Imagine it. Done.

- Systems Integration.
- Outsourcing.
- Infrastructure.
- Server Technology.
- Consulting.

UNISYS

Unisys Corporation 2002 Annual Report

Precision thinking, relentless execution to drive your vision forward.

Unisys is a worldwide information technology services and solutions company. Our people combine expertise in systems integration, outsourcing, infrastructure, server technology and consulting with precision thinking and relentless execution to help clients, in more than 100 countries, quickly and efficiently achieve competitive advantage.

Unisys is headquartered in Blue Bell, Pennsylvania, in the Greater Philadelphia area. For more information on the company, access the Unisys home page on the World Wide Web at www.unisys.com. Investor information can be found at www.unisys.com/investor.

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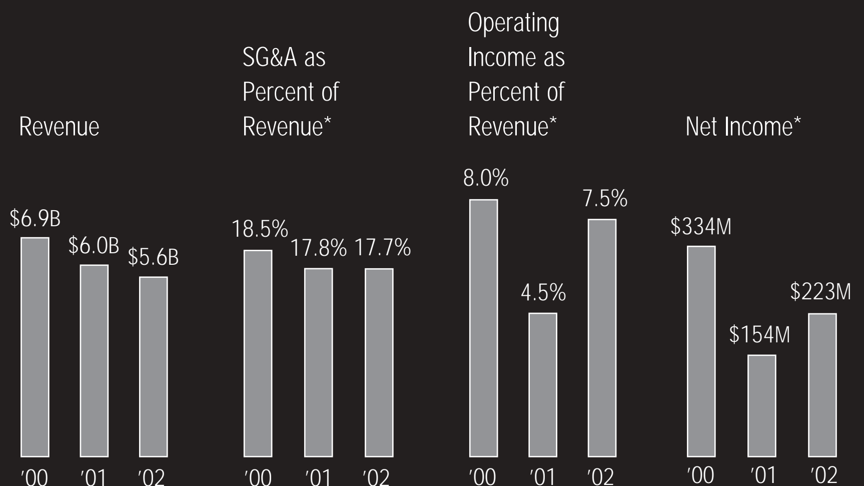
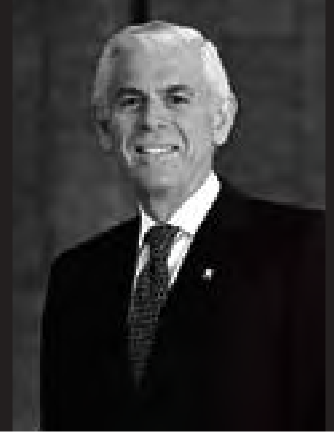


** Before fourth-quarter charges as discussed in note 4 to the financial statements and extraordinary items of $17.2 million in 2001 and $19.8 million in 2000.*

In 2002, Unisys operating margins and net income rose sharply on a lower base of revenue, as the company focused on higher value-added business opportunities.

Letter to Stakeholders



Lawrence A. Weinbach
Chairman, President and
Chief Executive Officer

Imagine it. Done.

That was the message Unisys sent to the marketplace in 2002, with the launch of a new global advertising campaign. The message underscores how critical it is in our business to deliver on expectations — for clients, for employees, for stockholders.

And that's exactly what we did in 2002.

In what was another volatile year for the technology industry, Unisys delivered consistent results in 2002. We sharply increased our profitability. We again in 2002 signed a number of significant long-term services contracts, many with clients new to Unisys. We launched a new branding campaign and became a factor in the technology security market. We accomplished all this by remaining focused on our services-led, technology-enabled strategy and providing value-added, end-to-end solutions.

We reported net income of $223.0 million, or 69 cents per share, in 2002. This compared to a year 2001 net loss of $67.1 million, or 21 cents per share, which included a pretax charge of $276.3 million for cost reduction actions as well as an extraordinary charge of $17.2 million for the early retirement of debt. Excluding these charges, our net income in 2001 was $153.9 million, or 48 cents per share. So on a comparative basis, our earnings per share of 69 cents in 2002 represented a 44 percent increase over the 48 cents per share, before the charges, that we earned in 2001. Our revenue in 2002 declined 7 percent to $5.61 billion, as we continued to focus on profitable revenue growth by pursuing strong value-added business opportunities.

To see the fundamental improvement we've made in our underlying business, look at our profit margins in 2002. We achieved an operating profit margin of 7.5 percent in 2002, up from 4.5 percent (exclusive of the fourth-quarter charge) in 2001. Services accounted for 76 percent of our revenue in 2002, and we nearly tripled our services operating margin to 5.9 percent in 2002 from 2.1 percent in 2001.

We sharply increased profitability and met the earnings targets we set at the beginning of the year. The credit goes to Unisys people around the world. They had a difficult challenge in meeting our corporate goals in an uncertain global environment. Simply stated, they delivered.

"In what was another volatile year for the technology industry, Unisys delivered consistent results in 2002."

“We made major progress in key strategic areas that strengthen our competitive profile.”

Strategic Progress in 2002

But our success in 2002 went beyond financial results. We also made major progress in key strategic areas that strengthen our competitive profile.

One of our goals was to build our base of multiyear outsourcing contracts, in which we assume management of a client’s technology operations or business processes.

We achieved this goal, delivering double-digit growth in outsourcing revenue in 2002. Equally important, we built our backlog of future outsourcing revenue by winning a number of significant long-term contracts from marquee clients such as Washington Mutual, the Commonwealth of Pennsylvania, RAMS Home Loans of Australia, Maybank in Malaysia and the Bavarian Ministry of Justice.

Another strategic goal was to expand our capabilities in the emerging market for enterprisewide infrastructure security solutions.

We made major strides toward this goal in 2002. We added 300 security experts to our global team. We opened a number of security centers of excellence around the world to help customers identify vulnerabilities, prioritize security needs and implement solutions. And we developed a comprehensive security methodology, called Zero-Gap Planning, that provides the full range of services that organizations need to minimize security gaps.

As a result of these efforts, Unisys is winning a growing number of infrastructure security engagements. Our most visible award in 2002 was a groundbreaking contract from the U.S. Transportation Security Administration. Unisys is helping this new agency build the technology infrastructure needed to improve security at 429 airports across the United States.

We made significant progress against another key objective: to improve the profitability of our systems integration and consulting business.

Financial Summary

Year ended December 31
(Dollars in millions, except per share data)

	2002	2001*	% change
Revenue	**$5,607.4**	$6,018.1	(7%)
SG&A	**992.0**	1,073.1	(8%)
SG&A as % of revenue	**17.7%**	17.8%	–
Operating income	**423.2**	270.1	57%
Operating income as % of revenue	**7.5%**	4.5%	–
Interest expense	**66.5**	70.0	(5%)
Net income	**223.0**	153.9	45%
Diluted earnings per share	**.69**	.48	44%
Total debt	**829.7**	826.1	–
Cash flow from operations	**324.5**	202.4	60%
Year-end stock price	**9.90**	12.54	(21%)
Shares outstanding	**326.2M**	320.6M	2%
Number of employees	**36,400**	38,900	(6%)

*Before the fourth-quarter pretax charge of $276.3 million and an extraordinary charge of $17.2 million. The 2001 fourth-quarter charge was recorded in the following statement of income classifications: cost of revenue, $163.8 million; SG&A, $83.2 million; research and development, $27.6 million; and other income (expense), net, $1.7 million.

The worldwide market for systems integration and consulting remained weak in 2002 as organizations held back spending to reduce costs and conserve cash. Despite this, we significantly improved the underlying profitability of our systems integration and consulting business. We did so by focusing on the fundamentals: targeting profitable business opportunities, improving our skills mix, enhancing the solutions we offer. We brought on more than 100 experienced consultants and partners to drive future engagements and enhance our ability to work at the highest level of client organizations.

Our enterprise server business also delivered a solid performance in 2002 in what continues to be a very difficult market for technology products worldwide.

Several years ago we made the decision to focus our technology business on what we do best: powerful, mission-critical enterprise server technology. We de-emphasized low-end commodity products where profit margins have deteriorated because of heavy price competition. We also began development of a single architecture, Cellular Multi-Processing (CMP), as the basis for all our high-end server offerings.

Our focus on high-end server products allowed us to maintain our profitability while many other technology providers incurred losses. In 2002, we achieved an operating profit margin of 11.7 percent in our technology business — quite an achievement in this environment.

Innovation remains the lifeblood of our technology business. In 2002, we invested about 14 percent of our technology revenues for research and development activities. We refreshed our ClearPath line of enterprise servers, based on the CMP platform, which deliver enhanced performance and flexibility in handling high-volume transaction processing. We've seen encouraging reception of these new models by our worldwide client base.

We also continue to advance our leadership in the developing market for high-end servers based on Intel and Microsoft technology. Our ES7000 family of servers combines mainframe-class reliability with the price/performance advantages of standards-based technology. In 2002 we enhanced the capabilities of our ES7000 systems for our clients' most demanding computing tasks, which the ES7000 can handle faster, more efficiently and at a far lower cost than proprietary Unix-based systems offered by competitors. Although we did not increase sales of our ES7000 servers as planned, we had strong fourth-quarter sales and believe this area of our business will continue to grow.

Finally, in an uncertain global market, cost control is critical. And here, again, the people of Unisys delivered. By making internal processes more efficient, controlling discretionary spending, and resizing and reskilling the workforce, we reduced our selling, general and administrative (SG&A) expenses by 8 percent in 2002. Overall, we've reduced our annual SG&A expenses by nearly $400 million over the past three years — a very significant achievement.

"By making internal processes more efficient, controlling discretionary spending, and resizing and reskilling the workforce, we reduced our SG&A expenses by 8 percent in 2002."

A View Into 2003

What are our objectives in 2003? More of the same. We remain focused on growing our outsourcing business, expanding our leadership in the enterprise security market, continuing to improve margins in our systems integration and consulting business, expanding our sales of CMP-based servers, and maintaining tight cost control.

Another key objective in 2003 is to build greater brand awareness of Unisys — our capabilities, our client successes, our people and the skills they bring to the market. We have a very good story to tell, and we're being more aggressive in getting the word out through advertising, thought leadership and marketing activities.

Finally, a word on corporate governance.

Corporate governance was in the news in 2002 as investors reacted to revelations of accounting and governance issues at a number of global organizations. These developments have led to a range of new regulations from regulatory agencies and stock exchanges.

As chairman and CEO of Unisys, I want to assure you that Unisys continues to operate with a strong corporate governance structure and with accounting policies that are appropriate for our business. I'm proud to say that many of the new requirements have long been part of our corporate governance policies at Unisys. All of our directors except me are independent, and each new director goes through an orientation program upon joining our board. Our audit, nominating and governance/compensation committees are composed of independent directors. We have executive sessions of the board without management present, and the board conducts an annual self-evaluation of its performance as well as my performance. We have long had a code of ethical conduct in place, and we have disclosed our corporate governance policies in our proxy statement since 1999.

We continue to strengthen our corporate governance practices, and we will adopt new legal requirements as they emerge. Speaking for the entire board of directors and our management team, we take our corporate governance responsibilities very seriously and will continue to manage the company in the best interests of our stakeholders.

Lawrence A. Weinbach

Operating Principles

Unisys Operating Principles

How we operate in the marketplace is the foundation for our success. To help keep us on course, our people apply a series of operating principles that guide the way we do business.

Why are these operating principles so important to us? They help us keep an important commitment to our clients: to deliver precision thinking and relentless execution to drive our clients' business transformation.

External Obsession: The holistic perspective that integrates our clients' industry dynamics, competitors and internal landscape into every solution.

Best or Nothing: The healthy confidence and organizational drive to target and achieve leadership in everything we do.

Invent the Future: The breakthrough thinking that leaps at technological and economic opportunities precisely when the time is right.

Be Bold: The vision and insight to take bold steps to change the rules.

Team for Speed: The realization that there is strength — and speed of delivery — in partnering with others.

Deliver or Die: The passion to commit to win and then to do it.

Absolute Integrity: We will have integrity in all our dealings and will always stand for what is right and honest.

Check this out.

- Systems Integration.
- Outsourcing.
- Infrastructure.
- Server Technology.
- Consulting.

Imagine It.
Banking rivals partnering to outsource their check-processing operations, saving each time and money.

Done.
That's the solution Unisys envisioned for **Barclays Bank** and **Lloyds TSB**. Unisys partnered with these two banks to form a joint venture and create a new business — **Intelligent Processing Solutions Ltd.** — to efficiently process their checks. And the service has been expanded to take on a new partner and client, **HSBC Bank**. The joint venture's new payments "utility" uses economies of scale to efficiently handle 13 million items per day — or nearly 70 percent of all checks processed in the United Kingdom. And as the service grows to include other customers, it brings in new revenue for the existing partners.

Unisys provides outsourcing services for organizations worldwide, including the **Commonwealth of Pennsylvania**, **Abbey Life**, **RAMS Home Loans**, **Washington Mutual** and **Air Canada Cargo**, to name a few. Our combined technical and managerial expertise can help these clients focus on their strategic activities while improving service — and keeping expenses in check.

Unisys provides and manages the technology, people and processes worldwide — relentlessly and efficiently — that enable our customers to move their vision forward. The value we bring to trusted client partnerships ranges from business process outsourcing to IT management of data centers, applications, networks and desktops. We help organizations run better and become more competitive, while freeing them to focus on what counts for their business.

Driven.

Systems Integration.
Outsourcing.
Infrastructure.
Server Technology.
Consulting.

Imagine It.
A holistic approach to motor vehicle registration, integrating three government agencies, increasing tax revenue and streamlining customer service.

Done.
For the government of the **State of Mexico**, one of 32 states in the country of Mexico, license plate registration had its share of bumps in the road. Outdated registries impeded both tax collection and vehicle identification reliability. So the government turned the wheel over to Unisys. Now, the Department of Motor Vehicles' information is integrated with two others — Police, and Tax and Income — and in less than one year, the taxes collected exceeded the agency's goals. What's more, registered owners have bar-coded license plates that accelerate the recovery process for lost or stolen vehicles.

By integrating diverse systems throughout an organization, Unisys has helped numerous government organizations and businesses — such as **British Telecom**, ***Le Monde*** and **U.S. Bancorp** — shift into high gear.

As a leading global consulting partner and systems integrator, Unisys provides services and solutions to customers in a variety of industries worldwide. In financial services, the public sector, communications and media, transportation, and commercial industries, we help clients realize their vision to combine disparate systems and processes to create one business plan.

A thing of beauty.

- Systems Integration.
- Outsourcing.
- Infrastructure.
- Server Technology.
- Consulting.

Imagine It.
A server that minimizes online order processing time, for orders that account for 80 percent of sales revenue, and smoothes out information technology infrastructure wrinkles.

Done.
Tapping the power of Unisys ES7000 enterprise servers, **Mary Kay Inc.**, a leading international direct seller of skin care and color cosmetics products, has undergone an IT makeover. The servers host the company's Internet sales databases, allowing its network of more than 900,000 independent beauty consultants and their online customers to place orders electronically — in half the time it previously took. And the beauty is, as the company grows, the servers will grow with it, providing flexibility and scalability with industry-leading functionality.

The ES7000 has also enabled consolidation, while supplying high performance and high availability, for organizations such as **Old Mutual**, **Skipton Building Society** and the **U.S. Department of Agriculture** — proof positive that Unisys server technology is more than just a pretty face.

Unisys develops server technology that provides enterprise-class scalability and availability for Microsoft environments and our own operating systems. Our servers have set the standard for high-end Windows-based server economics, while providing power, choice, flexibility and control. We also offer server and storage management technologies, as well as consulting in the areas of operations and performance, Microsoft solutions, data storage and architecture.

Flying high.

- Systems Integration.
- Outsourcing.
- Infrastructure.
- Server Technology.
- Consulting.

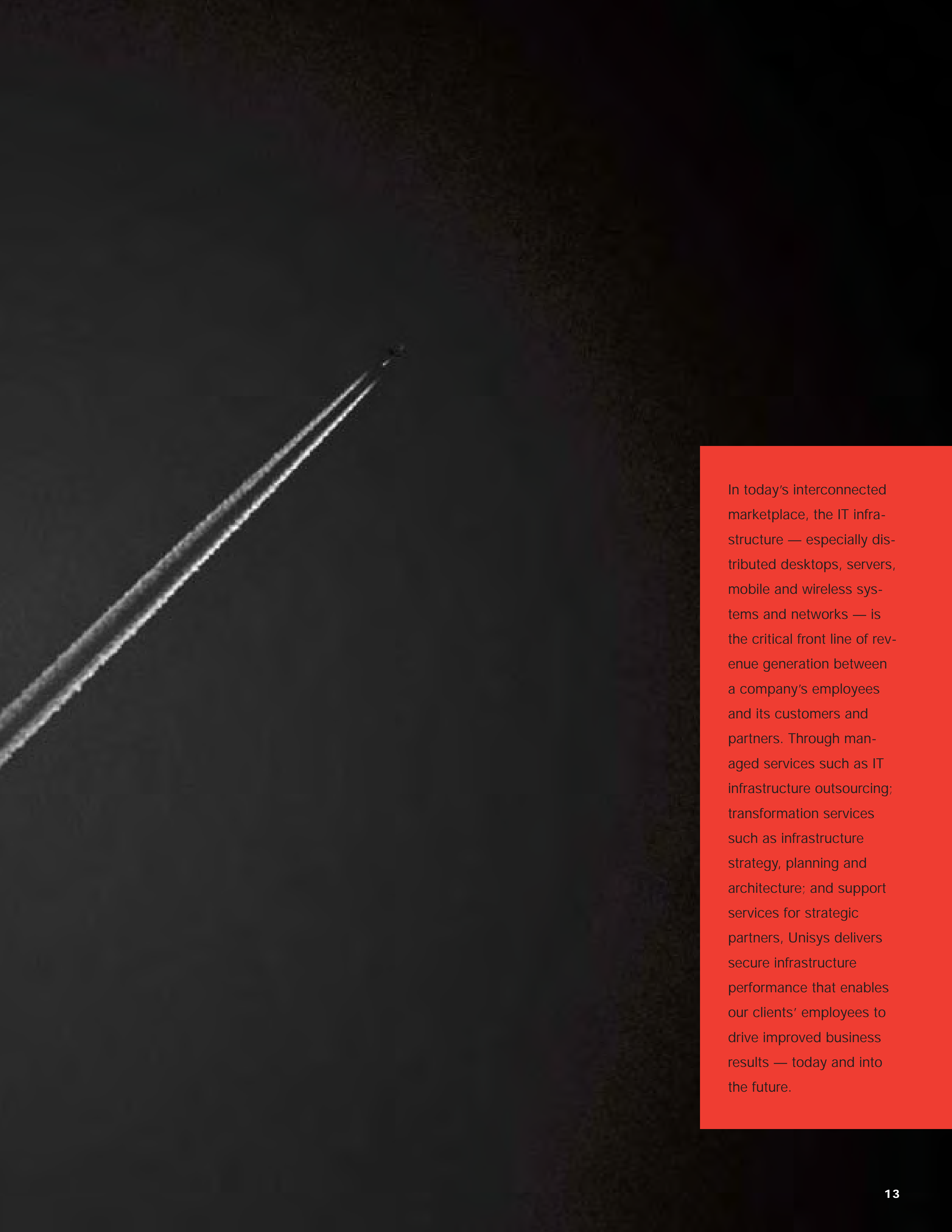
Imagine It.

A seamless system enabling more than 100 airlines at one of the world's fastest-growing airports to issue boarding passes and control the boarding process for more than 16 million passengers a year.

Done.

That's just the ticket at Belgium's **Brussels International Airport**. Unisys provided the complete platform infrastructure for the terminal equipment used throughout this bustling travel and cargo hub, enabling every airline hosted at the airport to benefit from an integrated system for optimal efficiency and information sharing year-round. It all adds up to infrastructure cost savings for the airlines and plenty of legroom for future technological enhancements.

Enterprises worldwide rely on Unisys for infrastructure services. The **U.S. Transportation Security Administration**, the **City of Chicago**, **Quest Diagnostics**, the **Bavarian Ministry of Justice** and many more have turned to Unisys to transform, support and manage their IT infrastructures for business advantage. What a way to go!



In today's interconnected marketplace, the IT infrastructure — especially distributed desktops, servers, mobile and wireless systems and networks — is the critical front line of revenue generation between a company's employees and its customers and partners. Through managed services such as IT infrastructure outsourcing; transformation services such as infrastructure strategy, planning and architecture; and support services for strategic partners, Unisys delivers secure infrastructure performance that enables our clients' employees to drive improved business results — today and into the future.

Corporate Officers

From left to right, page 14

David O. Aker
Senior vice president, worldwide human resources. Previously vice president, human resources. A Unisys officer since 1995. Age 56.

Leigh Alexander
Vice president and chief marketing officer. Previously president, Comdial Enterprise Solutions, Comdial Corp. A Unisys officer since 2000. Age 45.

Richard D. Badler
Senior vice president, corporate communications. Previously vice president, corporate communications. A Unisys officer since 1998. Age 52.

Scott A. Battersby
Vice president and treasurer. Previously vice president, corporate strategy and development. A Unisys officer since 2000. Age 44.

Leo C. Daiuto
Vice president, product development and technology. A Unisys officer since 2000. Age 57.

From left to right, page 15

Robert D. Evans
Senior vice president and president, global outsourcing. Previously vice president and president, global outsourcing. A Unisys officer since 2000. Age 55.

George R. Gazerwitz
Executive vice president and president, systems & technology. Previously executive vice president and president, computer systems. A Unisys officer since 1984. Age 62.

Janet Brutschea Haugen
Senior vice president and chief financial officer. Previously vice president and corporate controller. A Unisys officer since 1996. Age 44.

Joseph W. McGrath
Executive vice president and president, global industries. Previously senior vice president, major account sales and chief marketing officer. A Unisys officer since 1999. Age 50.

Jack F. McHale
Vice president, investor relations. Previously vice president, investor and corporate communications. A Unisys officer since 1986. Age 53.

Carol S. Sabochick
Vice president and corporate controller. Previously controller, AstraMerck Pharmaceuticals. A Unisys officer since 2002. Age 42.

Nancy Straus Sundheim
Senior vice president, general counsel and secretary. Previously vice president, deputy general counsel and secretary. A Unisys officer since 1999. Age 51.

Janet B. Wallace
Senior vice president and president, global infrastructure services. Previously vice president, services marketing and sales, Compaq. A Unisys officer since 2000. Age 51.

Lawrence A. Weinbach
Chairman, president and chief executive officer. Previously managing partner and chief executive, Andersen Worldwide. A Unisys officer since 1997. Age 63.

Board of Directors

J.P. Bolduc
Chairman and chief executive officer, JPB Enterprises Inc., a merchant banking, venture capital and real estate investment holding company. Previously served in the positions of vice chairman, chief operating officer, president and chief executive officer, W.R. Grace & Co. Also serves as a director of Proudfoot PLC and EnPro Industries Inc. A Unisys director since 1992. Age 63. [3,4]

Dr. James J. Duderstadt
President Emeritus and University Professor of Science and Engineering at the University of Michigan. Also serves as a director of CMS Energy Corp. A Unisys director since 1990. Age 60. [1]

Henry C. Duques
Retired chairman and chief executive officer, First Data Corp., an electronic commerce and payment services company. Also serves as a director of First Data Corp., CheckFree Corp. and SunGard Data Systems Inc. A Unisys director since 1998. Age 59. [2]

Denise K. Fletcher
Executive vice president and chief financial officer of MasterCard International, an international payment solutions company. Previously served as chief financial officer of Bowne Inc. A Unisys director since 2001. Age 54. [1]

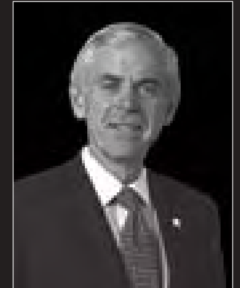
Gail D. Fosler
Senior vice president and chief economist of The Conference Board, a business-sponsored, nonprofit research organization. Also serves as a director of Baxter International Inc., Caterpillar Inc., H.B. Fuller Co. and DBS Holdings (Singapore). A Unisys director since 1993. Age 55. [1,3]

Melvin R. Goodes
Retired director and chairman and chief executive officer of Warner-Lambert Co., a diversified worldwide healthcare, pharmaceutical and consumer products company. Previously held position of president and chief operating officer. A Unisys director since 1987. Age 67. [2]

Edwin A. Huston
Retired vice chairman, Ryder System Inc., an international logistics and transportation solutions company. Previously served as senior executive vice president, finance, and chief financial officer. Also serves as a director of Answerthink Inc., Kaman Corp. and Enterasys Networks Inc. A Unisys director since 1993. Age 64. [1,4]

Kenneth A. Macke
General partner of Macke Partners, a venture capital firm. Previously served as chairman and chief executive officer, Dayton Hudson Corp., a general merchandise retailer. A Unisys director since 1989. Age 64. [2,4]

Theodore E. Martin
Retired director and president and chief executive officer, Barnes Group Inc., a manufacturer and distributor of automotive and aircraft components and maintenance products. Previously held the position of executive vice president–operations. Also serves as a director of Ingersoll-Rand Co. and Applera Corp. A Unisys director since 1995. Age 63. [1,3]



Lawrence A. Weinbach
Unisys chairman, president and chief executive officer since 1997. Previously served as managing partner and chief executive, Andersen Worldwide, a global professional services organization. Also serves as a director of Avon Products Inc. and UBS AG. A Unisys director since 1997. Age 63.

1 Audit Committee   2 Corporate Governance and Compensation Committee   3 Finance Committee   4 Nominating Committee

The Unisys Board of Directors

The board of directors is responsible for overseeing the business and affairs of the company.

Committees: The board of directors has a standing audit committee, corporate governance and compensation committee, finance committee, and nominating committee.

The Audit Committee: Assists the board in its oversight of the integrity of the company's financial statements and its financial reporting and disclosure practices, the soundness of its systems of internal financial and accounting controls, the independence and qualifications of its independent auditors, the performance of its internal and independent auditors, and the company's compliance with legal and regulatory requirements and the soundness of its ethical and environmental compliance programs.
The Corporate Governance and Compensation Committee: Oversees the company's corporate governance, the compensation of the company's executives, the company's executive management structure, and the compensation-related policies and programs involving the company's executive management and the level of benefits of officers and key employees. It also oversees the company's diversity programs.
The Finance Committee: Oversees the company's financial affairs, including its capital structure, financial arrangements, capital spending, and acquisition and disposition plans. It also oversees the management and investment of funds in the pension, savings and welfare plans sponsored by the company.
The Nominating Committee: Identifies and reviews candidates and recommends to the board of directors nominees for membership on the board of directors.

Classification of Directors: The board of directors currently consists of 10 members, divided into three classes. One class of directors is elected each year to hold office for a three-year term. Nine of the 10 directors are independent directors.

Compensation of Board

The company's nonemployee directors receive an annual $50,000 retainer, an annual $10,000 attendance fee for regularly scheduled board and committee meetings, and a meeting fee of $1,000 for attendance at each board and committee meeting other than a regularly scheduled meeting. Chairmen of committees other than the nominating committee also receive an annual $5,000 retainer. During 2002, each nonemployee director also received an option to purchase 12,000 shares of Unisys common stock. Stock options vest in four equal annual installments beginning one year after the date of grant. The annual retainers and annual attendance fee are paid in monthly installments, with 50 percent of each installment paid in cash and 50 percent in the form of common stock equivalent units. The value of each stock unit at any point in time is equal to the value of one share of Unisys common stock. Stock units are recorded in a memorandum account maintained for each director. A director's stock unit account is payable in Unisys common stock, either upon termination of service or on any date at least five years (two years for stock units awarded after January 1, 2001) after the stock units are awarded, at the director's option. Directors do not have the right to vote with respect to any stock units. Directors also have the opportunity to defer until termination of service, or until any date at least two years after the deferral, all or a portion of their cash fees. Any deferred cash amounts, and earnings or losses thereon, are recorded in a memorandum account maintained for each director. The right to receive future payments of deferred cash accounts is an unsecured claim against the company's general assets. Directors who are employees of the company do not receive any cash, stock units or stock options for their services as directors.

Our board of directors has adopted corporate governance guidelines that cover, among other things, the following:

1 A majority of the board of directors shall qualify as independent under the listing standards of the New York Stock Exchange.

2 The corporate governance and compensation committee reviews annually with the board the independence of outside directors. Following this review, only those directors who meet the independence qualifications prescribed by the New York Stock Exchange and who the board affirmatively determines have no material relationship with the company will be considered independent. The following commercial or charitable relationships will not be considered to be material relationships that would impair independence: (a) if a director is an executive officer or partner of, or owns more than a 10 percent equity interest in, a company that does business with Unisys, and sales to or purchases from Unisys are less than 1 percent of the annual revenues of that company and (b) if a director is an officer, director or trustee of a charitable organization, and Unisys donates less than 1 percent of that organization's charitable receipts.

3 Directors should not, except in rare circumstances approved by the board, draw any consulting, legal or other fees from the company. In no event shall any member of the audit committee receive any compensation from the company other than directors' fees.

4 Membership on the audit, corporate governance and compensation, and nominating committees is limited to independent directors.

5 Directors may not stand for election after age 70 or continue to serve beyond the annual stockholders' meeting following the attainment of age 70.

6 Directors should volunteer to resign from the board upon a change in position, including retirement, from the position they held when they were elected to the board. The board, through the nominating committee, will then make a determination whether continued board membership is appropriate under the circumstances. In addition, if the company's chief executive officer resigns from that position, he is expected to offer his resignation from the board at the same time.

7 The nominating committee is responsible for determining the appropriate skills and characteristics required of board members in the context of its current makeup and will consider factors such as independence, experience, strength of character, mature judgment, technical skills, diversity and age in its assessment of the needs of the board.

8 The company should maintain an orientation program for new directors and continuing education programs for all directors.

9 The board will conduct an annual self-evaluation to determine whether it and its committees are functioning effectively.

10 The nonmanagement directors should meet in executive session, without the chief executive officer and other members of management, on a regularly scheduled basis. They may also meet in executive session at any time upon request. Either the chairman of the corporate governance and compensation committee or the chairman of the finance committee will chair these meetings, based upon the nature of the matter to be considered.

11 The nonmanagement directors will evaluate the performance of the chief executive officer annually and will meet in executive session to review this performance. The evaluation is based on objective criteria, including performance of the business, accomplishment of long-term strategic objectives, and development of management. The evaluation is used by the corporate governance and compensation committee in its consideration of the compensation of the chief executive officer.

12 To assist the board in its planning for the succession to the position of chief executive officer, the chief executive officer is expected to provide an annual report on succession planning to the corporate governance and compensation committee.

13 Board members have complete access to Unisys management. Members of senior management who are not board members regularly attend board meetings, and the board encourages senior management, from time to time, to bring into board meetings other managers who can provide additional insights into the matters under discussion.

14 The board and its committees have the right at any time to retain independent outside financial, legal or other advisers.

Note: For more information on corporate governance, see our Web site: http://www.unisys.com/investor.

In 2002, Unisys was selected as a component stock in the Dow Jones Sustainability World Indexes (DJSI World). The selection demonstrates the company's leadership in economic, environmental and social business factors that are key to creating long-term stockholder value. Unisys is one of only 300 companies globally that are part of the DJSI World index.

Financial Review

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

Overview

In recent years, the company has been transitioning its business model to strengthen its capabilities as a services-led, technology-based solutions provider. As part of this transformation, the company has moved away from low-margin, commodity-type products and services to higher-end, value-added business opportunities, such as business process outsourcing, managed infrastructure services, business consulting, enterprise security, and high-end server technology. As a result of this transformation, the company has seen a fundamental shift in its revenue composition. For 2002, 76% of the company's revenue came from its Services segment while 24% of revenue came from its Technology segment. By contrast, in the year 2000, 69% of the company's revenue came from the Services segment while 31% of revenue derived from its Technology segment.

In addition, during this time period the IT services and technology industry has experienced a severe contraction in demand resulting from a weak economic environment worldwide. In response to these business conditions, in the fourth quarters of 2001 and 2000, the company took significant charges for work-force reductions and other actions to reduce its cost base and reposition its business model as a services-led, technology-enabled solutions provider. See Note 4 of the Notes to Consolidated Financial Statements.

Results of operations

Company results

In 2002, the company reported net income of $223.0 million, or $.69 per share, compared to a net loss of $67.1 million, or $.21 per share in 2001, and net income of $225.0 million, or $.71 per diluted share, in 2000. The results for 2001 include a fourth-quarter pretax charge of $276.3 million, or $.64 per share, principally for a work-force reduction, as well as an extraordinary charge of $17.2 million, or $.05 per share, for the early extinguishment of debt. Excluding these items, earnings per share in 2001 was $.48. The results for 2000 include a fourth-quarter pretax charge of $127.6 million, or $.29 per diluted share, principally for a work-force reduction, as well as an extraordinary charge of $19.8 million, or $.06 per diluted share, for the early extinguishment of debt. Excluding these items, diluted earnings per share in 2000 was $1.06. See Note 4 of the Notes to Consolidated Financial Statements.

Revenue for 2002 was $5.61 billion compared to $6.02 billion in 2001 and $6.89 billion in 2000. Revenue in 2002 decreased 7% from the prior year. The decrease was due to a decline in Technology revenue of 16% as well as a 4% decline in Services revenue. Foreign currency fluctuations had a negligible impact on revenue in 2002. Revenue in 2001 decreased 13% from 2000. The decrease was due to a decline in Technology revenue of 27% as well as a 6% decline in Services revenue. Excluding the negative impact of foreign currency fluctuations, revenue in 2001 declined 9%. Revenue from international operations in 2002, 2001 and 2000 was $3.11 billion, $3.42 billion and $4.01 billion, respectively. Revenue from U.S. operations was $2.50 billion in 2002, $2.60 billion in 2001 and $2.88 billion in 2000.

Total gross profit percent was 30.1% in 2002, 24.6% (27.4% exclusive of the fourth-quarter charge of $163.8 million) in 2001 and 30.3% (31.2% exclusive of the fourth-quarter charge of $56.1 million) in 2000. The increase in gross profit in 2002 from 2001 was principally due to the company's focus on higher value-added business opportunities and continued tight cost controls, including the personnel reduction actions taken in the last two years. The decrease in the 2001 gross profit margin from 2000 primarily reflected lower sales of high-margin enterprise servers and services, which were impacted by the general falloff in demand industrywide for information technology products and services.

Selling, general and administrative expenses were $.99 billion in 2002 (17.7% of revenue), $1.16 billion in 2001 ($1.07 billion or 17.8% of revenue excluding the fourth-quarter charge of $83.2 million) and $1.33 billion in 2000 ($1.28 billion or 18.5% of revenue excluding the fourth-quarter charge of $51.9 million). The decreases, net of the impacts of the fourth-quarter charges in 2001 and 2000, reflect the benefits of the personnel reduction actions announced in the fourth quarter of 2001 and 2000 and continued tight cost controls.

Research and development ("R&D") expenses in 2002 were $273.3 million compared to $331.5 million in 2001 ($303.9 million before the fourth-quarter charge of $27.6 million) and $333.6 million in 2000 ($315.4 million before the fourth-quarter charge of $18.2 million). The lower level of R&D reflects changes that the company has made to improve efficiencies, including the consolidation of R&D activities in systems integration to improve synergies and the use of lower-cost offshore resources for software support. Although the amount of R&D is down, the company continues to invest in high-end Cellular MultiProcessing (CMP) server technology and in key programs within its industry practices.

In 2002, the company reported operating income of $423.2 million, or 7.5% of revenue, compared to a loss of $4.5 million in 2001 ($270.1 million income or 4.5% of revenue before the fourth-quarter charge of $274.6 million) and income of $426.8 million in 2000 ($553.0 million or 8.0% of revenue before the fourth-quarter charge of $126.2 million).

Interest expense was $66.5 million in 2002, $70.0 million in 2001 and $79.8 million in 2000. The decline in 2002 was due to lower average interest rates and an increase in 2002 over 2001 in capitalized interest expense. The decline in 2001 was principally due to lower average borrowings and lower average interest rates.

Other income (expense), net, which can vary from year to year, was an expense of $23.9 million in 2002, income of $28.0 million in 2001 and income of $32.0 million in 2000. The difference in 2002 from 2001 was principally due to foreign exchange losses of $1.2 million in 2002 compared to foreign exchange gains of $21.4 million in 2001 (principally relating to Latin America) and equity investment losses of $12.4 million in 2002 (principally due to a charge of $21.8 million relating to the company's share of an early retirement charge recorded by Nihon Unisys, Ltd.) compared to gains of $10.4 million in 2001.

Pension income for 2002 was $143.5 million compared to $170.0 million in 2001 and $139.0 million in 2000. At the beginning of each year, accounting rules require that the company establish an expected long-term rate of return on its pension plan assets. The principal reason for the decline in pension income in 2002 was that, effective January 1, 2002, the company reduced its expected long-term rate of return on plan assets for its U.S. pension plan to 9.5% from 10.0%. This change caused 2002 pension income in the U.S. to decline by approximately $24 million from the 2001 amount. The company records pension income or expense, as well as other employee-related costs such as FICA and medical insurance costs, in operating income in the following income statement categories: cost of sales; selling, general and administrative expenses; and research and development expenses. The amount allocated to each line is based on where the salaries of the active employees are charged.

Income before income taxes in 2002 was $332.8 million compared to a loss of $46.5 million in 2001 ($229.8 million income excluding the fourth-quarter charge of $276.3 million) and income of $379.0 million in 2000 ($506.6 million income excluding the fourth-quarter charge of $127.6 million).

The provision for income taxes in 2002 was $109.8 million (33% effective tax rate) compared to $3.4 million ($75.9 million excluding the fourth-quarter charge of $72.5 million, representing a 33% effective tax rate) in 2001 and $134.2 million ($172.3 million excluding the fourth-quarter charge of $38.1 million, representing a 34% tax rate) in 2000. It is expected that the effective tax rate will be 33% for 2003.

At December 31, 2002, the company owned approximately 28% of the voting common stock of Nihon Unisys, Ltd., a publicly traded Japanese company ("NUL"). The company accounts for this investment by the equity method. NUL is the exclusive supplier of the company's hardware and software products in Japan. The company considers its investment in NUL to be of a long-term strategic nature. For the years ended December 31, 2002, 2001 and 2000, total direct and indirect sales to NUL were approximately $270 million, $340 million and $530 million, respectively.

At December 31, 2002, the market value of the company's investment in NUL was approximately $171 million and the amount recorded on the company's books was $110.7 million, which is net of $80.4 million relating to the company's share of NUL's minimum pension liability adjustment. The market value is determined by both the quoted price per share of NUL's shares on the Tokyo stock exchange and the current exchange rate of the Japanese yen to the U.S. dollar. At any point in time, the company's book value may be higher or lower than the market value. The company would reflect impairment in this investment only if the loss in value of the investment were deemed to be other than a temporary decline.

Segments results

The company has two business segments: Services and Technology. Revenue classifications by segment are as follows: Services – systems integration, outsourcing, infrastructure services, and core maintenance; Technology – enterprise-class servers and specialized technologies. The accounting policies of each business segment are the same as those followed by the company as a whole. Intersegment sales and transfers are priced as if the sales or transfers were to third parties. Accordingly, the Technology segment recognizes intersegment revenue and manufacturing profit on hardware and software shipments to customers under Services contracts. The Services segment, in turn, recognizes customer revenue and marketing profit on such shipments of company hardware and software to customers. The Services segment also includes the sale of hardware and software products sourced from third parties that are sold to customers through the company's Services channels. In the company's consolidated statements of income, the manufacturing costs of products sourced from the Technology segment and sold to Services customers are reported in cost of revenue for Services. Also included in the Technology segment's sales and operating profit are sales of hardware and software sold to the Services segment for internal use in Services engagements. The amount of such profit included in operating income of the Technology segment for the years ended December 31, 2002, 2001 and 2000, was $19.2 million, $21.8 million and $23.6 million, respectively. The profit on these transactions is eliminated in Corporate. The company evaluates business segment performance on operating income exclusive of restructuring charges and unusual and nonrecurring items, which are included in Corporate. All other corporate and centrally incurred costs are allocated to the business segments based principally on revenue, employees, square footage or usage.

Information by business segment for 2002, 2001 and 2000 is presented below:

(Millions of dollars)	Total	Eliminations	Services	Technology
2002				
Customer revenue	$5,607.4		$4,285.1	$1,322.3
Intersegment		$(331.9)	38.8	293.1
Total revenue	$5,607.4	$(331.9)	$4,323.9	$1,615.4
Gross profit percent	30.1%		22.2%	46.5%
Operating income percent	7.5%		5.9%	11.7%
2001				
Customer revenue	$6,018.1		$4,444.6	$1,573.5
Intersegment		$(363.4)	73.8	289.6
Total revenue	$6,018.1	$(363.4)	$4,518.4	$1,863.1
Gross profit percent	27.4%		19.7%	43.0%
Operating income percent	4.5%		2.1%	11.6%
2000				
Customer revenue	$6,885.0		$4,741.6	$2,143.4
Intersegment		$(437.2)	46.6	390.6
Total revenue	$6,885.0	$(437.2)	$4,788.2	$2,534.0
Gross profit percent	31.2%		21.6%	44.7%
Operating income percent	8.0%		1.7%	17.7%

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

In the Services segment, customer revenue was $4.29 billion in 2002, $4.44 billion in 2001 and $4.74 billion in 2000. Revenue in 2002 was down 4% from 2001, as an 11% increase in outsourcing ($1.44 billion in 2002 compared to $1.30 billion in 2001) was more than offset by a 24% decline in infrastructure services ($.83 billion in 2002 compared to $1.09 billion in 2001) and a 4% decline in core maintenance revenue ($.56 billion in 2002 compared to $.58 billion in 2001). Systems integration revenue in 2002 was $1.46 billion compared to $1.47 billion in 2001. Services customer revenue in 2001 was down 6% from 2000, as a 9% increase in outsourcing was more than offset by a 17%

decline in infrastructure services, an 8% decline in systems integration and a 7% decline in core maintenance revenue. Within the Services segment, the change in revenue in 2002 from 2001 reflects market conditions. Market demand in the Services segment currently varies by revenue classification. Demand for services that drive short-term cost and process efficiencies (outsourcing) remains strong, while market demand for project-based work (systems integration and infrastructure services) remains weak. The growth in outsourcing revenue, which was particularly driven by growth in business process outsourcing, and the decline in both systems integration and infrastructure services were reflective of these market conditions. In addition, the decline in Services customer revenue in 2002 from 2001 reflected the company's de-emphasis in 2001 of low-margin commodity hardware sales within infrastructure services contracts. The core maintenance decline is reflective of the long-term industry trend for reduction in maintenance, as the underlying equipment reliability has improved over time. Additionally, the decline in Services customer revenue in 2001 from 2000 reflected the company's de-emphasis in 2001 of low-margin commodity hardware sales within infrastructure services contracts. Services gross profit was 22.2% in 2002, 19.7% in 2001 and 21.6% in 2000, and Services operating income percent was 5.9% in 2002, 2.1% in 2001 and 1.7% in 2000. The company achieved the margin improvements in 2002 by executing its strategy of selective pursuit of higher value-added business opportunities and resizing its work force to meet the market demand. The decrease in 2001 margins compared to 2000 was largely due to a lower content of higher-margin systems integration and core maintenance revenue. In addition, margins in 2001 were negatively impacted by the start-up of several large outsourcing contracts. Typically, in the early phases of these contracts, gross margins may be lower than in later years when the work force and facilities have been rationalized for efficient operations, and an integrated systems solution has been implemented.

In the Technology segment, customer revenue was $1.32 billion in 2002, $1.57 billion in 2001 and $2.14 billion in 2000. Demand throughout the period in the Technology segment remained weak industrywide as customers deferred spending on new computer hardware and software. Revenue in 2002 was down 16% from 2001, due to a 30% decrease in sales of specialized technology products ($.37 billion in 2002 compared to $.52 billion in 2001) and a 9% decline in sales of enterprise-class servers ($.96 billion in 2002 compared to $1.05 billion in 2001). In addition to weak industrywide demand for technology products and software, the decline in customer revenue in 2002 reflected lower commodity hardware sales as a result of the company's decision to de-emphasize sales of these products. The 27% decline in customer revenue in 2001 from 2000 reflected the impact of the global downturn in information technology spending on sales of high-end server products, as well as lower commodity hardware sales as a result of the company's decision to de-emphasize sales of these products. Technology gross profit percent was 46.5% in 2002, 43.0% in 2001 and 44.7% in 2000, and Technology operating income percent was 11.7% in 2002, 11.6% in 2001 and 17.7% in 2000. The margin improvements in 2002 primarily reflected a higher proportion of high-end, higher-margin products within ClearPath revenue, increased demand for high-end payment systems products and continued tight cost controls. The decrease in 2001 margins was due in large part to lower sales of high-end ClearPath systems as compared to 2000.

New accounting pronouncements

Effective January 1, 2002, the company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 no longer permits the amortization of goodwill and indefinite-lived intangible assets. Instead, these assets must be reviewed annually for impairment in accordance with this statement. SFAS No. 142 required the company to perform a transitional impairment test of its goodwill as of January 1, 2002, as well as perform impairment tests on an annual basis and whenever events or circumstances occur indicating that the goodwill may be impaired. During 2002, the company performed its transitional and annual impairment tests, which indicated that the company's goodwill was not impaired.

Effective January 1, 2002, the company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement addresses financial accounting and reporting for legal obligations associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and normal operation of a long-lived asset. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated

asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and subsequently allocated to expense over the asset's useful life. Adoption of SFAS No. 143 had no effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

Effective January 1, 2002, the company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 requires an impairment loss to be recognized only if the carrying amounts of long-lived assets to be held and used are not recoverable from their expected undiscounted future cash flows. Adoption of SFAS No. 144 had no effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

In April 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 rescinds SFAS No. 4, which required that all gains and losses from extinguishment of debt be reported as an extraordinary item. The provisions of SFAS No. 145 related to the rescission of SFAS No. 4 must be applied in fiscal years beginning after May 15, 2002. The company will adopt this statement effective January 1, 2003. Previously recorded losses on the early extinguishment of debt that were classified as an extraordinary item in prior periods will be reclassified to other income (expense), net. The adoption of SFAS No. 145 will have no effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 replaces previous accounting guidance provided by Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)," and will be effective for the company for exit or disposal activities initiated after December 31, 2002. The company does not believe that adoption of this statement will have a material impact on its consolidated financial position, consolidated results of operations, or liquidity.

In November 2002, the FASB issued EITF Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." This issue addresses how to account for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. The final consensus of this issue is applicable to agreements entered into in fiscal periods beginning after June 15, 2003. Additionally, companies will be permitted to apply the guidance in this issue to all existing arrangements as the cumulative effect of a change in accounting principle in accordance with APB Opinion No. 20, "Accounting Changes." The company does not believe that adoption of this issue will have a material impact on its consolidated financial position, consolidated results of operations, or liquidity.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34" ("FIN No. 45"). The interpretation requires that upon issuance of a guarantee, the entity must recognize a liability for the fair value of the obligation it assumes under that obligation. This interpretation is intended to improve the comparability of financial reporting by requiring identical accounting for guarantees issued with separately identified consideration and guarantees issued without separately identified consideration. For the company, the initial recognition, measurement provision and disclosure requirements of FIN No. 45 are applicable to guarantees issued or modified after December 31, 2002. The company is currently evaluating what impact, if any, adoption of FIN No. 45 will have on its consolidated financial position, consolidated results of operations, or liquidity.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN No. 46"). This interpretation clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. For the company's synthetic lease, as described in Note 12 of the Notes to Consolidated Financial Statements, FIN No. 46 is effective for the period beginning July 1, 2003.

Financial condition

Cash and cash equivalents at December 31, 2002, were $301.8 million compared to $325.9 million at December 31, 2001.

During 2002, cash provided by operations was $324.5 million compared to $202.4 million in 2001, principally reflecting strong working capital management and an increase in profitability. Cash expenditures related to both current and prior-year restructuring actions (which are included in operating activities) in 2002, 2001 and 2000 were $104.4 million, $71.5 million and $26.3 million, respectively, and are expected to be approximately $66 million in 2003, principally for international work-force reductions and facility costs. Personnel reductions in 2002 related to both current and prior-year restructuring actions were approximately 1,900 and are expected to be approximately 630 in 2003.

Cash used for investing activities in 2002 was $379.2 million compared to $325.6 million for 2001. The increase was principally due to net purchases of investments (derivative financial instruments used to manage the company's exposure to market risks from changes in foreign currency exchange rates) of $38.3 million for 2002 compared to net proceeds of $19.7 million in the prior-year period. In 2002, the investment in marketable software was $139.9 million and capital additions to properties was $196.2 million, which combined was essentially flat compared to the prior-year period.

Cash provided by financing activities during 2002 was $25.3 million compared to $71.6 million in 2001. In 2002, the company had a reduction in short-term borrowings of $1.6 million compared to a reduction of $127.7 million in 2001. In addition, the prior year included proceeds from issuance of long-term debt of $536.5 million and payment of long-term debt of $370.8 million, as described below.

At December 31, 2002, total debt was $829.7 million, an increase of $3.6 million from December 31, 2001. See Note 9 of the Notes to Consolidated Financial Statements for components of the company's long-term debt.

During 2001, the company issued $400 million of 8 1/8% senior notes due 2006 and $150 million of 7 1/4% senior notes due 2005. In 2001, the company also completed a cash tender offer for $319.2 million principal amount of its 11 3/4% senior notes due 2004 and redeemed, at a premium, the remaining $15.0 million outstanding principal amount of such notes. As a result of these actions, the company recorded an extraordinary after-tax charge of $17.2 million, net of $9.3 million tax benefit, or $.05 per share, for the premium paid, unamortized debt-related expenses and transaction costs.

In 2000, the company redeemed all of its $399.5 million outstanding 12% senior notes due 2003 at the stated redemption price of 106% of principal. As a result, the company recorded an extraordinary after-tax charge of $19.8 million, or $.06 per diluted share, for the call premium and unamortized debt expense.

The company has a $450 million credit agreement that expires in March 2004. As of December 31, 2002, there were no borrowings under this facility. Borrowings under the agreement bear interest based on the then-current LIBOR or prime rates and the company's credit rating. The credit agreement contains financial and other covenants, including maintenance of certain financial ratios, a minimum level of net worth and limitations on certain types of transactions, which could reduce the amount the company is able to borrow. Events of default under the credit agreement include failure to perform covenants, material adverse change, change of control and default under other debt aggregating at least $25 million. If an event of default were to occur under the credit agreement, the lenders would be entitled to declare all amounts borrowed under it immediately due and payable. The occurrence of an event of default under the credit agreement could also cause the acceleration of obligations under certain other agreements and the termination of the company's U.S. trade accounts receivable facility, described below.

In addition, the company and certain international subsidiaries have access to certain uncommitted lines of credit from various banks. Other sources of short-term funding are operational cash flows, including customer prepayments, and the company's U.S. trade accounts receivable facility. Using this facility, the company sells, on an ongoing basis, up to $225 million of its eligible U.S. trade accounts receivable through a wholly owned subsidiary, Unisys Funding Corporation I. The facility expires in December 2003. See Note 5 of the Notes to Consolidated Financial Statements.

At December 31, 2002, the company had short-term borrowings of $77.3 million. Of this amount, $34.1 million was borrowed by the company's Brazilian subsidiaries in their local currency at a weighted average interest rate at December 31st of 28.0%, and $43.2 million was borrowed principally by other international subsidiaries at a weighted average interest rate at December 31st of 5.5%.

At December 31, 2002, the company has met all covenants and conditions under its various lending and funding agreements. Since the company believes that it will continue to meet these covenants and conditions, the company believes that it has adequate sources and availability of short-term funding to meet its expected cash requirements.

In 2000, the company terminated its interest rate swaps and currency swaps for euro and Japanese yen, which were established in 1999. The currency swaps were designated as hedges of the foreign currency exposure on the company's net investments in foreign subsidiaries and equity investments. As a result of these terminations, the company received net cash of $18.5 million and recognized a pretax loss of $2.7 million. The interest expense benefit related to these swaps amounted to approximately $16 million in 2000.

As described more fully in Notes 4, 9 and 12 of the Notes to Consolidated Financial Statements, at December 31, 2002, the company had certain cash obligations, which are due as follows:

(Millions)	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Notes payable	$ 77.3	$ 77.3			
Long-term debt	750.0		$150.0	$400.0	$200.0
Capital lease obligations	7.6	4.4	2.8	.4	
Operating leases, net of sublease income	581.0	135.7	171.9	103.3	170.1
Minimum purchase obligations	53.7	33.7	20.0		
Work-force reductions	53.1	53.1			
Total	$1,522.7	$304.2	$344.7	$503.7	$370.1

As more fully described in Note 12 of the Notes to Consolidated Financial Statements, the company could have an additional obligation under an operating lease for one of its facilities.

At December 31, 2002, the company had outstanding standby letters of credit and surety bonds of approximately $340 million related to performance and payment guarantees. On the basis of experience with these arrangements, the company believes that any obligations that may arise will not be material.

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

The company has on file with the Securities and Exchange Commission an effective registration statement covering $1.5 billion of debt or equity securities, which enables the company to be prepared for future market opportunities.

Stockholders' equity decreased $1.3 billion during 2002, principally reflecting a minimum pension liability adjustment of $1.5 billion and currency translation of $33.8 million, offset in part by net income of $223.0 million, $46.9 million for issuance of stock under stock option and other plans, and $3.5 million of tax benefits related to employee stock plans.

Market risk

The company has exposure to interest rate risk from its short-term and long-term debt. In general, the company's long-term debt is fixed rate and the short-term debt is variable rate. See Note 9 of the Notes to Consolidated Financial Statements for components of the company's long-term debt. The company believes that the market risk from changes in interest rates would not be material to the fair value of these financial instruments, or the related cash flows, or future results of operations.

The company is also exposed to foreign currency exchange rate risks. The company 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 foreign exchange options. See Note 13 of the Notes to Consolidated Financial Statements for additional information on the company's derivative financial instruments.

The company has performed a sensitivity analysis assuming a hypothetical 10% adverse movement in foreign currency exchange rates applied to these derivative financial instruments described above. As of December 31, 2002 and 2001, the analysis indicated that such market movements would have reduced the estimated fair value of these derivative financial instruments by approximately $45 million and $25 million, respectively.

Based on changes in the timing and amount of interest rate and foreign currency exchange rate movements and the company's actual exposures and hedges, actual gains and losses in the future may differ from the above analysis.

Critical accounting policies

Outsourcing

In recent years, the company's outsourcing business has increased significantly. Typically the terms of these contracts are between three and 10 years. In a number of these arrangements, the company hires certain of the customers' employees and often becomes responsible for the related employee obligations, such as pension and severance commitments. In addition, system development activity on outsourcing contracts may require significant upfront investments by the company. The company funds these investments, and any employee-related obligations, from customer prepayments and operating cash flow. Also, in the early phases of these contracts, gross margins may be lower than in later years when the work force and facilities have been rationalized for efficient operations, and an integrated systems solution has been implemented.

Revenue under these contracts is recognized when the company performs the services or processes transactions in accordance with contractual performance standards. Customer prepayments (even if nonrefundable) are deferred (classified as a liability) and recognized systematically over future periods as services are delivered or performed.

Costs on outsourcing contracts are generally charged to expense as incurred. However, direct costs incurred related to the inception of an outsourcing contract are deferred and charged to expense over the contract term. These costs consist principally of initial customer setup and employment obligations related to employees assumed. In addition, the costs of equipment and software, some of which is internally developed, is capitalized and depreciated over the shorter of their useful life or the term of the contract.

At December 31, 2002 and 2001, the net capitalized amount related to outsourcing contracts was $321.0 million and $217.8 million, respectively, consisting of $163.0 million and $80.8 million, respectively, reported in properties and $158.0 million and $137.0 million, respectively, of net contract-related costs reported in other long-term assets. The contract-related costs are tested for recoverability quarterly.

Systems integration

For long-term systems integration contracts, the company recognizes revenue and profit as the contracts progress using the percentage-of-completion method of accounting, which relies on estimates of total expected contract revenues and costs. The company follows this method since reasonably dependable estimates of the revenue and costs applicable to various elements of a contract can be made. Since the financial reporting of these contracts depends on estimates, which are assessed continually during the term of the contracts, recognized revenues and profit are subject to revisions as the contract progresses to completion. Revisions in profit estimates are reflected in the period in which the facts that give rise to the revision become known. Accordingly, favorable changes in estimates result in additional revenue and profit recognition, and unfavorable changes in estimates result in a reduction of recognized revenue and profits. When estimates indicate that a loss will be incurred on a contract upon completion, a provision for the expected loss is recorded in the period in which the loss becomes evident. As work progresses under a loss contract, revenue continues to be recognized, and a portion of the contract costs incurred in each period is charged to the contract loss reserve. For other systems integration projects, the company recognizes revenue when the services have been performed.

Taxes

The company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes," which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. SFAS No. 109 also 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.

At December 31, 2002 and 2001, the company had deferred tax assets in excess of deferred tax liabilities of $2,178 million and $1,376 million, respectively. For the reasons cited below, at December 31, 2002 and 2001, management determined that it is more likely than not that $1,726 million and $1,034 million, respectively, of such assets will be realized, resulting in a valuation allowance of $452 million and $342 million, respectively.

The company evaluates quarterly the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization are the company's forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. The company has used tax planning strategies to realize or renew net deferred tax assets in order to avoid the potential loss of future tax benefits.

Approximately $5.2 billion of future taxable income (predominately U.S.) ultimately is needed to realize the net deferred tax assets at December 31, 2002. Failure to achieve forecasted taxable income might affect the ultimate realization of the net deferred tax assets. Factors that may affect the company's ability to achieve sufficient forecasted taxable income include, but are not limited to, the following: increased competition, a decline in sales or margins, loss of market share, delays in product availability or technological obsolescence.

In addition, the company operates within multiple taxing jurisdictions and is subject to audit in these jurisdictions. These audits can involve complex issues, which may require an extended period of time to resolve. In management's opinion, adequate provisions for income taxes have been made for all years.

Pensions

The company accounts for its defined benefit pension plans in accordance with SFAS No. 87, "Employers' Accounting for Pensions," which requires that amounts recognized in financial statements be determined on an actuarial basis. A substantial portion of the company's pension amounts relate to its defined benefit plan in the United States. As permitted by SFAS No. 87, the company uses a calculated value of plan assets (which is further described below). SFAS No. 87 requires that the effects of the performance of the pension plan's assets and changes in pension liability discount rates on the company's computation of pension income (expense) be amortized over future periods.

A significant element in determining the company's pension income (expense) in accordance with SFAS No. 87 is the expected return on plan assets. In 2002, the company assumed that the expected long-term rate of return on U.S. plan assets would be 9.5%. For 2003, the company has assumed that the expected long-term rate of return on U.S. plan assets will be 8.75%. The assumed long-term rate of return on assets is applied to a calculated value of plan assets, which recognizes changes in the fair value of plan assets in a systematic manner over four years. This produces the expected return on plan assets that is included in pension income (expense). The difference between this expected return and the actual return on plan assets is deferred. The net deferral of past asset gains (losses) affects the calculated value of plan assets and, ultimately, future pension income (expense).

At the end of each year, the company determines the discount rate to be used to calculate the present value of plan liabilities. The discount rate is an estimate of the current interest rate at which the pension liabilities could be effectively settled at the end of the year. In estimating this rate, the company looks to rates of return on high-quality, fixed-income investments that (i) receive one of the two highest ratings given by a recognized ratings agency, and (ii) are currently available and expected to be available during the period to maturity of the pension benefits. At December 31, 2002, the company determined this rate to be 6.75% for its U.S. defined benefit pension plan, a decrease of 75 basis points from the rate used at December 31, 2001. The net effect of changes in the discount rate, as well as the net effect of other changes in actuarial assumptions and experience, has been deferred in accordance with SFAS No. 87.

For the year ended December 31, 2002, the company recognized consolidated pretax pension income of $143.5 million, compared to $170.0 million in 2001. The principal reason for the decline was the reduction in the expected long-term rate of return on U.S. pension plan assets from 10.0% in 2001 to 9.5% in 2002.

For 2003, the company expects pension income to be approximately $30 million, approximately $114 million less than 2002. Approximately $90 million of the decline is in the U.S. and $24 million is in international subsidiaries, principally the United Kingdom. The most significant assumptions underlying these estimates, namely the expected long-term rate of return on plan assets and the discount rate, were chosen by management with consultation from and concurrence of the company's actuaries.

For 2003, the company has assumed that the expected long-term rate of return on plan assets for its U.S. defined benefit pension plan will be 8.75%, down from 9.50% in 2002. This will cause U.S. pension income to decline by approximately $35 million. In addition, the discount rate used for the U.S. pension plan has declined to 6.75% at December 31, 2002, from 7.50% at December 31, 2001. This will cause U.S. pension income to decline by approximately $22 million. The remainder of the decline in the U.S. of approximately $33 million is due to lower expected return on assets due to asset declines (about $27 million) and the recent prospective change to a cash balance plan (about $6 million). The decline of $24 million in international plans is principally due to discount rate declines, lower expected long-term rates of return on plan assets, and currency translation.

During 2002, the company made cash contributions to its defined benefit pension plans of $42.2 million and expects to make cash contributions of approximately $60 million during 2003. In accordance with regulations governing contributions to U.S. defined benefit pension plans, the company is not required to fund its U.S. defined benefit plan in 2003.

At December 31st of each year, accounting rules require a company to recognize a liability on its balance sheet for each pension plan if the fair value of the assets of that pension plan is less than the present value of the pension obligation (the accumulated benefit obligation, or "ABO"). This liability is called a "minimum pension liability." Concurrently, any existing prepaid pension asset for the pension plan must be removed. These adjustments are recorded as a charge in "accumulated other comprehensive income (loss)" in stockholders' equity. If at any future year-end, the fair value of the pension plan assets exceeds the ABO, the charge to stockholders' equity would be reversed for such plan. Alternatively, if the fair market value of pension plan assets experiences further declines or the discount rate was to be reduced, additional charges to accumulated other comprehensive income (loss) may be required at a future year-end.

At December 31, 2002, for all of the company's defined benefit pension plans, as well as the defined benefit pension plan of NUL (an equity investment), the ABO exceeded the fair value of pension plan assets. As a result, the company was required to do the following: remove from its assets $1.4 billion of prepaid pension plan assets; increase its accrued pension liability by approximately $700 million; reduce its investments at equity by approximately $80 million relating to the company's share of NUL's minimum pension liability; and offset these changes by a charge to other comprehensive loss in stockholders' equity of $2.2 billion, or $1.5 billion net of tax.

This accounting has no effect on the company's net income, liquidity or cash flows. Financial ratios and net worth covenants in the company's credit arrangements and debt securities are unaffected by the charge to stockholders' equity caused by recording a minimum pension liability.

Factors that may affect future results

From time to time, the company provides information containing "forward-looking" statements, as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements provide current expectations of future events and include any statement that does not directly relate to any historical or current fact. Words such as "anticipates," "believes," "expects," "estimates," "intends," "plans," "projects" and similar expressions may identify such forward-looking statements. All forward-looking statements rely on assumptions and are subject to risks, uncertainties and other factors that could cause the company's actual results to differ materially from expectations. These other factors include, but are not limited to, those discussed below. Any forward-looking statement speaks only as of the date on which that statement is made. The company assumes no obligation to update any forward-looking statement to reflect events or circumstances that occur after the date on which the statement is made.

The company's business is affected by changes in general economic and business conditions. It also could be affected by acts of war, terrorism or natural disasters. The company is also facing a very challenging economic environment. In this environment, many organizations are delaying planned purchases of information technology products and services. If the level of demand for the company's products and services declines in the future, the company's business could be adversely affected.

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

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

The company's future results will depend in part on its ability to continue to accelerate growth in outsourcing and infrastructure services. The company's outsourcing contracts are multiyear engagements under which the company takes over management of a client's technology operations, business processes or networks. The company will need to maintain a strong financial position in order to grow its outsourcing business. In a number of these arrangements, the company hires certain of its clients' employees and may become responsible for the related employee obligations, such as pension and severance commitments.

In addition, system development activity on outsourcing contracts may require the company to make significant upfront investments. As long-term relationships, these outsourcing contracts provide a base of recurring revenue. However, in the early phases of these contracts, gross margins may be lower than in later years when the work force and facilities have been rationalized for efficient operations, and an integrated systems solution has been implemented.

Future results will also depend in part on the company's ability to drive profitable growth in systems integration and consulting. The company's systems integration and consulting business has been adversely affected by the current economic slowdown. In this economic environment, customers have been delaying systems integration projects. The company's ability to grow profitably in this business will depend in part on an improvement in economic conditions and a pick-up in demand for systems integration projects. It will also depend on the success of the actions the company has taken to enhance the skills base and management team in this business and to refocus the business on integrating best-of-breed, standards-based solutions to solve client needs. In addition, profit margins in this business are largely a function of the rates the company is able to charge for services and the chargeability of its professionals. If the company is unable to maintain the rates it charges, or appropriate chargeability, for its professionals, profit margins will suffer. The rates the company is able to charge for services are affected by a number of factors, including clients' perception of the company's ability to add value through its services; introduction of new services or products by the company or its competitors; pricing policies of competitors; and general economic conditions. Chargeability is also affected by a number of factors, including the company's ability to transition employees from completed projects to new engagements; and its ability to forecast demand for services and thereby maintain an appropriate head count.

Future results will also depend in part on market acceptance of the company's high-end enterprise servers. In its technology business, the company is focusing its resources on high-end enterprise servers based on its CMP architecture. The company's CMP servers are designed to provide mainframe-class capabilities with compelling price-performance by making use of standards-based technologies such as Intel chips and Microsoft operating system software. The company has transitioned both its legacy ClearPath servers and its Intel-based ES7000s to the CMP platform, creating a common platform for all the company's high-end server lines. Future results will depend, in part, on customer acceptance of the new CMP-based ClearPath Plus systems and the company's ability to maintain its installed base for ClearPath. In addition, future results will depend, in part, on the company's ability to generate new customers and increase sales of the Intel-based ES7000 line. The company believes there is significant growth potential in the developing market for high-end Intel-based servers running Microsoft operating system software. However, competition in this new market is likely to intensify in coming years, and the company's ability to succeed will depend on its ability to compete effectively against enterprise server competitors with more substantial resources and its ability to achieve market acceptance of the ES7000 technology by clients, systems integrators, and independent software vendors.

A number of the company's long-term contracts for infrastructure services, outsourcing, help desk and similar services do not provide for minimum transaction volumes. As a result, revenue levels are not guaranteed. In addition, some of these contracts may permit termination or may impose other penalties if the company does not meet the performance levels specified in the contracts.

Some of the company's systems integration contracts are fixed-priced contracts under which the company assumes the risk for delivery of the contracted services and products at an agreed-upon fixed price. At times the company has experienced problems in performing some of these fixed-price contracts on a profitable basis and has provided periodically for adjustments to the estimated cost to complete them. Future results will depend on the company's ability to perform these services contracts profitably.

The company frequently enters into contracts with governmental entities. Risks and uncertainties associated with these government contracts include the availability of appropriated funds and contractual provisions that allow governmental entities to terminate agreements at their discretion before the end of their terms.

The success of the company's business is dependent on strong, long-term client relationships and on its reputation for responsiveness and quality. As a result, if a client is not satisfied with the company's services or products, its reputation could be damaged and its business adversely affected. In addition, if the company fails to meet its contractual obligations, it could be subject to legal liability, which could adversely affect its business, operating results and financial condition.

The company has commercial relationships with suppliers, channel partners and other parties that have complementary products, services or skills. Future results will depend in part on the performance and capabilities of these third parties, on the ability of external suppliers to deliver components at reasonable prices and in a timely manner, and on the financial condition of, and the company's relationship with, distributors and other indirect channel partners.

Approximately 55% 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, import or export licensing requirements, multiple and possibly overlapping and conflicting tax laws, and weaker intellectual property protections in some jurisdictions.

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

Consolidated Financial Statements

Consolidated Statements of Income

Year Ended December 31 (Millions, except per share data)	**2002**	2001	2000
Revenue			
Services	**$4,285.1**	$4,444.6	$4,741.6
Technology	**1,322.3**	1,573.5	2,143.4
	5,607.4	6,018.1	6,885.0
Costs and expenses			
Cost of revenue:			
Services	**3,244.9**	3,624.6	3,623.8
Technology	**674.0**	910.2	1,172.1
	3,918.9	4,534.8	4,795.9
Selling, general and administrative expenses	**992.0**	1,156.3	1,328.7
Research and development expenses	**273.3**	331.5	333.6
	5,184.2	6,022.6	6,458.2
Operating income (loss)	**423.2**	(4.5)	426.8
Interest expense	**66.5**	70.0	79.8
Other income (expense), net	**(23.9)**	28.0	32.0
Income (loss) before income taxes	**332.8**	(46.5)	379.0
Provision for income taxes	**109.8**	3.4	134.2
Income (loss) before extraordinary items	**223.0**	(49.9)	244.8
Extraordinary items		(17.2)	(19.8)
Net income (loss)	**$ 223.0**	$ (67.1)	$ 225.0
Earnings (loss) per share – basic			
Before extraordinary items	**$ .69**	$ (.16)	$ .78
Extraordinary items		(.05)	(.06)
Total	**$ .69**	$ (.21)	$ .72
Earnings (loss) per share – diluted			
Before extraordinary items	**$ .69**	$ (.16)	$ .77
Extraordinary items		(.05)	(.06)
Total	**$ .69**	$ (.21)	$ .71

See notes to consolidated financial statements.

Consolidated Balance Sheets

December 31 (Millions)	**2002**	2001
Assets		
Current assets		
Cash and cash equivalents	**$ 301.8**	$ 325.9
Accounts and notes receivable, net	**955.6**	1,093.7
Inventories:		
Parts and finished equipment	**165.3**	201.6
Work in process and materials	**127.5**	144.2
Deferred income taxes	**311.3**	342.6
Other current assets	**84.5**	96.1
Total	**1,946.0**	2,204.1
Properties	**1,542.7**	1,460.4
Less – Accumulated depreciation and amortization	**932.9**	910.8
Properties, net	**609.8**	549.6
Investments at equity	**111.8**	212.3
Marketable software, net	**311.8**	287.9
Prepaid pension cost		1,221.0
Deferred income taxes	**1,476.0**	747.8
Goodwill	**160.6**	159.0
Other long-term assets	**365.4**	387.4
Total	**$ 4,981.4**	$ 5,769.1
Liabilities and stockholders' equity		
Current liabilities		
Notes payable	**$ 77.3**	$ 78.9
Current maturities of long-term debt	**4.4**	2.2
Accounts payable	**532.5**	694.9
Other accrued liabilities	**1,341.4**	1,302.9
Income taxes payable	**228.9**	234.6
Total	**2,184.5**	2,313.5
Long-term debt	**748.0**	745.0
Accrued pension liability	**727.7**	10.1
Other long-term liabilities	**465.2**	587.8
Stockholders' equity		
Common stock	**3.3**	3.2
Accumulated deficit	**(673.5)**	(896.5)
Other capital	**3,763.1**	3,712.8
Accumulated other comprehensive loss	**(2,236.9)**	(706.8)
Stockholders' equity	**856.0**	2,112.7
Total	**$ 4,981.4**	$ 5,769.1

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Year Ended December 31 (Millions)	**2002**	2001	2000
Cash flows from operating activities			
Income (loss) before extraordinary items	**$ 223.0**	$ (49.9)	$ 244.8
Add (deduct) items to reconcile income (loss) before extraordinary items to net cash provided by operating activities:			
Extraordinary items		(17.2)	(19.8)
Depreciation and amortization of properties	**154.5**	140.2	135.6
Amortization:			
Marketable software	**121.0**	145.5	115.5
Deferred outsourcing contract cost	**22.3**	15.8	12.7
Goodwill		16.5	21.8
Decrease (increase) in deferred income taxes, net	**39.4**	(44.4)	85.6
Decrease in receivables, net	**156.5**	72.3	158.2
Decrease (increase) in inventories	**53.0**	79.7	(52.5)
(Decrease) in accounts payable and other accrued liabilities	**(116.5)**	(144.5)	(140.0)
(Decrease) in income taxes payable	**(15.5)**	(58.0)	(62.8)
(Decrease) increase in other liabilities	**(73.9)**	246.5	(2.5)
(Increase) in other assets	**(251.2)**	(238.8)	(81.9)
Other	**11.9**	38.7	5.2
Net cash provided by operating activities	**324.5**	202.4	419.9
Cash flows from investing activities			
Proceeds from investments	**3,447.1**	3,028.7	790.4
Purchases of investments	**(3,485.4)**	(3,009.0)	(716.7)
Investment in marketable software	**(139.9)**	(136.8)	(152.4)
Capital additions of properties	**(196.2)**	(199.4)	(198.3)
Purchases of businesses	**(4.8)**	(9.1)	(13.9)
Proceeds from sales of properties			20.0
Net cash used for investing activities	**(379.2)**	(325.6)	(270.9)
Cash flows from financing activities			
Net (reduction in) proceeds from short-term borrowings	**(1.6)**	(127.7)	179.6
Proceeds from employee stock plans	**29.0**	33.6	51.1
Payments of long-term debt	**(2.1)**	(370.8)	(448.0)
Proceeds from issuance of long-term debt		536.5	
Net cash provided by (used for) financing activities	**25.3**	71.6	(217.3)
Effect of exchange rate changes on cash and cash equivalents	**5.3**	(.5)	(17.7)
Decrease in cash and cash equivalents	**(24.1)**	(52.1)	(86.0)
Cash and cash equivalents, beginning of year	**325.9**	378.0	464.0
Cash and cash equivalents, end of year	**$ 301.8**	$ 325.9	$ 378.0

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

(Millions)	Common Stock Shares	Common Stock Par Value	Accumulated Deficit	Treasury Stock Shares	Treasury Stock Cost	Other, Principally Paid-In Capital	Accumulated Other Comprehensive Loss	Comprehensive Income (Loss)
Balance at December 31, 1999	312.5	$3.1	$(1,054.4)	(1.9)	$(41.4)	$3,616.4	$ (570.4)	
Issuance of stock under stock option and other plans	4.8	.1			(.7)	70.0		
Net income			225.0					$ 225.0
Other comprehensive income								
Translation adjustments							(73.3)	(73.3)
Comprehensive income								$ 151.7
Unearned compensation						.4		
Tax benefit related to stock plans						11.3		
Balance at December 31, 2000	317.3	3.2	(829.4)	(1.9)	(42.1)	3,698.1	(643.7)	
Issuance of stock under stock option and other plans	5.2				(.2)	52.2		
Net loss			(67.1)					$ (67.1)
Other comprehensive loss								
Translation adjustments							(67.5)	
Cash flow hedges							4.4	
							(63.1)	(63.1)
Comprehensive loss								$ (130.2)
Unearned compensation						.2		
Tax benefit related to stock plans						4.6		
Balance at December 31, 2001	322.5	3.2	(896.5)	(1.9)	(42.3)	3,755.1	(706.8)	
Issuance of stock under stock option and other plans	5.6	.1			(.1)	46.9		
Net income			223.0					$ 223.0
Other comprehensive loss								
Translation adjustments							(33.8)	
Cash flow hedges							(5.9)	
Minimum pension liability							(1,490.4)	
							(1,530.1)	(1,530.1)
Comprehensive loss								$(1,307.1)
Tax benefit related to stock plans						3.5		
Balance at December 31, 2002	328.1	$3.3	$(673.5)	(1.9)	$(42.4)	$3,805.5	$(2,236.9)	

See notes to consolidated financial statements.

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 and assumptions.

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 Properties are carried at cost and are depreciated over the estimated lives of such assets using the straight-line method. Outsourcing equipment is depreciated over the shorter of the asset life or the term of the contract. For other classifications of properties, the principal rates used are summarized below:

	Rate per Year (%)
Buildings	2-5
Machinery and office equipment	5-25
Rental equipment	25
Internal-use software	12-33

Advertising costs The company expenses all advertising costs as they are incurred. The amount charged to expense during 2002, 2001 and 2000 was $29.3 million, $35.6 million and $38.2 million, respectively.

Revenue recognition The company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectibility is probable.

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

Revenue from software licenses is recognized at the inception of the initial license term and upon execution of an extension to the license term. Revenue for post-contract software support arrangements, which are marketed separately, is recorded on a straight-line basis over the support period for multi-year contracts and at inception for contracts of one year or less. The company also enters into multiple-element arrangements, which may include any combination of hardware, software or services. In these transactions, the company allocates the total revenue to be earned under the arrangement among the various elements based on their relative fair value. For transactions that include software, the allocation is based on vendor-specific objective evidence of fair value. The company recognizes revenue on multiple-element arrangements only if: (i) any undelivered products or services are not essential to the functionality of the delivered products or services, (ii) the company has an enforceable claim to receive the amount due in the event it does not deliver the undelivered products or services, (iii) there is evidence of the fair value for each undelivered product or service, and (iv) the revenue recognition criteria otherwise applicable have been met for the delivered elements.

Revenue from equipment and software maintenance is recognized on a straight-line basis as earned over the lives of the respective contracts.

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

Revenue and profit under systems integration contracts is recognized either on the percentage-of-completion method of accounting using the cost-to-cost method, or when services have been performed, depending on the nature of the project. For contracts accounted for on the percentage-of-completion basis, revenue and profit recognized in any given accounting period are based on estimates of total projected contract costs; the estimates are continually re-evaluated and revised, when necessary, throughout the life of a contract. Any adjustments to revenue and profit due to changes in estimates are accounted for in the period of the change in estimate. When estimates indicate that a loss will be incurred on a contract upon completion, a provision for the expected loss is recorded in the period in which the loss becomes evident.

Revenue from time and materials service contracts and outsourcing contracts is recognized as the services are provided.

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, incurred subsequent to establishment of technological feasibility, is capitalized and amortized to cost of sales over the estimated revenue-producing lives of the products, but not in excess of three years following product release.

Outsourcing contract costs Costs on outsourcing contracts are generally charged to expense as incurred. However, certain direct costs incurred related to the inception of an outsourcing contract are deferred and charged to expense over the contract term. These costs consist principally of initial customer setup and employment obligations related to employees assumed. At December 31, 2002 and 2001, $158.0 million and $137.0 million, respectively, of these costs were reported in other long-term assets. These costs are tested for recoverability quarterly.

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 reported in other comprehensive income. All other exchange gains and losses on intercompany balances are reported in other income (expense), net.

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

Stock-based compensation plans The company has stock-based employee compensation plans, which are described more fully in Note 16. The company applies the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for those plans. For stock options, no compensation expense is reflected in net income as all stock options granted had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant. In addition, no compensation expense is recognized for common stock purchases under the Employees Stock Purchase Plan. Pro forma information regarding net income and earnings per share is required by Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," and has been determined as if the company had accounted for its stock plans under the fair value method of SFAS No. 123. For purposes of the pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The following table illustrates the effect on net income and earnings per share if the company had applied the fair value recognition provisions of SFAS No. 123.

Years ended December 31 (Millions, except per share data)	**2002**	2001	2000
Net income (loss) as reported	**$223.0**	$ (67.1)	$ 225.0
Deduct total stock-based employee compensation expense determined under fair value method for all awards, net of tax	**(49.0)**	(51.8)	(42.5)
Pro forma net income (loss)	**$174.0**	$(118.9)	$ 182.5
Earnings (loss) per share			
Basic – as reported	**$ .69**	$ (.21)	$ .72
Basic – pro forma	**$ .54**	$ (.37)	$ .58
Diluted – as reported	**$ .69**	$ (.21)	$ .71
Diluted – pro forma	**$ .54**	$ (.37)	$ .58

Retirement benefits The company accounts for its defined benefit pension plans in accordance with SFAS No. 87, "Employers' Accounting for Pensions," which requires that amounts recognized in financial statements be determined on an actuarial basis. A significant element in determining the company's pension income (expense) is the expected return on plan assets. This expected return is an assumption as to the rate of return on plan assets reflecting the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected pension benefit obligation. The company applies this assumed long-term rate of return to a calculated value of plan assets, which recognizes changes in the fair value of plan assets in a systematic manner over four years. This produces the expected return on plan assets that is included in pension income (expense). The difference between this expected return and the actual return on plan assets is deferred. The net deferral of past asset gains (losses) affects the calculated value of plan assets and, ultimately, future pension income (expense).

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

Reclassifications Certain prior-year amounts have been reclassified to conform with the 2002 presentation.

2 Earnings per share

The following table shows how earnings per share were computed for the three years ended December 31, 2002.

Year ended December 31 (Millions, except per share data)	**2002**	2001	2000
Basic earnings (loss) per share computation			
Income (loss) before extraordinary items	**$ 223.0**	$ (49.9)	$ 244.8
Extraordinary items		(17.2)	(19.8)
Net income (loss)	**$ 223.0**	$ (67.1)	$ 225.0
Weighted average shares (thousands)	**323,526**	318,207	313,115
Basic earnings (loss) per share			
Before extraordinary items	**$ .69**	$ (.16)	$ .78
Extraordinary items		(.05)	(.06)
Total	**$ .69**	$ (.21)	$ .72
Diluted earnings (loss) per share computation			
Income (loss) before extraordinary items	**$ 223.0**	$ (49.9)	$ 244.8
Extraordinary items		(17.2)	(19.8)
Net income (loss)	**$ 223.0**	$ (67.1)	$ 225.0
Weighted average shares (thousands)	**323,526**	318,207	313,115
Plus incremental shares from assumed conversions of employee stock plans	**1,218**		3,536
Adjusted weighted average shares	**324,744**	318,207	316,651
Diluted earnings (loss) per share			
Before extraordinary items	**$ .69**	$ (.16)	$ .77
Extraordinary items		(.05)	(.06)
Total	**$ .69**	$ (.21)	$ .71

The following shares were not included in the computation of diluted earnings per share because the option prices were above the average market price of the company's common stock, or their inclusion would have been antidilutive (in thousands): 2002, 35,415; 2001, 28,653; 2000, 16,073.

3 Accounting changes

Effective January 1, 2002, the company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 no longer permits the amortization of goodwill and indefinite-lived intangible assets. Instead, these assets must be reviewed annually for impairment in accordance with this statement. SFAS No. 142 required the company to perform a transitional impairment test of its goodwill as of January 1, 2002, as well as perform impairment tests on an annual basis and whenever events or circumstances occur indicating that the goodwill may be impaired. During 2002, the company performed its transitional and annual impairment tests, which indicated that the company's goodwill was not impaired.

The changes in the carrying amount of goodwill by segment for the year ended December 31, 2002, were as follows:

(Millions)	Total	Services	Technology
Balance at December 31, 2001	$159.0	$41.9	$117.1
Acquisition	3.0	3.0	
Foreign currency translation adjustments	(1.4)	(2.4)	1.0
Balance at December 31, 2002	$160.6	$42.5	$118.1

The company's net income and earnings per share adjusted to exclude goodwill amortization was as follows:

Year ended December 31, (Millions, except per share data)	**2002**	2001	2000
Reported income (loss) before extraordinary items	**$ 223.0**	$ (49.9)	$244.8
Add back goodwill amortization, net of tax		14.1	20.1
Adjusted income (loss) before extraordinary items	**$ 223.0**	$ (35.8)	$264.9
Reported net income (loss)	**$ 223.0**	$ (67.1)	$225.0
Add back goodwill amortization, net of tax		14.1	20.1
Adjusted net income (loss)	**$ 223.0**	$ (53.0)	$245.1
Earnings (loss) per share before extraordinary items			
Basic			
As reported	**$ .69**	$ (.16)	$ .78
Goodwill amortization		.04	.06
As adjusted	**$ .69**	$ (.12)	$ .84
Diluted			
As reported	**$ .69**	$ (.16)	$ .77
Goodwill amortization		.04	.06
As adjusted	**$ .69**	$ (.12)	$ .83
Earnings (loss) per share			
Basic			
As reported	**$ .69**	$ (.21)	$ .72
Goodwill amortization		.04	.06
As adjusted	**$ .69**	$ (.17)	$ .78
Diluted			
As reported	**$ .69**	$ (.21)	$ .71
Goodwill amortization		.04	.06
As adjusted	**$ .69**	$ (.17)	$ .77

Effective January 1, 2002, the company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement addresses financial accounting and reporting for legal obligations associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and normal operation of a long-lived asset. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and subsequently allocated to expense over the asset's useful life. Adoption of SFAS No. 143 had no effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

Effective January 1, 2002, the company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 requires an impairment loss to be recognized only if the carrying amounts of long-lived assets to be held and used are not recoverable from their expected undiscounted future cash flows. Adoption of SFAS No. 144 had no effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

In April 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 rescinds SFAS No. 4, which required that all gains and losses from extinguishment of debt be reported as an extraordinary item. The provisions of SFAS No. 145 related to the rescission of SFAS No. 4 must be applied in fiscal years beginning after May 15, 2002. The company will adopt this statement effective January 1, 2003. Previously recorded losses on the early extinguishment of debts that were classified as an extraordinary item in prior periods will be reclassified to other income (expense), net. Adoption of SFAS No. 145 will have no effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 replaces previous accounting guidance provided by EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" and will be effective for the company for exit or disposal activities initiated after December 31, 2002. The company does not believe that adoption of this statement will have a material impact on its consolidated financial position, consolidated results of operations, or liquidity.

In November 2002, the FASB issued EITF Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." This issue addresses how to account for arrangements that may involve the delivery or performance of multiple products, services, and/or rights to use assets. The final consensus of this issue is applicable to agreements entered into in fiscal periods beginning after June 15, 2003. Additionally, companies will be permitted to apply the guidance in this issue to all existing arrangements as the cumulative effect of a change in accounting principle in accordance with APB Opinion No. 20, "Accounting Changes." The company does not believe that adoption of this issue will have a material impact on its consolidated financial position, consolidated results of operations, or liquidity.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34" ("FIN No. 45"). The interpretation requires that upon issuance of a guarantee, the entity must recognize a liability for the fair value of the obligation it assumes under that obligation. This interpretation is intended to improve the comparability of financial reporting by requiring identical accounting for guarantees issued with separately identified consideration and guarantees issued without separately identified consideration. For the company, the initial recognition, measurement provision and disclosure requirements of FIN No. 45 are applicable to guarantees issued or modified after December 31, 2002. The company is currently evaluating what impact, if any, adoption of FIN No. 45 will have on its consolidated financial position, consolidated results of operations, or liquidity.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN No. 46"). This interpretation clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. For the company's synthetic lease, as described in Note 12, FIN No. 46 is effective for the period beginning July 1, 2003.

4 Fourth-quarter charges

2001 charge In response to the weak economic environment in 2001, the company took actions to reduce its cost structure. In the fourth quarter of 2001, the company recorded a pretax charge of $276.3 million, or $.64 per share, primarily for a work-force reduction of approximately 3,750 people (1,700 in the United States and 2,050 outside the United States). Of the total, 1,910 people left the company in 2001, which included 764 people who accepted an early retirement program in the United States. For those employees who accepted the early retirement program, cash requirements were provided through the company's pension plan. Cash expenditures in 2001 related to the involuntary reductions were $23.3 million. These activities did not significantly affect the company's operations while they were ongoing. A further breakdown of the individual components of these costs follows:

($ in Millions)	Headcount	Total	Work-Force Reductions[1] U.S.	Work-Force Reductions[1] Int'l	Idle Lease Costs	Other[2]
Work-force reductions[1]						
Early retirement	764	$ 58.8	$ 58.8			
Involuntary reductions	3,001	145.9	18.8	$ 127.1		
Subtotal	3,765	204.7	77.6	127.1		
Other		71.6			$ 29.5	$ 42.1
Total charge	3,765	276.3	77.6	127.1	29.5	42.1
Utilized	(1,910)	(127.2)	(62.5)	(22.6)		(42.1)
Balance at Dec. 31, 2001	1,855	149.1	15.1	104.5	29.5	–
Additional provisions	996	31.9	8.7	21.8	1.4	
Utilized	(1,890)	(98.0)	(13.4)	(75.5)	(9.1)	
Reversal of excess reserves	(330)	(20.2)	(4.6)	(12.4)	(3.2)	
Other[3]		4.8	1.6	5.3	(2.1)	
Balance at Dec. 31, 2002	631	$ 67.6	$ 7.4	$ 43.7	$ 16.5	$ –
Expected future utilization:						
2003	631	$ 59.5	$ 7.4	$ 43.7	$ 8.4	
2004 and thereafter		8.1			8.1	

(1) Includes severance, notice pay, medical and other benefits.

(2) Includes product and program discontinuances, principally representing a provision for asset write-offs.

(3) Changes in estimates and translation adjustments.

Most of the 2001 fourth-quarter charges were related to work-force reductions ($204.7 million), principally severance costs. Other employee-related costs are not significant. Approximately $58.8 million of this total was funded from the company's U.S. pension plan. The remainder of the cost related to work-force reductions as well as idle lease costs, discussed below, is being funded from the company's operating cash flow. The charge related to idle lease costs was $29.5 million and relates to contractual obligations (reduced by estimated sublease income) existing under long-term leases of vacated facilities. Estimates of the amounts and timing of sublease income were based on discussions with real estate brokers that considered the marketability of the individual property involved. The charge for product and program discontinuances was $42.1 million and principally represented capitalized marketable software and inventory related to products or programs that were discontinued at December 31, 2001. These actions have lowered the company's cost base (principally employee-related costs), thereby making the company better able to compete in the marketplace.

Cash expenditures related to the 2001 restructuring charges were approximately $95.4 million in the year ended December 31, 2002, compared to $23.3 million in 2001. Cash expenditures are expected to be approximately $59.5 million for 2003 and $8.1 million in total for all subsequent years for idle lease costs.

During 2002, the company reduced the accrued work-force portion of the reserve by $17.0 million. This reduction related to 330 employees who were designated for involuntary termination but were retained as a result of job positions that became available due to voluntary terminations or acceptance of alternative positions within the company. In addition, given the continuing weak economic environment, the company identified new restructuring actions and recorded an additional provision of $30.5 million, for a work-force reduction of 996 people.

The 2001 fourth-quarter charge was recorded in the following statement of income classifications: cost of revenue, $163.8 million; selling, general and administrative expenses, $83.2 million; research and development expenses, $27.6 million; and other income (expense), net, $1.7 million.

2000 charge As a result of a strategic business review of its operations in 2000, the company took actions to focus its resources on value-added business opportunities, de-emphasize or eliminate low-return businesses and lower its cost base. In the fourth quarter of 2000, the company recorded a pretax charge of $127.6 million, or $.29 per diluted share, primarily for a work-force reduction of 2,000 people (1,400 in the United States and 600 outside the United States). Of the total, approximately 500 people left the company in 2001 and 1,300 in 2000. Of the total work-force reduction, 742 people accepted an early retirement program in the United States. For those employees who accepted the early retirement program, cash requirements were provided through the company's pension plan. Cash expenditures related to the 2000 restructuring charges were $5.5 million in 2002, $39.3 million in 2001 and $8.7 million in 2000. Cash expenditures for 2003 are expected to be approximately $2.0 million. A further breakdown of the individual components of these costs follows:

		Work-Force Reductions[1]		
(Millions)	Total	U. S.	Int'l	Other [2]
Work-force reductions [1]				
Early retirement	$ 57.8	$57.8		
Involuntary reductions	60.9	13.3	$47.6	
Subtotal	118.7	71.1	47.6	
Other [2]	8.9			$8.9
Total charge	127.6	71.1	47.6	8.9
Utilized	(71.9)	(58.7)	(7.8)	(5.4)
Balance at Dec. 31, 2000	55.7	12.4	39.8	3.5
Utilized	(40.0)	(8.8)	(30.5)	(.7)
Other[3]	(7.1)	(2.3)	(4.0)	(.8)
Balance at Dec. 31, 2001	8.6	1.3	5.3	2.0
Utilized	(6.6)	(1.3)	(3.3)	(2.0)
Balance at Dec. 31, 2002	$ 2.0	$ –	$ 2.0	$ –
Expected future utilization:				
2003	$ 2.0		$ 2.0	

(1) Includes severance, notice pay, medical and other benefits.
(2) Includes facilities costs, and product and program discontinuances.
(3) Includes changes in estimates, reversals of excess reserves, translation adjustments and additional provisions.

In 2001, there was a reduction in accrued work-force provisions principally for the reversal of unneeded reserves due to approximately 200 voluntary terminations.

The 2000 fourth-quarter charge was recorded in the following statement of income classifications: cost of revenue, $56.1 million; selling, general and administrative expenses, $51.9 million; research and development expenses, $18.2 million; and other income (expense), net, $1.4 million.

Prior-year charges As a result of prior-year actions related to a strategic realignment of the company's business in 1997 and 1995, cash expenditures in 2002, 2001 and 2000 were $3.5 million, $8.9 million and $17.6 million, respectively. At December 31, 2002, an $8.8 million accrued liability remains principally for idle lease costs. Cash expenditures for 2003 are expected to be approximately $4.3 million.

5 Accounts receivable

In December 2000, the company entered into an agreement to sell, through Unisys Funding Corporation I, a wholly owned subsidiary, interests in eligible U.S. trade accounts receivable for up to $275 million. The agreement is renewable annually, at the purchasers' option, for up to three years. Upon renewal of the facility in December 2001, the amount was reduced to $225 million. Unisys Funding Corporation I has been structured to isolate its assets from creditors of Unisys. In 2000, the company received proceeds of $232 million from the initial sale, and in 2002 and 2001, the company received an aggregate of $2.3 billion, each year, from ongoing sales of accounts receivable interests under the program. At December 31, 2002 and 2001, the company retained subordinated interests of $120 million and $135 million, respectively, in the associated receivables; these receivables have been included in accounts and notes receivable, net in the accompanying consolidated balance sheet. As collections reduce previously sold interests, interests in new eligible receivables can be sold, subject to meeting certain conditions. At December 31, 2002 and 2001, receivables of $199 million and $176 million, respectively, were sold and therefore removed from the accompanying consolidated balance sheet.

The selling price of the receivables interests reflects a discount based on the A-1 rated commercial paper borrowing rates of the purchasers (1.5% at December 31, 2002, and 2.0% at December 31, 2001). The company remains responsible for servicing the underlying accounts receivable, for which it will receive a fee of 0.5% of the outstanding balance, which it believes represents adequate compensation. The company estimates the fair value of its retained interests by considering two key assumptions: the payment rate, which is derived from the average life of the accounts receivable, which is less than 60 days, and the rate of expected credit losses. Based on the company's favorable collection experience and very short-term nature of the receivables, both assumptions are considered to be highly predictable. Therefore, the company's estimated fair value of its retained interests in the pool of eligible receivables is approximately equal to book value, less the associated allowance for doubtful accounts. The discount on the sales of these accounts receivable during the years ended December 31, 2002 and 2001, was $4.2 million and $12.2 million, respectively. The amount of discount for the year ended December 31, 2000, was not material. These discounts are recorded in other income (expense), net in the accompanying consolidated statement of income.

Revenue recognized in excess of billings on services contracts, or unbilled accounts receivable, was $133.3 million and $146.7 million at December 31, 2002 and 2001, respectively. Such amounts are included in accounts and notes receivables, net. At December 31, 2002 and 2001, the company had long-term accounts and notes receivable, net of $144.0 million and $186.3 million, respectively. Such amounts are included in other long-term assets in the accompanying consolidated balance sheet.

6 Income taxes

Year ended December 31 (Millions)	**2002**	2001	2000
Income (loss) before income taxes			
United States	**$ 125.7**	$ 95.9	$ 389.0
Foreign	**207.1**	(142.4)	(10.0)
Total income (loss) before income taxes	**$ 332.8**	$ (46.5)	$ 379.0
Provision for income taxes			
Current			
United States	**$ (6.5)**	$ 7.7	$ 10.1
Foreign	**62.4**	24.0	63.6
State and local	**7.7**	3.5	4.9
Total	**63.6**	35.2	78.6
Deferred			
United States	**19.2**	(16.2)	72.8
Foreign	**27.0**	(15.6)	(17.2)
Total	**46.2**	(31.8)	55.6
Total provision for income taxes	**$ 109.8**	$ 3.4	$ 134.2

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

Year ended December 31 (Millions)	**2002**	2001	2000
United States statutory income tax (benefit)	**$ 116.5**	$ (16.3)	$ 132.7
Difference in estimated income taxes on foreign earnings, losses and remittances	**(4.1)**	44.6	36.2
State taxes	**5.0**	2.3	3.2
Tax refund claims, audit issues and other matters	**(16.0)**	(26.1)	(39.6)
Other	**8.4**	(1.1)	1.7
Provision for income taxes	**$ 109.8**	$ 3.4	$ 134.2

The tax effects of temporary differences and carryforwards that give rise to significant portions of deferred tax assets and liabilities at December 31, 2002 and 2001, were as follows:

December 31 (Millions)	**2002**	2001
Deferred tax assets		
Capitalized research and development	**$ 566.2**	$ 561.1
Tax loss carryforwards	**384.4**	325.2
Foreign tax credit carryforwards	**98.3**	34.1
Other tax credit carryforwards	**238.1**	239.4
Capitalized intellectual property rights	**302.4**	303.4
Pensions	**259.8**	
Postretirement benefits	**70.5**	71.8
Depreciation	**52.6**	48.4
Employee benefits	**44.4**	77.5
Restructuring	**29.7**	92.8
Other	**277.1**	278.0
	2,323.5	2,031.7
Valuation allowance	**(451.5)**	(342.2)
Total deferred tax assets	**$1,872.0**	$1,689.5
Deferred tax liabilities		
Pensions	**$ –**	$ 501.2
Sales-type leases	**78.5**	102.9
Other	**67.5**	51.2
Total deferred tax liabilities	**$ 146.0**	$ 655.3
Net deferred tax assets	**$1,726.0**	$1,034.2

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. The valuation allowance at December 31, 2002, applies to tax loss carryforwards and temporary differences relating to state and local and certain foreign taxing jurisdictions that, in management's opinion, are more likely than not to expire unused. During 2002, the net increase in the valuation allowance of $109.3 million was principally related to an increase in state and local deferred tax assets resulting from the recognition of minimum pension liabilities.

Cumulative undistributed earnings of foreign subsidiaries, for which no U.S. income or foreign withholding taxes have been recorded, approximated $830 million at December 31, 2002. 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 2002, 2001 and 2000 for income taxes was $72.3 million, $97.0 million and $110.0 million, respectively.

At December 31, 2002, the company has U.S. federal and state and local tax loss carryforwards and foreign tax loss carryforwards for certain foreign subsidiaries, the tax effect of which is approximately $384.4 million. These carryforwards will expire as follows (in millions): 2003, $14.6; 2004, $26.7; 2005, $20.9; 2006, $34.3; 2007, $25.5; and $262.4 thereafter. The company also has available tax credit carryforwards of approximately $336.4 million, which will expire as follows (in millions): 2003, $8.4; 2004, $7.5; 2005, $26.1; 2006, $–; 2007, $78.2; and $216.2 thereafter.

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

7 Properties

Properties comprise the following:

December 31 (Millions)	**2002**	2001
Land	**$ 5.3**	$ 5.2
Buildings	**140.5**	143.7
Machinery and office equipment	**897.2**	897.4
Internal-use software	**167.0**	139.9
Rental and outsourcing equipment	**332.7**	274.2
Total properties	**$1,542.7**	$1,460.4

8 Investments at equity and minority interests

Substantially all of the company's investments at equity consist of Nihon Unisys, Ltd., a publicly traded Japanese company ("NUL"). NUL is the exclusive supplier of the company's hardware and software products in Japan. The company considers its investment in NUL to be of a long-term strategic nature. For the years ended December 31, 2002, 2001 and 2000, total direct and indirect sales to NUL were approximately $270 million, $340 million and $530 million, respectively. At December 31, 2002, the company owned approximately 28% of NUL's common stock that had a market value of approximately $171 million. The company's share of NUL's earnings or

losses are recorded semiannually on a quarter-lag basis in other income (expense), net in the company's statements of income. During the years ended December 31, 2002, 2001 and 2000, the company recorded equity income or (loss) related to NUL of $(11.8) million, $10.4 million and $18.2 million, respectively. The year ended December 31, 2002, included $21.8 million related to the company's share of an early retirement charge recorded by NUL. The company has approximately $176 million of retained earnings that represents undistributed earnings of NUL.

Summarized financial information for NUL as of and for its fiscal years ended March 31 is as follows:

(Millions) (Unaudited)	**2002**	2001	2000
Year ended March 31			
Revenue	**$2,451.8**	$2,819.2	$2,835.2
Gross profit	**646.0**	815.5	903.2
Pretax income (loss)	**(101.2)**	85.7	68.3
Net income (loss)	**(62.4)**	44.0	32.8
At March 31			
Current assets	**1,257.6**	1,304.9	1,564.1
Noncurrent assets	**892.3**	709.6	826.9
Current liabilities	**936.3**	913.7	1,015.6
Noncurrent liabilities	**851.2**	357.0	504.6
Minority interests	**10.7**	11.0	11.4

The company owns 51% of Intelligent Processing Solutions Limited ("iPSL"), a UK-based company, which provides high-volume payment processing. iPSL is fully consolidated in the company's financial statements. The minority owners' interests are reported in other long-term liabilities ($52.8 million and $48.6 million at December 31, 2002 and 2001, respectively) and in other income (expense), net in the company's financial statements.

9 Debt

Long-term debt comprises the following:

December 31 (Millions)	**2002**	2001
8⅛% senior notes due 2006	**$ 400.0**	$ 400.0
7⅞% senior notes due 2008	**200.0**	200.0
7¼% senior notes due 2005	**150.0**	150.0
Other, net of unamortized discounts	**2.4**	(2.8)
Total	**752.4**	747.2
Less – current maturities	**4.4**	2.2
Total long-term debt	**$ 748.0**	$ 745.0

Total long-term debt maturities in 2003, 2004, 2005, 2006 and 2007 are $4.4, $2.6, $150.2, $400.3 and $.1 million, respectively.

Cash paid during 2002, 2001 and 2000 for interest was $73.6, $92.9 and $90.5 million, respectively. Capitalized interest expense during 2002, 2001 and 2000 was $13.9, $11.8 and $11.4 million, respectively.

At December 31, 2002, the company had short-term borrowings of $77.3 million. Of this amount $34.1 million was borrowed by the company's Brazilian subsidiaries in their local currency at a weighted average interest rate at December 31st of 28%, and $43.2 million was borrowed principally by other international subsidiaries at a weighted average interest rate at December 31st of 5.5%.

During 2001, the company issued $400 million of 8 1/8% senior notes due 2006 and $150 million of 7¼% senior notes due 2005. In 2001, the company also completed a cash tender offer for $319.2 million principal amount of its 11¾% senior notes due 2004 and redeemed, at a premium, the remaining $15.0 million outstanding principal amount of such notes. As a result of these actions, the company recorded an extraordinary after-tax charge of $17.2 million, net of $9.3 million tax benefit, or $.05 per share, for the premium paid, unamortized debt-related expenses and transaction costs.

In 2000, the company redeemed all of its $399.5 million outstanding 12% senior notes due 2003 at the stated redemption price of 106% of principal. As a result, the company recorded an extraordinary charge of $19.8 million, net of $10.7 million of income tax benefits, or $.06 per diluted share, for the call premium and unamortized debt expense.

The company has a $450 million credit agreement that expires in March 2004. As of December 31, 2002, there were no borrowings under this facility. Borrowings under the agreement bear interest based on the then-current LIBOR or prime rates and the company's credit rating. The credit agreement contains financial and other covenants, including maintenance of certain financial ratios, a minimum level of net worth and limitations on certain types of transactions, which could reduce the amount the company is able to borrow. Events of default under the credit agreement include failure to perform covenants, material adverse change, change of control and default under other debt aggregating at least $25 million. If an event of default were to occur under the credit agreement, the lenders would be entitled to declare all amounts borrowed under it immediately due and payable. The occurrence of an event of default under the credit agreement could also cause the acceleration of obligations under certain other agreements and the termination of the company's U.S. trade accounts receivable facility. In addition, the company and certain international subsidiaries have access to certain uncommitted lines of credit from various banks. At December 31, 2002, the company has met all covenants and conditions under its various lending and funding agreements.

10 Other accrued liabilities

Other accrued liabilities (current) comprise the following:

December 31 (Millions)	2002	2001
Customers' deposits and prepayments	**$ 347.8**	$ 333.8
Deferred revenue	**246.6**	227.8
Payrolls and commissions	**240.5**	176.9
Accrued vacations	**113.1**	109.3
Taxes other than income taxes	**74.5**	75.5
Restructuring*	**65.8**	134.8
Other	**253.1**	244.8
Total other accrued liabilities	**$1,341.4**	$ 1,302.9

**At December 31, 2002 and 2001, an additional $12.6 million and $35.2 million, respectively, was reported in other long-term liabilities on the consolidated balance sheet.*

11 Product warranty

For equipment manufactured by the company, the company warrants that it will substantially conform to relevant published specifications for twelve months after shipment to the customer. The company will repair or replace, at its option and expense, items of equipment that do not meet this warranty. For company software, the company warrants that it will conform substantially to then-current published functional specifications for ninety days from customer's receipt. The company will provide a workaround or correction for material errors in its software that prevents its use in a production environment.

The company estimates the costs that may be incurred under its warranties and records a liability in the amount of such costs at the time revenue is recognized. Factors that affect the company's warranty liability include the number of units sold, historical and anticipated rates of warranty claims and cost per claim. The company quarterly assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. Presented below is a reconciliation of the aggregate product warranty liability:

Year ended December 31 (Millions)	2002
Balance at December 31, 2001	**$ 16.1**
Accruals for warranties issued during the period	**16.4**
Settlements made during the period	**(15.2)**
Changes in liability for pre-existing warranties during the period, including expirations	**1.9**
Balance at December 31, 2002	**$ 19.2**

12 Rental expense and commitments

Rental expense, less income from subleases, for 2002, 2001 and 2000 was $159.0 million, $161.6 million and $146.0 million, respectively.

Minimum net rental commitments under noncancelable operating leases outstanding at December 31, 2002, substantially all of which relate to real properties, were as follows: 2003, $135.7; 2004, $99.1; 2005, $72.8; 2006, $56.8; 2007, $46.5; and $170.1 million thereafter. Such rental commitments have been reduced by minimum sublease rentals of $124.5 million, due in the future under noncancelable subleases.

Rental expense for 2002, 2001 and 2000 includes approximately $1.0 million, $2.0 million and $2.2 million, respectively, under a facility lease that expires in March 2005. The owner of the property is a special-purpose entity in which unrelated third parties made and have maintained an equity capital investment. The company has no debt or equity interest in this entity. At December 31, 2002 and 2001, the company did not consolidate this entity. Effective July 1, 2003, in accordance with FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," the company will be required to consolidate this entity. Assets and debt are expected to increase by approximately $33 million; however, the change in the company's results of operations is expected to be immaterial. The company has the option to purchase the facility at any time during the lease term for approximately $33 million. At the end of the lease term, the company has agreed to either purchase the facility or remarket it to a third party on behalf of the owner. If the sales price is less than $33 million, the company is obligated to make up the lesser of the shortfall or $28 million. At December 31, 2002, the fair value of the property exceeded $33 million. The lease contains a number of financial covenants and other provisions. At December 31, 2002, the company was in compliance with all of these covenants and provisions.

At December 31, 2002, the company had outstanding standby letters of credit and surety bonds of approximately $340 million related to performance and payment guarantees. On the basis of experience with these arrangements, the company believes that any obligations that may arise will not be material.

13 Financial instruments

Due to its foreign operations, the company is exposed to the effects of foreign currency exchange rate fluctuations on the U.S. dollar. The company uses derivative financial instruments to manage its exposure to market risks from changes in foreign currency exchange rates. The derivative instruments used are foreign exchange forward contracts and foreign exchange options.

Certain of the company's qualifying derivative financial instruments have been designated as cash flow hedging instruments. Such instruments are used to manage the company's currency exchange rate risks for forecasted transactions involving intercompany sales and royalties and third-party royalty receipts. For the forecasted intercompany transactions, the company generally enters into derivative financial instruments for a six-month period by initially purchasing a three-month foreign exchange option, which, at expiration, is replaced with a three-month foreign exchange forward contract. For forecasted third-party royalty receipts, which are principally denominated in Japanese yen, the company generally purchases twelve-month foreign exchange forward contracts.

The company recognizes the fair value of its cash flow hedge derivatives as either assets or liabilities in its balance sheet. Changes in the fair value related to the effective portion of such derivatives are recognized in other comprehensive income until the hedged item is recognized in earnings, at which point the accumulated gain or loss is reclassified out of other comprehensive income and into earnings. The ineffective portion of such derivative's change in fair value is immediately recognized in earnings. The amount of ineffectiveness recognized in earnings during the years ended December 31, 2002 and 2001, related to cash flow hedge derivatives for third-party royalties was a gain of approximately $1.7 million and $4.2 million, respectively. The ineffective amount related to cash flow hedge derivatives for intercompany transactions was immaterial. Both the amounts reclassified out of other comprehensive income and into earnings and the ineffectiveness recognized in earnings related to cash flow hedge derivatives for forecasted intercompany transactions are recognized in cost of revenue, and in revenue for forecasted third-party royalties. Substantially all of the accumulated income and loss in other comprehensive income related to cash flow hedges at December 31, 2002, is expected to be reclassified into earnings within the next twelve months.

When a cash flow hedge is discontinued because it is probable that the original forcasted transaction will not occur by the end of the original specified time period, the company is required to reclassify any gains or losses out of other comprehensive income and into earnings. The amount of such reclassifications during the years ended December 31, 2002 and 2001, was immaterial.

In addition to the cash flow hedge derivatives mentioned above, the company enters into foreign exchange forward contracts that have not been designated as hedging instruments. Such contracts generally have maturities of one month and are used by the company to manage its exposure to changes in foreign currency exchange rates principally on intercompany accounts. The fair value of such instruments is recognized as either assets or liabilities in the company's balance sheet, and changes in the fair value are recognized immediately in earnings in other income (expense), net in the company's statement of income.

During the years ended December 31, 2002, 2001 and 2000, the company recognized foreign exchange transaction gains or (losses) in other income (expense), net in its statement of income of $(1.2) million, $21.4 million and $(2.3) million, respectively.

In 1999, the company entered into interest rate swaps and currency swaps for euros and Japanese yen. The currency swaps were designated as hedges of the foreign currency exposure on the company's net investments in foreign subsidiaries and equity investments. The currency effects of these hedges were reported in accumulated other comprehensive income (loss), thereby offsetting a portion of the foreign currency translation of net assets. The difference between receipts of a U.S. fixed rate of interest and payments of a foreign currency denominated floating rate was reported in interest expense. In 2000, the company terminated these swaps, and as a result received net cash of $18.5 million and recognized a pretax loss of $2.7 million. Under the swaps, the company recognized an interest expense benefit of approximately $16 million in 2000.

Financial instruments also include temporary cash investments and customer accounts receivable. Temporary investments are placed with creditworthy financial institutions, primarily in oversecuritized treasury repurchase agreements, Eurotime deposits, or commercial paper of major corporations. At December 31, 2002, 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 2002 and 2001, as well as unrealized gains or losses at December 31, 2002, were immaterial. Receivables are due from a large number of customers that are dispersed worldwide across many industries. At December 31, 2002 and 2001, the company had no significant concentrations of credit risk. The carrying amount of cash and cash equivalents, notes payable and long-term debt approximates fair value.

14 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.

15 Segment information

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

The accounting policies of each business segment are the same as those described in the summary of significant accounting policies. Intersegment sales and transfers are priced as if the sales or transfers were to third parties. Accordingly, the Technology segment recognizes intersegment revenue and manufacturing profit on hardware and software shipments to customers under Services contracts. The Services segment, in turn, recognizes customer revenue and marketing profit on such shipments of company hardware and software to customers. The Services segment also includes the sale of hardware and software products sourced from third parties that are sold to customers through the company's Services channels. In the company's consolidated statements of income, the manufacturing costs of products sourced from the Technology segment and sold to Services customers are reported in cost of revenue for Services. Also included in the Technology segment's sales and operating profit are sales of hardware and software sold to the Services segment for internal use in Services engagements. The amount of such profit included in operating income of the Technology segment for the years ended December 31, 2002, 2001 and 2000, was $19.2 million, $21.8 million and $23.6 million, respectively. The profit on these transactions is eliminated in Corporate. The company evaluates business segment performance on operating income exclusive of restructuring charges and unusual and nonrecurring items, which are included in Corporate. All corporate and centrally incurred costs are allocated to the business segments based principally on revenue, employees, square footage or usage.

Corporate assets are principally cash and cash equivalents, prepaid pension assets and deferred income taxes. The expense or income related to corporate assets is allocated to the business segments. In addition, corporate assets include an offset for interests in accounts receivable that have been recorded as sales in accordance with SFAS No. 140 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 $579 million, $623 million and $689 million in 2002, 2001 and 2000, respectively.

A summary of the company's operations by business segment for 2002, 2001 and 2000 is presented below:

(Millions)	Total	Corporate	Services	Technology
2002				
Customer revenue	$5,607.4		$ 4,285.1	$ 1,322.3
Intersegment		$ (331.9)	38.8	293.1
Total revenue	$5,607.4	$ (331.9)	$ 4,323.9	$ 1,615.4
Operating income (loss)	$ 423.2	$ (21.4)	$ 256.0	$ 188.6
Depreciation and amortization	297.8		167.2	130.6
Total assets	4,981.4	1,995.3	2,002.0	984.1
Investments at equity	111.8	1.1		110.7
Capital expenditures for properties	196.2	15.3	142.4	38.5
2001				
Customer revenue	$6,018.1		$ 4,444.6	$ 1,573.5
Intersegment		$ (363.4)	73.8	289.6
Total revenue	$6,018.1	$ (363.4)	$ 4,518.4	$ 1,863.1
Operating income (loss)	$ (4.5)	$ (315.7)	$ 94.7	$ 216.5
Depreciation and amortization	318.0		155.1	162.9
Total assets	5,769.1	2,617.6	2,009.3	1,142.2
Investments at equity	212.3	1.8		210.5
Capital expenditures for properties	199.4	28.9	113.8	56.7
2000				
Customer revenue	$6,885.0		$ 4,741.6	$ 2,143.4
Intersegment		$ (437.2)	46.6	390.6
Total revenue	$6,885.0	$ (437.2)	$ 4,788.2	$ 2,534.0
Operating income (loss)	$ 426.8	$ (103.3)	$ 81.4	$ 448.7
Depreciation and amortization	285.6		129.4	156.2
Total assets	5,713.3	2,434.4	1,989.0	1,289.9
Investments at equity	225.8	1.7		224.1
Capital expenditures for properties	198.3	21.4	111.9	65.0

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

Year ended December 31 (Millions)	2002	2001	2000
Total segment operating income	**$ 444.6**	$ 311.2	$ 530.1
Interest expense	**(66.5)**	(70.0)	(79.8)
Other income (expense), net	**(23.9)**	28.0	32.0
Corporate and eliminations	**(21.4)**	(39.4)	24.3
Fourth-quarter charges		(276.3)	(127.6)
Total income (loss) before income taxes	**$ 332.8**	$ (46.5)	$ 379.0

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

December 31 (Millions)	2002	2001	2000
Total segment assets	**$2,986.1**	$3,151.5	$3,278.9
Cash and cash equivalents	**301.8**	325.9	378.0
Prepaid pension assets		1,221.0	1,063.0
Deferred income taxes	**1,787.3**	1,090.4	1,044.2
Elimination for sale of receivables	**(273.5)**	(191.8)	(279.1)
Other corporate assets	**179.7**	172.1	228.3
Total assets	**$4,981.4**	$5,769.1	$5,713.3

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

Year ended December 31 (Millions)	2002	2001	2000
Services			
Systems integration	**$1,455.6**	$1,465.3	$1,599.0
Outsourcing	**1,441.2**	1,302.3	1,193.1
Infrastructure services	**831.7**	1,094.9	1,326.3
Core maintenance	**556.6**	582.1	623.2
	4,285.1	4,444.6	4,741.6
Technology			
Enterprise-class servers	**955.9**	1,048.5	1,424.4
Specialized technologies	**366.4**	525.0	719.0
	1,322.3	1,573.5	2,143.4
Total	**$5,607.4**	$6,108.1	$6,885.0

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

(Millions)	2002	2001	2000
Revenue			
United States	**$2,500.7**	$2,595.3	$2,875.5
United Kingdom	**749.3**	823.9	762.9
Other foreign	**2,357.4**	2,598.9	3,246.6
Total	**$5,607.4**	$6,018.1	$6,885.0
Properties, net			
United States	**$ 315.4**	$ 345.9	$ 334.0
United Kingdom	**164.6**	75.5	52.6
Other foreign	**129.8**	128.2	123.3
Total	**$ 609.8**	$ 549.6	$ 509.9

16 Employee plans

Stock plans Under the company's plans, stock options, stock appreciation rights, restricted stock, and restricted stock units may be granted to officers, directors and other key employees.

Options have been granted to purchase the company's common stock at an exercise price equal to or greater than the fair market value at the date of grant. Options generally have a maximum duration of ten years and 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 years ended December 31, 2002, 2001 and 2000, $.2 million, $.6 million and $1.0 million was charged to income, respectively.

The company has a worldwide Employee Stock Purchase Plan ("ESPP"), which enables substantially all regular employees to purchase 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 years ended December 31, 2002, 2001 and 2000, employees purchased newly issued shares from the company for $24.1 million, $28.8 million and $37.3 million, respectively.

U.S. employees are eligible to participate in an employee savings plan. Under this plan, employees may contribute a percentage of their pay for investment in various investment alternatives. Company matching contributions of 2% of pay are made in the form of newly issued shares of company common stock. The charge to income related to the company match for the years ended December 31, 2002, 2001 and 2000, was $17.9 million, $18.0 million and $19.1 million, respectively.

The company applies APB Opinion 25 for its stock plans and the disclosure-only option under SFAS No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation expense is recognized for stock options granted and for common stock purchases under the ESPP.

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 2002, 2001 and 2000, respectively: risk-free interest rates of 4.44%, 5.08% and 6.84%, 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.

A summary of the status of stock option activity follows:

Year ended December 31 (Shares in thousands)	**2002**		2001		2000	
	Shares	Weighted Avg. Exercise Price	Shares	Weighted Avg. Exercise Price	Shares	Weighted Avg. Exercise Price
Outstanding at beginning of year	**28,653**	**$22.56**	22,085	$24.44	19,158	$19.74
Granted	**13,873**	**14.39**	9,122	17.75	7,667	33.36
Exercised	**(647)**	**7.68**	(697)	6.91	(1,455)	9.58
Forfeited and expired	**(2,989)**	**29.18**	(1,857)	27.07	(3,285)	24.41
Outstanding at end of year	**38,890**	**19.73**	28,653	22.56	22,085	24.44
Exercisable at end of year	**15,570**	**21.94**	11,709	19.90	7,946	15.72
Shares available for granting options at end of year	**12,449**		2,477		4,008	
Weighted average fair value of options granted during the year		**$ 5.95**		**$ 9.80**		$18.76

December 31, 2002 (Shares in thousands)	Outstanding			Exercisable	
Exercise Price Range	Shares	Average Life *	Average Exercise Price	Shares	Average Exercise Price
$5.75–11.79	5,883	5.35	$ 8.68	4,277	$ 8.65
$11.79–12.11	9,631	8.88	12.10	282	12.00
$12.11–18.57	7,781	8.20	18.03	1,843	18.25
$18.57–30.19	9,801	6.68	26.66	6,265	26.83
$30.19–51.73	5,794	6.89	34.21	2,903	34.27
Total	38,890	7.36	19.73	15,570	21.94

** Average contractual remaining life in years.*

Retirement benefits

Retirement plans funded status and amounts recognized in the company's consolidated balance sheet at December 31, 2002 and 2001, follow:

December 31 (Millions)	U.S. Plans 2002	U.S. Plans 2001	International Plans 2002	International Plans 2001
Change in benefit obligation				
Benefit obligation at beginning of year	**$3,869.0**	$3,559.0	**$ 947.0**	$757.1
Service cost	**36.0**	35.2	**27.6**	22.3
Interest cost	**278.9**	273.7	**64.3**	55.1
Plan participants' contributions			**7.2**	8.2
Plan amendments	**(74.0)**	59.6	**1.2**	4.0
Actuarial loss	**319.1**	217.8	**117.3**	45.9
Benefits paid	**(305.1)**	(276.3)	**(49.7)**	(38.4)
Effect of settlements/curtailments			**2.6**	1.8
Foreign currency translation adjustments			**152.1**	10.1
Other*			**48.2**	80.9
Benefit obligation at end of year	**$4,123.9**	$3,869.0	**$1,317.8**	$947.0
Change in plan assets				
Fair value of plan assets at beginning of year	**$4,300.1**	$4,951.3	**$ 914.9**	$847.9
Actual return on plan assets	**(428.2)**	(381.4)	**(111.6)**	(46.2)
Employer contribution	**7.6**	6.5	**34.6**	26.0
Plan participants' contributions			**7.2**	8.2
Benefits paid	**(305.1)**	(276.3)	**(49.7)**	(38.4)
Foreign currency translation adjustments			**126.2**	15.0
Other*			**53.0**	102.4
Fair value of plan assets at end of year	**$3,574.4**	$4,300.1	**$ 974.6**	$914.9
Funded status	**$ (549.5)**	$ 431.1	**$ (343.2)**	$ (32.1)
Unrecognized net actuarial loss	**1,865.9**	660.4	**514.6**	152.0
Unrecognized prior service (benefit) cost	**(74.4)**	(6.3)	**6.8**	5.8
Net amount recognized	**$1,242.0**	$1,085.2	**$ 178.2**	$125.7
Amounts recognized in the consolidated balance sheet consist of:				
Prepaid pension cost	**$ –**	$1,085.2	**$ –**	$135.8
Intangible asset			**6.8**	
Accrued pension liability	**(547.1)**		**(180.6)**	(10.1)
Accumulated other comprehensive loss**	**1,789.1**		**352.0**	
	$1,242.0	$1,085.2	**$ 178.2**	$125.7

** Represents amounts of pension assets and liabilities assumed by the company at the inception of certain outsourcing contracts related to the customers' employees hired by the company.*

*** In addition to amounts recognized in other comprehensive loss relating to company pension plans, the company recorded $80.4 million in other comprehensive loss related to its share of NUL's minimum pension liability adjustment.*

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): $5,441.7 million, $5,270.6 million and $4,549.0 million at December 31, 2002, and $181.0 million, $171.3 million and $93.3 million at December 31, 2001.

Net periodic pension cost for 2002, 2001 and 2000 includes the following components:

	U.S. Plans			International Plans		
Year ended December 31 (Millions)	**2002**	2001	2000	**2002**	2001	2000
Service cost	**$ 36.0**	$ 35.2	$ 37.4	**$ 27.6**	$ 22.3	$ 18.7
Interest cost	**278.9**	273.7	263.5	**64.3**	55.1	49.9
Expected return on plan assets	**(459.8)**	(476.2)	(440.3)	**(91.4)**	(79.4)	(67.3)
Amortization of prior service (benefit) cost	**(5.6)**	(5.5)	(5.9)	**.8**	.9	.9
Amortization of asset or liability at adoption			.8		.3	.3
Recognized net actuarial loss (gain)	**1.7**	1.2	1.1	**2.6**	(1.0)	.5
Settlement/curtailment (gain) loss	**(.4)**			**1.8**	3.4	1.4
Net periodic pension (income) cost	**$(149.2)**	$ (171.6)	$(143.4)	**$ 5.7**	$ 1.6	$ 4.4
Weighted-average assumptions as of December 31 were as follows:						
Discount rate	**6.75%**	7.50%	8.00%	**5.86%**	6.25%	6.57%
Rate of compensation increase	**5.40%**	5.40%	5.40%	**3.80%**	3.80%	3.77%
Expected long-term rate of return on assets	**9.50%**	10.00%	10.00%	**8.20%**	8.54%	8.51%

* *For 2003, the company has assumed that the expected long-term rate of return on plan assets for its U.S. defined benefit pension plan will be 8.75%.*

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, 2002 and 2001, follow:

December 31 (Millions)	**2002**	2001
Change in benefit obligation		
Benefit obligation at beginning of year	**$ 220.1**	$ 219.1
Interest cost	**14.7**	15.2
Plan participants' contributions	**30.7**	27.8
Actuarial loss	**17.5**	10.9
Benefits paid	**(55.6)**	(52.9)
Benefit obligation at end of year	**$ 227.4**	$ 220.1
Change in plan assets		
Fair value of plan assets at beginning of year	**$ 13.4**	$ 13.3
Actual return on plan assets	**1.1**	1.0
Employer contributions	**22.3**	24.2
Plan participants' contributions	**30.7**	27.8
Benefits paid	**(55.6)**	(52.9)
Fair value of plan assets at end of year	**$ 11.9**	$ 13.4
Funded status	**$(215.5)**	$(206.7)
Unrecognized net actuarial loss	**40.7**	26.2
Unrecognized prior service benefit	**(7.9)**	(9.9)
Accrued benefit cost	**$(182.7)**	$(190.4)

Net periodic postretirement benefit cost for 2002, 2001 and 2000, follows:

Year ended December 31 (Millions)	**2002**	2001	2000
Interest cost	**$14.7**	$15.2	$14.9
Amortization of prior service benefit	**(2.0)**	(2.0)	(2.0)
Recognized net actuarial loss	**1.9**	1.3	.4
Net periodic benefit cost	**$14.6**	$14.5	$13.3
Weighted-average assumptions as of December 31 were as follows:			
Discount rate	**7.00%**	7.40%	7.70%
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 is 10.5% for 2003, gradually declining to 5.5% in 2008 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, 2002, by $10.4 million and $(10.6) million, respectively, and increase (decrease) the interest cost component of net periodic postretirement benefit cost for 2002 by $.7 million and $(.7) million, respectively.

17 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.

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, 2002, 67.4 million shares of unissued common stock of the company were reserved principally for stock options and for stock purchase and savings plans.

Comprehensive income (loss) for the three years ended December 31, 2002, includes the following components:

Year ended December 31 (Millions)	**2002**	2001	2000
Net income (loss)	**$ 223.0**	$ (67.1)	$ 225.0
Other comprehensive income (loss)			
Cumulative effect of change in accounting principle (SFAS No. 133), net of tax of $1.8		3.3	
Cash flow hedges			
Income (loss), net of tax of $(4.3) and $5.1	**(7.9)**	9.7	
Reclassification adjustments, net of tax of $1.2 and $(4.6)	**2.0**	(8.6)	
Foreign currency translation adjustments, net of tax of $-, $- and $19.0	**(33.8)**	(67.5)	(73.3)
Minimum pension liability, net of tax of $731.2	**(1,490.4)**		
Total other comprehensive income (loss)	**(1,530.1)**	(63.1)	(73.3)
Comprehensive income (loss)	**$(1,307.1)**	$ (130.2)	$ 151.7

Accumulated other comprehensive income (loss) as of December 31, 2002, 2001 and 2000, is as follows (in millions of dollars):

	Total	Translation Adjustments	Cash Flow Hedges	Minimum Pension Liability
Balance at December 31, 1999	$ (570.4)	$ (570.4)	$ –	$ –
Change during period	(73.3)	(73.3)		
Balance at December 31, 2000	(643.7)	(643.7)	–	–
Change during period	(63.1)	(67.5)	4.4	
Balance at December 31, 2001	(706.8)	(711.2)	4.4	–
Change during period	(1,530.1)	(33.8)	(5.9)	(1,490.4)
Balance at December 31, 2002	$(2,236.9)	$ (745.0)	$(1.5)	$(1,490.4)

Report of Management

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

The company maintains a system of internal accounting controls designed to provide reasonable assurance at a reasonable cost that assets are safeguarded against loss or unauthorized use, and that transactions are executed in accordance with management's authorization and recorded and summarized properly. This system is augmented by written policies and procedures, an internal audit program, and the selection and training of qualified personnel.

Ernst & Young LLP, independent auditors, have audited the company's financial statements. Their accompanying report is based on audits conducted in accordance with auditing standards generally accepted in the United States, which require a review of the system of internal accounting controls and tests of accounting procedures and records to the extent necessary for the purpose of their audits.

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

Lawrence A. Weinbach
Chairman, President,
and Chief Executive Officer

Janet Brutschea Haugen
Senior Vice President
and Chief Financial Officer

Report of Independent Auditors

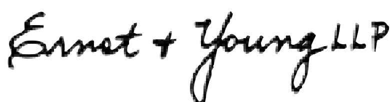
To the Board of Directors of Unisys Corporation

We have audited the accompanying consolidated balance sheets of Unisys Corporation as of December 31, 2002 and 2001, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. 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 auditing standards generally accepted in the United States. 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, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 3 to the consolidated financial statements, in 2002 Unisys Corporation adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," which resulted in Unisys Corporation changing the method of accounting for goodwill.



Philadelphia, Pennsylvania
January 21, 2003

Supplemental Financial Data (Unaudited)

Quarterly financial information

(Millions, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2002					
Revenue	$1,362.5	$1,359.8	$1,332.3	$1,552.8	$5,607.4
Gross profit	389.3	404.5	403.0	491.7	1,688.5
Income before income taxes	48.9	62.9	88.1	132.9	332.8
Net income	32.7	42.2	59.0	89.1	223.0
Earnings per share – basic	.10	.13	.18	.27	.69
– diluted	.10	.13	.18	.27	.69
Market price per share – high	13.74	13.84	9.67	11.49	13.84
– low	10.78	8.30	6.39	5.92	5.92
2001					
Revenue	$1,623.8	$1,461.4	$1,376.0	$1,556.9	$6,018.1
Gross profit	427.6	397.4	379.9	278.4	1,483.3
Income (loss) before income taxes	103.4	43.9	31.2	(225.0)	(46.5)
Income (loss) before extraordinary item	69.3	29.3	20.9	(169.4)	(49.9)
Net income (loss)	69.3	12.1	20.9	(169.4)	(67.1)
Earnings (loss) per share – basic					
Before extraordinary item	.22	.09	.07	(.53)	(.16)
Extraordinary item		(.05)			(.05)
Total	.22	.04	.07	(.53)	(.21)
Earnings (loss) per share – diluted					
Before extraordinary item	.22	.09	.07	(.53)	(.16)
Extraordinary item		(.05)			(.05)
Total	.22	.04	.07	(.53)	(.21)
Market price per share – high	19.70	15.00	14.47	13.45	19.70
– low	12.69	11.15	7.70	7.95	7.70

In the fourth quarter of 2001, the company recognized pretax restructuring and related charges of $276.3 million, or $.64 per share. Excluding these items, earnings per share before extraordinary items for 2001 was $.48. See Note 4 of the Notes to Consolidated Financial Statements.

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

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

Five-year summary of selected financial data

(Millions, except per share data)	**2002**	2001[1]	2000[1]	1999	1998
Results of operations					
Revenue	**$5,607.4**	$6,018.1	$6,885.0	$7,544.6	$7,243.9
Operating income (loss)	**423.2**	(4.5)	426.8	960.7	799.0
Income (loss) before income taxes	**332.8**	(46.5)	379.0	770.3	594.2
Income (loss) before extraordinary items	**223.0**	(49.9)	244.8	522.8	376.4
Net income (loss)	**223.0**	(67.1)	225.0	510.7	376.4
Dividends on preferred shares				36.7	106.5
Earnings (loss) on common shares	**223.0**	(67.1)	225.0	474.0	269.9
Earnings (loss) per common share before extraordinary items					
Basic	**.69**	(.16)	.78	1.69	1.07
Diluted	**.69**	(.16)	.77	1.63	1.01
Financial position					
Working capital (deficit)	**$ (238.5)**	$ (109.4)	$ (54.1)	$ 268.3	$ 288.9
Total assets	**4,981.4**	5,769.1	5,713.3	5,885.0	5,608.2
Long-term debt	**748.0**	745.0	536.3	950.2	1,106.7
Common stockholders' equity	**856.0**	2,112.7	2,186.1	1,953.3	90.9
Common stockholders' equity per share	**2.62**	6.59	6.93	6.29	.35
Other data					
Research and development	**$ 273.3**	$ 331.5	$ 333.6	$ 339.4	$ 308.3
Capital additions of properties	**196.2**	199.4	198.3	219.6	209.1
Investment in marketable software	**139.9**	136.8	152.4	122.8	100.3
Depreciation and amortization of properties	**154.5**	140.2	135.6	134.5	141.8
Amortization					
Marketable software	**121.0**	145.5	115.5	110.9	112.3
Deferred outsourcing contract costs	**22.3**	15.8	12.7	13.9	9.1
Goodwill		16.5	21.8	21.7	18.2
Common shares outstanding (millions)	**326.2**	320.6	315.4	310.6	258.2
Stockholders of record (thousands)	**27.3**	28.4	29.7	32.8	28.6
Employees (thousands)	**36.4**	38.9	36.9	35.8	33.5

[1] *Includes special pretax charges of $276.3 million and $127.6 million for the years ended December 31, 2001 and 2000, respectively.*

Investor Information

Stock Information

Common Stock

The company has 720.0 million authorized shares of common stock, par value $.01 per share.

At December 31, 2002, there were 326.2 million shares outstanding and about 27,300 stockholders of record.

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 SWX Swiss Exchange.

Preferred Stock

The company has 40.0 million shares of authorized preferred stock, par value $1 per share, issuable in series.

At December 31, 2002, there were no shares of preferred stock outstanding.

Voting Rights

Each share of Unisys common stock outstanding on the record date for the annual meeting is entitled to one vote on each matter to be voted upon at the meeting.

Annual Meeting

Stockholders are invited to attend the 2003 Unisys Annual Meeting of Stockholders, which will be held at the Hilton Inn at Penn, 3600 Sansom Street, Philadelphia, Pennsylvania, on Thursday, April 24, 2003, at 9:30 a.m.

Formal notice of the meeting, along with the proxy statement and proxy materials, was mailed or otherwise made available on or about March 14, 2003, to stockholders of record as of February 28, 2003.

General Investor Inquiries and Correspondence

Investors with general questions about the company are invited to contact Unisys Investor Relations at 215-986-6999 or investor@unisys.com.

Direct investor correspondence to:
Jack F. McHale
Vice President, Investor Relations
Unisys Corporation
Unisys Way
Blue Bell, PA 19424

Internet Address

Unisys makes investor information available on its Web site at http://www.unisys.com/investor. This site is updated regularly and includes quarterly earnings releases, key management presentations, a delayed Unisys stock quote, management biographies, key publications such as the annual report, and other information useful to stockholders.

Company Financial Information

Unisys offers a telephone information service that provides fast, convenient access to company financial news. Stockholders can use this service to call seven days a week, 24 hours a day, to hear the most current financial results and other general investor information. Callers also can use this service to request a printed copy of the current quarterly earnings release by fax or mail.

- In the United States and Canada, call 1-800-9-UNISYS (986-4797)
- Outside the United States, call +402-573-3678

Several publications that contain information of interest to investors and potential investors are also available via written or telephone request. These publications include:

- 2002 and previous-year annual reports
- Forms 10-K and 10-Q filed with the Securities and Exchange Commission

You can obtain these publications without charge by contacting:

Investor Relations, A2-15
Unisys Corporation
Unisys Way
Blue Bell, PA 19424
215-986-5777

Stockholder Services

EquiServe Trust Company, N.A., is the Unisys stock transfer agent and registrar. Administrative inquiries relating to stockholder records, lost stock certificates, change of ownership or address, or the exchange of PulsePoint Communications common stock certificates should be directed to:

EquiServe Trust Company, N.A.
P.O. Box 43069
Providence, RI 02940-3069
781-575-2723
Toll free: 888-764-5596 (in the U.S. and Canada)
Hearing impaired: 800-952-9245 (TDD)
Internet: http://www.equiserve.com

Independent Auditors

Ernst & Young LLP
Philadelphia, Pennsylvania

Statements made by Unisys in this annual report that are not historical facts, including those regarding future performance, are forward-looking statements under the Private Securities Litigation Reform Act of 1995. These statements are based on current expectations and assumptions and involve risks and uncertainties that could cause actual results to differ from expectations. These risks and uncertainties are discussed on pages 29-31 of this report.

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