

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 1998

OR

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

For the transition period from _____ to _____.

Commission file number: 1-8729

UNISYS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization) 38-0387840 (I.R.S. Employer Identification No.)

Unisys Way Blue Bell, Pennsylvania (Address of principal executive offices) 19424 (Zip Code)

Registrant's telephone number, including area code: (215) 986-4011

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

Table with 2 columns: TITLE OF EACH CLASS and NAME OF EACH EXCHANGE ON WHICH REGISTERED. Rows include Common Stock, Series A Cumulative Convertible Preferred Stock, Preferred Share Purchase Rights, and 8 1/4% Convertible Subordinated Notes Due 2006, all registered on the New York Stock Exchange.

-2-

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

None

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

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

Aggregate market value of the voting stock held by non-affiliates: approximately

\$8,607,272,742 as of January 31, 1999. The amount shown is based on the closing price of Unisys Common Stock as reported on the New York Stock Exchange composite tape on that date. Voting stock beneficially held by officers and directors is not included in the computation. However, Unisys Corporation has not determined that such individuals are "affiliates" within the meaning of Rule 405 under the Securities Act of 1933.

Number of shares of Unisys Common Stock, par value \$.01, outstanding as of January 31, 1999: 260,626,662.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Unisys Corporation 1998 Annual Report to Stockholders -- Part I, Part II and Part IV.

Portions of the Unisys Corporation Proxy Statement for 1999 Annual Meeting of Stockholders -- Part III.

-3-

PART I

ITEM 1. BUSINESS

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Unisys Corporation ("Unisys" or the "Company") is a worldwide information services and technology company, providing systems and solutions that help customers apply information technology to solve their business problems.

Unisys has two business segments -- Services and Technology. Financial information concerning the two segments is set forth in Note 14, "Segment information", of the Notes to Consolidated Financial Statements appearing in the Unisys 1998 Annual Report to Stockholders, and such information is incorporated herein by reference.

The principal executive offices of Unisys are located at Unisys Way, Blue Bell, Pennsylvania 19424.

PRINCIPAL PRODUCTS AND SERVICES

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Unisys provides services and technology to commercial businesses and governments throughout most of the world.

In the Services segment, Unisys integrates information solutions and technology into systems that support customers' critical business operations. The Services segment also provides support services for distributed networks and desktops. Major offerings include systems integration, including repeatable and custom solutions targeted at selected vertical markets, outsourcing, multivendor maintenance, and network services such as consulting, integration, and on-site and remote management.

In the Technology segment, Unisys develops high-end servers and related products to run applications in high-volume, mission-critical environments. Major offerings include enterprise-class servers, such as the ClearPath server, which integrates proprietary and "open" platforms, Windows NT servers with enterprise-class attributes, system middleware to power high-end servers, storage products, payment systems, and specialized technologies.

Products and services are marketed primarily through direct sales forces. In certain foreign countries, Unisys markets primarily through distributors. Unisys manufactures a significant portion of its product lines. Some products, including certain personal computers, peripheral products, and software products, are manufactured for Unisys to its design or specifications by other business equipment manufacturers or software suppliers.

-4-

RAW MATERIALS

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Raw materials essential to the conduct of the business are generally readily available at competitive prices in reasonable proximity to those plants utilizing such materials.

PATENTS, TRADEMARKS AND LICENSES

Unisys owns many domestic and foreign patents relating to the design and manufacture of its products, has granted licenses under certain of its patents to others and is licensed under the patents of others. Unisys does not believe that its business is materially dependent upon any single patent or license or related group thereof. Trademarks and service marks used on or in connection with Unisys products and services are considered to be valuable assets of Unisys.

BACKLOG

In the Services business, firm order backlog at December 31, 1998 was \$3.4 billion, compared to \$2.9 billion at December 31, 1997. Approximately \$1.8 billion (54%) of 1998 backlog is expected to be filled in 1999. Although the Company believes that this backlog is firm, the Company may, for commercial reasons, allow the orders to be cancelled, with or without penalty. In addition, funded U.S. Government contracts included in this backlog are generally subject to termination, in whole or part, at the convenience of the government or if funding becomes unavailable. In such cases, the Company is generally entitled to receive payment for work completed plus allowable termination or cancellation costs.

At the end of 1998, the Company also had \$2.4 billion of potential future Services order value which it may receive under certain multi-year U.S. government contracts for which funding is appropriated annually. The comparable value of unfunded multi-year U.S. government contracts for 1997 was \$2.0 billion.

Because of the relatively short cycle between order and shipment in its Technology business, the Company believes that backlog information for this segment is not material to the understanding of its business.

CUSTOMERS

No single customer accounts for more than 10% of Unisys revenue. Sales of commercial products to various agencies of the U.S. government represented 13% of total consolidated revenue in 1998.

-5-

COMPETITION

Unisys business is affected by rapid change in technology in the information services and technology field and aggressive competition from many domestic and foreign companies, including computer hardware manufacturers, software providers and information services companies. Unisys competes primarily on the basis of service, product performance, technological innovation, and price. Unisys believes that its continued investment in engineering and research and development, coupled with its marketing capabilities, will have a favorable impact on its competitive position.

RESEARCH AND DEVELOPMENT

Unisys-sponsored research and development costs were \$296.6 million in 1998, \$302.3 million in 1997, and \$342.9 million in 1996.

ENVIRONMENTAL MATTERS

Capital expenditures, earnings and the competitive position of Unisys have not been materially affected by compliance with federal, state and local laws regulating the protection of the environment. Capital expenditures for environmental control facilities are not expected to be material in 1999 and 2000.

EMPLOYEES

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As of December 31, 1998, Unisys had approximately 33,200 employees.

INTERNATIONAL AND DOMESTIC OPERATIONS

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Financial information by geographic area is set forth in Note 14, "Segment information", of the Notes to Consolidated Financial Statements appearing in the Unisys 1998 Annual Report to Stockholders, and such information is incorporated herein by reference.

YEAR 2000

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The Company's Year 2000 readiness disclosure is included under the heading "Year 2000 readiness disclosure" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Unisys 1998 Annual Report to Stockholders and is incorporated herein by reference.

ITEM 2. PROPERTIES

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As of December 31, 1998, Unisys had 28 major facilities in the United States with an aggregate floor space of approximately 5.6 million square feet, located primarily in California, Illinois, Michigan,

-6-

Minnesota, Pennsylvania, Utah and Virginia. Three of these facilities, with aggregate floor space of approximately 1.5 million square feet, were owned by Unisys and 25, with approximately 4.1 million square feet of floor space, were leased to Unisys. Approximately 4.6 million square feet of the U.S. facilities were in current operation, approximately .8 million square feet were subleased to others, and approximately .2 million square feet were being held in reserve or were declared surplus with disposition efforts in progress.

As of December 31, 1998, Unisys had 30 major facilities outside the United States with an aggregate floor space of approximately 3.0 million square feet, located primarily in Brazil, Canada, France, South Africa, Switzerland and the United Kingdom. Eight of these facilities, with approximately 1.1 million square feet of floor space, were owned by Unisys and 22, with approximately 1.9 million square feet of floor space, were leased to Unisys. Approximately 2.3 million square feet were in current operation, approximately .4 million square feet were subleased to others, and approximately .3 million square feet were being held in reserve or were declared surplus with disposition efforts in progress.

Unisys major facilities include offices, laboratories, manufacturing plants, warehouses, and distribution and sales centers. Unisys believes that its facilities are suitable and adequate for current and presently projected needs. Unisys continuously reviews its anticipated requirements for facilities and, on the basis thereof, will from time to time acquire additional facilities, expand existing facilities, and dispose of existing facilities or parts thereof.

ITEM 3. LEGAL PROCEEDINGS

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As previously reported, most recently in the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1998, the Company is involved in two lawsuits with Ceska Sporitelna, a savings bank in the Czech Republic (the "Bank"). The disputes relate to contracts entered into in 1992 and 1994 between the Bank and certain of the Company's foreign subsidiaries to design and implement a computer system, including hardware and custom software, for the Bank's headquarters and branch offices throughout the Czech Republic. In the first action, the Company is a defendant in Ceska Sporitelna, a.s. v. Unisys Corporation, filed in the United States District Court for the Eastern District of Pennsylvania in June 1996. The Bank alleges that Unisys made a series of fraudulent misrepresentations in connection with these contracts. The Bank seeks to recover more than \$100 million, together with punitive damages. The Company believes it has meritorious defenses to these allegations and intends to defend them vigorously. The Company has filed a counterclaim in this action alleging fraud, negligent misrepresentation, intentional interference with prospective

business relations and breach of contract by the Bank, and the Company seeks to recover more than \$100 million, together with punitive damages. Trial is currently scheduled for March 1999. In the second action, the Company's subsidiary, Unisys International Services B.V., is the plaintiff in an arbitration captioned Unisys International Services B.V. v. Ceska Sporitelna, filed in March 1998, in Vienna, Austria. Unisys International Services B.V. seeks to recover, among other amounts, approximately \$21.1 million from the Bank for hardware, software, and

-7-

services delivered to and used by the Bank. Hearings in this arbitration are currently scheduled to begin in June 1999.

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

No matters were submitted to a vote of security holders of Unisys during the fourth quarter of 1998.

ITEM 10. EXECUTIVE OFFICERS OF THE REGISTRANT

Information concerning the executive officers of Unisys is set forth below.

NAME ----	AGE ---	POSITION WITH UNISYS -----
Lawrence A. Weinbach	59	Chairman of the Board, President and Chief Executive Officer
Gerald A. Gagliardi	51	Executive Vice President; President, Unisys Global Customer Services
George R. Gazerwitz	58	Executive Vice President; President, Unisys Computer Systems
Lawrence C. Russell	60	Executive Vice President; President, Unisys Information Services
David O. Aker	52	Senior Vice President, Worldwide Human Resources
Harold S. Barron	62	Senior Vice President, General Counsel and Secretary
Jack A. Blaine	54	Senior Vice President; President, Pacific Asia Americas
Robert H. Brust	55	Senior Vice President and Chief Financial Officer
Joseph W. McGrath	46	Senior Vice President, Major Accounts Sales and Chief Marketing officer
James F. McGuirk II	55	Senior Vice President and President Unisys Federal Systems

-8-

Dewaine L. Osman	64	Senior Vice President, Strategic Development
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Richard D. Badler	48	Vice President, Corporate Communications
Janet Brutschea Haugen	40	Vice President and Controller
Jack F. McHale	50	Vice President, Investor Relations
Angus F. Smith	57	Vice President and Treasurer

There is no family relationship among any of the above-named executive officers. The Bylaws provide that the officers of Unisys shall be elected annually by the Board of Directors and that each officer shall hold office for a term of one year and until a successor is elected and qualified, or until the officer's earlier resignation or removal.

Mr. Weinbach has been the Chairman of the Board, President and Chief Executive Officer of Unisys since September 1997. Prior to that time, he held the position of Managing Partner-Chief Executive of Andersen Worldwide (Arthur Andersen and Andersen Consulting), a global professional services organization. He had been with Andersen Worldwide since 1961.

Mr. Gagliardi was elected an Executive Vice President of Unisys in 1996. He had been a Senior Vice President of Unisys and President of Unisys Global Customer Services since 1995. He held the positions of Vice President, Customer Services Worldwide from 1994 to 1995 and Vice President and General Manager, Customer Services and Support, from 1991 to 1994. Mr. Gagliardi has been an officer since 1994.

Mr. Gazerwitz was elected an Executive Vice President of Unisys and President of Unisys Computer Systems in 1996. He had been a Vice President of Unisys and Executive Vice President of Nihon Unisys Limited from 1994 to October 1996 and Vice President, Marketing, of the United States Division from 1992 to 1994. Mr. Gazerwitz has been an officer since 1984.

Mr. Russell was elected an Executive Vice President of Unisys and President of Unisys Information Services in 1995. He was an officer of The First Manhattan Consulting Group, a management consulting firm, from 1993 to 1995. He was Chairman and Chief Executive Officer of Palaru Corporation, a printing company, from 1990 to 1993. Mr. Russell has been an officer since 1995.

Mr. Aker was elected Senior Vice President of Unisys Worldwide Human Resources in February 1997. He had been Vice President of Unisys Worldwide Human Resources since 1995 and Vice President, Human Resources, Information Services and Systems Group from 1994 to 1995. From 1991 to 1994, he was Vice President, Human Resources and Administration of Rolls-Royce of North America and a director of its subsidiary, Rolls-Royce Incorporated. Mr. Aker has been an officer since 1995.

-9-

Mr. Barron has been Senior Vice President, General Counsel and Secretary of Unisys since April 1994. He has served as an officer of Unisys since 1991.

Mr. Blaine has been a Senior Vice President of Unisys and President of Unisys Pacific Asia Americas since 1996. He was a Vice President of Unisys and President of the Latin America and Caribbean Division from 1995 to 1996. From 1990 to 1995, Mr. Blaine was Vice President of Unisys and General Manager of the Latin America and Caribbean Group of the Pacific Asia Americas Division. Mr. Blaine has been an officer since 1988.

Mr. Brust was elected Senior Vice President and Chief Financial Officer of Unisys in February 1997. Prior to that time he held the position of Vice President of Finance at G.E. Plastics, a unit of General Electric Company. He had been with General Electric Company since 1965. Mr. Brust has been an officer since 1997.

Mr. McGrath joined Unisys as Senior Vice President of Major Accounts Sales and Chief Marketing Officer in January 1999. From 1995 to 1998, he was the Vice President and General Manager of Production Color Systems, a unit of Xerox Corporation. Prior to 1995, he was Vice President of Strategy and Integration

for Xerox Production Systems Division. Before joining Xerox Corporation, Mr. McGrath was Vice President and Service Director at Gartner Group. Mr. McGrath has been an officer since January 1999.

Mr. McGuirk was elected a Senior Vice President of Unisys in April 1998. He had been a Vice President of Unisys since 1996 and has been President, Unisys Federal Systems, since 1992. Mr. McGuirk has been an officer since 1996.

Mr. Osman has been Senior Vice President, Strategic Development, since October 1997. From August 1996 to October 1997, he served as Senior Vice President, Information Technology and Strategic Development. He also served as President of Worldwide Sales and Marketing from July 1995 to January 1996 and as President of the Pacific Asia Americas Group from July 1995 to July 1996. He was Vice President, Corporate Planning and Business Development, from 1992 to 1995 and Vice President, Commercial Marketing, from 1993 to 1994. Mr. Osman was an officer from 1986 to 1991 and was reelected in 1992.

Mr. Badler joined Unisys as Vice President of Corporate Communications in July 1998. He had held the position of Vice President Corporate Communications at General Instrument Corporation since 1996. Prior to 1996, Mr. Badler was an Executive Vice President and account director with Golin/Harris Communications in Chicago. Mr. Badler has been an officer since July 1998.

Ms. Haugen was elected Vice President and Controller of Unisys in 1996. Prior to that time, she held the position of audit partner at Ernst & Young LLP. She had been with Ernst & Young LLP since 1980. Ms. Haugen has been an officer since 1996.

Mr. McHale has been Vice President, Investor Relations, since May 1997. From 1989 to 1997, he was Vice President, Investor and Corporate Communications. Mr. McHale has been an officer since 1986.

-10-

Mr. Smith has been Vice President and Treasurer since June 1997. Prior to that time, he had held the position of Treasurer of Rohm and Haas Company since 1980. He had been with Rohm and Haas Company since 1967. Mr. Smith has been an officer since 1997.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED

----- STOCKHOLDER MATTERS -----

Unisys Common Stock (trading symbol "UIS") is listed for trading on the New York Stock Exchange, on exchanges in Amsterdam, Brussels, and London, and on the Electronical Stock Exchange in Switzerland. Information on the high and low sales prices for Unisys Common Stock is set forth under the heading "Quarterly financial information", in the Unisys 1998 Annual Report to Stockholders and is incorporated herein by reference. At December 31, 1998, there were 256.6 million shares outstanding and approximately 28,600 stockholders of record. Unisys has not declared or paid any cash dividends on its Common Stock since 1990.

ITEM 6. SELECTED FINANCIAL DATA

A summary of selected financial data for Unisys is set forth under the heading "Eight-year summary of selected financial data" in the Unisys 1998 Annual Report to Stockholders and is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

----- CONDITION AND RESULTS OF OPERATIONS -----

Management's discussion and analysis of financial condition and results of operations is set forth under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Unisys 1998 Annual Report to Stockholders and is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT

MARKET RISK

Information concerning market risk is set forth under the heading "Market risk disclosure" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Unisys 1998 Annual Report to Stockholders and is incorporated herein by reference.

-11-

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements of Unisys, consisting of the consolidated balance sheets at December 31, 1998 and 1997 and the related consolidated statements of income, cash flows and stockholders' equity for each of the three years in the period ended December 31, 1998, appearing in the Unisys 1998 Annual Report to Stockholders, together with the report of Ernst & Young LLP, independent auditors, on the financial statements at December 31, 1998 and 1997 and for each of the three years in the period ended December 31, 1998, appearing in the Unisys 1998 Annual Report to Stockholders, are incorporated herein by reference. Supplementary financial data, consisting of information appearing under the heading "Quarterly financial information" in the Unisys 1998 Annual Report to Stockholders, is incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS

ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

(a) Identification of Directors. Information concerning the directors of Unisys is set forth under the headings "Nominees for Election to the Board of Directors", "Members of the Board of Directors Continuing in Office -- Term Expiring in 2000" and "Members of the Board of Directors Continuing in Office -- Term Expiring in 2001" in the Unisys Proxy Statement for the 1999 Annual Meeting of Stockholders and is incorporated herein by reference.

(b) Identification of Executive Officers. Information concerning executive officers of Unisys is set forth under the caption "EXECUTIVE OFFICERS OF THE REGISTRANT" in Part I, Item 10, of this report.

ITEM 11. EXECUTIVE COMPENSATION

Information concerning executive compensation is set forth under the headings "EXECUTIVE COMPENSATION", "REPORT OF THE CORPORATE GOVERNANCE AND COMPENSATION COMMITTEE" and "STOCK PERFORMANCE GRAPH" in the Unisys Proxy Statement for the 1999 Annual Meeting of Stockholders and is incorporated herein by reference.

-12-

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL

OWNERS AND MANAGEMENT

Information concerning shares of Unisys equity securities beneficially owned by certain beneficial owners and by management is set forth under the heading "SECURITY OWNERSHIP BY CERTAIN BENEFICIAL OWNERS AND MANAGEMENT" in the Unisys Proxy Statement for the 1999 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information concerning certain relationships and transactions between Unisys and members of its management is set forth under the headings "EXECUTIVE COMPENSATION" and "REPORT OF THE CORPORATE GOVERNANCE AND COMPENSATION COMMITTEE" in the Unisys Proxy Statement for the 1999 Annual Meeting of Stockholders and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS

 ON FORM 8-K

(a) The following documents are filed as part of this report:

1. Financial Statements from the Unisys 1998 Annual Report to Stockholders which are incorporated herein by reference:

	ANNUAL REPORT PAGE NO. -----
Consolidated Balance Sheet at December 31, 1998 and December 31, 1997.....	39
Consolidated Statement of Income for each of the three years in the period ended December 31, 1998.....	38
Consolidated Statement of Cash Flows for each of the three years in the period ended December 31, 1998.....	40
Consolidated Statement of Stockholders' Equity for each of the three years in the period ended December 31, 1998.....	41
Notes to Consolidated Financial Statements.....	42-59
Report of Independent Auditors.....	60

-13-

2. Financial Statement Schedules filed as part of this report pursuant to Item 8 of this report:

SCHEDULE NUMBER -----	FORM 10-K PAGE NO. -----
II Valuation and Qualifying Accounts.....	16

The financial statement schedule should be read in conjunction with the consolidated financial statements and notes thereto in the Unisys 1998 Annual Report to Stockholders. Financial statement schedules not included with this report have been omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

Separate financial statements of subsidiaries not consolidated with Unisys and entities in which Unisys has a fifty percent or less ownership interest have been omitted because these operations do not meet any of the conditions set forth in Rule 3-09 of Regulation S-X.

3. Exhibits. Those exhibits required to be filed by Item 601 of Regulation S-K are listed in the Exhibit Index included in this report at pages 17 through 20. Management contracts and compensatory plans and arrangements are listed as Exhibits 10.1 through 10.20.

(b) Reports on Form 8-K.

During the quarter ended December 31, 1998, Unisys filed no Current Reports on Form 8-K.

-14-

SIGNATURES

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

UNISYS CORPORATION

/s/ Lawrence A. Weinbach
By: -----
Lawrence A. Weinbach
Chairman of the Board,
President and Chief
Executive Officer

Date: March 2, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 2, 1999.

/s/Lawrence A. Weinbach

Lawrence A. Weinbach
Chairman of the Board,
President and Chief Executive
Officer (principal
executive officer) and
Director

*James J. Duderstadt

James J. Duderstadt
Director

*Henry C. Duques

Henry C. Duques
Director

/s/Robert H. Brust

Robert H. Brust
Senior Vice President and
Chief Financial Officer
(principal financial officer)

*Gail D. Fosler

Gail D. Fosler
Director

/s/Janet Brutschea Haugen

Janet Brutschea Haugen
Vice President and
Controller (principal
accounting officer)

*Melvin R. Goodes

Melvin R. Goodes
Director

*J. P. Bolduc

J. P. Bolduc
Director

*Edwin A. Huston

Edwin A. Huston
Director

*Kenneth A. Macke

Kenneth A. Macke
Director

*Theodore E. Martin

Theodore E. Martin
Director

-15-

*Robert McClements, Jr.

Robert McClements, Jr.
Director

*By: /s/Lawrence A. Weinbach

Lawrence A. Weinbach
Attorney-in-Fact

-16-

UNISYS CORPORATION
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
(Millions)

Description	Additions Balance at Beginning of Period	Charged to Costs and Expenses	Deductions (a)	Balance at End of Period
Allowance for Doubtful Accounts (deducted from accounts and notes receivable):				
Year Ended December 31, 1996	\$ 86.7	\$ 2.5	\$(5.3)	\$ 83.9
Year Ended December 31, 1997	\$ 83.9	\$ 9.8	\$(24.2)	\$ 69.5
Year Ended December 31, 1998	\$ 69.5	\$ 3.7	\$(22.7)	\$ 50.5

(a) Write-off of bad debts less recoveries.

-17-

EXHIBIT INDEX

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of Unisys Corporation, incorporated by reference to Exhibit 4.1 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1997.
3.2	Certificate of Amendment of Restated Certificate of Incorporation dated April 24, 1998, incorporated by reference to Exhibit 4.4 to the registrant's Registration Statement on Form S-3 (Registration No. 333-51885).
3.3	By-Laws of Unisys Corporation, incorporated by reference to Exhibit 3 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1995.
4.1	Agreement to furnish to the Commission on request a copy of any instrument defining the rights of the holders of long-term debt which authorizes a total amount of debt not exceeding 10% of the total assets of the registrant, incorporated by reference to Exhibit 4 to the registrant's Annual Report on Form 10-K for the year ended December 31, 1982 (File No. 1-145).
4.2	Form of Rights Agreement dated as of March 7, 1986 between Burroughs Corporation and Harris Trust Company of New York, as Rights Agent, which includes as Exhibit A, the Certificate of Designations for the Junior Participating Preferred Stock, and as Exhibit B, the Form of Rights Certificate, incorporated by reference to Exhibit 1 to the registrant's Registration Statement on Form 8-A, dated March 11, 1986.
4.3	Amendment No. 1, dated as of February 22, 1996, to Rights Agreement, incorporated by reference to Exhibit 4 to the registrant's Current Report on Form 8-K dated February 22, 1996.

- 10.1 Deferred Compensation Plan for Executives of Unisys Corporation, as amended and restated effective February 26, 1998.
- 10.2 Deferred Compensation Plan for Directors of Unisys Corporation, as amended and restated effective May 22, 1997, incorporated by reference to Exhibit 10.5 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1997.
- 10.3 Form of Executive Employment Agreement, incorporated by reference to Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1995.
- 10.4 Unisys Corporation Executive Life Insurance Plan, effective September 12, 1998, incorporated by reference to Exhibit 10 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1998.
- 10.5 Employment Agreement, dated September 23, 1997, between the registrant and Lawrence A. Weinbach, incorporated by reference to Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1997.
- 10.6 Unisys Corporation Director Stock Unit Plan, as amended and restated, effective May 22, 1997, incorporated by reference to Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1997.
- 10.7 Summary of supplemental executive benefits provided to officers of Unisys Corporation, incorporated by reference to Exhibit 10(k) of the registrant's Annual Report on Form 10-K for the year ended December 31, 1992.

- 10.8 Unisys Executive Annual Variable Compensation Plan, incorporated by reference to Exhibit A to the registrant's Proxy Statement, dated March 23, 1993, for its 1993 Annual Meeting of Stockholders.
- 10.9 1982 Unisys Long-Term Incentive Plan, as amended and restated through September 1, 1989, incorporated by reference to Exhibit 10(p) to the registrant's Annual Report on Form 10-K for the year ended December 31, 1990.
- 10.10 Amendment, dated December 11, 1989, to the 1982 Unisys Long-Term Incentive Plan, incorporated by reference to Exhibit 10(o) to the registrant's Annual Report on Form 10-K for the year ended December 31, 1989.
- 10.11 Amendment, dated July 25, 1990, to 1982 Unisys Long-Term Incentive Plan, incorporated by reference to Exhibit 10(r) to the registrant's Annual Report on Form 10-K for the year ended December 31, 1990.
- 10.12 1990 Unisys Long-Term Incentive Plan, effective as of January 1, 1990 incorporated by reference to Exhibit A to the registrant's Proxy Statement, dated March 20, 1990, for its 1990 Annual Meeting of Stockholders.
- 10.13 Amendment, dated May 26, 1994, to 1990 Unisys Long-Term Incentive Plan, effective as of February 22, 1990, incorporated by reference to Exhibit 10.15 to the registrant's Annual Report on Form 10-K for the year ended December 31, 1994.
- 10.14 Amendment, dated May 25, 1995, to 1990 Unisys Long-Term Incentive Plan, incorporated by reference to Exhibit 10.2 to the registrant's

Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1995.

10.15 Amendment, dated February 22, 1996, to 1990 Unisys Long-Term Incentive Plan, incorporated by reference to Exhibit 10 to registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1996.

-20-

10.16 Form of Loan Agreement including Note used for term loans to executive officers purchasing residences, incorporated by reference to Exhibit 10(11) to the registrant's Annual Report on Form 10-K for the year ended December 31, 1986.

10.17 Unisys Corporation Officers' Car Allowance Program, effective as of July 1, 1991, incorporated by reference to Exhibit 10(hh) to the registrant's Annual Report on Form 10-K for the year ended December 31, 1991.

10.18 Form of Indemnification Agreement between Unisys Corporation and each of its Directors, incorporated by reference to Exhibit B to the registrant's Proxy Statement, dated March 22, 1988, for the 1988 Annual Meeting of Stockholders.

10.19 Unisys Corporation Elected Officer Pension Plan, as amended through May 22, 1997, incorporated by reference to Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1997.

10.20 Unisys Corporation Supplemental Executive Retirement Income Plan, as amended through May 22, 1997, incorporated by reference to Exhibit 10.3 to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1997.

12 Computation of Ratio of Earnings to Fixed Charges.

13 Portions of the Annual Report to Stockholders of the registrant for the year ended December 31, 1998.

21 Subsidiaries of Unisys Corporation.

23 Consent of Ernst & Young LLP, Independent Auditors

24 Power of Attorney.

27 Financial Data Schedule.

DEFERRED COMPENSATION PLAN
FOR EXECUTIVES OF UNISYS CORPORATION
(as amended and restated effective February 26, 1998)

Article I
Purpose & Authority

1.1 Purpose. The purpose of the Plan is to offer Eligible Executives the opportunity to defer receipt of a portion of their compensation from the Corporation, under terms advantageous to both the Eligible Executive and the Corporation.

1.2 Effective Date. The Board originally approved the Officers' Plan on January 29, 1982. The Plan has been amended and restated from time to time since its original adoption and this amended and restated version of the Plan is effective February 26, 1998.

1.3 Authority. Any decision made or action taken by the Corporation and any of its officers or employees involved in the administration of this Plan, or any member of the Board or the Committee arising out of or in connection with the construction, administration, interpretation and effect of the Plan shall be within the absolute discretion of all and each of them, as the case may be, and will be conclusive and binding on all parties. No member of the Board and no employee of the Corporation shall be liable for any act or action hereunder, whether of omission or commission, by any other member or employee or by any agent to whom duties in connection with the administration of the Plan have been delegated or, except in circumstances involving the member's or employee's bad faith, for anything done or omitted to be done by himself or herself.

Article II
Definitions

2.1 "Account" means, for any Participant, the memorandum account established for the Participant under Section 4.1.

2.2 "Account Balance" means, for any Participant as of any date, the aggregate amount reflected in his or her Account.

2.3 "Beneficiary" means the person or persons designated from time to time in writing by a Participant to receive payments under the Plan after the death of such Participant or, in the absence of such designation or in the event that such designated person or persons predeceases the Participant, the Participant's estate.

2.4 "Board" means the Board of Directors of the Corporation.

2.5 "Committee" means the Compensation and Organization Committee of the Board.

2.6 "Corporation" means Unisys Corporation.

2.7 "Deferral Election" means an election by an Eligible Executive to defer a portion of his or her compensation from the Corporation under the Plan, as described in Section 3.1.

2.8 "Directors' Plan" means the Deferred Compensation Plan for Directors of Unisys Corporation.

2.9 "Eligible Executive" means, for any calendar year, an individual: (1) who is employed by the Corporation at Level 25 or above (or at Level P3 or above, if the individual is employed in the Information Services Division of the Corporation); (2) for whom the sum of (A) the individual's base salary from the Corporation and (B) 75 percent of the individual's Target EVC for the calendar year equals or exceeds the maximum amount of compensation that is permitted to be taken into account under section 401(a)(17) of the Internal Revenue Code during a plan year that begins in the calendar year; and (3) who is designated by the Vice President, Human Resources as an Eligible Executive.

2.10 "EVC" means, for any individual, the amount payable to such individual under the Unisys Executive Annual Variable Compensation Plan (or under any successor annual incentive plan of the Corporation) or under any other similar annual incentive plan of the Corporation approved by the Vice President, Human Resources.

2.11 "Investment Measurement Option" means any of the hypothetical investment alternatives available for determining the additional amounts to be credited to a Participant's Account under Section 4.2. Effective January 1, 1997, the Investment Measurement Options available are all of the investment options available to eligible participants under the USP. Performance Unit Compensation deferred under the Plan will be held as Stock Units.

2.12 "Officers' Plan" means the Deferred Compensation Plan for Officers of Unisys Corporation, the predecessor of this Plan.

2.13 "Participant" means an Eligible Executive or former Eligible Executive who has made a Deferral Election and who has not received a distribution of his or her entire Account Balance.

2.14 "Performance Unit Compensation" means any amount payable to an Eligible Executive as a result of the Eligible Executive's vesting in a Performance Unit award (including, but not limited to, share unit and restricted share unit awards) made under the terms of the 1990 Unisys Long-Term Incentive Plan, or any successor equity-based incentive compensation plan.

2.15 "Plan" means the Deferred Compensation Plan for Executives of Unisys Corporation, as set forth herein and as amended from time to time.

2.16 "Revised Election" means an election made by a Participant, in accordance with Section 5.2, to change the date as of which payment of his or her Account Balance is to commence and/or the form in which such payment is to be made.

2.17 "Stock Units" means Unisys common stock-equivalent units. The value of a Stock Unit on any given date is the Fair Market Value of a share of Unisys Common Stock on that date. "Fair Market Value" means, on any date, the closing sales price of a share of Unisys Common Stock as reported on the Composite Tape of New York Stock Exchange Companies.

2.18 "Target EVC" means, for any individual, the amount that will be payable to such individual as EVC if the criteria applicable to such individual are satisfied.

2.19 "USP" means the Unisys Savings Plan.

2.20 "Valuation Date" means the last business day of each calendar month.

Article III Deferral of Compensation

3.1 Deferral Election.

(a) During any calendar year, each individual who is an Eligible Executive for such calendar year may, by properly completing a Deferral Election, elect to defer:

(1) all or a portion of his or her salary that, absent deferral, would be paid to him or her for services rendered during the remainder of the current calendar year and/or the next following calendar year; and/or

(2) all or a portion of his or her EVC that, absent deferral, would be paid to him/her in the next following calendar year.

(b) To be effective, a Deferral Election with respect to EVC must be made in writing by the Eligible Executive on a form furnished by the Corporate Executive Compensation Department on or before September 30 of the calendar year immediately preceding the calendar year in which the amounts to be deferred, absent deferral, would be paid to the Eligible Executive, and a Deferral Election with respect to salary must be made in writing by the Eligible Executive on a form furnished by the Corporate Executive Compensation Department on or before the date that is at least three months and one day before the date on which the amounts to be deferred, absent deferral, would be paid to the

Eligible Executive provided, however, that an individual who becomes an Eligible Executive after the effective date of the Plan (as set forth in Section 1.2) may make a Deferral Election with respect to salary that, absent deferral, would be paid to him or her during the remainder of the calendar year in which he or she becomes an Eligible Executive and with respect to all or a portion of the EVC that, absent deferral, would be paid to him or her in the next following calendar year by filing the required written election with the Corporate Executive Compensation Department on or before the date that is 30 days after the date on which he or she becomes an Eligible Executive.

(c) In addition to the Deferral Elections described in Section 3.1(a), an Eligible Executive may make a Deferral Election with respect to Performance Unit Compensation that, absent deferral, would be paid to the Eligible Executive. To be effective, a Deferral Election with respect to Performance Unit Compensation must be made in writing by the Eligible Executive on or before the date that is 12 months and one day before the date on which the amounts to be deferred, absent deferral, would be paid to the Executive.

(d) Once made, a Deferral Election shall become effective upon approval by the Corporate Executive Compensation Department and is thereafter irrevocable, except to the extent otherwise provided in Section 5.2. A Deferral Election will be deemed to have been approved by the Corporate Executive Compensation Department if it is not

disapproved by the Corporate Executive Compensation Department within ten days of the date on which it is received.

(e) An Eligible Executive's Deferral Election must specify either a percentage or a certain dollar amount of his or her salary and/or EVC and/or a percentage of his or her Performance Unit Compensation to be deferred under the Plan. In addition, the Deferral Election must specify the date on which payment of the Eligible Executive's Account Balance is to commence and the manner in which such payment is to be made.

(1) The Eligible Executive must specify the date as of which payment of his or her Account Balance is to commence and may specify that such payment is to commence as of:

(A) his or her termination of active employment (including as a result of retirement or disability) with the Corporation; or

(B) a specific date (which may be determined by reference to the Eligible Executive's retirement or other termination of employment) that is at least five years after the date on which the amounts to be deferred, absent deferral, would be paid to the Eligible Executive.

(2) The Eligible Executive must specify the manner in which payment of his or her Account Balance is to be made and may specify that such payment is to be made either in a single sum or in annual installments.

(3) Notwithstanding the foregoing, an Eligible Executive may not elect a time of benefit commencement and/or a form of payment to the extent that such an election would cause any payments to be made after the March 31 first following the date that is 20 years after the date of the Eligible Executive's retirement or other termination of employment.

(f) Deferrals of an Eligible Executive's salary shall be credited to the Plan ratably throughout the year (or, where applicable, the portion of the year) to which the Deferral Election applies. Deferrals of an Eligible Executive's EVC and Performance Unit Compensation shall be credited at the time at which the EVC or Performance Unit Compensation, absent deferral, would be payable to the Participant.

(g) Unless the Deferral Election form specifically provides otherwise, a Deferral Election with respect to salary shall expire as of the last day of the calendar year that includes the first day on which any amount, absent deferral, would be paid to the Eligible Executive and a Deferral Election with respect to EVC or Performance Unit Compensation shall expire as of the date on which the EVC or Performance Unit Compensation that is the subject of the Deferral Election is credited under the Plan.

3.2 Payment of FICA and Other Taxes. To the extent that, as a result of a Deferral Election, the compensation currently payable to an Eligible Executive during any period is insufficient to permit an amount equal to the FICA and

other taxes that are payable by the Eligible Executive, and required to be withheld by the Corporation, during that period to be withheld from such current compensation, the

Eligible Executive shall be notified by the Corporation and shall provide the Corporation with a check in an amount equal to the difference between the amount of FICA and other taxes payable by the Eligible Executive during the period and the amount of compensation otherwise currently payable to the Eligible Executive during the period. If the Eligible Executive does not provide such check within the time period specified by the Corporation, the Eligible Executive's Account Balance shall be reduced by an amount equal to the sum of (a) the difference between the amount of FICA and other taxes payable by the Eligible Executive, and required to be withheld by the Corporation, during the period and the amount of compensation otherwise currently payable to the Eligible Executive during the period and (b) any additional Federal, state and local income taxes payable by the Eligible Executive with respect to the reduction in his or her Account Balance made pursuant to this Section 3.2.

Article IV Treatment of Deferred Amounts

4.1 Memorandum Account. The Corporation shall establish on its books an Account for each Participant. Amounts deferred by a Participant pursuant to a Deferral Election shall be credited to the Participant's Account on the date on which the deferred amounts, absent deferral, would have been paid to the Participant. Performance Unit Compensation will be credited to the Participant's Account as Stock Units. In addition, as of each Valuation Date, incremental amounts determined in accordance with Section 4.2 will be credited or debited to each Participant's Account. Any payments made to or on behalf of the Participant and for his or her Beneficiary shall be debited from the Account. No assets shall be segregated or earmarked in respect to any Account and no Participant or Beneficiary shall have any right to assign, transfer, pledge or hypothecate his or her interest or any portion thereof in his or her Account. The Plan and the crediting of Accounts hereunder shall not constitute a trust or a funded arrangement of any sort and shall be merely for the purpose of recording an unsecured contractual obligation of the Corporation.

4.2 Investment Measurement Options.

(a) Subject to the provisions of this Section 4.2, a Participant's Account shall be credited or debited with amounts equal to the amounts that would be earned or lost with respect to the Participant's Account Balance (including, with respect to Stock Units, dividend equivalents and other adjustments) if amounts equal to that Account Balance were actually invested in the Investment Measurement Options in the manner specified by the Participant.

(b) Each Eligible Executive may elect, at the same time as a Deferral Election is made, to have one or more of the Investment Measurement Options applied to current deferrals. Such election with respect to current deferrals may be changed as of the first day of any month, provided that notice of such election is made prior to the first day of that month with the Corporate Executive Compensation Department or its designee.

(c) Subject to the restrictions described in Subsection (e), a Participant may elect to change the manner in which Investment Measurement Options apply to existing Account Balances. Such an election will be effective as of the first day of the month following the date on which an election is made with the Corporate Executive Compensation Department or its designee.

(d) Notwithstanding anything to the contrary in the Plan, Performance Unit Compensation deferred and held under the Plan in the form of Stock Units may not be transferred into any other Investment Measurement Option.

(e) The following rules apply to Investment Measurement Options.

(1) The percentage of a Participant's current deferrals and/or Account Balance to which a specified Investment Measurement Option is to be applied must be a multiple of five percent.

(2) To the extent that a Participant has not specified an Investment Measurement Option to apply to all or a portion of his or her current deferrals and/or Account Balance, the Insurance Contract Fund shall be deemed to be the applicable Investment Measurement Option.

(3) The chosen Investment Measurement Option or Options shall apply to deferred amounts on and after the date on which such amounts, absent deferral, would have been paid to the Participant.

(f) The Committee shall have the authority to modify the rules and restrictions relating to Investment Measurement Options (including the authority to change such Investment Measurement Options prospectively) as it, in its discretion, deems necessary and in accord with the investment practices in place under the USP.

Article V
Payment of Deferred Amounts

5.1 Form and Time of Payment. The benefits to which a Participant or a Beneficiary may be entitled under the Plan shall be paid in accordance with this Section 5.1.

(a) All payments under the Plan shall be made in cash, provided, however, that unless otherwise provided by the Committee, Stock Units shall be paid in shares of Unisys common stock.

(b) Except as otherwise provided in Sections 5.3 and 5.4, payment of a Participant's Account Balance shall commence as of the Valuation Date next following the date or dates specified in the Participant's Deferral Election or Elections or (where applicable) the Participant's Revised Election or Elections; provided, however, that where the Participant's Deferral Election or Elections or (where applicable) the Participant's Revised Election or Elections specify that payments with respect to a Participant's Account Balance are to commence as of a specified date or specified dates not determined by reference to the Participant's retirement or other termination of employment and the Participant terminates employment with the Corporation prior to such date or dates, payment of the portion of the Participant's Account Balance that was deferred to such date or dates shall commence as of the Valuation Date next following the Participant's termination of employment, but in the same form specified in the Participant's Deferral Election or Elections or (where applicable) the Participant's Revised Election or Elections.

(c) All payments shall be made in the form or forms specified in the Participant's Deferral Election or Elections or (where

applicable) the Participant's Revised Election or Elections.

(d) To the extent a Participant has not specified the form or time of payment of his or her Account Balance, payment will be made in a single sum as soon as administratively practicable, but within 90 days, after the first Valuation Date following the Participant's termination of employment with the Corporation.

(e) Where a Participant has elected payment in the form of annual installments, each installment payment after the initial installment payment shall be made on or about March 31 of each year following the year in which the first installment was paid. With respect to each Deferral Election made by a Participant, the amount of each annual installment payment to be made to a Participant or Beneficiary under such Deferral Election shall be determined by dividing the portion of the Participant's Account Balance attributable to such Deferral Election as of the latest Valuation Date preceding the date of payment by the number of installments remaining to be paid under such Deferral Election.

(f) Notwithstanding any election made by a Participant, any portion of a Participant's Account Balance that has not been paid to the Participant as of the date of his or her death shall be paid to the Participant's Beneficiary in a single sum as soon as administratively practicable, but within 90 days, after the Valuation Date following the date on which the Corporation receives notification of the Participant's death.

5.2 Revised Election.

(a) Pursuant to a Revised Election, a Participant may specify:

(1) a date for the commencement of the payment of the Participant's Account Balance that is after the date specified in the Participant's Deferral Election; and/or

(2) a form of payment that calls for a greater number of annual installment payments than that specified in the Participant's Deferral Election, or a number of annual installment payments where the Participant specified a single sum payment in his or her Deferral Election.

(3) Notwithstanding the foregoing, an Eligible Executive may not elect a time of benefit commencement and/or a form of payment to the extent that such an election would cause any payments to be made after the March 31 first following the date that is 20 years after the date of the Eligible Executive's retirement or other termination of employment.

(b) If a Participant has made a Revised Election with respect to amounts the payment of which has been deferred to a certain date, the Participant may not thereafter make another Revised Election with respect to amounts the payment of which, as of the date on which such Revised Election is made and before giving effect to the Revised Election, has been deferred to the same date.

(c) To be effective, a Revised Election must be:

(1) made in writing by the Participant on a form

furnished for such purpose by the Corporate Executive Compensation Department;

(2) submitted to the Corporate Executive Compensation Department on or before the date that is three months and one day before the date on which the portion of the Participant's Account Balance that is the subject of the Revised Election would, absent the Revised Election, first become payable; and

(3) approved by the Corporate Executive Compensation Department. A Revised Election will be deemed to have been approved by the Corporate Executive Compensation Department if it is not disapproved by the Corporate Executive Compensation Department within ten days of the date on which it is received.

5.3 Special Payments.

(a) Notwithstanding any other provision of the Plan to the contrary, a Participant may receive payment of all or a portion of his or her Account Balance as soon as administratively practicable following the receipt by the Corporate Executive Compensation Department of the Participant's written request for such payment.

(b) (1) As a condition of receiving any payment made pursuant to Subsection 5.3(a), a Participant will be subject to, and must elect the application of, one of the following penalties:

(A) payment to the Company of an amount equal to eight percent of the amount of the payment made pursuant to Subsection 5.3(a) and suspension of the Participant's further participation in the Plan or any equivalent plan or plans maintained by the Corporation or a subsidiary of the Corporation for the entire calendar year described in "(B)" below; or

(B) payment to the Company of an amount equal to six percent of the amount of the payment made pursuant to Subsection 5.3(a), and suspension of the Participant's tax-deferred contributions to the Plan and the USP or any equivalent plan or plans maintained by the Corporation or a subsidiary of the Corporation for the entire calendar year that follows the date on which the Participant submits to the Corporate Executive Compensation Department his or her request for payment pursuant to Subsection 5.3(a).

(2) The payment to the Company specified in Paragraph 5.3(b)(1) shall generally be deducted from the amount otherwise payable to the Participant under Subsection 5.3(a).

(c) Where a Participant receives a payment of less than his or her entire Account Balance pursuant to Subsection 5.3(a), the portion of the Participant's Account Balance to which each Investment Measurement Option is applied shall be reduced proportionately so that the Investment Measurement Options apply to the Participant's Account Balance in the same percentages immediately before and immediately after the payment.

(d) Notwithstanding any provision of the Plan to the contrary, in the event the Committee determines that any portion of a Participant's Account Balance is the subject of a final determination by the Internal Revenue Service that such portion is includible in the Participant's taxable income, the

Participant's Account Balance shall be

distributed to the extent it is so includible. All income taxes and related interest and penalties associated with credits to or distributions from a Participant's Account shall be borne by the Participant.

5.4 Acceleration of Payment. Notwithstanding any other provision of this Plan to the contrary, the Committee in its sole discretion may accelerate the payment of Account Balances to all or any group of similarly situated Participants or Beneficiaries, whether before or after the Participants' termination of service, in response to changes in the tax laws or accounting principles.

Article VI Miscellaneous

6.1 Amendment. The Board may modify or amend, in whole or in part, any of or all the provisions of the Plan, or suspend or terminate it entirely; provided, however, that any such modification, amendment, suspension or termination may not, without the Participant's consent, adversely affect any deferred amount credited to him or her for any period prior to the effective date of such modification, amendment, suspension or termination. The Plan shall remain in effect until terminated pursuant to this provision.

6.2 Administration. The Committee shall have the sole authority to interpret the Plan and in its discretion to establish and modify administrative rules for the Plan. All expenses and costs in connection with the operation of this Plan shall be borne by the Corporation. The Corporation shall have the right to deduct from any payment to be made pursuant to this Plan any federal, state or local taxes required by law to be withheld, and any associated interest and/or penalties.

6.3 Governing Law. The Plan shall be construed and its provisions enforced and administered in accordance with the laws of the Commonwealth of Pennsylvania except as such laws may be superseded by the federal law.

Article VII Transfer of Account Balance

7.1 Transfer to Director's Plan. Notwithstanding any election of form of payments made hereunder, a Participant who, following his termination of employment with the Corporation will be eligible to participate in the Directors' Plan, may elect at any time prior to the date that is three months and one day before the Participant's termination of employment to transfer all or any portion of his Account Balance to the Directors' Plan. Such transfer must occur prior to the date that payments of the Participant's Account Balance would otherwise be made, or commence, hereunder. Upon transfer, the Participant's Account Balance (or the portion thereof transferred) will be subject to the terms and conditions of the Directors' Plan; provided, however, that any election of form of payment made under the Directors' Plan with respect to the amount transferred may not provide for a form of payment that is in any way more rapid than the form of payment in effect under this Plan with respect to such amounts immediately prior to transfer to the Directors' Plan. Valuation of the Account Balance (or the portion thereof) to be transferred shall be made consistent with the valuation provisions described in Article V. Upon transfer, the Participant's (or his or her Beneficiary's) rights hereunder with respect to the amounts transferred shall cease.

UNISYS CORPORATION
 COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES (UNAUDITED)
 (\$ in millions)

	Years Ended December 31				
	1998	1997	1996	1995	1994
Income (loss) from continuing operations before income taxes	\$604.7	\$(758.8)	\$ 93.7	\$(781.1)	\$ 14.6
Add (deduct) share of loss (income) of associated companies	(.3)	5.9	(4.9)	5.0	16.6
Subtotal	604.4	(752.9)	88.8	(776.1)	31.2
Interest expense	171.7	233.2	249.7	202.1	203.7
Amortization of debt issuance expenses	4.6	6.7	6.3	5.1	6.2
Portion of rental expense representative of interest	48.5	51.2	59.2	65.3	65.0
Total Fixed Charges	224.8	291.1	315.2	272.5	274.9
Earnings (loss) from continuing operations before income taxes and fixed charges	\$829.2	\$(461.8)	\$404.0	\$(503.6)	\$306.1
Ratio of earnings to fixed charges	3.69	*	1.28	*	1.11

* Earnings for the years ended December 31, 1997 and 1995 were inadequate to cover fixed charges by approximately \$752.9 and \$776.1 million, respectively.

Unisys Corporation

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

Results of operations

For 1998, the company reported net income of \$387.0 million, or \$1.06 per diluted common share, compared to net income, before one-time charges, of \$199.0 million, or \$.46 per diluted common share, for 1997. In 1996, income before an extraordinary item was \$61.8 million, or a loss of \$.34 per common share.

In the fourth quarter of 1997, the company recorded one-time charges of \$1.1 billion against net income. Including these charges, the company had a 1997 net loss of \$853.6 million, or \$5.30 per share, which is computed based on the weighted average common shares outstanding. Earnings per share for 1997 before one-time charges (\$.46) are computed on a diluted basis, which also includes additional shares from the assumed conversion of outstanding stock options and convertible debt. For further information on the 1997 fourth quarter charges, see Note 3 of the Notes to the Consolidated Financial Statements.

The following comparisons of income statement categories exclude the one-time charges discussed above.

Revenue for 1998 was \$7.2 billion compared to \$6.6 billion in 1997 and \$6.4 billion in 1996. Revenue from international operations in 1998, 1997, and 1996 was \$4.1 billion, \$3.9 billion, and \$4.0 billion, respectively. Revenue from U.S. operations was \$3.1 billion in 1998, \$2.7 billion in 1997, and \$2.4 billion in 1996.

Total gross profit percent was 34.0% in 1998, 35.1% in 1997, and 33.3% in 1996. The decrease in 1998 reflects the company's shift to higher-growth, lower-margin services businesses.

Selling, general and administrative expenses in 1998 were \$1.3 billion compared to \$1.4 billion in both 1997 and 1996. The decline in 1998 was largely due to the company's cost reduction programs, as well as stringent controls over all discretionary expenditures.

Research and development expenses in 1998 were \$296.6 million compared to \$297.4 million in 1997 and \$342.9 million in 1996. The decline in 1997 compared to 1996 was largely due to the company's cost reduction actions.

In 1998, the company reported operating income of \$810.2 million (11.2% of revenue) compared to \$613.8 million (9.2% of revenue) in 1997 and \$327.4 million (5.1% of revenue) in 1996.

In 1998, the company adopted Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures About Segments of an Enterprise and Related Information." See Note 14 of the Notes to the Consolidated Financial Statements. Prior to its adoption, the company reported information on its Information Services, Global Customer Services and Computer Systems business units. For the most part, the company now combines the Information Services and Global Customer Services businesses into a segment called Services, and now reports the Computer Systems business under the Technology segment.

30

Information by these business segments for 1998, 1997, and 1996 is presented below:

(Millions of dollars)	Total	Eliminations	Services	Technology

1998				

Customer revenue	\$ 7,208.4		\$ 4,909.3	\$ 2,299.1
Intersegment		\$ (511.2)	73.7	437.5

Total revenue	\$ 7,208.4	\$ (511.2)	\$ 4,983.0	\$ 2,736.6
Gross profit percent	34.0%		24.2%	46.9%
Operating income percent	11.2%		6.9%	18.7%
1997				
Customer revenue	\$ 6,636.0		\$ 4,281.0	\$ 2,355.0
Intersegment		\$ (483.8)	70.0	413.8
Total revenue	\$ 6,636.0	\$ (483.8)	\$ 4,351.0	\$ 2,768.8
Gross profit percent	35.1%		24.2%	46.2%
Operating income percent	9.2%		3.8%	16.0%
1996				
Customer revenue	\$ 6,370.5		\$ 4,008.8	\$ 2,361.7
Intersegment		\$ (529.3)	82.1	447.2
Total revenue	\$ 6,370.5	\$ (529.3)	\$ 4,090.9	\$ 2,808.9
Gross profit percent	33.3%		24.0%	41.5%
Operating income percent	5.1%		3.0%	8.9%

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

In the Services segment, customer revenue was \$4.9 billion in 1998, \$4.3 billion in 1997, and \$4.0 billion in 1996. The growth in customer revenue was 15% in 1998 and 7% in 1997 led by increases in network services, systems integration, and outsourcing revenue. In both years, these increases more than offset the decline in proprietary maintenance revenue. Gross profit, although relatively constant, reflects benefits from improvements in bid quality and control processes and from completion of certain problem contracts, offset by: (a) heavy competition in the network services market, (b) commoditization of low-end, third-party hardware components that are typically part of a network integration project, (c) continued roll out of a large low-margin federal government networking project, and (d) continued shift in mix away from proprietary maintenance. Operating profit in the segment was 6.9% in 1998, 3.8% in 1997, and 3.0% in 1996. The increases in operating profit were largely due to cost reduction programs as well as stringent cost controls over all discretionary expenditures.

In the Technology segment, customer revenue was \$2.3 billion in 1998 and \$2.4 billion in both 1997 and 1996. In 1998, revenue for ClearPath enterprise servers remained strong, which offset declines, as expected, in personal computer revenue. Earlier in 1998, the company outsourced the supply of notebooks, PCs, and entry-level servers to focus on its more profitable enterprise server business. The gross profit percent was 46.9% in 1998, 46.2% in 1997, and 41.5% in 1996. The increases in gross profit percent were due in large part to a richer mix of enterprise servers and enterprise server software sales. Operating profit in this segment was 18.7% in 1998, 16.0% in 1997, and 8.9% in 1996. The increases in operating profit, above the respective increases in gross profit, were largely due to cost reduction programs as well as stringent controls over all discretionary expenditures.

31

Interest expense was \$171.7 million in 1998, \$233.2 million in 1997, and \$249.7 million in 1996. The declines were due to lower average debt levels.

Other income (expense), net, which can vary from year to year, was an expense of \$33.8 million in 1998 and \$64.8 million in 1997, and income of \$16.0 million in 1996. The difference in 1998 compared to 1997 was principally due to lower goodwill amortization and higher equity income. In addition in 1998, a net gain on the sale of properties was offset by charges related to certain legal disputes and the early extinguishment of debt. The difference in 1997 compared to 1996 was principally due to lower interest and equity income in 1997 and a gain on the sale of an equity investment in 1996.

Income before income taxes in 1998 was \$604.7 million compared to \$315.8 million in 1997 and \$93.7 million in 1996.

Estimated income taxes in 1998 were \$217.7 million compared to \$116.8 million in 1997 and \$31.9 million in 1996. The 1996 tax provision included a benefit of \$24.8 million related to reversals of deferred tax valuation allowances due to additional tax planning strategies available to the company.

Effective January 1, 1998, the company changed the functional currency of its Brazilian operations from the U.S. dollar to the Brazilian local currency because the Brazilian economy was no longer considered highly inflationary. This change did not have a material effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement, which is effective for the year beginning January 1, 2000, establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS No. 133 requires a company to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Management is evaluating the impact this statement may have on the company's financial statements.

Financial condition

Cash and cash equivalents at December 31, 1998 were \$604.3 million compared to \$803.0 million at December 31, 1997.

During 1998, cash provided by operations was \$650.0 million compared to \$383.5 million in 1997. This increase was due in large part to higher net income and improved working capital management, including improvements in inventory turns. Operational cash flow in both years was reduced by a decline in sales of accounts receivable. In October 1998, the company terminated its \$120 million U.S. facility used to sell accounts receivable. In 1997, the company reduced sales of accounts receivables, principally outside the United States, by \$151 million. Cash expenditures related to prior-year restructuring actions (which are included in operating activities) in 1998, 1997, and 1996 were \$139.2 million, \$178.7 million, and \$220.8 million, respectively. Cash expenditures for restructuring actions, principally for work-force reductions and facility costs, are expected to be approximately \$84 million in 1999 and \$47 million thereafter. Personnel reductions in 1998 related to restructuring actions were approximately 900 and are expected to be approximately 400 thereafter, principally in 1999.

32

Cash used for investing activities during 1998 was \$275.0 million compared to \$291.6 million for 1997.

Cash used for financing activities during 1998 was \$570.7 million compared to \$274.1 million in 1997. Included in 1998 were payments of debt of \$748.5 million (described below) partially offset by proceeds of \$195.2 million from issuance of 7 7/8% senior notes due 2008. In 1997, the company redeemed all \$150.0 million of its Series B and C Cumulative Convertible Preferred Stock and spent \$46.1 million in connection with the conversions of debt into common stock described below. Dividends paid on preferred stock were \$106.5 million in 1998 compared to \$113.1 million in 1997.

At December 31, 1998, total debt was \$1.2 billion, a decline of \$532.2 million from December 31, 1997. Debt retirements during 1998 were as follows. On February 5, 1998, the company redeemed all \$197.5 million of its 9 1/2% senior notes due on July 15, 1998. On March 2, 1998, the company redeemed \$200 million principal amount of its 10 5/8% senior notes due 1999. On September 15, 1998, the company made a \$30 million sinking fund payment, which included a \$20 million optional prepayment, on its 9 3/4% sinking fund debentures. On October 1, 1998, the company redeemed at par the remaining \$130 million outstanding of its 10 5/8% notes, one year ahead of the due date in October 1999. On December 4, 1998, the company redeemed the remaining \$160.0 million of its 9 3/4% sinking fund debentures at the stated redemption price of 103.61% of principal.

In the fourth quarter of 1997, \$616.2 million of the company's convertible subordinated notes were converted into 73.2 million shares of common stock. These conversions included all \$345.0 million of the company's 8 1/4% convertible subordinated notes due 2000 and \$271.2 million of its 8 1/4% convertible subordinated notes due 2006.

In December 1998, the company called 2.0 million shares of its Series A Cumulative Convertible Preferred Stock for redemption on January 21, 1999. The preferred stock is convertible into shares of the company's common stock, at the option of the holder, at a conversion rate of approximately 1.67 shares of common stock for each preferred share converted.

On January 21, 1999, 1.9 million shares of the preferred stock were converted into 3.2 million shares of the company's common stock and 270 thousand shares of preferred stock were redeemed for \$13.5 million. Included in the above number were 184 thousand shares of preferred stock that were voluntarily converted into the company's common stock during the call period.

In addition, on January 21, 1999, the company announced that it was calling for redemption on March 4, 1999, an additional 6.0 million shares of its preferred stock. This call, when combined with the January 21, 1999 conversions and redemptions, will save \$30.7 million of annual dividend payments and will be accretive to 1999 diluted earnings per common share.

In January 1999, the company called for redemption on March 15, 1999, the remaining \$27 million of its 8 1/4% convertible subordinated notes due 2006. The notes will be redeemed at 105.775% of par, plus accrued interest. Each note is convertible into approximately 145.45 shares of the company's common stock.

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

33

The company has on file with the Securities and Exchange Commission an effective registration statement covering \$700 million of debt or equity securities, which enables the company to be prepared for future market opportunities.

In June 1998, the company entered into a \$400 million, three-year credit agreement. The new facility replaced the company's more restrictive \$200 million credit agreement established in June 1997. As of December 31, 1998, there were no borrowings under the agreement.

In May 1998, Moody's Investor Services raised its credit rating on the company's senior long-term debt to Ba3 from B1. In June 1998, Standard & Poor's Corporation raised its credit rating on the company's senior long-term debt to BB- from B+. In February 1999, Duff & Phelps Credit Rating Co. increased its rating on the company's senior long-term debt to BB+ from BB.

At December 31, 1998, the company had deferred tax assets in excess of deferred tax liabilities of \$1,384 million. For the reasons cited below, management determined that it is more likely than not that \$1,061 million of such assets will be realized, therefore resulting in a valuation allowance of \$323 million.

The company evaluates quarterly the realizability of its net 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 forecast of future taxable income, which is adjusted by applying probability factors, and available tax planning strategies that could be implemented to realize deferred tax assets. Failure to achieve forecasted taxable income might affect the ultimate realization of the net deferred tax assets. See "Factors that may affect future results" below. The combination of these factors is expected to be sufficient to realize the entire amount of net deferred tax assets. Approximately \$3.2 billion of future taxable income (predominantly U.S.) is needed to realize all of the net deferred tax assets.

Stockholders' equity increased \$311.1 million during 1998, principally reflecting net income of \$387.0 million, proceeds from the issuance of stock under stock option and other plans of \$89.7 million, and \$30.6 million of tax benefits related to stock plans, offset in part by preferred stock dividends of \$106.5 million and translation adjustments of \$83.5 million.

Market risk disclosure

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 the 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 is also exposed to foreign currency exchange rate risks. The company uses derivative financial instruments to reduce its exposure to market

risks from changes in foreign currency exchange rates. The derivative instruments used are foreign exchange forward contracts and options. These derivatives, which are over-the-counter instruments, are non-leveraged and involve little complexity. The company does not hold or issue derivatives for speculative trading purposes. See Note 12 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 and interest rates applied to the hedging contracts and debt instruments described above. As of December 31, 1998, the analysis indicated that such market movements would not have had a material effect on the company's consolidated results of operations or on the fair value of its risk-sensitive financial instruments. Based on changes in the timing and amount of interest rate and foreign currency exchange rate movements and the company's portfolio of risk-sensitive financial instruments, actual effects on operations in the future may differ materially from that analysis.

34

Year 2000 readiness disclosure

Many computer systems and embedded technology may experience problems handling dates beyond the year 1999 and therefore may need to be modified prior to the year 2000 in order to remain functional. The company is taking steps to ensure both the readiness of its product offerings to customers and the readiness of its internal systems for handling dates beginning in the year 2000.

As part of its development efforts, the company's current product offerings have been designed or are being redesigned to be year 2000 ready, as defined by the company. However, certain of the company's hardware and software products currently used by customers will require upgrades or other remediation to become year 2000 ready. Some of these products are used in critical applications where the impact of non-performance to these customers and other parties could be significant. The company has taken steps to notify customers of the year 2000 issue, provide information and resources on the company's year 2000 web site, emphasize the importance of customer testing of their own systems in their own unique business environment and offer consulting services to assist customers in assessing their year 2000 risk.

The company is also in the process of assessing the year 2000 readiness of its key suppliers. The company's reliance on suppliers, and therefore, on the proper functioning of their products, information systems, and software, means that their failure to address year 2000 issues could affect the company's business. However, the potential impact and related costs are not known at this time. The company is in the process of inquiring about the year 2000 readiness of key suppliers providing services to the company. It is also in the process of trying to obtain year 2000 readiness warranties from key vendors supplying product to the company for incorporation into the company's products for resale. The company expects to identify alternate sources or strategies where necessary if significant exposure is identified.

The company's year 2000 internal systems effort involves three stages: inventory and assessment of its hardware, software and embedded systems, remediation or replacement of those that are not year 2000 ready, and testing the systems. In 1997, the company completed an inventory and year 2000 assessment of its internal information technology ("IT") systems, and developed a work plan to remediate non-compliant systems or replace or consolidate these systems as part of the company's efforts to reduce and simplify, on a worldwide basis, its IT systems.

The company is initially focusing on the IT systems that are critical to running its business. The company expects to complete the remediation or replacement/consolidation of such systems by March 1999 and to complete integrated testing of these systems by mid 1999. The company expects to remediate or replace/consolidate its other IT systems by mid 1999 and to test these systems throughout 1999.

The company has completed an inventory and assessment of its key non-IT systems, such as data and voice communications, building management, and manufacturing systems. The company is in the process of remediating those systems that are not year 2000 ready and expects to have such remediation and testing completed by mid 1999.

The company estimates that, as of December 31, 1998, the cost of remediating its internal systems has been approximately \$12 million, and it expects to spend approximately \$3 million in 1999. The company is funding this effort through normal working capital. This estimate does not include the cost of replacing or consolidating IT systems in connection with the company's worldwide IT simplification project, which was undertaken for reasons unrelated to year 2000 issues, potential costs related to any customer or other claims, the costs associated with making the company's product offerings year 2000 ready, and the costs of any disruptions caused by suppliers not being year 2000 ready. This estimate is based on a current assessment of the year 2000 projects and is subject to change as the projects progress.

35

Although the company does not believe that it will incur material costs or experience material disruptions in its business associated with the year 2000, there can be no assurance that the company will not experience serious unanticipated negative consequences and/or material costs. The company may see increased customer satisfaction costs related to year 2000 over the next few years. In addition, some commentators have stated that a significant amount of litigation may arise out of year 2000 compliance issues, and the company is aware of a growing number of lawsuits against information technology and solutions providers. Although the company believes it has taken adequate measures to address year 2000 issues, because of the unprecedented nature of such litigation, it is uncertain to what extent the company may be affected by it. It is also unknown whether customer spending patterns may be impacted by the year 2000 issue. Efforts by customers to address year 2000 issues may absorb a substantial part of their IT budgets in the near term, and customers may either accelerate or delay the purchase of new applications and systems. While this behavior may increase demand for certain of the company's products and services, including its year 2000 offerings, it could also soften demand. These events could affect the company's revenues or change its revenue patterns. In addition, there can be no assurance that the company's current product offerings do not contain undetected errors or defects associated with year 2000 date functions that may result in increased costs to the company. With respect to its internal systems, the worst case scenarios might include corruption of data contained in the company's internal IT systems, hardware failures, the failure of the company's significant suppliers, and the failure of infrastructure services provided by utilities and other third parties such as electricity, phone service, water transport and internet services.

The company is in the initial stages of developing contingency plans in the event it does not complete all phases of its year 2000 program. The company plans to evaluate the status of completion of its year 2000 program in the second quarter of 1999 and to begin implementing such plans as it deems necessary.

Conversion to the euro currency

On January 1, 1999, certain member countries of the European Union established fixed conversion rates between their existing currencies and the European Union's common currency (the "euro"). The transition period for the introduction of the euro began on January 1, 1999. Beginning January 1, 2002, the participating countries will issue new euro-denominated bills and coins for use in cash transactions. No later than July 1, 2002, the participating countries will withdraw all bills and coins denominated in the legacy currencies, so that the legacy currencies no longer will be legal tender for any transactions, making the conversion to the euro complete.

The company is addressing the issues involved with the introduction of the euro. The more important issues facing the company include converting information technology systems, reassessing currency risk, and negotiating and amending agreements. Based on progress to date, the company believes that the use of the euro will not have a significant impact on the manner in which it conducts its business. Accordingly, conversion to the euro is not expected to have a material effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

36

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. 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. In addition to changes in general economic and business conditions and natural disasters, these include, but are not limited to, the factors discussed below.

The company operates in an industry characterized by aggressive competition, rapid technological change, evolving technology standards, and short product life cycles.

Future operating results will depend on the company's ability to design, develop, introduce, deliver, or obtain new products and services on a timely and cost-effective basis; on its ability to mitigate the effects of competitive pressures and volatility in the information services and technology industry on revenues, pricing, and margins; on its ability to effectively manage the shift of its business mix away from traditional high-margin product and services offerings; and on its ability to successfully attract and retain highly skilled people.

Certain of the company's systems integration contracts are fixed-price contracts under which the company assumes the risk for delivery of the contracted services at an agreed-upon price. Future results will depend on the company's ability to profitably perform these services contracts and bid and obtain new contracts.

Approximately 57% of the company's total revenue derives from international operations. The risks of doing business internationally include foreign currency exchange rate fluctuations, changes in political or economic conditions, trade protection measures, and import or export licensing requirements.

In the course of providing complex, integrated solutions to customers, the company frequently forms alliances with third parties that have complementary products, services, or skills. Future results will depend in part on the performance and capabilities of these third parties, including their ability to deal effectively with the year 2000 issue. Future results will also depend upon 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.

Future results may also be adversely affected by a delay in, or increased costs associated with, the implementation of the year 2000 actions discussed above, or by the company's inability to implement them.

Unisys Corporation
Consolidated Financial Statements

Consolidated Statement of Income

Year Ended December 31 (Millions, except per share data)	1998	1997	1996
Revenue	\$7,208.4	\$6,636.0	\$6,370.5
Costs and expenses			
Cost of revenue	4,758.6	4,402.4	4,252.1
Selling, general and administrative expenses	1,343.0	1,427.2	1,448.1
Research and development expenses	296.6	302.3	342.9
Goodwill impairment		883.6	
	6,398.2	7,015.5	6,043.1
Operating income (loss)	810.2	(379.5)	327.4
Interest expense	171.7	233.2	249.7
Other income (expense), net	(33.8)	(146.1)	16.0
Income (loss) before income taxes	604.7	(758.8)	93.7
Estimated income taxes	217.7	94.8	31.9
Income (loss) before extraordinary item	387.0	(853.6)	61.8
Extraordinary item			(12.1)
Net income (loss)	387.0	(853.6)	49.7
Dividends on preferred shares	106.5	111.1	120.8

Earnings (loss) on common shares	\$ 280.5	\$ (964.7)	\$ (71.1)
Earnings (loss) per common share - basic			
Before extraordinary item	\$ 1.11	\$ (5.30)	\$ (.34)
Extraordinary item			(.07)
Total	\$ 1.11	\$ (5.30)	\$ (.41)
Earnings (loss) per common share - diluted			
Before extraordinary item	\$ 1.06	\$ (5.30)	\$ (.34)
Extraordinary item			(.07)
Total	\$ 1.06	\$ (5.30)	\$ (.41)

See notes to consolidated financial statements.

38

Unisys Corporation

Consolidated Balance Sheet

December 31 (Millions)	1998	1997
Assets		
Current assets		
Cash and cash equivalents	\$ 604.3	\$ 803.0
Accounts and notes receivable, net	1,232.0	967.3
Inventories	463.3	560.8
Deferred income taxes	428.8	461.4
Other current assets	88.3	94.0
Total	2,816.7	2,886.5
Properties		
Properties, net	1,720.5	1,774.1
Less - Accumulated depreciation	1,139.6	1,192.9
Investments at equity	184.6	215.7
Software, net of accumulated amortization	246.6	259.0
Prepaid pension cost	833.8	762.4
Deferred income taxes	694.4	665.7
Other assets	220.7	220.8
Total	\$ 5,577.7	\$ 5,591.3
Liabilities and stockholders' equity		
Current liabilities		
Notes payable	\$ 50.6	\$ 40.6
Current maturities of long-term debt	4.0	213.1
Accounts payable	922.7	817.1
Other accrued liabilities	1,301.9	1,307.2
Dividends payable	26.6	26.6
Estimated income taxes	276.7	172.8
Total	2,582.5	2,577.4
Long-term debt	1,105.2	1,438.3
Other liabilities	373.0	369.7
Stockholders' equity		
Preferred stock	1,420.0	1,420.1
Common stock, shares issued: 1998 - 257.9; 1997 - 250.2	2.6	2.5
Accumulated deficit	(1,456.3)	(1,736.8)
Other capital	2,082.3	1,968.2
Accumulated other comprehensive loss	(531.6)	(448.1)
Stockholders' equity	1,517.0	1,205.9
Total	\$ 5,577.7	\$ 5,591.3

See notes to consolidated financial statements.

39

Unisys Corporation

Consolidated Statement of Cash Flows

Year Ended December 31 (Millions)	1998	1997	1996
Cash flows from operating activities			
Income (loss) before extraordinary item	\$ 387.0	\$ (853.6)	\$ 61.8
Add (deduct) items to reconcile income (loss) before extraordinary item to net cash provided by (used for) operating activities:			
Effect of extraordinary item			(12.1)
Depreciation	145.7	156.0	182.0
Amortization:			
Marketable software	111.8	97.0	101.6
Goodwill	8.9	963.9	46.1
(Increase) in deferred income taxes, net	(26.8)	(25.3)	(51.0)
(Increase) decrease in receivables, net	(276.1)	24.0	11.0
Decrease in inventories	98.2	81.5	32.1
Increase (decrease) in accounts payable and other accrued liabilities	100.5	(220.6)	(258.4)
Increase (decrease) in estimated income taxes	148.0	23.0	(34.7)
Increase (decrease) in other liabilities	11.8	(71.1)	(85.9)
(Increase) decrease in other assets	(57.3)	106.5	(70.3)
Other	(1.7)	102.2	(11.9)
Net cash provided by (used for) operating activities	650.0	383.5	(89.7)
Cash flows from investing activities			
Proceeds from investments	1,991.0	1,662.5	1,846.1
Purchases of investments	(2,006.5)	(1,629.0)	(1,845.9)
Proceeds from sales of properties	51.1	5.1	77.4
Investment in marketable software	(99.4)	(132.9)	(116.2)
Capital additions of properties	(207.3)	(179.9)	(162.3)
Purchases of businesses	(3.9)	(22.2)	(17.9)
Proceeds from marketable securities		4.8	
Net cash used for investing activities	(275.0)	(291.6)	(218.8)
Cash flows from financing activities			
Proceeds from issuance of long-term debt	195.2		1,139.7
Payments of long-term debt	(748.5)		(766.4)
Net proceeds from (reduction in) short-term borrowings	10.0	26.7	(1.9)
Dividends paid on preferred shares	(106.5)	(113.1)	(120.8)
Proceeds from employee stock plans	79.1	8.4	.6
Redemption of redeemable preferred stock		(150.0)	
Costs of debt conversions		(46.1)	
Net cash (used for) provided by financing activities	(570.7)	(274.1)	251.2
Effect of exchange rate changes on cash and cash equivalents	(3.0)	(24.9)	(7.3)
Net cash used for continuing operations	(198.7)	(207.1)	(64.6)
Net cash used for discontinued operations		(19.1)	(20.5)
Decrease in cash and cash equivalents	(198.7)	(226.2)	(85.1)
Cash and cash equivalents, beginning of year	803.0	1,029.2	1,114.3
Cash and cash equivalents, end of year	\$ 604.3	\$ 803.0	\$ 1,029.2

See notes to consolidated financial statements.

40

Unisys Corporation

Consolidated Statement of Stockholders' Equity

(Millions)	Preferred Stock	Common Stock	Accumulated Deficit	Treasury Stock	Other, Principally Paid-In Capital	Accumulated Other Comprehensive Income (Loss)*	Comprehensive Income (Loss)
Balance at December 31, 1995	\$ 1,570.3	\$ 1.7	\$ (702.6)	\$ (16.3)	\$ 1,346.3	\$ (339.2)	
Transfer to "redeemable preferred stock"	(150.0)						
Issuance of stock under stock option and other plans		.1			23.6		
Net income			49.7				\$ 49.7
Other comprehensive income - translation adjustments						(50.9)	(50.9)
Comprehensive loss							\$ (1.2)
Dividends			(117.2)				
Unearned compensation					(9.4)		
Other	(.1)						
Balance at December 31, 1996	1,420.2	1.8	(770.1)	(16.3)	1,360.5	(390.1)	
Conversions to common stock	(.1)	.7			606.0		
Issuance of stock under stock option and other plans				4.0	8.4		
Net loss			(853.6)				\$ (853.6)

Other comprehensive income - translation adjustments					(58.0)	(58.0)
Comprehensive loss						----- \$ (911.6) -----
Dividends		(113.1)				
Unearned compensation				3.0		
Tax benefit related to stock plans				1.5		
Other			.1	1.0		

Balance at December 31, 1997	1,420.1	2.5	(1,736.8)	(12.2)	1,980.4	(448.1)
Conversions to common stock	(.1)				.5	
Issuance of stock under stock option and other plans		.1		(11.4)	89.6	
Net income			387.0			\$ 387.0
Other comprehensive income - translation adjustments					(83.5)	(83.5)
Comprehensive income						----- \$ 303.5 -----
Dividends		(106.5)				
Unearned compensation				4.8		
Tax benefit related to stock plans				30.6		

Balance at December 31, 1998	\$ 1,420.0	\$ 2.6	\$ (1,456.3)	\$ (23.6)	\$2,105.9	\$ (531.6)

* Entire amount relates to foreign currency translation adjustments.
See notes to consolidated financial statements.

41

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. Investments in companies representing ownership interests of 20% to 50% are accounted for by the equity method.

Use of estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash equivalents. All short-term investments purchased with a maturity of three months or less are classified as cash equivalents.

Inventories. Inventories are valued at the lower of cost or market. Cost is determined principally on the first-in, first-out method.

Properties and depreciation. Properties are carried at cost and are depreciated over the estimated lives of such assets using the straight-line method.

Revenue recognition. Sales revenue is recorded upon shipment of product in the case of sales contracts, upon shipment of the program in the case of software, and upon installation in the case of sales-type leases. Revenue from equipment maintenance is recorded as earned over the lives of the respective contracts.

Revenue under systems integration and services contracts is recognized on the basis of the estimated percentage of completion of services rendered or when services have been performed and accepted, depending on the nature of the project.

Accounting for large multi-year, fixed-price systems integration contracts involves considerable use of estimates in determining revenue, costs, and profits. When estimates indicate a loss under a contract, cost of revenue is charged with a provision for such loss. Revisions in profit estimates are reflected in the period in which the facts that give rise to the revision become known.

Income taxes. Income taxes are provided on taxable income at the statutory rates applicable to such income. Deferred taxes have not been provided on the cumulative undistributed earnings of foreign subsidiaries because such amounts are expected to be reinvested indefinitely.

Marketable software. The cost of development of computer software to be sold or

leased 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.

42

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. Exchange gains and losses on intercompany balances of a long-term investment nature are also reported in other comprehensive income.

For those international subsidiaries operating in hyper-inflationary economies, the U.S. dollar is the functional currency and, as such, non-monetary 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.

Derivative financial instruments. The derivative financial instruments used by the company are foreign exchange forward contracts and options. The company does not hold or issue derivatives for speculative trading purposes. These instruments have been designated as hedges of certain forecasted transactional exposures. For these financial instruments, no impact on financial position or results of operations would result from a change in the underlying exchange rate. All of the company's foreign currency contracts and options have been designated as and are effective as hedges against specific exposures and have been accounted for as such. Therefore, a change in the derivative's value would be offset by an opposite change in the hedged exposure.

The company monitors and controls its risks in the derivative transactions referred to above by periodically assessing the cost of replacing, at market rates, those contracts in the event of default by the counterparty. The company believes such risk to be remote. In addition, before entering into derivative contracts, and periodically during the life of the contract, the company reviews the counterparties' financial condition.

Gains or losses on foreign exchange forward contracts and the cost of foreign currency options are deferred in current liabilities and prepaid expenses, respectively, and are recognized in income (either in revenue or cost of revenue) when the transactions being hedged are recorded. Cash flows on such instruments are reported in investing activities as proceeds or purchases of investments.

If the criteria for hedge accounting discussed above were not met, gains or losses on these instruments would be included in income currently and would not be deferred. If a derivative financial instrument is terminated before the transaction date of the hedged transaction, any deferred gain or loss would continue to be deferred until the transaction date. If a forecasted transaction is no longer likely to occur, any deferred gains or losses on financial instruments that hedge such a transaction would be reported in income immediately.

Reclassifications. Certain prior-year amounts have been reclassified to conform with the 1998 presentation.

43

2 Earnings per share

The following table shows how earnings per share was computed for the three years ended December 31, 1998.

Year ended December 31 (Millions, except per share data)	1998	1997	1996
Earnings per share computation - basic			
Income (loss) before extraordinary item	\$ 387.0	\$ (853.6)	\$ 61.8
Less dividends on preferred shares	(106.5)	(111.1)	(120.8)
Income (loss) available to common stockholders before extraordinary item	280.5	(964.7)	(59.0)
Extraordinary item			(12.1)

Net income (loss) available to common stockholders	\$ 280.5	\$ (964.7)	\$ (71.1)
Weighted average shares (thousands)	251,786	182,016	172,507
Earnings per share - basic			
Income (loss) before extraordinary item	\$ 1.11	\$ (5.30)	\$ (.34)
Extraordinary item			(.07)
Net income (loss)	\$ 1.11	\$ (5.30)	\$ (.41)
Earnings per share computation - diluted			
Income (loss) available to common stockholders before extraordinary item	\$ 280.5	\$ (964.7)	\$ (59.0)
Plus interest expense on assumed conversion of 8 1/4% Convertible Notes due 2006, net of tax	1.5		
Income (loss) available to common stockholders before extraordinary item	282.0	(964.7)	(59.0)
Extraordinary item			(12.1)
Net income (loss) available to common stockholders	\$ 282.0	\$ (964.7)	\$ (71.1)
Weighted average shares (thousands)	251,786	182,016	172,507
Plus incremental shares from assumed conversions:			
Employee stock plans	11,164		
8 1/4% Convertible Notes due 2006	3,994		
Adjusted weighted average shares	266,944	182,016	172,507
Earnings per share - diluted			
Income (loss) before extraordinary item	\$ 1.06	\$ (5.30)	\$ (.34)
Extraordinary item			(.07)
Net income (loss)	\$ 1.06	\$ (5.30)	\$ (.41)

The shares listed below were not included in the computation of diluted earnings per share because to do so would have been antidilutive for the periods presented.

Year ended December 31 (thousands)	1998	1997	1996
Employee stock plans	101	22,792	20,636
Series A preferred stock	47,448	47,450	47,454
8 1/4% convertible notes due 2006		4,042	43,491
8 1/4% convertible notes due 2000			33,697

44

3 One-time charges

Restructuring charges. In the fourth quarter of 1997, the company recorded a pretax charge of \$149.0 million, \$127.0 million after tax, or \$.70 per diluted common share. The charge was related to plans to discontinue the manufacturing and assembly of personal computers and low-end servers, and to dispose of a small, non-strategic technology product. The charge included (a) \$64.9 million for work-force reductions (principally in Europe) of approximately 1,000 people, including severance, notice pay, medical, and other benefits, (b) \$81.6 million for product and program discontinuances, and goodwill associated with these businesses, and (c) \$2.5 million associated with facilities.

Cash expenditures related to restructuring in 1998, 1997, and 1996 were \$139.2 million, \$178.7 million, and \$220.8 million, respectively. Cash expenditures are expected to be \$84 million in 1999 and \$47 million thereafter, principally for work-force reductions and facility costs. Personnel reductions in 1998 related to restructuring actions were approximately 900 and are expected to be approximately 400 thereafter, principally in 1999. Actual costs incurred are charged to the accrued liability when the actions are taken.

During 1996, the company experienced lower-than-anticipated costs for work-force reductions. Revisions of estimates for these previously provided costs were offset by additional provisions for product and program discontinuances and facility consolidations.

Activity related to the restructuring reserve during the years ended December 31, 1998 and 1997, was as follows:

(Millions)	Total	Work-Force Reductions (1)	Facilities (2)	Products (3)
Balance at				
Dec. 31, 1996	\$ 433.9	\$ 207.5	\$ 192.3	\$ 34.1
Provided	149.0	64.9	2.5	81.6

Utilized	(284.2)	(140.9)	(76.5)	(66.8)
Other (4)	(9.7)	(1.0)	(15.1)	6.4

Balance at				
Dec. 31, 1997	289.0	130.5	103.2	55.3
Utilized	(148.1)	(80.0)	(36.0)	(32.1)
Other (4)	(4.0)	(7.5)	(10.8)	14.3

Balance at				
Dec. 31, 1998	\$ 136.9	\$ 43.0	\$ 56.4	\$ 37.5

- (1) Includes severance, notice pay, medical, and other benefits.
- (2) Includes consolidation of office facilities and manufacturing capacity.
- (3) Includes product and program discontinuances, and goodwill.
- (4) Includes changes in estimates, reversals of excess reserves, and translation adjustments.

Other charges. In the fourth quarter of 1997, the company recorded a charge of \$883.6 million, or \$4.85 per diluted common share, for the writeoff of goodwill principally related to the 1986 acquisition of Sperry Corporation. Yearly amortization of such goodwill was approximately \$36 million. Effective December 31, 1997, the company elected to change its method of measuring goodwill impairment. Prior to the change, when impairment indicators existed, goodwill was evaluated for impairment and any impairment would have been measured based on comparing the unamortized goodwill to projected undiscounted operating results. Under the company's new accounting method, any impairment of goodwill indicated by such comparison would be measured by discounting projected cash flows using a discount rate commensurate with the risks involved. When a goodwill impairment must be recognized, the company believes the discounted cash flow method is a better measurement of the remaining value of goodwill.

45

In addition, in the fourth quarter of 1997, the company completed the conversion of \$271.2 million of its 8 1/4% convertible subordinated notes due 2006. The conversion was in response to a special offer to pay holders of these notes a cash premium for each note converted. The company recorded a one-time charge of \$42.0 million, or \$.23 per diluted common share, to cover the cost of this special offer.

Summary. The 1997 restructuring and other charges were recorded in the following statement of income classifications: Cost of revenue, \$92.5 million; selling, general and administrative expenses, \$12.3 million; research and development expenses, \$4.9 million; goodwill impairment, \$883.6 million; and other income expense, net, \$81.3 million.

4 Accounting changes and extraordinary item

Effective January 1, 1998, the company adopted the American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 97-2, "Software Revenue Recognition" and SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP 97-2 provides guidance on applying generally accepted accounting principles in recognizing revenue on software transactions, and SOP 98-1 provides guidance on accounting for the costs of computer software developed or obtained for internal use. Adoption of SOP 97-2 and 98-1 did not have a material effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

As discussed in Note 14, effective January 1, 1998, the company adopted Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information." This statement establishes standards for the way that companies report information about operating segments. Adoption of SFAS No. 131 had no effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement, which is effective for the year beginning January 1, 2000, establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS No. 133 requires a company to recognize all derivatives as either assets or liabilities in the statement of financial position and measure

those instruments at fair value. Management is evaluating the impact this statement may have on the company's financial statements.

As discussed in Note 3, effective December 31, 1997, the company elected to change its method of measuring goodwill impairment.

Effective January 1, 1997, the company adopted SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This statement requires that if a transfer of financial assets does not meet certain criteria for recording the transaction as a sale, the transfer must be accounted for as a secured borrowing. The adoption of SFAS No. 125 did not have a material effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

Effective January 1, 1997, the company adopted SOP 96-1, "Environmental Remediation Liabilities." The SOP provides authoritative guidance on the recognition, measurement, display, and disclosure of environmental remediation liabilities. Adoption of SOP 96-1 did not have a material effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

46

Effective January 1, 1996, the company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 requires the recognition or disclosure of compensation expense for grants of stock options or other equity instruments issued to employees based upon their fair value. As permitted by SFAS No. 123, the company adopted the disclosure-only option and therefore will continue to apply APB Opinion 25 for its stock plans. Accordingly, no compensation expense has been recognized for its stock option or purchase plans. The adoption of these statements had no effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

In 1996, the company recorded an extraordinary charge for extinguishment of debt of \$12.1 million, net of \$6.5 million of income tax benefits, or \$.07 per diluted common share.

5 Inventories

Inventories comprise the following:

December 31 (Millions)	1998	1997
Parts and finished equipment	\$263.6	\$289.7
Work in process and materials	199.7	271.1
Total inventories	\$463.3	\$560.8

At December 31, 1998 and 1997, work in process inventories included \$85.9 and \$140.7 million, respectively, of costs related to long-term contracts.

6 Estimated income taxes

Year ended December 31 (Millions)	1998	1997	1996
Income (loss) before income taxes			
United States	\$ 408.3	\$ (954.1)	\$ (91.1)
Foreign	196.4	195.3	184.8
Total income (loss) before income taxes	\$ 604.7	\$ (758.8)	\$ 93.7
Estimated income taxes (benefit)			
Current			
United States	\$ 26.7	\$ 28.0	\$ (15.0)
Foreign	51.8	69.0	87.0
State and local	23.3	23.1	10.9
Total	101.8	120.1	82.9
Deferred			

United States	115.2	(26.0)	(70.9)
Foreign	.7	1.0	12.4
State and local		(.3)	7.5
Total	115.9	(25.3)	(51.0)
Total estimated income taxes	\$ 217.7	\$ 94.8	\$ 31.9

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

Year ended December 31 (Millions)	1998	1997	1996
United States statutory income tax (benefit)	\$ 211.6	\$ (265.6)	\$ 32.8
Difference in estimated income taxes on foreign earnings, losses, and remittances	(46.1)	(35.4)	7.9
State taxes	15.1	14.8	11.8
Tax refund claims, audit issues, and other matters	31.2	42.7	(12.9)
Amortization of goodwill	1.8	335.1	12.6
Reversal of valuation allowances			(24.8)
Other	4.1	3.2	4.5
Estimated income taxes	\$ 217.7	\$ 94.8	\$ 31.9

47

The tax effects of temporary differences and carryforwards that give rise to significant portions of deferred tax assets and liabilities at December 31, 1998 and 1997, were as follows:

December 31 (Millions)	1998	1997
Deferred tax assets		
Capitalized research and development	\$ 591.6	\$ 327.4
Tax loss carryforwards	256.9	433.3
Foreign tax credit carryforwards	232.3	479.8
Other tax credit carryforwards	138.2	82.2
Prepayments	109.7	
Postretirement benefits	91.0	88.0
Employee benefits	63.9	65.4
Depreciation	60.8	55.7
Restructuring	60.7	115.9
Other	226.9	253.1
	1,832.0	1,900.8
Valuation allowance	(323.3)	(400.7)
Total deferred tax assets	\$ 1,508.7	\$ 1,500.1
Deferred tax liabilities		
Pensions	\$ 337.3	\$ 319.5
Other	110.0	146.0
Total deferred tax liabilities	\$ 447.3	\$ 465.5
Net deferred tax asset	\$ 1,061.4	\$ 1,034.6

SFAS No. 109 requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. During 1998, the net decrease in the valuation allowance was \$77.4 million.

Cumulative undistributed earnings of foreign subsidiaries, for which no U.S. income or foreign withholding taxes have been recorded, approximated \$650 million at December 31, 1998. Such earnings are expected to be reinvested indefinitely. Determination of the amount of unrecognized deferred tax liability

with respect to such earnings is not practicable. The additional taxes payable on the earnings of foreign subsidiaries, if remitted, would be substantially offset by U.S. tax credits for foreign taxes already paid. While there are no specific plans to distribute the undistributed earnings in the immediate future, where economically appropriate to do so, such earnings may be remitted.

Cash paid during 1998, 1997, and 1996 for income taxes was \$92.7, \$80.0, and \$112.7 million, respectively.

At December 31, 1998, the company has state and local tax loss carryforwards and foreign tax loss carryforwards for certain foreign subsidiaries, the tax effect of which is approximately \$256.9 million. These carryforwards will expire as follows (in millions): 1999, \$3.8; 2000, \$4.9; 2001, \$14.3; 2002, \$1.7; 2003, \$6.4; and \$225.8 thereafter. The company also has available tax credit carryforwards of approximately \$370.5 million, which will expire as follows (in millions): 1999, \$59.2; 2000, \$49.4; 2001, \$89.6; 2002, \$55.5; 2003, \$7.2; and \$109.6 thereafter.

The company's net deferred tax assets include substantial amounts of capitalized research and development, and tax credit carryforwards. Failure to achieve forecasted taxable income might affect the ultimate realization of the net deferred tax assets. There can be no assurance that in the future there would not be increased competition or other factors that may result in a decline in sales or margins, loss of market share, delays in product availability, or technological obsolescence.

The company is currently contesting issues before the Internal Revenue Service in connection with Sperry Corporation for the years ended March 31, 1978, through September 16, 1986. In management's opinion, adequate provisions for income taxes have been made for all years.

48

7 Properties

Properties comprise the following:

December 31 (Millions)	1998	1997
Land	\$ 10.3	\$ 24.5
Buildings	166.4	208.7
Machinery and office equipment	1,247.0	1,250.0
Rental and outsourcing equipment	296.8	290.9
Total properties	\$ 1,720.5	\$ 1,774.1

8 Long-term debt

Long-term debt comprises the following:

December 31 (Millions)	1998	1997
12% senior notes due 2003	\$ 425.0	\$ 425.0
11 3/4% senior notes due 2004	450.0	450.0
7 7/8% senior notes due 2008	200.0	
8 1/4% convertible subordinated notes due 2006	27.0	27.8
9 3/4% senior sinking fund debentures		190.0
9 1/2% notes		197.5
10 5/8% senior notes		330.1
Other, net of unamortized discounts	7.2	31.0
Total	1,109.2	1,651.4
Less - Current maturities	4.0	213.1
Total long-term debt	\$ 1,105.2	\$ 1,438.3

Total long-term debt maturities in 1999, 2000, 2001, 2002, and 2003 are \$4.0, \$4.6, \$.6, \$.4, and \$425.0 million, respectively.

Cash paid during 1998, 1997, and 1996 for interest was \$185.6, \$253.1, and \$255.1 million, respectively.

On January 30, 1998, the company issued \$200 million of 7 7/8% senior notes due 2008. The net proceeds from the sale of the notes were used to call \$200 million principal amount of the 10 5/8% senior notes due October 1999 at 101.77%. On February 5, 1998, the company redeemed all \$197.5 million of the 9 1/2% senior notes due on July 15, 1998.

On September 15, 1998, the company made a \$30.0 million sinking fund payment, which included a \$20.0 million optional prepayment, on the 9 3/4% sinking fund debentures. On October 1, 1998, the company redeemed at par the remaining \$130.1 million outstanding of the 10 5/8% notes.

On December 4, 1998, the company redeemed the remaining \$160.0 million of the 9 3/4% sinking fund debentures at the stated redemption price of 103.61% of principal.

The company has a \$400 million, three year credit agreement expiring June 2001. As of December 31, 1998, there were no borrowings outstanding under the facility and the entire \$400 million was available for borrowings. The company pays commitment fees on the total amount of the facility. In addition, international subsidiaries maintain short-term credit arrangements with banks in accordance with local customary practice.

49

9 Other accrued liabilities

Other accrued liabilities (current) comprise the following:

December 31 (Millions)	1998	1997
Payrolls and commissions	\$ 331.8	\$ 288.7
Customers' deposits and prepayments	628.9	540.2
Taxes other than income taxes	132.9	130.5
Restructuring*	88.0	224.0
Other	120.3	123.8
Total other accrued liabilities	\$1,301.9	\$1,307.2

* At December 31, 1998 and 1997, an additional \$48.9 million and \$65.0 million, respectively, was reported in other liabilities (long term) on the consolidated balance sheet.

10 Comprehensive income

Comprehensive income for the three years ended December 31, 1998, includes the following components:

Year ended December 31 (Millions)	1998	1997	1996
Net income (loss)	\$ 387.0	\$(853.6)	\$ 49.7
Other comprehensive income (loss)			
Foreign currency translation adjustments*	(89.6)	(40.4)	(35.8)
Related tax (benefit) expense	(6.1)	17.6	15.1
Total other comprehensive income (loss)	(83.5)	(58.0)	(50.9)
Comprehensive income (loss)	\$ 303.5	\$(911.6)	\$ (1.2)

* Net of income (loss) on translation adjustments reclassified to income upon sale or writeoff of ownership interest in foreign investments as follows:

1998, \$(.1) million; 1997, \$2.8 million; and 1996, \$1.5 million.

11 Leases

Rental expense, less income from subleases, for 1998, 1997, and 1996 was \$145.6, \$153.5, and \$177.7 million, respectively.

Minimum net rental commitments under noncancelable operating leases outstanding at December 31, 1998, substantially all of which relate to real properties, were as follows: 1999, \$133.6 million; 2000, \$106.2 million; 2001, \$85.6 million; 2002, \$66.2 million; 2003, \$49.3 million; and thereafter, \$330.6 million. Such rental commitments have been reduced by minimum sublease rentals of \$97.9 million due in the future under noncancelable subleases.

12 Financial instruments

The company uses derivative financial instruments to reduce its exposure to market risks from changes in foreign currency exchange rates. The derivative instruments used are foreign exchange forward contracts and options. These derivatives, which are over-the-counter instruments, are non-leveraged and involve little complexity.

Due to its foreign operations, the company is exposed to the effects of foreign currency exchange rate fluctuations on the U.S. dollar. Foreign exchange forward contracts and options generally having maturities of less than nine months are entered into for the sole purpose of hedging certain transactional exposures.

The cost of foreign currency options is recorded in other current assets in the consolidated balance sheet. At December 31, 1998, such amount was \$4.2 million. When the U.S. dollar strengthens against foreign currencies, the decline in value of the underlying exposures is partially offset by gains in the value of purchased currency options designated as hedges. When the U.S. dollar weakens, the increase in the value of the underlying exposures is reduced only by the premium paid to purchase the options. The cost of options and any gains thereon are reported in income when the related transactions being hedged (generally within 12 months) are recognized.

50

The company also enters into foreign exchange forward contracts. Gains and losses on such contracts, which hedge transactional exposures, are deferred and included in current liabilities until the corresponding transaction is recognized. At December 31, 1998, the company had a total of \$192.3 million (of notional value) of such contracts, \$181.9 million to sell foreign currencies, and \$10.4 million to buy foreign currencies. At December 31, 1997, the company had a total of \$205.4 million (of notional value) of foreign exchange forward contracts, \$159.1 million to sell foreign currencies, and \$46.3 million to buy foreign currencies. At December 31, 1998, a realized net loss on such contracts of approximately \$9.2 million was deferred and included in current liabilities. Gains or losses on foreign exchange forward contracts that hedge foreign currency transactions are reported in income when the related transactions being hedged (generally within 12 months) are recognized.

Financial instruments comprise the following:

December 31 (Millions)	1998	1997

Outstanding:		
Long-term debt	\$1,109.2	\$1,651.4
Foreign exchange forward contracts*	192.3	205.4
Foreign exchange options*	262.2	284.4

Estimated fair value:		
Long-term debt	\$1,350.4	\$1,823.4
Foreign exchange forward contracts	1.5	(6.1)
Foreign exchange options	2.8	5.9

* notional value

Financial instruments also include temporary cash investments and customer accounts receivable. Temporary investments are placed with creditworthy financial institutions, primarily in over-securitized treasury repurchase

agreements, Euro-time deposits, or commercial paper of major corporations. At December 31, 1998, the company's cash equivalents principally have maturities of less than one month. Due to the short maturities of these instruments, they are carried on the balance sheet at cost plus accrued interest, which approximates market value. Realized gains or losses during 1998 and 1997, as well as unrealized gains or losses at December 31, 1998, were immaterial. Receivables are due from a large number of customers that are dispersed worldwide across many industries. At December 31, 1998 and 1997, the company had no significant concentrations of credit risk.

The carrying amount of cash and cash equivalents approximates fair value because of the short maturity of these instruments. The fair value of the company's long-term debt is based on the quoted market prices for publicly traded issues. For debt that is not publicly traded, the fair value is estimated, after considering any conversion terms, based on current yields to maturity for the company's publicly traded debt with similar maturities. In estimating the fair value of its derivative positions, the company utilizes quoted market prices, if available, or quotes obtained from outside sources.

51

13 Litigation

There are various lawsuits, claims, and proceedings that have been brought or asserted against the company. Although the ultimate results of these lawsuits, claims, and proceedings are not currently determinable, management does not expect that these matters will have a material adverse effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

14 Segment information

In 1998, the company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 establishes standards for the way that companies report information about operating segments, geographic areas, and major customers in annual financial statements and requires that those companies report selected information about operating segments in interim financial reports. The adoption of SFAS No. 131 had no effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

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. The major service and product lines by segment are as follows: Services - systems integration, including repeatable and custom solutions, outsourcing, network services, and multivendor maintenance; Technology - enterprise-class servers, specialized technologies, and personal computers.

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. The company evaluates business segment performance on operating income exclusive of restructuring charges and unusual and nonrecurring items. All corporate and centrally incurred costs are allocated to the business segments based principally on assets, revenue, employees, square footage, or usage.

Corporate assets are principally cash and cash equivalents, goodwill related to the acquisition of Sperry Corporation, prepaid pension assets, and deferred income taxes. The expense or income related to corporate assets are allocated to the business segments. In addition, corporate assets include an offset for accounts receivable that have been recorded as sales in accordance with SFAS No. 125 because such receivables are included in the assets of the business segments.

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, approximated \$917, \$791, and \$542 million in 1998, 1997, and 1996, respectively.

52

A summary of the company's operations by business segment for 1998, 1997,

and 1996 is presented below:

(Millions of dollars)	Total	Corporate	Services	Technology

1998				

Customer revenue	\$ 7,208.4		\$ 4,909.3	\$ 2,299.1
Intersegment		\$ (511.2)	73.7	437.5
Total revenue	\$ 7,208.4	\$ (511.2)	\$ 4,983.0	\$ 2,736.6

Operating income (loss)	\$ 810.2	\$ (45.3)	\$ 343.5	\$ 512.0
Depreciation and amortization	266.4		84.1	182.3
Total assets	5,577.7	2,705.7	1,814.2	1,057.8
Investments at equity	184.6	2.1		182.5
Capital expenditures for properties	207.3	44.2	84.7	78.4

1997				

Customer revenue	\$ 6,636.0		\$ 4,281.0	\$ 2,355.0
Intersegment		\$ (483.8)	70.0	413.8
Total revenue	\$ 6,636.0	\$ (483.8)	\$ 4,351.0	\$ 2,768.8

Operating income (loss)	\$ (379.5)	\$ (990.8)	\$ 167.2	\$ 444.1
Depreciation and amortization	1,216.9	952.2	86.8	177.9
Total assets	5,591.3	2,769.8	1,554.6	1,266.9
Investments at equity	215.7	9.9		205.8
Capital expenditures for properties	179.9		77.7	102.2

1996				

Customer revenue	\$ 6,370.5		\$ 4,008.8	\$ 2,361.7
Intersegment		\$ (529.3)	82.1	447.2
Total revenue	\$ 6,370.5	\$ (529.3)	\$ 4,090.9	\$ 2,808.9

Operating income (loss)	\$ 327.4	\$ (47.0)	\$ 123.1	\$ 251.3
Depreciation and amortization	329.7	36.9	101.4	191.4
Total assets	6,967.1	3,709.4	1,702.3	1,555.4
Investments at equity	244.4	10.1		234.3
Capital expenditures for properties	162.3		62.5	99.8

53

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

Year Ended December 31 (Millions)	1998	1997	1996

Total segment operating income	\$ 855.5	\$ 611.3	\$ 374.4
Interest expense	(171.7)	(233.2)	(249.7)
Other income (expense), net*	(33.8)	(106.8)	16.0
Goodwill impairment		(883.6)	
Restructuring charges		(149.0)	
Corporate and eliminations	(45.3)	2.5	(47.0)
Total income (loss) before income taxes	\$ 604.7	\$ (758.8)	\$ 93.7

*exclusive of restructuring charges

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

December 31 (Millions)	1998	1997	1996
Total segment assets	\$ 2,872.0	\$ 2,821.5	\$ 3,257.7
Cash and cash equivalents	604.3	803.0	1,029.2
Prepaid pension assets	833.8	762.4	788.5
Deferred income taxes	1,123.2	1,127.1	1,044.5
Elimination for sale of receivables	(28.4)	(125.9)	(276.9)
Goodwill			924.6
Other corporate assets	172.8	203.2	199.5
Total assets	\$ 5,577.7	\$ 5,591.3	\$ 6,967.1

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

(Millions)	1998	1997	1996
Revenue			
United States	\$ 3,118.8	\$ 2,705.5	\$ 2,350.0
Foreign	4,089.6	3,930.5	4,020.5
Total	\$ 7,208.4	\$ 6,636.0	\$ 6,370.5
Properties, net			
United States	\$ 317.8	\$ 307.4	\$ 340.3
Brazil	61.9	67.9	56.1
Other foreign	201.2	205.9	225.4
Total	\$ 580.9	\$ 581.2	\$ 621.8

15 Employee plans

Stock plans. Under plans approved by the stockholders, stock options, stock appreciation rights, restricted stock, and restricted stock units may be granted to officers and other key employees.

Options have been granted to purchase the company's common stock at 100% of the fair market value at the date of grant. Options have a maximum duration of ten years and generally become exercisable in annual installments over a four-year period following date of grant.

Restricted stock and restricted stock units have been granted and are subject to forfeiture until the expiration of a specified period of service commencing on the date of grant. Compensation expense resulting from the awards is charged to income ratably from the date of grant until the date the restrictions lapse and is based on fair market value at the date of grant. During the year ended December 31, 1998, there were no grants or forfeitures. During the year ended December 31, 1997, .7 million shares of restricted stock and restricted stock units were granted at a weighted average fair market value of \$8.79 per share, and .3 million shares and units were forfeited. During the year ended December 31, 1996, 2.9 million shares of restricted stock and restricted stock units were granted at a weighted average fair market value of \$7.06 per share, and .5 million shares and units were forfeited. During the years ended December 31, 1998, 1997, and 1996, \$6.0, \$6.4, and \$4.6 million was charged to income, respectively.

Effective July 1, 1998, the company implemented a world-wide Employee Stock Purchase Plan ("ESPP"), which enables substantially all regular employees to purchase full or fractional shares of the company's common stock through payroll deductions of up to 10% of eligible pay. The price the employee pays is 85% of the market price at the beginning or end of a calendar quarter, whichever is lower. During the year ended December 31, 1998, employees purchased shares, all of which were newly issued shares, for which \$5.6 million was paid to the

company.

U.S. employees are eligible to participate in an employee savings plan. Under this plan, a percentage of the employee's pay may be contributed to various investment alternatives. Effective July 1, 1998, a company match for up to 1% of pay was reinstated. The match consists of the company contributing newly issued shares of its common stock to the plan. The charge to income, related to such company match, was \$4.1 million in 1998.

Effective January 1, 1996, the company adopted the disclosure-only option under SFAS No. 123, "Accounting for Stock-Based Compensation." The company continues to apply APB Opinion 25 for its stock plans. Accordingly, no compensation expense has been recognized for stock options granted and for common stock purchases under the ESPP.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123, and has been determined as if the company had accounted for its stock plans under the fair value method of SFAS No. 123. The fair value of stock options is estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 1998, 1997, and 1996, respectively: risk-free interest rates of 5.67%, 6.59%, and 6.34%, volatility factors of the expected market price of the company's common stock of 55%, a weighted average expected life of the options of five years, and no dividends.

For purposes of the pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The company's pro forma net income (loss) for the years ended December 31, 1998, 1997, and 1996, respectively, follows: 1998, \$373.2 million, or income of \$1.00 per diluted share; 1997, \$(858.3) million, or a loss of \$5.33 per share; and 1996, \$46.0 million, or a loss of \$.43 per share.

55

A summary of the status of stock option activity follows:

Year ended December 31 (Shares in thousands)	1998		1997		1996	
	Shares	Weighted Avg. Exercise Price	Shares	Weighted Avg. Exercise Price	Shares	Weighted Avg. Exercise Price
Outstanding at beginning of year	20,281	\$ 9.67	18,224	\$10.16	17,429	\$11.48
Granted	5,305	22.74	5,259	7.49	4,493	6.23
Exercised	(6,839)	10.75	(944)	8.45	(119)	4.20
Forfeited and expired	(770)	13.07	(2,258)	9.36	(3,579)	11.87
Outstanding at end of year	17,977	12.97	20,281	9.67	18,224	10.16
Exercisable at end of year	7,494	10.27	11,237	11.26	10,499	11.57
Shares available for granting options at end of year	4,592		4,058		4,351	
Weighted average fair value of options granted during the year		\$12.16		\$ 3.99		\$ 3.40

December 31, 1998 (Shares in thousands)	Outstanding			Exercisable	
	Shares	Average Life *	Average Exercise Price	Shares	Average Exercise Price
\$4-7	6,031	7.79	\$ 6.20	1,997	\$ 6.07
\$7-20	6,971	5.08	11.76	5,482	11.75
\$20-33	4,975	9.32	22.87	15	26.20
Total	17,977	7.16	12.97	7,494	10.27

* Average contractual remaining life in years.

56

Retirement benefits

Retirement plans funded status and amounts recognized in the company's consolidated balance sheet at December 31, 1998 and 1997, follows:

December 31 (Millions)	U.S. Plans		International Plans	
	1998	1997	1998	1997

Change in benefit obligation				
Benefit obligation at beginning of year	\$3,543.7	\$3,299.7	\$685.4	\$747.8
Service cost	35.7	33.4	15.3	14.2
Interest cost	248.3	247.3	45.8	42.8
Plan participants' contributions			9.7	10.5
Plan amendments	.6	2.5	3.0	
Actuarial loss	105.8	202.5	76.5	43.4
Benefits paid	(250.0)	(237.8)	(34.5)	(31.0)
Effect of settlements/curtailments		(3.9)		(24.4)
Foreign currency translation adjustment			10.5	(56.4)
Other				(61.5)

Benefit obligation at end of year	\$3,684.1	\$3,543.7	\$811.7	\$685.4

Change in plan assets				
Fair value of plan assets at beginning of year	\$4,107.1	\$3,662.8	\$789.3	\$891.9
Actual return on plan assets	597.2	680.4	86.6	105.6
Employer contribution	4.8	4.6	13.9	13.9
Plan participants' contributions			9.7	10.5
Benefits paid	(250.0)	(237.8)	(34.5)	(31.0)
Effect of settlements		(2.9)		(75.1)
Foreign currency translation adjustment			10.6	(66.7)
Other			2.3	(59.8)

Fair value of plan assets at end of year	\$4,459.1	\$4,107.1	\$877.9	\$789.3

Funded status	\$775.0	\$563.4	\$66.2	\$103.9
Unrecognized net actuarial loss (gain)	13.1	171.9	(17.8)	(63.9)
Unrecognized prior service (benefit) cost	(28.0)	(35.7)	9.1	7.0
Unrecognized net obligation at date of adoption	1.5	2.2	1.0	1.0

Prepaid pension cost	\$761.6	\$701.8	\$58.5	\$48.0

Amounts recognized in the statement of financial position consist of:				
Prepaid pension cost	\$761.6	\$701.8	\$72.2	\$60.6
Other liabilities			(13.7)	(12.6)

	\$761.6	\$701.8	\$58.5	\$48.0

The projected benefit obligations, accumulated benefit obligations and fair value of plan assets for plans with accumulated benefit obligations in excess of plan assets was as follows (in millions of dollars): \$92.0 million, \$86.2 million, and \$13.3 million at December 31, 1998; and \$81.9 million, \$76.1 million, and \$13.7 million at December 31, 1997.

57

Net periodic pension costs for 1998, 1997, and 1996 includes the following components:

Year ended December 31 (Millions)	U.S. Plans			International Plans		
	1998	1997	1996	1998	1997	1996

Service cost	\$ 35.7	\$ 33.4	\$ 34.6	\$ 15.3	\$ 14.2	\$ 20.9
Interest cost	248.3	247.3	242.5	45.8	42.8	45.8
Expected return on plan assets	(356.5)	(332.6)	(323.0)	(56.8)	(53.7)	(61.6)
Amortization of prior service (benefit) cost	(6.6)	(7.3)	(8.0)	.8	.7	.9
Amortization of asset or liability at adoption	.7	.7	.7		.1	.1
Recognized net actuarial loss (gain)	23.7	23.6	20.3	(.1)	(1.8)	(2.7)
Settlement/curtailment (gain) loss	(.4)	(2.8)	(6.6)		.4	3.9

Net periodic pension (income) cost	\$ (55.1)	\$ (37.7)	\$ (39.5)	\$ 5.0	\$ 2.7	\$ 7.3

Weighted-average assumptions as of December 31 were as follows:

Discount rate	7.00%	7.25%	7.75%	6.36%	6.77%	7.11%
Rate of compensation increase	5.40%	5.40%	5.40%	4.07%	3.74%	3.88%
Expected long-term rate of return on assets	10.00%	10.00%	10.00%	8.23%	8.25%	8.33%

Other postretirement benefits

A reconciliation of the benefit obligation, fair value of the plan assets, and the funded status of the postretirement medical plan at December 31, 1998 and 1997, follows:

December 31 (Millions)	1998	1997

Change in benefit obligation		
Benefit obligation at beginning of year	\$ 227.4	\$ 221.6
Interest cost	15.5	16.3
Plan participants' contributions	24.6	26.9
Actuarial (gain) loss	(2.1)	9.9
Benefits paid	(39.6)	(47.3)
	-----	-----
Benefit obligation at end of year	\$ 225.8	\$ 227.4

Change in plan assets		
Fair value of plan assets at beginning of year	\$ 15.4	\$ 24.8
Actual return on plan assets	1.0	1.8
Employer contributions	11.9	9.2
Plan participants' contributions	24.6	26.9
Benefits paid	(39.6)	(47.3)
	-----	-----
Fair value of plan assets at end of year	\$ 13.3	\$ 15.4

Funded status	\$ (212.5)	\$ (212.0)
Unrecognized net actuarial loss	16.8	19.3
Unrecognized prior service benefit	(22.9)	(25.5)
	-----	-----
Accrued benefit cost	\$ (218.6)	\$ (218.2)

Net periodic postretirement benefit cost for 1998, 1997, and 1996 follows:

Year ended December 31 (Millions)	1998	1997	1996

Interest cost	\$15.5	\$16.3	\$16.0
Expected return on plan assets	(1.1)	(1.8)	(2.1)
Amortization of prior service benefit	(2.7)	(2.7)	(2.7)
Recognized net actuarial loss (gain)	.6	1.2	(.4)
	-----	-----	-----
Net periodic benefit cost	\$12.3	\$13.0	\$10.8

Weighted-average assumptions as of December 31 were as follows:

Discount rate	7.20%	7.30%	7.50%
Expected return on plan assets	8.00%	8.00%	8.00%

The assumed health care cost trend rate used in measuring the expected cost of benefits covered by the plan was 8.75% for 1999, gradually declining to 5.5% in 2006 and thereafter. A one-percentage point increase (decrease) in the assumed health care cost trend rate would increase (decrease) the accumulated postretirement benefit obligation at December 31, 1998, by \$10.8 million and \$(9.9) million, respectively, and increase (decrease) the aggregate of the service and interest cost components of net periodic postretirement benefit cost for 1998 by \$.8 million and \$(.7) million, respectively.

16 Stockholders' equity

The company has 720.0 million authorized shares of common stock, par value \$.01 per share, and 40.0 million shares of authorized preferred stock, par value \$1

per share, issuable in series. The company has authorization to issue up to 30.0 million shares of Series A Cumulative Convertible Preferred Stock ("Series A Preferred Stock").

Each share of Series A Preferred Stock (i) accrues quarterly cumulative dividends of \$3.75 per share per annum, (ii) has a liquidation preference of \$50.00 plus accrued and unpaid dividends, (iii) is convertible into 1.67 shares of the company's common stock, subject to customary anti-dilution adjustments, and (iv) is redeemable at the option of the company under certain circumstances at \$50.00 per share. In addition, shares of Series A Preferred Stock have priority as to dividends over holders of the company's common stock that rank junior with regard to dividends.

In 1997, the company redeemed at stated value all \$150.0 million of its Series B and C Preferred Stock.

In December 1998, the company called 2.0 million of its Series A Preferred Stock for redemption. On January 21, 1999, 1.9 million shares of Series A Preferred Stock were converted into 3.2 million shares of the company's common stock and 270 thousand shares of Series A Preferred Stock were redeemed for \$13.5 million. Included in the above number were 184 thousand shares of Series A Preferred Stock that were voluntarily converted into the company's common stock during the call period. In addition, on January 21, 1999, the company announced that it was calling for redemption on March 4, 1999, an additional 6.0 million shares of its Series A Preferred Stock.

Each outstanding share of common stock has attached to it one preferred share purchase right. The rights become exercisable only if a person or group acquires 20% or more of the company's common stock, or announces a tender or exchange offer for 30% or more of the common stock. Until the rights become exercisable, they have no dilutive effect on net income per common share.

At December 31, 1998, 82.0 million shares of unissued common stock of the company were reserved for the following: 47.4 million for convertible preferred stock, 3.9 million for the 8 1/4 % convertible subordinated notes due 2006, and 30.7 million for stock options and for stock purchase and savings plans.

Changes in issued shares during the three years ended December 31, 1998, were as follows:

(Thousands)	Series A Preferred Stock	Common Stock	Treasury Stock
Balance at December 31, 1995	28,405	172,316	(893)
Issuance of stock under stock option and other plans		3,426	(6)
Other		1	
	28,405	175,743	(899)
Balance at December 31, 1996	28,405	175,743	(899)
Conversions to common stock	(2)	73,150	
Issuance of stock under stock option and other plans		1,245	160
Other		84	
	28,403	250,222	(739)
Balance at December 31, 1997	28,403	250,222	(739)
Conversions to common stock	(2)	110	
Issuance of stock under stock option and other plans		7,557	(553)
	28,401	257,889	(1,292)
Balance at December 31, 1998	28,401	257,889	(1,292)

Report of Independent Auditors

To the Board of Directors of Unisys Corporation

We have audited the accompanying consolidated balance sheets of Unisys Corporation at December 31, 1998 and 1997, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of Unisys Corporation's management. Our responsibility is to

express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Unisys Corporation at December 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

As described in Note 3 to the consolidated financial statements, effective December 31, 1997, Unisys Corporation changed its method of accounting for the measurement of goodwill impairment.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
January 14, 1999, except for the fourth paragraph of Note 16,
as to which the date is January 21, 1999

60

Unisys Corporation

Supplemental Financial Data (Unaudited)

Quarterly financial information

(Millions, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year

1998					

Revenue	\$1,649.7	\$1,728.5	\$1,781.4	\$2,048.8	\$7,208.4
Gross profit	559.2	582.9	600.2	707.5	2,449.8
Income before income taxes	98.0	140.8	149.4	216.5	604.7
Net income	62.7	90.1	95.6	138.6	387.0
Dividends on preferred shares	26.7	26.6	26.6	26.6	106.5
Earnings on common shares	36.0	63.5	69.0	112.0	280.5
Earnings per common share - basic	.14	.25	.27	.44	1.11
- diluted	.14	.24	.26	.42	1.06
Market price per common share - high	20 3/16	28 3/8	30 11/16	35 3/8	35 3/8
- low	13 5/16	17 1/4	17 5/8	18 1/8	13 5/16

1997					

Revenue	\$1,530.7	\$1,585.3	\$1,621.4	\$1,898.6	\$6,636.0
Gross profit	515.7	538.4	575.0	604.5	2,233.6
Income (loss) before income taxes	30.6	66.5	80.8	(936.7)	(758.8)
Net income (loss)*	19.3	41.9	50.9	(965.7)	(853.6)
Dividends on preferred shares	30.1	27.8	26.6	26.6	111.1
Earnings (loss) on common shares	(10.8)	14.1	24.3	(992.3)	(964.7)
Earnings (loss) per common share - basic	(.06)	.08	.14	(4.75)	(5.30)
- diluted*	(.06)	.08	.13	(4.75)	(5.30)
Market price per common share - high	7 5/8	8	15 3/4	16 1/2	16 1/2
- low	6 1/4	5 3/4	7 3/8	11 1/8	5 3/4

* In the fourth quarter of 1997, the company recorded one-time charges to net income of \$1,052.6 million. Before these charges, fourth-quarter net income was \$86.9 million, or \$.25 per diluted common share, and full-year net income was \$199.0 million, or \$.46 per diluted common share. See Note 3 of the Notes to Consolidated Financial Statements.

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

Market prices per common share are as quoted on the New York Stock Exchange

composite listing.

61

Eight-year summary of selected financial data

(Millions, except per share data)	1998	1997(1)	1996	1995(1)	1994(1)	1993	1992	1991(1)
Results of operations								
Revenue	\$7,208.4	\$6,636.0	\$6,370.5	\$6,342.3	\$6,095.5	\$6,107.1	\$6,715.6	\$6,908.8
Operating income (loss)	810.2	(379.5)	327.4	(562.1)	271.7	698.7	688.2	(614.3)
Income (loss) from continuing operations before income taxes	604.7	(758.8)	93.7	(781.1)	14.6	370.9	301.3	(1,425.6)
Income (loss) from continuing operations before extraordinary items and changes in accounting principles	387.0	(853.6)	61.8	(627.3)	12.1	286.3	166.3	(1,520.2)
Net income (loss)	387.0	(853.6)	49.7	(624.6)	100.5	565.4	361.2	(1,393.3)
Dividends on preferred shares	106.5	111.1	120.8	120.3	120.1	121.6	122.1	121.2
Earnings (loss) on common shares	280.5	(964.7)	(71.1)	(744.9)	(19.6)	443.8	239.1	(1,514.5)
Earnings (loss) from continuing operations per common share								
Basic	1.11	(5.30)	(.34)	(4.37)	(.63)	1.01	.27	(10.16)
Diluted	1.06	(5.30)	(.34)	(4.37)	(.63)	.92	.27	(10.16)
Financial position								
Working capital	\$ 234.2	\$ 309.1	\$ 668.0	\$ 71.3	\$1,015.7	\$ 681.0	\$ 513.3	\$ 384.3
Total assets	5,577.7	5,591.3	6,967.1	7,113.2	7,193.4	7,349.4	7,322.1	8,218.7
Long-term debt	1,105.2	1,438.3	2,271.4	1,533.3	1,864.1	2,025.0	2,172.8	2,694.6
Common stockholders' equity(2)	97.0	(214.2)	185.8	289.9	1,034.2	1,057.3	541.8	342.1
Common stockholders' equity per share	.38	(.86)	1.06	1.69	6.05	6.21	3.35	2.12
Other data								
Research and development	\$ 296.6	\$ 302.3	\$ 342.9	\$ 404.5	\$ 458.5	\$ 489.3	\$ 505.6	\$ 610.6
Capital additions of properties	207.3	179.9	162.3	195.0	208.2	173.5	227.0	222.7
Investment in marketable software	99.4	132.9	116.2	123.0	121.3	118.7	110.2	167.7
Depreciation	145.7	156.0	182.0	203.0	226.2	252.0	311.4	412.1
Amortization								
Marketable software	111.8	97.0	101.6	151.7	150.5	144.6	131.8	241.0
Goodwill	8.9	963.9	46.1	40.9	36.9	36.7	36.8	246.6
Common shares outstanding (millions)	256.6	249.5	174.8	171.4	171.0	170.4	161.9	161.7
Stockholders of record (thousands)	28.6	37.3	39.2	41.5	45.3	47.8	51.7	54.6
Employees (thousands)	33.2	32.6	32.9	37.4	37.8	38.2	41.7	46.4

(1) Includes special pretax charges of \$1,074.6 million, \$846.6 million, \$186.2 million, and \$1,200.0 million for the years ended December 31, 1997, 1995, 1994, and 1991, respectively.

(2) After deduction of cumulative preferred dividends in arrears in 1991, 1992, and 1993.

62

SUBSIDIARIES OF THE REGISTRANT

Unisys Corporation, the registrant, a Delaware company, has no parent. The registrant owns directly or indirectly all the voting securities of the following subsidiaries:

Name of Company - -----	State or Other Jurisdiction Under the Laws of Which Organized -----
Unisys Canada, Inc.	Canada
Unisys Australia Limited	Michigan
Unisys New Zealand Limited	New Zealand
Unisys Espana S.A.	Spain
Unisys (Schweiz) A.G.	Switzerland
Unisys Belgium	Belgium
Unisys Deutschland G.m.b.H.	Germany
Unisys Electronica Ltda.	Brazil
Unisys France	France
Unisys Italia S.p.A.	Italy
Unisys Limited	England
Unisys Nederland N.V.	Netherlands
Unisys de Mexico, S.A. de C.V.	Mexico
Unisys Korea Limited	Korea
Unisys South Africa, Inc.	Delaware
Unisys de Colombia, S.A.	Delaware

The names of certain subsidiaries are omitted from the above list; such subsidiaries, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

Consent of Independent Auditors

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Unisys Corporation of our report dated January 14, 1999 (except for the fourth paragraph of Note 16, as to which the date is January 21, 1999), included in the 1998 Annual Report to Stockholders of Unisys Corporation.

Our audits also included the financial statement schedule of Unisys Corporation listed in Item 14(a). This schedule is the responsibility of Unisys Corporation's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as whole, presents fairly in all material respects the information set forth therein.

We consent to the incorporation by reference in the following Registration Statements: (1) Registration Statement (Form S-8 No. 33-7893) pertaining to the Burroughs LTIP, (2) Registration Statement (Form S-8 No. 33-4317) pertaining to the Burroughs 1985 Payroll Deduction Stock Purchase Plan, (3) Registration Statement (Form S-3 No. 33-25715) of Unisys Corporation, (4) Registration Statement (Form S-8 No. 33-3937) pertaining to the Burroughs LTIP, (5) Registration Statement (Form S-8 No. 2-63842) pertaining to the Burroughs LTIP, (6) Registration Statement (Form S-8 No. 33-38711) pertaining to the Unisys Savings Plan, (7) Registration Statement (Form S-8 No. 33-38712) pertaining to the Unisys Retirement Investment Plan II, (8) Registration Statement (Form S-8 No. 33-38713) pertaining to the Unisys Retirement Investment Plan, (9) Registration Statement (Form S-8 No. 33-40259) pertaining to the Unisys LTIP, (10) Registration Statement (Form S-3 No. 33-51747) of Unisys Corporation, (11) Registration Statement (Form S-3 No. 333-20373) of Unisys Corporation, (12) Registration Statement (Form S-3 No. 333-51885) of Unisys Corporation, (13) Registration Statement (Form S-8 No. 333-51887) pertaining to the Unisys LTIP and (14) Registration Statement (Form S-8 No. 333-51889) pertaining to the Unisys Global Employee Stock Purchase Plan; of our report dated January 14, 1999 (except for the fourth paragraph of Note 16, as to which the date is January 21, 1999), with respect to the consolidated financial statements incorporated herein by reference and our report included in the preceding paragraph with respect to the financial statement schedule included in this Annual Report (Form 10-K) of Unisys Corporation.

/s/ ERNST & YOUNG LLP
Philadelphia, Pennsylvania
March 2, 1999

POWER OF ATTORNEY
Unisys Corporation
Annual Report on Form 10-K
for the year ended December 31, 1998

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below does hereby make, constitute and appoint LAWRENCE A. WEINBACH, HAROLD S. BARRON, ROBERT H. BRUST AND JANET BRUTSCHEA HAUGEN, and each one of them severally, his true and lawful attorneys-in-fact and agents, for such person and in such person's name, place and stead, to sign the Unisys Corporation Annual Report on Form 10-K for the year ended December 31, 1998, and any and all amendments thereto and to file such Annual Report on Form 10-K and any and all amendments thereto with the Securities and Exchange Commission, and does hereby grant unto such attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as said person might or could do in person, hereby ratifying and confirming all that such attorney-in-fact and agents and each of them may lawfully do or cause to be done by virtue hereof.

Dated: February 18, 1999

/s/ J.P. Bolduc

J. P. Bolduc
Director

/s/ Edwin A. Huston

Edwin A. Huston
Director

/s/ James J. Duderstadt

James J. Duderstadt
Director

/s/ Kenneth A. Macke

Kenneth A. Macke
Director

/s/ Henry C. Duques

Henry C. Duques
Director

/s/ Theodore E. Martin

Theodore E. Martin
Director

/s/ Gail D. Fosler

Gail D. Fosler
Director

/s/ Robert McClements, Jr.

Robert McClements, Jr.
Director

/s/ Melvin R. Goodes

Melvin R. Goodes
Director

/s/ Lawrence A. Weinbach

Lawrence A. Weinbach
Chairman of the Board,
President
and Chief Executive
Officer; Director

<ARTICLE> 5

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS INCLUDED IN THE COMPANY'S FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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<EPS-DILUTED>		1.06