ –** | $ – | **$ 18.9** | $ 82.6 |
| Other accrued liabilities | **(6.9)** | (6.9) | **(.2)** | (.2) |
| Long-term postretirement liabilities | **(1,588.9)** | (1,103.9) | **(654.7)** | (459.8) |
| Total funded status | **$(1,595.8)** | $(1,110.8) | **$ (636.0)** | $ (377.4) |
| Accumulated other comprehensive loss, net of tax | | | | |
| Net loss | **$ 2,973.5** | $ 2,425.9 | **$ 1,076.1** | $ 817.7 |
| Prior service (credit) cost | **$ (44.5)** | $ 1.4 | **$ (12.8)** | $ (16.0) |
| Accumulated benefit obligation | **$ 5,665.5** | $ 5,158.8 | **$3,349.3** | $3,051.5 |

Information for defined benefit retirement plans with an accumulated benefit obligation in excess of plan assets at December 31, 2014 and 2013 follows:

| December 31 (millions) | **2014** | 2013 |
|---|---|---|
| Accumulated benefit obligation | **$8,412.6** | $7,210.4 |
| Fair value of plan assets | **6,167.2** | 5,646.7 |

Information for defined benefit retirement plans with a projected benefit obligation in excess of plan assets at December 31, 2014 and 2013 follows:

| December 31 (millions) | **2014** | 2013 |
|---|---|---|
| Projected benefit obligation | **$8,417.9** | $7,217.4 |
| Fair value of plan assets | **6,167.2** | 5,646.7 |

Net periodic pension cost for 2014, 2013 and 2012 includes the following components:

| | U.S. Plans | | | International Plans | | |
|---|---|---|---|---|---|---|
| Year ended December 31 (millions) | **2014** | 2013 | 2012 | **2014** | 2013 | 2012 |
| Service cost | **$ –** | $ – | $ – | **$ 8.4** | $ 10.4 | $ 8.6 |
| Interest cost | **248.3** | 220.4 | 252.9 | **117.9** | 106.6 | 113.1 |
| Expected return on plan assets | **(287.1)** | (291.5) | (285.7) | **(160.5)** | (141.9) | (136.1) |
| Amortization of prior service (credit) | **(.4)** | .7 | .7 | **(2.1)** | (2.1) | (.5) |
| Recognized net actuarial loss | **109.7** | 139.0 | 124.0 | **40.2** | 51.9 | 36.9 |
| Curtailment gain | **–** | – | – | **(.6)** | – | (5.7) |
| Net periodic pension cost | **$ 70.5** | $ 68.6 | $ 91.9 | **$ 3.3** | $ 24.9 | $ 16.3 |
| Weighted-average assumptions used to determine net periodic pension cost for the years ended December 31 were as follows: | | | | | | |
| Discount rate | **5.02%** | 4.01% | 4.96% | **4.15%** | 3.92% | 4.65% |
| Rate of compensation increase | **N/A** | N/A | N/A | **2.08%** | 2.06% | 2.66% |
| Expected long-term rate of return on assets | **7.72%** | 8.00% | 8.00% | **6.45%** | 6.40% | 6.59% |
| Weighted-average assumptions used to determine benefit obligations at December 31 were as follows: | | | | | | |
| Discount rate | **4.09%** | 5.02% | 4.01% | **3.05%** | 4.15% | 3.92% |
| Rate of compensation increase | **N/A** | N/A | N/A | **1.68%** | 2.08% | 2.06% |

The expected pretax amortization in 2015 of net periodic pension cost is as follows: net loss, $199.3 million; and prior service credit, $(4.4) million. The amortization of these items is recorded as an element of pension expense. In 2014, pension expense included amortization of $149.9 million of net losses and $(2.5) million of prior service credit.

The company's investment policy targets and ranges for each asset category are as follows:

| | U.S. | | Int'l. | |
|---|---|---|---|---|
| Asset Category | Target | Range | Target | Range |
| Equity securities | 58% | 52-64% | 38% | 32-44% |
| Debt securities | 36% | 33-39% | 55% | 48-62% |
| Real estate | 6% | 3-9% | 1% | 0-3% |
| Cash | 0% | 0-5% | 1% | 0-5% |
| Other | 0% | 0% | 5% | 0-10% |

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 2015, the company expects to make cash contributions of $128.8 million to its worldwide defined benefit pension plans, which is comprised of $76.2 million primarily for non-U.S. defined benefit pension plans and $52.6 million for the company's U.S. qualified defined benefit pension plan.

As of December 31, 2014, the following benefit payments, which reflect expected future service where applicable, are expected to be paid from the defined benefit pension plans:

| Year ending December 31 (millions) | U.S. | Int'l. |
|---|---|---|
| 2015 | $ 362.7 | $103.2 |
| 2016 | 363.7 | 106.0 |
| 2017 | 365.7 | 109.1 |
| 2018 | 366.4 | 112.0 |
| 2019 | 367.2 | 115.4 |
| 2020 - 2024 | 1,839.4 | 615.9 |

**Other postretirement benefits** A reconciliation of the benefit obligation, fair value of the plan assets and the funded status of the postretirement benefit plan at December 31, 2014 and 2013, follows:

| December 31 (millions) | **2014** | 2013 |
|---|---|---|
| Change in accumulated benefit obligation | | |
| Benefit obligation at beginning of year | **$ 159.7** | $ 180.5 |
| Service cost | **.6** | .6 |
| Interest cost | **7.6** | 7.9 |
| Plan participants' contributions | **4.6** | 4.9 |
| Actuarial gain | **(2.4)** | (11.5) |
| Federal drug subsidy | **1.4** | 1.8 |
| Benefits paid | **(20.0)** | (23.2) |
| Foreign currency translation and other adjustments | **(1.5)** | (1.3) |
| Benefit obligation at end of year | **$ 150.0** | $ 159.7 |
| Change in plan assets | | |
| Fair value of plan assets at beginning of year | **$ 9.2** | $ 9.7 |
| Actual return on plan assets | **–** | (.2) |
| Employer contributions | **15.3** | 18.0 |
| Plan participants' contributions | **4.6** | 4.9 |
| Benefits paid | **(20.0)** | (23.2) |
| Fair value of plan assets at end of year | **$ 9.1** | $ 9.2 |
| Funded status at end of year | **$(140.9)** | $(150.5) |
| Amounts recognized in the consolidated balance sheets consist of: | | |
| Prepaid postretirement assets | **$ 1.0** | $ 1.1 |
| Other accrued liabilities | **(15.6)** | (18.0) |
| Long-term postretirement liabilities | **(126.3)** | (133.6) |
| Total funded status | $(140.9) | $(150.5) |
| Accumulated other comprehensive loss, net of tax | | |
| Net loss | **$ 32.0** | $ 36.7 |
| Prior service cost | **1.2** | 3.0 |

Net periodic postretirement benefit cost for 2014, 2013 and 2012, follows:

| Year ended December 31 (millions) | **2014** | 2013 | 2012 |
|---|---|---|---|
| Service cost | **$ .6** | $ .6 | $ .5 |
| Interest cost | **7.6** | 7.9 | 8.7 |
| Expected return on assets | **(.5)** | (.5) | (.5) |
| Amortization of prior service cost | **1.7** | 1.8 | 1.8 |
| Recognized net actuarial loss | **1.7** | 4.5 | 3.2 |
| Net periodic benefit cost | **$ 11.1** | $14.3 | $13.7 |
| Weighted-average assumptions used to determine net periodic postretirement benefit cost for the years ended December 31 were as follows: | | | |
| Discount rate | **5.86%** | 5.15% | 5.84% |
| Expected return on plan assets | **6.75%** | 6.75% | 6.75% |
| Weighted-average assumptions used to determine benefit obligation at December 31 were as follows: | | | |
| Discount rate | **5.27%** | 5.86% | 5.15% |

The expected pretax amortization in 2015 of net periodic postretirement benefit cost is as follows: net loss, $2.8 million; and prior service cost, $1.1 million.

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 2015, the company expects to contribute approximately $16 million to its postretirement benefit plan.

| Assumed health care cost trend rates at December 31 | **2014** | 2013 |
|---|---|---|
| Health care cost trend rate assumed for next year | **6.4%** | 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 |

A one-percentage-point change in assumed health care cost trend rates would have the following effects (in millions of dollars):

| | 1-Percentage-Point Increase | 1-Percentage-Point Decrease |
|---|---|---|
| Effect on service and interest cost | $ .3 | $ (.2) |
| Effect on postretirement benefit obligation | 3.3 | (4.4) |

As of December 31, 2014, the following benefits are expected to be paid to or from the company's postretirement plan:

| Year ending December 31 (millions) | Gross Medicare Part D Receipts | Gross Expected Payments |
|---|---|---|
| 2015 | $1.3 | $19.6 |
| 2016 | 1.2 | 17.2 |
| 2017 | 1.1 | 16.6 |
| 2018 | 1.0 | 15.8 |
| 2019 | .9 | 15.0 |
| 2020 - 2024 | 2.7 | 53.9 |

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, exchange traded futures, and U.S. and UK government securities. These investments are valued using quoted prices in an active market. Payables and receivables 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 at Net Asset Value (NAV) of shares held by the plans at year-end. NAV is a practical expedient for fair value. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, divided by the number of units outstanding. 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 NAV provided by trustees of the funds. The NAV is quoted on a private market that is not active. The unit price is based on underlying investments which are traded on markets that may or may not be active.

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:

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. Due to the nature of these investments, pricing inputs are not readily observable. Asset valuations are developed 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.

Insurance Contracts – These investments are insurance contracts which are generally invested in fixed income securities. The insurance contracts are carried at book value, are not publicly traded and are adjusted to fair value based on a market value adjustment (MVA) formula determined by the insurance provider. The MVA formula is based on unobservable inputs, which among other items take into consideration the yield earned by contributions during a specified time period, current bond yields and duration. Similar to bonds, as interest rates rise, the market value of the contracts will decrease and as interest rates decline, the market value will increase.

Commingled Funds – These investments are commingled funds, which include a fund of hedge funds, and a multi-asset fund. The NAV is quoted on a private market that is not active. The unit price is based on underlying investments, which are valued based on unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, the plans' assets (liabilities) at fair value at December 31, 2014.

| | U.S. Plans | | | | International Plans | | | |
|---|---|---|---|---|---|---|---|---|
| December 31, 2014 (millions) | Fair Value | Level 1 | Level 2 | Level 3 | Fair Value | Level 1 | Level 2 | Level 3 |
| *Pension plans* | | | | | | | | |
| Equity Securities | | | | | | | | |
| Common Stocks | $1,837.4 | $1,831.6 | $ 5.8 | | $ 1.6 | $ 1.6 | | |
| Commingled Funds | 461.6 | | 461.6 | | 1,054.8 | | $1,054.8 | |
| Debt Securities | | | | | | | | |
| U.S. and UK Govt. Securities | 176.9 | 176.9 | | | | | | |
| Other Fixed Income | 1,025.3 | | 1,025.3 | | 330.4 | | 330.4 | |
| Insurance Contracts | 17.4 | | | $17.4 | 135.5 | | | $135.5 |
| Commingled Funds | | | | | 991.1 | | 991.1 | |
| Real Estate | | | | | | | | |
| Real Estate Investment Trusts | 169.1 | 169.1 | | | 1.3 | 1.3 | | |
| Real Estate | 34.2 | | | 34.2 | 40.8 | | | 40.8 |
| Other | | | | | | | | |
| Derivatives | 18.2 | 5.9 | 12.3 | | 7.2 | | 7.2 | |
| Private Equity | 12.8 | | | 12.8 | | | | |
| Commingled Funds | 102.1 | | 102.1 | | 136.5 | | 85.8 | 50.7 |
| Pooled Funds | 297.2 | | 297.2 | | 1.2 | | 1.2 | |
| Cash | (1.3) | (1.3) | | | 18.6 | 18.6 | | |
| Receivables | 77.4 | 77.4 | | | | | | |
| Payables | (158.6) | (158.6) | | | (.1) | (.1) | | |
| Total | $4,069.7 | $2,101.0 | $1,904.3 | $64.4 | $2,718.9 | $21.4 | $2,470.5 | $227.0 |
| *Other postretirement plans* | | | | | | | | |
| Insurance Contracts | $ 7.3 | | | $ 7.3 | | | | |
| Pooled Funds | 1.8 | | $ 1.8 | | | | | |
| Total | $ 9.1 | | $ 1.8 | $ 7.3 | | | | |

The following table sets forth by level, within the fair value hierarchy, the plans' assets (liabilities) at fair value at December 31, 2013.

| | U.S. Plans | | | | International Plans | | | |
|---|---|---|---|---|---|---|---|---|
| December 31, 2013 (millions) | Fair Value | Level 1 | Level 2 | Level 3 | Fair Value | Level 1 | Level 2 | Level 3 |
| *Pension plans* | | | | | | | | |
| Equity Securities | | | | | | | | |
| Common Stocks | $1,916.2 | $1,916.2 | | | $ 1.8 | $ 1.8 | | |
| Commingled Funds | 494.3 | | $ 494.3 | | 1,046.7 | | $1,046.7 | |
| Debt Securities | | | | | | | | |
| U.S. and UK Govt. Securities | 148.8 | 148.8 | | | | | | |
| Other Fixed Income | 978.1 | | 978.1 | | 268.9 | | 268.9 | |
| Insurance Contracts | 79.5 | | | $ 79.5 | 151.3 | | | $151.3 |
| Commingled Funds | | | | | 983.7 | | 983.7 | |
| Real Estate | | | | | | | | |
| Real Estate Investment Trusts | 145.7 | 145.7 | | | 1.3 | 1.3 | | |
| Real Estate | 34.7 | | | 34.7 | 42.8 | | | 42.8 |
| Other | | | | | | | | |
| Derivatives | (4.2) | (4.5) | .3 | | 19.1 | | 19.1 | |
| Private Equity | 16.5 | | | 16.5 | | | | |
| Commingled Funds | 93.3 | | 93.3 | | 141.0 | | 90.8 | 50.2 |
| Pooled Funds | 236.1 | | 236.1 | | 3.2 | | 3.2 | |
| Cash | 5.7 | 5.7 | | | 22.1 | 22.1 | | |
| Receivables | 45.5 | 45.5 | | | | | | |
| Payables | (142.2) | (142.2) | | | (.1) | (.1) | | |
| Total | $4,048.0 | $2,115.2 | $1,802.1 | $130.7 | $2,681.8 | $25.1 | $2,412.4 | $244.3 |
| *Other postretirement plans* | | | | | | | | |
| Insurance Contracts | $ 7.5 | | | $ 7.5 | | | | |
| Exchange Traded Fund – Bond | 1.3 | $ 1.3 | | | | | | |
| Pooled Funds | .4 | | $ .4 | | | | | |
| Total | $ 9.2 | $ 1.3 | $ .4 | $ 7.5 | | | | |

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, 2014.

| (millions) | January 1, 2014 | Realized gains (losses) | Purchases or acquisitions | Sales or dispositions | Currency and unrealized gains (losses) relating to instruments still held at December 31, 2014 | December 31, 2014 |
|---|---|---|---|---|---|---|
| ***U.S. plans*** | | | | | | |
| *Pension plan* | | | | | | |
| Real Estate | $ 34.7 | $ 4.7 | | $ (4.9) | $ (.3) | $ 34.2 |
| Private Equity | 16.5 | (24.4) | | (6.7) | 27.4 | 12.8 |
| Insurance Contracts | 79.5 | .1 | | (63.0) | .8 | 17.4 |
| Total | $130.7 | $(19.6) | | $(74.6) | $ 27.9 | $ 64.4 |
| *Other postretirement plans* | | | | | | |
| Insurance Contracts | $ 7.5 | | $ .2 | $ (.4) | | $ 7.3 |
| ***International pension plans*** | | | | | | |
| Insurance Contracts | $151.3 | | $ 7.0 | $(13.0) | $ (9.8) | $135.5 |
| Real Estate | 42.8 | $ (.2) | 15.3 | (15.5) | (1.6) | 40.8 |
| Commingled Funds | 50.2 | .1 | 1.0 | (.3) | (.3) | 50.7 |
| Total | $244.3 | $ (.1) | $23.3 | $(28.8) | $(11.7) | $227.0 |

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, 2013.

| (millions) | January 1, 2013 | Realized gains (losses) | Purchases or acquisitions | Sales or dispositions | Currency and unrealized gains (losses) relating to instruments still held at December 31, 2013 | December 31, 2013 |
|---|---|---|---|---|---|---|
| ***U.S. plans*** | | | | | | |
| *Pension plan* | | | | | | |
| Real Estate | $ 34.8 | $ .5 | | $ (2.4) | $ 1.8 | $ 34.7 |
| Private Equity | 20.8 | (17.5) | | (5.8) | 19.0 | 16.5 |
| Insurance Contracts | 90.9 | | | (6.7) | (4.7) | 79.5 |
| Total | $146.5 | $(17.0) | | $(14.9) | $16.1 | $130.7 |
| *Other postretirement plans* | | | | | | |
| Insurance Contracts | $ 7.9 | $ (.2) | $ .2 | $ (.4) | | $ 7.5 |
| ***International pension plans*** | | | | | | |
| Insurance Contracts | $146.7 | | $ 6.6 | $(12.7) | $10.7 | $151.3 |
| Real Estate | 31.1 | | 9.5 | | 2.2 | 42.8 |
| Commingled Funds | 58.1 | $ .4 | | (12.3) | 4.0 | 50.2 |
| Total | $235.9 | $ .4 | $16.1 | $(25.0) | $16.9 | $244.3 |

## 17. Stockholders' equity

The company has 100 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, 2014, 6.3 million shares of unissued common stock of the company were reserved for stock-based incentive plans.

On March 1, 2014, all of the outstanding shares of 6.25% mandatory convertible preferred stock (2,587,400 shares) were automatically converted (in accordance with its terms) into 6,912,756 shares of the company's common stock. Because March 1, 2014 was not a business day, the mandatory conversion was effected on Monday, March 3, 2014.

On December 10, 2012, the company announced that its Board of Directors had authorized the company to purchase up to an aggregate of $50 million of the company's common stock and mandatory convertible preferred stock through December 31, 2014. Through December 31, 2014, the company repurchased an aggregate of 2.2 million shares of common stock for approximately $47.3 million. At December 31, 2014, the Board's repurchase authorization expired.

Accumulated other comprehensive income (loss) as of December 31, 2014, 2013 and 2012, is as follows:

| (millions) | Total | Translation Adjustments | Postretirement Plans |
|---|---|---|---|
| Balance at December 31, 2011 | $(3,700.9) | $ (649.1) | $ (3,051.8) |
| Other comprehensive income before reclassifications | (275.9) | 14.8 | (290.7) |
| Amounts reclassified from accumulated other comprehensive income | (156.8) | – | (156.8) |
| Current period other comprehensive income | (432.7) | 14.8 | (447.5) |
| Balance at December 31, 2012 | (4,133.6) | (634.3) | (3,499.3) |
| Other comprehensive income before reclassifications | 985.1 | (42.5) | 1,027.6 |
| Amounts reclassified from accumulated other comprehensive income | (184.9) | – | (184.9) |
| Current period other comprehensive income | 800.2 | (42.5) | 842.7 |
| Balance at December 31, 2013 | (3,333.4) | (676.8) | (2,656.6) |
| Other comprehensive income before reclassifications | (638.8) | (61.0) | (577.8) |
| Amounts reclassified from accumulated other comprehensive income | (141.2) | – | (141.2) |
| Current period other comprehensive income | (780.0) | (61.0) | (719.0) |
| Balance at December 31, 2014 | $(4,113.4) | $ (737.8) | $ (3,375.6) |

Amounts related to postretirement plans not reclassified in their entirety out of accumulated other comprehensive income were as follows:

| Year ended December 31 (millions) | **2014** | 2013 |
|---|---|---|
| Amortization of prior service cost* | **$ (.7)** | $ .4 |
| Amortization of actuarial losses* | **148.3** | 191.4 |
| Curtailment gain* | **(.6)** | – |
| Total before tax | **147.0** | 191.8 |
| Income tax benefit | **(5.8)** | (6.9) |
| Net of tax | **$141.2** | $184.9 |

** These items are included in net periodic postretirement cost (see note 16).*

The following table summarizes the changes in preferred stock, common stock and treasury stock during the three years ended December 31, 2014:

| (millions) | Preferred Stock | Common Stock | Treasury Stock |
|---|---|---|---|
| Balance at December 31, 2011 | 2.6 | 43.8 | .3 |
| Stock-based compensation | – | .5 | .1 |
| Balance at December 31, 2012 | 2.6 | 44.3 | .4 |
| Common stock repurchases | – | – | .6 |
| Stock-based compensation | – | .8 | .1 |
| Balance at December 31, 2013 | 2.6 | 45.1 | 1.1 |
| Common stock repurchases | – | – | 1.6 |
| Stock-based compensation | – | .4 | – |
| Preferred stock conversion | (2.6) | 6.9 | – |
| Balance at December 31, 2014 | – | 52.4 | 2.7 |

# 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 Altabef
President and
Chief Executive Officer

Janet Brutschea Haugen
Senior Vice President and
Chief Financial Officer

# Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Unisys Corporation:

We have audited the accompanying consolidated balance sheets of Unisys Corporation and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, deficit and cash flows for each of the years in the three-year period ended December 31, 2014. We also have audited Unisys Corporation's internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Unisys Corporation's management is responsible for these consolidated financial statements, 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 Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. 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 audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Unisys Corporation and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also in our opinion, Unisys Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

KPMG LLP

Philadelphia, Pennsylvania
February 23, 2015

## 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 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 and procedures may deteriorate.

Management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework (1992)* 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, 2014, 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, 2014, as stated in their report that appears on the preceding page.

Peter Altabef
President and Chief Executive Officer

Janet Brutschea Haugen
Senior Vice President and Chief Financial Officer

# Unisys Corporation

## Supplemental Financial Data (Unaudited)

### Quarterly financial information

| (millions, except per share data) | | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Year |
|---|---|---|---|---|---|---|
| **2014** | | | | | | |
| Revenue | | $ 761.7 | $ 806.4 | $ 882.5 | $ 905.8 | $3,356.4 |
| Gross profit | | 133.0 | 165.2 | 234.9 | 244.7 | 777.8 |
| Income (loss) before income taxes | | (31.7) | 11.0 | 77.6 | 88.6 | 145.5 |
| Net income (loss) attributable to Unisys Corporation common shareholders | | (53.5) | (12.1) | 47.8 | 61.8 | 44.0 |
| Earnings (loss) per common share attributable to Unisys Corporation | | | | | | |
| Basic | | (1.15) | (.24) | .95 | 1.24 | .89 |
| Diluted | | (1.15) | (.24) | .95 | 1.24 | .89 |
| Market price per share | – high | 36.05 | 31.71 | 25.65 | 30.65 | 36.05 |
| | – low | 28.46 | 21.97 | 19.96 | 18.72 | 18.72 |
| **2013** | | | | | | |
| Revenue | | $ 809.9 | $ 858.6 | $ 792.1 | $ 995.9 | $3,456.5 |
| Gross profit | | 160.8 | 200.7 | 171.5 | 315.4 | 848.4 |
| Income (loss) before income taxes | | (6.0) | 49.5 | 23.5 | 152.4 | 219.4 |
| Net income (loss) attributable to Unisys Corporation common shareholders | | (33.9) | 20.4 | (11.6) | 117.4 | 92.3 |
| Earnings (loss) per common share attributable to Unisys Corporation | | | | | | |
| Basic | | (.77) | .47 | (.26) | 2.67 | 2.10 |
| Diluted | | (.77) | .46 | (.26) | 2.37 | 2.08 |
| Market price per share | – high | 24.73 | 22.96 | 28.25 | 34.78 | 34.78 |
| | – low | 17.11 | 15.68 | 22.02 | 23.00 | 15.68 |

*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 as quoted on the New York Stock Exchange composite listing.*

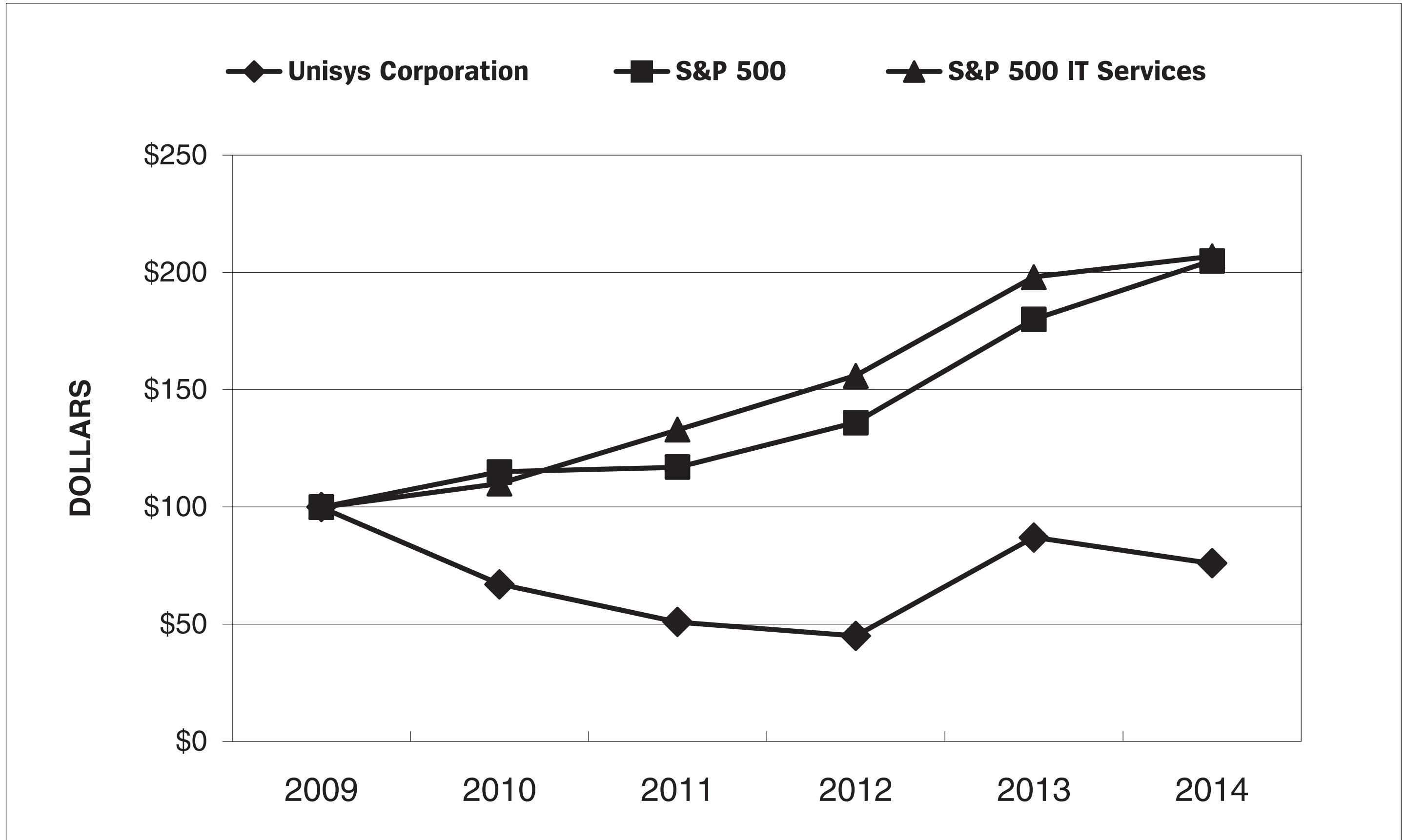
## Five-year summary of selected financial data

| (dollars in millions, except per share data) | **2014** | 2013 | 2012[1] | 2011[1] | 2010 |
|---|---|---|---|---|---|
| **Results of operations** | | | | | |
| Revenue | **$ 3,356.4** | $3,456.5 | $ 3,706.4 | $ 3,853.8 | $4,019.6 |
| Operating income | **154.9** | 219.5 | 319.2 | 324.6 | 375.7 |
| Income from continuing operations before income taxes | **145.5** | 219.4 | 254.1 | 206.0 | 222.9 |
| Net income attributable to noncontrolling interests | **12.6** | 11.6 | 11.2 | 7.2 | 5.2 |
| Net income attributable to Unisys Corporation common shareholders | **44.0** | 92.3 | 129.4 | 120.5 | 236.1 |
| Earnings per common share from continuing operations | | | | | |
| Basic | **.89** | 2.10 | 2.95 | 2.79 | 3.74 |
| Diluted | **.89** | 2.08 | 2.84 | 2.71 | 3.67 |
| **Financial position** | | | | | |
| Total assets | **$ 2,348.7** | $2,510.0 | $ 2,420.4 | $ 2,612.2 | $3,020.9 |
| Long-term debt | **222.2** | 210.0 | 210.0 | 358.8 | 823.2 |
| Deficit | **(1,452.4)** | (663.9) | (1,588.7) | (1,311.0) | (933.8) |
| **Other data** | | | | | |
| Capital additions of properties | **$ 53.3** | $ 47.2 | $ 40.1 | $ 42.2 | $ 64.1 |
| Capital additions of outsourcing assets | **85.9** | 39.9 | 36.1 | 40.5 | 83.2 |
| Investment in marketable software | **73.6** | 64.3 | 56.4 | 51.7 | 55.8 |
| Depreciation and amortization | | | | | |
| Properties | **52.0** | 46.7 | 54.7 | 66.4 | 75.8 |
| Outsourcing assets | **58.1** | 53.5 | 57.9 | 62.7 | 111.9 |
| Amortization of marketable software | **58.5** | 59.4 | 62.0 | 65.7 | 62.9 |
| Common shares outstanding (millions) | **49.7** | 44.0 | 44.0 | 43.4 | 42.6 |
| Stockholders of record (thousands) | **11.1** | 11.8 | 17.0 | 18.6 | 19.1 |
| Employees (thousands) | **23.2** | 22.8 | 22.8 | 22.7 | 22.9 |

*(1) Includes pretax losses on debt extinguishment of $30.6 million and $85.2 million for the years ended December 31, 2012 and 2011, respectively.*

# Stock Performance Graph

The following graph compares the yearly percentage change in the cumulative total stockholder return on Unisys common stock during the five fiscal years ended December 31, 2014, 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, 2009, in Unisys common stock and in each of such indices and assumes reinvestment of any dividends.




| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| Unisys Corporation | 100 | 67 | 51 | 45 | 87 | 76 |
| S&P 500 | 100 | 115 | 117 | 136 | 180 | 205 |
| S&P 500 IT Services | 100 | 110 | 133 | 156 | 198 | 207 |

# Investor Information

## Stock Information

- **Common Stock:** The company has the authority to issue 100 million shares of common stock, par value $0.01 per share. At December 31, 2014, there were approximately 49.7 million shares outstanding and about 11,070 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, 2014, 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 2015 Annual Meeting of Stockholders, which will be held at the Philadelphia Marriott Downtown at 1201 Market Street, Philadelphia, Pennsylvania, on April 30, 2015, 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 20, 2015, to stockholders of record as of March 2, 2015.

## 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, P.O. Box 30170, College Station, TX 77842-3170.

**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

## Investor Relations

- **Web Site:** The Unisys Investor Web site at www.unisys.com/investor 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 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.
- **Printed Materials:** Visit www.unisys.com/investor to select from the current list of printed materials offered. Printed materials also may be requested by calling 215-986-5777.
- **General Investor Inquiries and Correspondence:** Investors with general questions about the company are invited to contact Unisys Investor Relations by calling 215-986-6999, emailing us at investor@unisys.com, or writing to us at: Investor Relations, Unisys Corporation, 801 Lakeview Drive STE 100, Blue Bell, PA 19422.

**For more information, visit www.unisys.com/investor.**

Statements made by Unisys in this annual report that are not historical facts, including those regarding future performance, are forward-looking statements under the Private Securities Litigation Reform Act of 1995. These statements are based on current expectations and assumptions and involve risks and uncertainties that could cause actual results to differ from expectations. These risks and uncertainties are discussed in the Management's Discussion and Analysis section under "Factors that may affect future results."

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